Rise in National Customer Satisfaction Shored Up by Strong Public and Moderate Private Sector Gains

Office Depot Sweeps Into Lead for Specialty Retail, Joining Ranks With Industry-Best Veterans Publix, Nordstrom and Amazon

ANN ARBOR, Mich. (February 26, 2013) – The national customer satisfaction benchmark gains 0.5% to 76.3 on a scale of 0 to 100 for the fourth quarter of 2012, according to a report released today by the American Customer Satisfaction Index (ACSI). The rise comes from strong public sector gains combined with moderate customer satisfaction improvement for five of eight retail and e-commerce industries.

“The improvement in overall customer satisfaction is positive news for consumer demand, but with the caveat that a good portion of the gain comes from federal and local government services,” says Claes Fornell, ACSI founder and author of The Satisfied Customer: Winners and Losers in the Battle for Buyer Preference. “Looking at the economy as a whole, low inflation, shrinking household debt and pent-up consumer demand are starting to fuel consumer spending. At the same time, however, economic growth will be hampered by a still-tepid job outlook, low wage increases, high gasoline prices and the economic uncertainty created by our politicians.”

The fourth quarter 2012 national score is based on the ACSI’s annual report on citizen satisfaction with government services, along with new scores released today for retail and e-commerce. The 2012 government report, available earlier this month, shows ACSI increases of 2.2% for federal and 3.0% for local government services. Today’s report covers customer satisfaction with 44 companies in 8 industries: supermarkets; department & discount stores; specialty retail stores; health & personal care (drug) stores; gasoline service stations; and Internet retail, brokerage, and travel.

Shoppers Seek the Right Combination of Quality and Value
Whether shopping for groceries, specialty goods like office supplies or electronics, or patronizing stores with a broad array of merchandise, American consumers are seeking the right balance between quality and value, with the latter becoming somewhat more important since the recession. Supermarkets show an ACSI benchmark of 77 in 2012, up 1.3% since 2011.

“Low price inflation for food products in 2012, combined with better service, product selection and store layouts, yields success in the form of enhanced customer satisfaction for supermarkets,” says Fornell.
Publix’s track record of leading customer satisfaction continues as the chain gains 2% to an ACSI score of 86. Publix widens the gap to Whole Foods, which is stable at 80 after four straight years of improvement. Kroger’s customer satisfaction also is unchanged at 79, while Winn-Dixie jumps 4% to 78.

Further down, Supervalu, Safeway and Wal-Mart are in the mid-to-low 70s, which suggests that even in a strapped economy, low prices alone are not enough to make customers happy. Supervalu gains 3% to 76 and Safeway is flat at 75. Discount giant Wal-Mart is in last place despite a 4% gain to 72.

Specialty retailers retreat 1.3% to an ACSI score of 78, with warehouse clubs and office suppliers dominating the top and clothing retailers at the bottom. Office Depot vaults into the lead with a 6% gain to 84. The company’s transition from large outlets to smaller stores with better service seems to be a winning strategy. While Office Depot handily beats Staples (79) and OfficeMax (78), this could change in the wake of an Office Depot-OfficeMax merger. ACSI data show that mergers often have a negative effect on customer satisfaction. Additionally, the much-lower ACSI performance of OfficeMax could bring down customer satisfaction overall for the combined organization.

Bookseller Barnes & Noble shows the second-largest upswing, rising 4% to 82. While customers are having better experiences at Barnes & Noble stores, this may be because fewer people are visiting them. The company’s sales have been weak and many stores have closed. Two warehouse clubs bookend Barnes & Noble: Costco at 83 (unchanged) and Sam’s Club at 80 (-1%). Lowe’s (79), Best Buy (78) and Home Depot (77) are at, or close to, the industry average. Cost increases for raw materials passed on to consumers have not helped clothing retailers TJX (-3%) and Gap (-1%), both at the bottom of the industry at 76.

In contrast to specialty stores, department and discount stores improve customer satisfaction by 1.3% to 77. Quality and customer service keep Nordstrom on top with a firm ACSI benchmark of 84. What makes Nordstrom strong is a weakness for Wal-Mart. Lower quality and less customer service put it in last place at 71.

“While quality trumps price with respect to customer satisfaction, pricing pressure remains a challenge for all retailers amid growing but continually weak consumer demand,” says Fornell. “Even the high-end department stores have resorted to more price promotions to boost sales, particularly during the 2012 holiday season.”

