

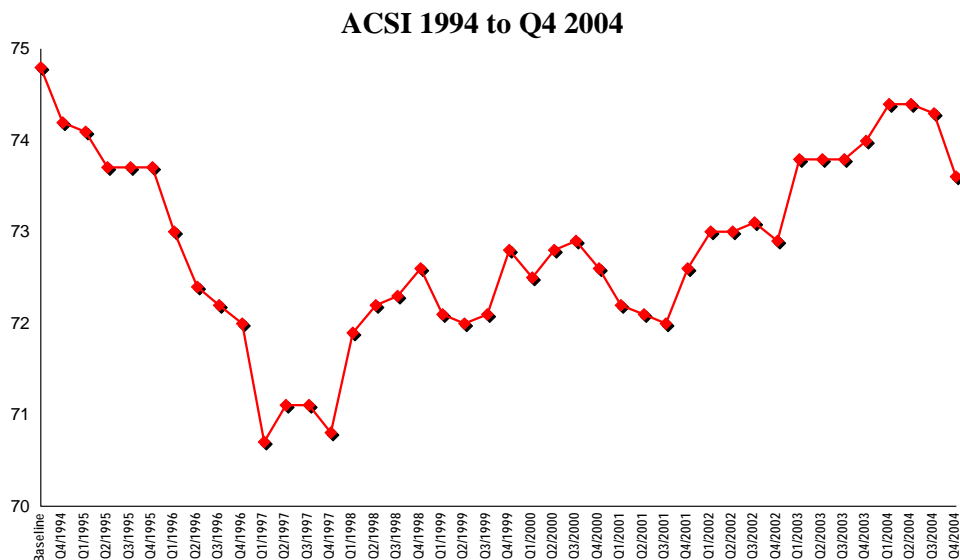
February 15, 2005

## Customer Satisfaction Plunges; Biggest Decline Since 1997 May Spell Trouble for the Economy

Fourth-quarter ACSI measures stores, supermarkets, gasoline stations, banks, insurance companies and e-commerce retailers.

ANN ARBOR, Mich.---After two years of steady increases, customer satisfaction with goods and services purchased and consumed in the United States has taken a dramatic downturn, the latest American Customer Satisfaction Index (ACSI) shows.

The ACSI for the fourth quarter 2004 stands at 73.6, down from 74.3, the largest decline since 1997. The drop is due mostly to waning satisfaction with retail customer service, high gas prices and a glut of user-traffic on e-commerce Web sites.



Claes Fornell, director of the ACSI and professor at the Stephen M. Ross School of Business at the University of Michigan, says that declining customer satisfaction may have a significant impact on the future health of the economy.

"Customer dissatisfaction with the quality of goods and services offered in the marketplace is more than a nuisance," he said. "The U.S. economy is heavily dependent

on increases in consumer spending. Such increases are hard to come by when consumers become less satisfied."

According to Fornell, even a slight change in the overall ACSI in one quarter has historically signaled a shift in consumer spending the following quarter. He says that consumer spending, which represents nearly 70 percent of Gross Domestic Product, grows at an annual rate of about 3.8 percent. But when customer satisfaction drops by 0.3 points or more, average consumer spending growth declines to 3.2 percent---a difference of roughly \$46 billion on an annual basis.

"Based on the ACSI alone, and not considering other factors, such as oil prices, interest rates, consumer sentiment and income, the deterioration in the ACSI predicts that consumer spending will grow no more than 2.3 to 2.7 percent in the first quarter of 2005," Fornell said.

### **Record-High Gasoline Prices, Challenging Holiday Season for Retailers Drive Deterioration**

Customer satisfaction with retail gasoline outlets is at an all-time low of 70---down 7 percent from a year ago. Because gasoline is such a large industry, this is a significant factor in the overall decline in the ACSI, according to Jack West, past president of the American Society for Quality, a co-sponsor of the ACSI.

"Satisfaction with gasoline is highly price-sensitive," West said. "With prices at record-highs throughout 2004, it is not surprising that satisfaction with retail gasoline stations is at a record-low."

