



## **Customer Satisfaction Plummets; Continuing Decline May Signal A Further Economic Slowdown**

*First-quarter ACSI measures five economic sectors: Transportation, Information, Utilities, Health Care and Accommodation & Food Services*

**ANN ARBOR, Mich.**(May 17, 2005) – The satisfaction of American consumers has fallen dramatically, the latest American Customer Satisfaction Index (ACSI) shows. The decline marks the second consecutive quarterly drop in aggregate customer satisfaction.

ACSI for the first quarter of 2005 stands at 73.0, down 0.8% from last quarter. The factors driving this decline are falling inflation-adjusted wages, rising energy prices and declining quality, with the biggest deterioration in hospitals, newspapers and wireless service providers.

Claes Fornell, director of ACSI and professor at the Stephen M. Ross School of Business at the University of Michigan, says that declining customer satisfaction may have a negative impact on the economy, and particularly on consumer spending growth.

“This quarter’s decline in customer satisfaction adds more uncertainty to the economy,” Fornell said. “The economy’s ability to generate increasing consumer utility is central to economic health and real economic growth. As declining customer satisfaction erodes consumer demand, a bounce back in spending next quarter is less likely.”

Changes in overall ACSI have historically preceded shifts in consumer spending. Representing nearly 70 percent of Gross Domestic Product, consumer spending grows at an annual rate of about 3.8 percent. “Based on ACSI alone, and without factoring in what may happen to wages or interest rates, the deterioration in ACSI suggests that consumer spending should grow no more than 3.2% to 3.6% in the second quarter of 2005,” Fornell said.

### **Competition Tightens in Race between Cable and Satellite**

The competitive landscape may be changing for the cable and satellite TV industry. Since measurement of the industry began in 2001, satellite has consistently bested cable by a wide margin. Over this period, satellite companies have led cable by an average of 11 ACSI points each year. But this year, both DirecTV and EchoStar’s ACSI scores weaken significantly, falling to their lowest ever.

To some extent, the satellite companies, which reported substantial customer growth in 2004, may have fallen victim to their own success. "Increasing sales may in fact lead to lower customer satisfaction if the acquisition of new customers is not handled well," said Fornell. "It will be interesting to see if the satellite companies can learn to better handle the larger customer load, or if the cable companies will instead win back some old customers." Added Jack West, past president of the American Society for Quality, "now that satellite companies are able to offer the same scope and variety of services as cable and prices are approaching parity, more of the competition between these rivals will be based on quality."

### **Fast Food Restaurants Improve, Large Gains for Burger King and Taco Bell**

The fast food industry is now at its highest ACSI score ever, up 3% to 76. But not every company improves. Taco Bell and Burger King register the largest gains, up 6% and 4%, respectively. After several years of difficulties, with many of its restaurants closing and with changes in ownership and chief executives, Burger King is turning things around. Customer satisfaction is up by 4% to an all-time high of 71. New products have been introduced, and customer traffic is up.

Moving in the other direction, McDonald's is down 3% this year to 62, a score 14% below the industry average and lower than any other competitor. Yet it has thus far avoided the usual punishment of customer defection, and both sales and profits have been solid.

"The risk for McDonald's is not that it is below competition in customer satisfaction," said Fornell. "This has always been the case and is not related to the company's financial fortunes because, similar to Wal-Mart, McDonald's does not need to match the level of customer satisfaction of its competitors. What may be worrisome for McDonald's is the change for the worse among its own customers, because there is a relationship between changes in McDonald's ACSI and changes in both sales per restaurant and store margins."

### **Hospitals Ailing, Airlines in a Holding Pattern**

Patient satisfaction with the nation's hospitals declines significantly, down 7% to 71. This drop follows a 4% increase last year, more than reversing the gain. "Increasing costs appear to be the major reason for the drop in patient satisfaction," according to Fornell. "Rising costs have led to a reduction of many employers' contributions to health care coverage, increasing many consumers' share of the bill for hospitalization. Although quality of care plays a role, it is not the main culprit here."

The airlines industry remains at a score of 66 for a second consecutive year. In an economic climate with low margins, difficult labor relations and increasing fuel prices, the absence of change is probably good news.

US Airways has been hit the hardest. The air carrier is down 9% to 57, significantly below the industry average and at the bottom of the industry. It is emerging from its second bankruptcy in three years. Several routes have been eliminated along with service personnel.

"Although cost cutting may help short term finances, the effect on service and passenger satisfaction is often negative," according to Fornell. "For example, US Airways is not doing well with respect to on-time performance and passenger complaints. Frequency of mishandled baggage is growing as well."

At the other end of the spectrum, Southwest Airlines continues to lead the industry in passenger satisfaction. Like all carriers, Southwest faces a challenge from rising energy prices, but has benefited in the short term by stockpiling fuel at lower cost over the past few years. The air carrier has also cut costs via labor reductions, offering many of its employees a buy-out package.

“Southwest has managed not only to maintain but also to slightly improve the level of its passenger satisfaction,” said Fornell. “Considering the economic climate, this gain is quite an accomplishment.”

### **About ACSI**

ACSI 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 more than 200 companies in 41 industries and from government agencies over the previous four quarters.

The index is produced by the Ross School of Business at the University of Michigan in partnership with the American Society for Quality and CFI Group, and is supported in part by ForeSee Results, corporate sponsor for the e-commerce and e-business measurements.

Company scores and other information about ACSI can be found on the ACSI Web site: [www.theacsi.org](http://www.theacsi.org)