Following behind Nordstrom, Target, Kohl’s and J.C. Penney are tied at 81. The next tier down includes Dillard’s at 79, followed by Macy’s, Dollar General and the aggregate of smaller department and discount store chains (all 78). Sears continues to struggle long after its acquisition by Kmart. Down 1% to 75, Sears trails the entire field except for Wal-Mart at 71.
“A big part of Wal-Mart’s challenge is that it is no longer the only game in town when it comes to discounting,” says Fornell. “Twenty years ago, Wal-Mart was able to beat the industry average for customer satisfaction—not because merchandise quality was better, but because it was close enough to, or on par with, competition and it had the low-price market essentially to itself. According to customers, neither is true today.”

**Health & Personal Care: Big Chains Narrow Gap to Small Stores**
Customer satisfaction with health and personal care (drug) stores reverses a two-year slide with an increase of 1.3% for 2012. With an ACSI score of 77, drug stores are similar to supermarkets, department/discount stores, and specialty retail. In 2011, smaller drug stores held a 7- to 9-point advantage over the larger chains. In 2012, a 4% drop to 79 for small stores narrows their lead to 2 points.

Rite Aid earns the top position among larger chains with a 3% improvement to 77. Walgreen is next at 76 (+1%), while CVS Caremark gains 3% to 75. In 2011, customer satisfaction for CVS hit an all-time low amid declining sales and cost-cutting efforts. Better customer satisfaction today probably has helped revenues rise 15% over the past year.

**Online Retail Back on Track**
Customer satisfaction with online retail is up for a second year in a row, improving 1.2% to 82. While two minor yearly gains almost erase the decline in 2010, the industry falls short of its all-time high. Nevertheless, online retailers are still winners over traditional retailers (average of 76.6 overall).

“By and large, Internet retail remains a more amiable way of shopping for a variety of merchandise,” says Fornell. “It is worth noting, however, that there are exceptions to the rule. The cream of the crop in traditional retail—Publix, Nordstrom, Office Depot and Costco—all outperform the average customer satisfaction benchmark for Internet retail.”

Amazon remains best in class among e-tailers despite a 1% slip to 85. Newegg is in second place at 84 (-1%), followed by an improved eBay at 83 (+2%). The aggregate of smaller websites and Overstock move 2% in opposite directions to scores of 82 and 81, respectively. The gain for smaller websites follows a similar increase in 2011, which almost offsets 2010’s decline. Netflix, which plunged 14% in 2011 because of price increases, gains 1% to 75.

**Internet Brokers Rebound; Travel Websites Tumble**
Customer satisfaction with online brokerage bounces back from a loss in 2011, up 2.6% to an ACSI score of 78. A stronger stock market, combined with a substantial ACSI gain for smaller brokerages, contributes to the improvement. The aggregate of smaller brokerages (such as Vanguard and Scottrade) leaps from bottom to top of the industry with a 4% gain to 78.

Among the larger Internet brokers, Fidelity emerges from 2011’s three-way tie as the leader at 78 (-1%). Charles Schwab (-3%) and TD Ameritrade (-1%) are close with an
ACSI score of 77. Only E*Trade lags well behind the category average at 73. A year ago, E*Trade shared the lead at 79, but a precipitous plunge of 8% puts the company in last place. While Fidelity or Schwab are more diversified, E*Trade relies heavily on trading fees and commissions, which makes it harder for the company to weather volatility in trading volume.

The customer satisfaction outlook for the Internet travel business is not much sunnier now than in 2011, as its ACSI score falls 2.6% to 76—the biggest loss among all retail categories. Higher prices and fewer deals erode customer perceptions of value. The score range has narrowed considerably as well, with just 2 points separating the top from the bottom performers. The aggregate of smaller websites drops 4% to 76, still good enough to finish even with Expedia (-1%) and Orbitz (unchanged) for the lead. A point below, Travelocity is at 75 after tumbling 5%. Priceline rounds out the category at 74, following a 3% drop.

About ACSI
The American Customer Satisfaction Index (ACSI) is a national economic indicator of customer evaluations of the quality of products and services available to household consumers in the United States. The ACSI uses data from interviews with roughly 70,000 customers annually as inputs to an econometric model for measuring satisfaction with more than 230 companies in 47 industries and 10 economic sectors, as well as over 100 services, programs, and websites of federal government agencies.

ACSI results are released on a monthly basis, with all measures reported using a scale of 0 to 100. ACSI data have proven to be strongly related to a number of essential indicators of micro and macroeconomic performance. For example, firms with higher levels of customer satisfaction tend to have higher earnings and stock returns relative to competitors. Stock portfolios based on companies that show strong performance in ACSI deliver excess returns in up markets as well as down markets. And, at the macro level, customer satisfaction has been shown to be predictive of both consumer spending and gross domestic product growth.

The Index was founded at the University of Michigan’s Ross School of Business and is produced by ACSI LLC. The ACSI can be found on the Web at www.theacsi.org.

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