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Customer Satisfaction Improves; Critical to Economic Recovery According to ACSI

Retailers Try Harder to Stem Customer Defections; Satisfaction with Banks and Online Brokerage Falls; Publix, Amazon, Newegg Remain Strong

ANN ARBOR, Mich. (February 17, 2009) – Customer satisfaction with the goods and services that Americans buy improved in the fourth quarter of 2008, according to the American Customer Satisfaction Index (ACSI). The index climbs to 75.7 on the ACSI's 100-point scale, up 0.9 percent from the previous quarter.

Close to the end of the 2001 recession, an uptick in ACSI signaled that a rebound in the economy was near. But as the current recession has deepened, consumer behavior has changed much more than in earlier economic slowdowns. Consumer spending has continued to weaken while savings have gone up, suggesting that at least for the short term there will be less revenue for sellers and more pressure on profit margins and for cost reductions.

“For consumer spending to rebound, two conditions must be met: consumers must be favorably disposed to spend and have the means to spend,” said Professor Claes Fornell, head of the ACSI and author of *The Satisfied Customer: Winners and Losers in the Battle for Buyer Preference*.

“The good news from ACSI is that the first condition has been met: customer satisfaction is looking up. But it remains to be seen to what extent the government stimulus plan will help translate stronger satisfaction into increased consumer demand.”

Customer satisfaction becomes even more important to individual companies, as they need to prevent customer defections and compete for shrinking dollars. It will also be in the public interest to find out whether or not companies that receive taxpayer money can improve quality, service and the satisfaction of their customers.

Every fourth quarter ACSI measures customer satisfaction with retail, finance and insurance, and e-commerce.

Retail

Customer satisfaction with the retail sector, which includes department and discount stores, specialty retail stores, supermarkets, gas stations, and health and personal care stores, gains 1.3 percent to 75.2.

Lower gas prices pushes the ACSI score with service stations up by 5.7 percent to a score of 74, contributing to the overall improvement for retail, although department and discount stores (+1.4% to 74) and specialty retailers also improves (+1.3% to 76).

Most retailers have seen falling stock prices, but those that improved customer satisfaction were punished less by investors. On average, retailers with improving ACSI scores lost about 30% of their market value in 2008, while those with declining ACSI scores lost nearly twice as much (57%). By comparison, the S&P 500 dropped by 38%.

Among department and discount stores, Nordstrom and Kohl's lead with an ACSI score of 80, the former on the strength of its customer service, the latter for its superior value. Deep discount store Dollar General drops 4 percent to score of 75, not from a decline in service, but from a migration of a higher socio-economic group of consumers to the retailer – another effect of the recession – a group that tends to be harder to please.

Discount store giant Wal-Mart has mixed results, falling 4 percent for its supermarket business to an ACSI score of 68, well below the industry average, but rising 3 percent for its non-grocery discount business to 70. Wal-Mart's Sam's Club also rises 3 percent to 79.

In the specialty retail category Home Depot climbs 5 percent to an ACSI score of 70, matching its best result in four years. However, the improvement failed to lift Home Depot from the bottom of the industry, and the home improvement retailer still trails rival Lowe's (76) by a wide margin. Office Depot moves in the opposite direction, falling 4 percent to 75 amid store closings and layoffs.

"Cost-cutting that adversely impacts customer satisfaction isn't a cure," said Fornell. "It may provide short term earnings relief, but having dissatisfied customers take their business elsewhere is making the problem worse."

Supermarkets are unchanged with an ACSI score of 76 even though food prices remain high. Publix is on top with a score of 82, the fifteenth straight year the supermarket chain has led the category. Safeway gains 4 percent to 75, its highest score since 2002. The chain is upgrading stores to its new *Lifestyle* format featuring more square footage for expanded offerings of organic food and other merchandise.

Finance

The finance and insurance sector improves slightly, up 0.7 percent to 76.0, erasing a corresponding deficit from a year ago. Healthcare insurance gains 3 percent to an ACSI score of 73, led by similar 3 percent improvements for the Blue Cross Blue Shield Association (73) and WellPoint (68). Healthcare costs continue to rise at a fast pace, but service has improved customers say.

Banks retreat from last year's results, falling 4 percent to an ACSI score of 75, as they cut costs across services in order to offset large financial losses from the subprime mortgage crisis. Wachovia, included for the last time in ACSI before becoming a part of Wells Fargo, falls 4 percent to 76 but still leads the industry. Wells Fargo climbs 4 percent to 72, leaving Citigroup (69) alone at the bottom of the category.

This quarter, credit unions debut in ACSI with a score of 84 – much higher than banks. Credit unions are typically smaller than most banks, and their higher customer satisfaction follows a pattern in many industries where smaller companies tend to offer a better and more individualized service.

The property and casualty insurance industry improves 1.3 percent to an ACSI score of 81. Smaller insurers lead the category at 81, unchanged from 2007. There is a tight grouping of companies within this highly satisfying industry, with State Farm and GEICO at 80 and Progressive and Allstate very close behind at 79. Only Farmers Group lags the industry and its major competitors by a significant margin (+1% to 77). A drop in premiums for property and casualty insurance in 2008 is driving the slight uptick in satisfaction with the industry.

E-Commerce

The ACSI score for e-commerce falls 2.0 percent to 80.0. Online retail declines 1.2 percent to 82, driven mostly by drops for Amazon and eBay. But with a small dip, Amazon (-2% to 86) remains the second highest scoring firm of all companies in this release. The situation for e-Bay is different. Its ACSI score slumps 4 percent to 78, an all-time low. Revenues fell 7 percent in the fourth quarter, marking eBay's first ever negative year-on-year quarter, and its stock price lost almost 60% in 2008. Newegg leads the online retail category with a score of 88. The computer hardware and software retailer has done well offering consistently high quality service and quick response time.

As stock prices fell sharply in 2008 and brokerage firms were unsuccessful in preserving capital invested by their customers, ACSI plunged. The online brokerage category takes the biggest dive this quarter, dropping 6.3 percent to 74, its lowest rating since 2002.

"While customer satisfaction with online brokerage services fell, value for money, as assessed by clients, fell even more," said Fornell. "Brokerages charge fees on the premise that they will provide investment returns superior to the average investor. If they don't, they have provided no real value for money."

Fidelity drops 5 percent but remains in the lead with an ACSI score of 80, with Charles Schwab is not far behind, down 5 percent to 78. TD Ameritrade and E*Trade are much farther behind at 71 and 69 respectively. TD Ameritrade endures one of the biggest declines for the fourth quarter, down 11 percent.

About 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 44 industries and from local and federal government services 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. ACSI can be found on the web at www.theacsi.org.

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