But declining satisfaction with retailers is also partly to blame for the downturn in the ACSI. Retail sales were sluggish at the beginning of the holiday shopping season, but picked up as a result of heavy discounting by retailers, Fornell says.

Discounting came with cost-cutting as well, and when resources to serve increasing demand were lacking, the result was crowding, longer lines and slower service, he says. Although discounting brought more customers into the stores, customer satisfaction with retail overall dropped 3 percent from a year ago.

"In some cases, retailers try to generate repeat business largely through more and deeper price cuts, while others such as Kohl's, Costco and Target seem to be delivering a more sustainable mix of quality, service and price and, therefore, are not dependent solely on lowering prices to win customers," Fornell said. "Wal-Mart may be an exception, however. Even though the company does not do as good a job of creating satisfied customers as some of its competitors, as long as super-low prices make people buy its merchandise and as long as it can keep costs down, it is likely to be successful."

## **Banks Stable, High Costs Hurt Insurers**

The customer satisfaction score for banks stands at 75, matching its highest level achieved a year ago. Satisfaction with smaller banks has actually improved slightly, but among the larger banks, J.P. Morgan Chase is unchanged at 70, while Bank of America has declined by 3 percent to 72. Both companies acquired smaller banks over the past year, which may explain their failure to keep pace with the rest of the industry.

"Mergers and acquisitions often lead to deteriorating customer satisfaction as companies reduce costs," Fornell said. "This was the case for banks in the late 1990s when there was considerable merger activity. It remains to be seen if history will repeat itself, but the data suggest that the recent mergers are not contributing to improved customer satisfaction."

Satisfaction for insurance has dropped from a year ago, particularly for health insurance, where rising costs are a major concern, Fornell says. The industry is down 4 percent to 67, an all-time low. Among the big insurers, both Aetna and Blue Cross/Blue Shield have declined by 5 percent and 3 percent, respectively, while rising costs have affected satisfaction with smaller carriers even more (down 7 percent).

Higher costs also have driven down satisfaction with life and property insurers as premiums have risen, Fornell says. But a few companies have managed to avoid the downturn. Prudential improved 6 percent to 77, the first time in 10 years the company has been above the industry average.

"As changes in customer satisfaction and stock performance tend to go hand-in-hand, it is not surprising that Prudential's stock price is up 30 percent over a year ago, compared with an average increase of 5 percent for the life insurance industry," Fornell said.

## **E-Commerce: Satisfaction Slips for Amazon and eBay**

The ACSI score for e-commerce is down 3 percent to 78.6 and satisfaction with each of the measured categories---online retail, auction, travel and brokerage sites---has declined. Increased traffic to these sites has made it more difficult to service customers well, says Larry Freed, an online satisfaction expert and CEO of ForeSee Results.

Among individual companies, Amazon.com, one of the highest scoring of all companies in the ACSI over the past few years, fell 5 percent to 84 and is no longer the leader among online retailers---a position now held by Barnes and Noble's Web site. The reason for Amazon.com's decline may well be expansion from its core business of selling books, music and videos, Freed says.

"Amazon has moved well beyond books and music and has morphed into an online shopping mall, selling everything from garden appliances and apparel to electronics and used books. But bigger isn't always better from a customer's viewpoint," Freed said.

"Barnes and Noble stayed true to its business model and product offering, which makes it easier to service demand well and sustain higher levels of customer satisfaction."

Another ACSI stalwart, eBay, is also now struggling with customer satisfaction, falling 5 percent to 80, Freed says.

"eBay is beginning to lose some of its uniqueness and appeal as it is becoming a marketplace of its own," Freed said. "eBay's success has also attracted more competition from auction sites, such as merchandise liquidator Overstock.com, Yahoo Auctions and even Amazon."

Increased competition also has brought financial pressures, Freed says. Even though revenue growth in the fourth quarter was strong, the company failed to meet market expectations and eBay's stock has been tumbling since the end of the quarter.

