



Slight Up-Tick in Customer Satisfaction May Not Be Enough to Boost Spending Growth

3rd Quarter ACSI Results Show Satisfaction Gains for Food and Beer, Declines for Athletic Shoes and Pet Food

ANN ARBOR, Mich. (November 15, 2005) - The American Customer Satisfaction Index (ACSI) report on Manufacturing/Nondurable Goods showed that higher customer satisfaction with beer, cigarettes, food products, and apparel offset drops in athletic shoes and pet food. The report was released today.

The ACSI aggregate for all goods and services increased slightly for the third quarter of 2005; the Index now stands at 73.2, up a fractional 0.1% from last quarter, but down 1.5% from this time last year.

This is the second consecutive ACSI increase, but both improvements have been very small and have done little to counter the tumble that began in the fourth quarter of 2004. Since then ACSI has dropped by 1.3%, the largest 4-quarter drop since 1996-1997. This comes at a time when GDP has grown by 3.8% but household incomes are not keeping pace and household savings are negative

ACSI predicted lower consumer spending growth of 3.2-3.6% for the second quarter of 2005, while actual spending growth was 3.4%. Similarly, ACSI predicted third quarter growth of 3.7-4.0%, while actual growth was 3.9%. However, despite the historical relationship between customer satisfaction measured in one quarter and consumer spending in the following quarter, the outlook for spending in the fourth quarter is unclear.

“Combine this marginal rise in customer satisfaction with uncertainty due to high energy prices, recent natural disasters, and increasing interest rates, and we really don’t have any reason to be optimistic that consumer spending will substantially increase during the fourth quarter,” said Professor Claes Fornell, who heads up the ACSI at the University of Michigan.

Overview of Results

Third quarter results present a mixed picture with a large decline for athletic shoes (-6%; score of 77) and a small drop for pet food (-1%; 82), but with a 1% improvement for nondurables as a whole. In particular, there were gains for breweries (+4%; 82) and apparel (+3%; 81) combined with less significant progress for food (+1%; 82) and cigarettes (+1%; 79). The soft drink and personal care products industries were unchanged from last year (both 83).

Manufacturing/nondurables industries are historically among the most satisfying in ACSI. In general,

manufacturers deliver higher satisfaction than service providers - the human element in services tends to make reliability more variable. Also, particularly in the case of nondurable goods, intense competition over a vast array of products and low switching-costs help keep satisfaction relatively high across the board.

Industries and Company Analysis

Food: Heinz' Rules Again

With a score of 82, customer satisfaction with food manufacturing - consisting of a wide array of products ranging from meat, cheese and canned fruits and vegetables to cereal, crackers and chocolate - is one of the most stable and high-scoring industries in ACSI.

H. J. Heinz remained the leader in the industry for a sixth straight year, hitting a new record with a score of 91, which is the highest score ever recorded in ACSI.

"Perceived quality and customer satisfaction are closely related, and Heinz's investment in quality improvement tools is clearly paying off," said Jack West, a former president of American Society for Quality, a co-sponsor of the Index.

With scores of 88 and 86, Quaker Foods and Hershey are also near the top of the industry and among the highest scorers in the entire ACSI. ConAgra joins them with the largest improvement of any company in the industry this year, up 5% to 86. ConAgra has been shedding various pieces of its non-food and agricultural operations to concentrate better on its branded packaged food business. This strategy to become leaner and more focused may be paying off - ConAgra's ACSI score this year is at an all-time high.

Beer: Is Improved Satisfaction Enough to Halt Slipping Consumption?

Following a decline in customer satisfaction last year, beer industry sales volume continued to shrink. But the beer industry may get some relief from improved 2005 customer satisfaction across the board.

"The whole beer industry made improvements in customer satisfaction," said Professor Fornell. "And that's welcome news at a time when consumers increasingly show a preference for wine and spirits."

For the first time since 1996, all the major breweries are within a point of specialty and craft beers (microbrews), which scored an 82 in the All Others category. "That the major breweries would score so competitively with microbrews really speaks to the improved quality experience," added Jack West.

Adolph Coors increased 5% (to 82), and Anheuser-Busch (also to 82), improved 4%. Although the improvement in customer satisfaction is good news for the industry, no individual company seems to have an edge. Among all competitors, including the smaller micro brewers (as a group), it is virtually a dead heat: Molson Coors, Anheuser-Busch, and the aggregate of smaller brewers are all at the industry average of 82. SABMiller not far behind at 81 and has gained 3% from a year ago.

Athletic Shoes: Higher Prices Eroding Satisfaction

Customer satisfaction with athletic shoes, a \$16 billion a year industry, is at a four-year low. Both major shoe manufacturers measured by the ACSI declined, with #1 NIKE down 4% and #2 Reebok down 3%, each at 75. The culprit is price. Men's athletic shoes are priced about 5% higher and women's almost 10% higher than a year ago.

Historically, ACSI data have shown that changes in customer satisfaction often foretell similar changes in financial performance, which could be bad news for companies like NIKE and Reebok. For example, in the second quarter of 2005, satisfaction with Dell PCs dropped 6%, suggesting a potential negative impact on the company's future financial performance. In fact, Dell's stock is down 13% since the August ACSI release and 25% for the year to date. While satisfaction with PCs and athletic shoes is in some ways very different, with the former relying heavily on service, what has happened to Dell in the wake of its recent downturn in satisfaction should not be lost on NIKE and Reebok or any company with deteriorating ACSI scores.

Apparel: VF, Jones Make Gains

Last year VF Corporation, the world's #1 maker of jeans (including Lee, Wrangler and Rustler brands), dropped 6% in ACSI in the wake of a major reorganization that included an expansion into sports lifestyle brands via the acquisition of Nautica, Vans, and Reef Holdings. A year later, the changes may be paying off, as VF rebounded. Its ACSI score jumped 4% to 82. Sales are up 15% from a year ago and stock price increased almost 20% between Q3 2004 and Q3 2005. The largest change in the industry is the 7% ACSI improvement for Jones Apparel, now at an all-time high of 82 and sharing the lead with VF.

Pet Food: Consistently High Satisfaction

The ACSI for the pet food industry declined by 1% to a score of 82. Like food manufacturing, pet food companies demonstrate a great deal of stability in satisfying their customers. It is also a fairly high-scoring industry in which it is very rare for any one company to drop below an ACSI score of 82.

The big news this year is the improvement of Del Monte, up 5% to 83, a year after the company sustained a 6% drop. Better quality and value for money are behind Del Monte's improvement in pet food, which accounts for 25% of the food manufacturer's total sales revenues.

All competitors are grouped tightly around the industry average within the range of 81 to 83. At the low end of this very narrow spectrum, Nestle Purina PetCare, the world's largest pet food manufacturer, drops 4% to 81, its lowest score in 5 years, and is tied with Procter & Gamble's Iams Company.

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.

The index is produced by the University of Michigan's Ross School of Business 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, and by Market Strategies Inc., a major corporate contributor.

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