



Six-Month Decline Halted in ACSI

*Google, Apple and Yahoo! remain strong, but sharp drop for Dell
Even with improvement, US automakers fall further behind Japan and Korea*

ANN ARBOR, Mich. (August 16, 2005) – The latest American Customer Satisfaction Index (ACSI) stands at 73.1 for the second quarter of 2005, halting a six-month decline that has left the Index more than a point lower than this time last year.

The ACSI measures a different set of industries each quarter so that each industry is measured once per year. The industries measured in the second quarter and reported on today are Manufacturing/Durable Goods, including automobiles, personal computers, and appliances, and E-Businesses, including portals, search engines and news and information sites.

Over the last ten years, the Index has proven to be a leading indicator of consumer spending. “When people are satisfied with goods and services, they tend to purchase more,” said Professor Claes Fornell, who heads the Index at the University of Michigan. “It’s a good sign that satisfaction is holding steady this quarter after a six-month drop. It may counteract some of the recent constraints on consumer spending such as high energy prices.”

In general, a change in the ACSI in one quarter, adjusted for the Consumer Price Index (CPI), has been followed by a proportional consumer spending change the following quarter. For example, the ACSI consumer spending forecast for the second quarter turned out to be within 0.2% of actual spending growth. Based on ACSI alone, third quarter spending should grow by 3.7% to 4.0%.

Automobiles: U.S. Automakers Improve but Gap with Japanese and Korean Manufacturers Widens
Customer satisfaction with U.S. automobile nameplates has improved, but nevertheless falls further behind competition from Japan and Korea as the satisfaction gap between US automakers and Asian automakers widens. Rebates, low cost financing, and employee discounts to the public have led to higher sales and ACSI scores for U.S. automakers in the short-term, but they have also taken a toll on profits.

“It is still not clear that Detroit is taking customer satisfaction, or the lack thereof, seriously enough,” said Fornell. “Their measurement procedures are primitive, problems are not well identified, and across-the-board price-cutting to reduce inventory has become standard but is not a sustainable strategy.”

Ten years of ACSI data across many industries have shown that while price incentives can be a quick fix to sluggish sales, the remedy is usually temporary and directed at symptoms rather than underlying

causes. Rising satisfaction with foreign cars is due to improvements in quality and customization rather than a focus on price.

An example of the success from a focus on quality is Hyundai. "Hyundai's performance demonstrates the feasibility and value of competing on quality improvement. The techniques for achieving these quantum improvements in quality require a strategic commitment by corporate management as well as involvement by all levels of the organization," said Jack West, former president of the American Society for Quality, an ACSI partner.

Personal Computers: Apple Holds, Dell Weakens

Overall customer satisfaction with the PC industry is unchanged from a year ago at 74, but changes within the industry give Apple a commanding lead. The PC maker maintains big improvements from 2003 and 2004, holding at 81 for a second year, a score that puts them in the ACSI vanguard.

Dell is a different story. This quarter, it suffers a sharp drop in the ACSI after several years of leading scores, down 6% to 74. Customer service in particular has become a problem, and service quality lags not only Apple but also the rest of the industry. Similarly, Hewlett-Packard continues to struggle with lagging satisfaction three years after its merger with Compaq. The score of 67 for Compaq matches its all-time low.

"Customer satisfaction often suffers for a period of time after large mergers as companies drift from a customer focus while consolidating operations," said Fornell. "But three years is a long time to be at the bottom, and accordingly, H-P's stock prices are under pressure."

Portals: AOL Improves Again But Trails Yahoo by a Wide Margin

Of note in the portals industry is the increase in customer satisfaction for America Online. First measured in 2000, AOL's portal has been the perennial industry laggard, however, driven by a 6% increase this year, AOL – while still at the bottom of the industry – pulls to within 4 points of nearest competitor MSN. The company has gained an impressive 27% since 2000. Much of the improvement for AOL is likely due to an increased focus on the user-friendliness of its portal, as well as the company's efforts to offer an enhanced array of free services and more efficient downloads to both members and non-members alike.

"The company to watch more than any other in this industry is probably Yahoo" according to Fornell. "In order to stay on top, Yahoo needs to do two things: (1) Expand its offerings of information and entertainment for users and (2) tie these users to advertisers in the most customized way possible. Clearly, success hinges on user satisfaction and Yahoo remains strong."

Search Engines: Google Continues its Dominance

Following significant gains the last two years, the search engine industry is stable this year at 80. With a score of 82, Google's dominance of the industry continues, and neither AskJeeves (72) nor the "all others" category (74) offers nearly as satisfying an experience.

"Google is clearly the company to beat," said Larry Freed, President and CEO of ForeSee Results, the ACSI's e-business partner. "They've got the most satisfied and loyal customers of any e-business company measured by the ACSI, and it has translated into the biggest market share in the sector and huge revenue growth. But Yahoo! is going to battle as the portal and search engine categories converge, and web users are the biggest winners in the competition between the two."

News and Information: “Alternative” Websites Gain Ground

In the news and information industry, there is little difference between ABCNews.com (74) at the top and NYTimes.com (72) at the bottom. However, there is something going on with respect to the competitive situation in the industry. Smaller players are gaining: the “all others” category is up 4% to a score of 78 and is now higher than any of the name brands. While there is a wide variety of websites included in this category, it is clear that their visitors are more satisfied than those of the measured websites. Indeed, this result mirrors much of what has occurred in the media – including newspapers and television – over the last few years: more fragmentation. As consumers have been offered a larger number of alternatives, once-dominant news sources have begun to lose disaffected customers to smaller competitors.

About the ACSI

The 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 about 200 companies in 40 industries and from government agencies over the previous four quarters.

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