Customer Satisfaction and Consumer Spending Steady, According to ACSI

*Kellogg, Pepsi, Reebok, Sara Lee Climb; Heinz and Nike Drop*

ANN ARBOR, Mich. (November 14, 2006) – Customer satisfaction is flat according to the third quarter report of the American Customer Satisfaction Index (ACSI). The ACSI aggregate score remains near its all-time high at 74.4 for a second consecutive quarter. Manufacturing/Non-durable Goods improve 0.6 percent from the third quarter of 2005 to 82.3 on the ACSI 100-point scale, its best score ever and the highest of any sector in ACSI.

Customer satisfaction as measured by ACSI has consistently predicted future consumer spending, and the third quarter results portend little change in spending growth. ACSI forecasted a spending increase of 3 percent for the third quarter, and the Commerce Department’s preliminary estimate for actual spending growth was 3.1 percent. But other factors continue to put pressure on consumers’ ability to spend.

“Higher levels of buyer satisfaction suggest higher spending, but consumers’ inclination to spend is always tempered by the availability of cash and credit,” said Professor Claes Fornell, head of ACSI at the University of Michigan. “Even though the housing bubble is deflating, oil prices are going down and the stock market has been performing well. I don’t expect spending to look too much different for the remainder of the year.”

ACSI measures consumer non-durables every third quarter, and as a sector it consistently achieves high customer satisfaction. Consumer non-durables require very little service either before or after purchase. There are usually multiple alternatives to any given product, switching costs are low, and prices have remained pretty stable.

“When it comes to consumer non-durables, there’s a flavor for everyone. Satisfaction tends to be very high because nobody sticks with a product they don’t like and there’s very little cost associated with switching to another brand,” said Prof. Fornell. “Changing your toothpaste is a lot easier than changing what car you drive.”

The third quarter report shows improvements in food processing (+1.2%, 83), pet food (+1.2%, 83), soft drinks (+1.2%, 84) and personal care & cleaning products (1.2%, 84), which offset declines in cigarettes (-1.3%, 78) and apparel (-1.2%, 80). Breweries, including Anheuser-Busch, Miller and Molson Coors, remain unchanged at 82.
Food: Heinz Takes a Dip, But Still Leads Industry
Heinz, the “king of ketchup,” still tops the food manufacturing industry, but its score drops 4.4 percent to 87. The industry - which covers a range of products including meats, cheeses, fruits, vegetables, tried and canned foods, and candy - has become a tight race at the top. Kellogg and Sara Lee both jump 5 percent to 85, but each company took a different road to improvement. Sara Lee shed less successful product lines and is focusing more on its core business. Kellogg, on the other hand, added a new line of healthier alternatives accompanied by a health-awareness marketing campaign.

Soft Drinks: Pepsi Has Pop, Coke Goes Flat
Americans love their soft drinks, though some more than others. A product exists for virtually every palette, helping the product category to score 84, one of the highest scoring industries in ACSI. Pepsi jumps 5 percent to 86, sharing the top spot with Cadbury Schweppes (+4%), maker of 7Up, Dr. Pepper, A&W Root Beer and dozens of other well-known brands. The number one soft drink maker, Coca-Cola, drops 2 percent to a five-year low of 82. The gap between cola giants has never been greater.

Athletic Shoes: Reebok Running Away from Nike
The athletic shoes industry falls 1 percent to 76, dragged down mostly by the performance of Nike. Reebok and Nike were tied in last year’s measurement, but they have moved in opposite directions by equal amounts this year. Reebok climbs 4 percent to 78, while Nike slipped to 72. The six point advantage Reebok enjoys over its nearest competitor is unusually large in any industry, surpassed only by Google in search engines, eBay in Internet auctions, and Wachovia in banks.

Reebok’s acquisition by Adidas may have contributed to Reebok’s increase in satisfaction. The combined brands led to a near doubling of U.S. sales, rivaling Nike in market share. Price increases eroded satisfaction across the industry last year, but this year Reebok has a large advantage in value for the money as perceived by its customers.

As in many other industries, the “all others” (such as New Balance, Sketchers, and Puma) do well on customer satisfaction by focusing on specific buyer segments and differentiating their brand and product from the larger competitors.

Apparel: VF Wears the Pants; Sara Lee, Liz Claiborne Move Up
The apparel industry drops one percent to 80, but VF remains unchanged at the top with a score of 82. Sara Lee improves 3.8 percent to 82, joining VF at the top of the industry rankings for the first time since 1999. Liz Claiborne also jumps 3.8 percent and stands at 81, benefitting from its move to shed less satisfying product lines and add new ones acquired from other companies. Jones Apparel recently put its whole company on the auction block, but found no takers. Jones suffers the biggest drop in satisfaction, down 3.7 percent to 79. Levi Strauss scores 79 for a second year, joining Jones Apparel at the bottom of the industry.

Note: For more information or a copy of the report, please contact Chaat Butsunturn at 415-391-7900 x114 or at cbutsunturn@kearnswest.com

About the ACSI
The American Customer Satisfaction Index is a national economic indicator of customer evaluations of the quality of products and services available to household consumers in the United States. It is updated each quarter with new measures for different sectors of the economy replacing data from the prior year. The overall ACSI score for a given quarter factors in scores from about 200 companies in 40 industries.
and from government agencies over the previous four quarters.

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