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ACSI: Customer Satisfaction Weakens; Biggest Slump Since 2008 Means Economic Recovery Remains Fragile

*Strong Showings for Amazon, Netflix, Newegg, Publix, Nordstrom, Kohl's
Plus Improvements for Macy's, Staples, Office Depot, and Whole Foods
Not Enough to Bolster Satisfaction*

Large Drops for Gasoline Industry, OfficeMax, CVS Caremark, and Priceline

ANN ARBOR, Mich. (February 15, 2011)—Customer satisfaction as measured by the American Customer Satisfaction Index (ACSI) has not improved since the middle of 2009, and now registers its biggest drop in two years. For the fourth quarter of 2010 the Index falls 0.5% to 75.3 on the ACSI's 0-100 scale.

“Even though the economic recovery has gained a bit more momentum as of late, it remains sluggish,” said Claes Fornell, founder of the ACSI and author of *The Satisfied Customer: Winners and Losers in the Battle for Buyer Preference*. “With low job creation and deteriorating customer satisfaction, as tracked by the ACSI, the uncertainty of what will happen to consumer demand is not going away.”

While the slide in customer satisfaction is not encouraging for consumer demand or for employment, the overall numbers don't tell the whole story and things may not be quite as serious as the aggregate suggests. Most of the ACSI decline was due to a plunge in satisfaction with government services, as reported in the January 2011 ACSI release, and a sharp decline for gasoline. The latter was caused by rising oil prices, which do have a dampening effect on consumer demand and economic growth, but slumping satisfaction with government has much less of an impact on the economy.

For the fourth quarter, in addition to government services reported in January, ACSI measures customer satisfaction with retail and e-commerce, which includes supermarkets, department & discount stores, specialty retail stores, health & personal care (drug) stores, gasoline service stations, and Internet retail, brokerage, and travel websites.

Retail

Customer satisfaction with the retail sector falls 1.6% to 75.0, mostly due to a big drop for gasoline service stations, which plummet 7.9% to 70 in the wake of a 20% rise in gas prices over the past year. Results for other retail industries are mixed—higher prices on food and other items dampen satisfaction with supermarkets (-1.3% to 75) and health & personal care stores (-1.3% to 77), while continued aggressive discounting keeps department & discount stores and specialty retailers trending upward for a third straight year. Both industries improve by 1.3% to 76 and 78, respectively.

Publix maintains its lead among supermarket chains despite a 2% drop to an ACSI score of 84. Publix has led the category every year since 1994. Whole Foods is next, well behind Publix but coming on strong, gaining 4% to 79, followed closely by Kroger, unchanged at 78. Supervalu slips below the industry average, falling 4% to 74, tied with Safeway, which improves 3%. Wal-Mart is at bottom of the industry, unchanged at 71 for the grocery portion of its business.

“While supermarket chains like Publix thrive on the strength of their customer service, Wal-Mart continues to be a place where people shop because of price,” said Fornell. “Service has a strong impact on customer satisfaction, but low prices coupled with low quality do not.”

Smaller drugstore chains lead the health & personal care store category, up 3% to an ACSI score of 81. Among the three largest retailers, Walgreen remains in front, unchanged at 77, followed by Rite Aid (-1% to 75). CVS Caremark retreats 4% to 74, falling out of a first place tie with Walgreen a year ago and hitting the bottom of the category. Problems with customer service appear to be at the center of the decline. CVS Caremark has cut costs in response to lower revenues throughout 2010, and that too might have had an adverse effect on customer service.

Among department and discount stores, Nordstrom dips slightly by 1% to an ACSI score of 82, but still leads, followed closely by Kohl's, up 3% to 81. Both companies have a strong record of achievement at or near the top of the category but for different reasons—Nordstrom for its emphasis on customer service and Kohl's for its focus on value and price. J.C. Penney and Dollar General are not far behind, both gaining 1% to 80. Target slips 3% to 78, but its score remains above the industry average. Macy's makes the largest improvement, rising 7% to 76, following company reorganization. Wal-Mart's discount store business improves 3% to 73, but continues to anchor the bottom of the category, like its supermarket business.

Barnes & Noble leads specialty retailers for a fourth straight year, but a small drop of 2% coupled with a 1% gain for Costco now has the two tied with ACSI scores of 82. Office supply retailers Staples (+5%) and Office Depot (+7%) surge with scores of 81, followed closely by Borders (-1% to 80). Among the other gainers are Best Buy (+4% to 77) and Home Depot (+4% to 75). The latter improves for a third straight year, further closing the gap with rival Lowe's (-3% to 77). OfficeMax retreats 4% to 74, falling into a last place tie with clothing retailer Gap (-1%).

E-Commerce

The ACSI score for e-commerce falls 2.6% to 79.3, the lowest level since 2004. A 3.6% drop to 80 for Internet retail drives the overall decline, but the decline is mostly concentrated in smaller companies. Customer satisfaction improves 1.3% to 78 for travel sites and is unchanged at 78 for online brokerage. Amazon and Netflix swap places for the lead in retail, with Amazon rising 1% to 87 and Netflix dropping 1% to 86. Amazon's score is the highest for any retailer, whether online or brick-and-mortar. Newegg (-2% to 84) and Overstock (+1% to 83) are next in line. eBay makes a significant improvement, up 3% to 81, but not enough to move ahead of any of the larger competitors.

“Even with the decline, customer satisfaction with Internet shopping remains much higher than with in-store shopping, and online sales continue to grow at a faster pace too,” said Fornell. “The large drop for smaller online retailers suggests that size does matter when it comes to the ability to price, make concessions on shipping costs, and create attractive sales promotions.”

Among online brokerages, three of the four largest companies make small gains. Charles Schwab inches up 1% to the lead with an ACSI score of 80, breaking last year's tie with Fidelity, which slips 1% to 78 to match the aggregate of all other online brokerage services. E*Trade rises 3% to 76, which is a 10% improvement from its 2008 score and the largest gain for any broker over that period. Despite the large ACSI increase, E*Trade remains in last place, but the gap to Fidelity and TD Ameritrade (+1% to 77) is now very small.

Expedia leads in travel, unchanged at an ACSI score of 79, tied with the aggregate of smaller travel websites (+1%). Travelocity (+3% to 77) and Orbitz (-1% to 75) follow, with Priceline dropping 4% to the bottom of the category at 73.

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. ACSI releases results for various sectors of the economy on a monthly basis to provide up-to-the-moment coverage over the entire calendar year. The national index is updated quarterly and factors in scores from more than 225 companies in 45 industries and from government agencies over the previous four quarters. The Index was founded at the University of Michigan's Ross School of Business and is produced by ACSI LLC. ACSI can be found on the Web at www.theacsi.org.

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