### **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 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 the ACSI can be found on the ACSI Web site: [www.theacsi.org](http://www.theacsi.org).

ACSI Over Time (Q4 2004 companies and industries)																
															% Change from last year	% Change from 1st year
		Baseline*	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004			
RETAIL TRADE		75.7	73.6	74.6	73.2	70.8	74.7	73.3	72.9	74.8	74.6	75.0	72.6		-3.2%	-4.1%
	Supermarkets	76	74	75	74	73	73	74	73	75	75	74	73		-1.4%	-3.9%
	Publix Super Markets, Inc.	82	81	82	80	79	79	82	77	81	81	82	81		-1.2%	-1.2%
	All Others	76	74	75	72	73	72	71	74	73	75	75	76		1.3%	0.0%
	SUPERVALU INC.	77	77	77	75	74	77	75	75	76	77	77	75		-2.6%	-2.6%
	The Kroger Co.	78	76	76	74	74	73	74	71	75	75	71	73		2.8%	-6.4%
	Winn-Dixie Stores, Inc.	76	74	75	75	74	74	71	74	72	73	73	72		-1.4%	-5.3%
	Safeway Inc.	72	72	73	73	70	71	72	76	75	76	71	72		1.4%	0.0%
	Wal-Mart Stores, Inc.	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	70		NA	NA
	Albertson's, Inc.	75	74	77	77	72	70	73	70	72	73	73	69		-5.5%	-8.0%
	Gasoline Stations	78	NM	80	77	78	79	76	75	77	76	75	70		-6.7%	-10.3%
	Department & Discount Stores	77	74	75	74	72	73	72	72	75	74	76	74		-2.6%	-3.9%
	Kohl's Corporation	NM	NM	NM	NM	NM	NM	NM	NM	NM	84	79	79		0.0%	-6.0%
	Dillard's, Inc.	75	76	74	74	73	71	68	72	75	75	75	77		2.7%	2.7%
	All Others	76	72	72	74	71	71	73	70	75	73	78	76		-2.6%	0.0%
	J.C. Penney Corporation, Inc.	79	76	77	78	75	75	75	74	75	74	77	76		-1.3%	-3.8%
	The May Department Stores Company	74	76	75	75	72	72	74	72	75	76	75	76		1.3%	2.7%
	Target Corporation	77	75	76	77	73	74	74	73	77	78	77	75		-2.6%	-2.6%
	Sears, Roebuck and Co.	73	71	75	74	71	74	71	73	76	75	73	74		1.4%	1.4%
	Federated Department Stores, Inc.	71	71	71	73	66	67	68	69	69	71	71	74		4.2%	4.2%
	Wal-Mart Stores, Inc.	80	80	81	74	76	75	72	73	75	74	75	73		-2.7%	-8.8%
	Army and Air Force Exchange Service (AAFES)	NM	NM	NM	69	69	68	70	70	74	73	71	72		1.4%	4.3%
	Kmart Corporation	74	70	72	72	68	71	67	67	74	70	70	67		-4.3%	-9.5%
	Specialty Retail Stores	NM	NM	NM	NM	NM	NM	NM	NM	73	74	74	75		1.4%	2.7%
	Costco Wholesale Corporation	NM	NM	NM	NM	NM	NM	NM	79	76	79	80	79		-1.3%	0.0%
	Lowe's Companies, Inc.	NM	NM	NM	NM	NM	NM	NM	NM	75	76	77	76		-1.3%	1.3%
	SAM'S CLUB (Wal-Mart Stores, Inc.)	NM	NM	NM	75	72	75	78	74	78	77	77	75		-2.6%	0.0%
	All Others	NM	NM	NM	NM	NM	NM	NM	NM	72	73	73	75		2.7%	4.2%
	The Home Depot, Inc.	NM	NM	NM	NM	NM	NM	NM	NM	75	71	73	73		0.0%	-2.7%
	Circuit City Stores, Inc.	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	73	72		-1.4%	-1.4%
	Best Buy Co., Inc.	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	72	72		0.0%	0.0%

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