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Customer Satisfaction Drops Again and Consumer Spending Likely to Weaken Further, According to ACSI

Satisfaction in the Retail and Financial Services Sectors Falls, while E-Commerce Reaches All-Time High

ANN ARBOR, Mich. (February 19, 2008) – Customer satisfaction with the goods and services that Americans buy declined in the fourth quarter of 2007, according to a report released today by the University of Michigan’s American Customer Satisfaction Index (ACSI). The index falls to 74.9 on the ACSI’s 100-point scale, down 0.4 percent to its lowest score of 2007.

Consumer spending growth slowed in the fourth quarter as predicted by the third quarter drop in ACSI. A second consecutive drop in customer satisfaction, combined with increasing unemployment, plummeting house prices, tighter credit, high levels of household debt, and inflating fuel and food prices, is likely to pose even more challenges this quarter for consumer spending growth.

“Falling customer satisfaction has a dampening effect on consumer demand, and household debt to income ratios affect consumers’ ability to spend. Both are moving in the wrong direction, brewing up a double-whammy that may hit the economy hard said Claes Fornell, head of the ACSI and author of *The Satisfied Customer: Winners and Losers in the Battle for Buyer Preference*. “In such an environment, customer satisfaction becomes even more important because satisfied buyers tend to reduce sellers’ cash flow volatility.”

ACSI measures retail, finance and insurance, and e-commerce every fourth quarter.

Retail: Nordstrom back on top; Wal-Mart’s woes; Home Depot down again

Customer satisfaction with the retail sector, which includes department and discount stores, specialty retail stores, supermarkets, gas stations, and health and personal care stores, slips 0.3 percent to 74.2 on ACSI’s 100-point scale.

The holiday shopping season was anything but bright for many retailers, as satisfaction with the department and discount scores reached its lowest level since 2001 after sinking 1.4 percent to a score of 73. With rising gas prices, a shaky credit market and an uncertain job market, cautious consumers are looking for more value for their money.

Nordstrom succeeds where Wal-Mart hasn’t. Nordstrom is reintroduced to ACSI after increasing its market share, and it leads the department and discount store industry with a score of 80 as a result of high quality merchandise and superior customer service.

Discount store giant, Wal-Mart, takes a sharp turn south, plummeting 6 percent to its all-time low of 68, well below the industry average. Competing on price is no longer enough to offset lagging quality. Wal-Mart also scores lowest in the industry for customer service.

Deep discount store Dollar General makes its ACSI debut with a strong score of 78, providing customers with a wide variety of merchandise in a reasonably small store-space at super discount prices.

The specialty retail category aggregate remains unchanged from last year with a score of 75. The category expands this year to include category leader Barnes & Noble (83), Borders (81), Office Depot (78), Staples (77), Office Max (76), Gap (75), and the TJX Companies (74).

Home Depot (67) lost the gains it made last year after sliding 4 percent to the bottom of the whole retail sector. Lowe's improves 1 percent to 75, widening the gap between the rivals.

"Operational efficiencies don't always translate into customer service improvements," said Fornell. "Cutting jobs and eliminating services might improve earnings in the short term, but it won't do much good if customers take their business elsewhere."

The gap between consumer electronics retailers Best Buy and Circuit City has narrowed after moving in the opposite direction last year. Best Buy slides 3 percent to a score of 74 while Circuit City improves 3 percent to 71. Circuit City has reduced price on some items and expanded home installation and tech support service.

Supermarkets are up 1.3 percent to 76, the highest level in 14 years, despite the recent rise in food prices. Publix continues to lead the category with a score of 83. According to their customers, Publix, like Nordstrom, offers high quality products and superior customer service, which has been the foundation for the lead in customer satisfaction over the past 15 years. Winn-Dixie plunges 7 percent to tie Wal-Mart's supermarket business at the bottom of the industry at 71. Whole Foods Market makes its ACSI debut with a score of 73, leading in quality but at the bottom for value.

Finance: Banks, Property Insurance Pay-off, Health Insurers look Ill

Amid fears of a recession, the looming mortgage crisis, and high insurance premiums, the finance and insurance sector drops 0.7 percent to 75.5, a retreat from the gains last year that put the sector at its highest level since 1994.

Banks climb 1.3 percent to 78, lead by improvements in the "all others" category, up 3 percent to lead the industry with a score of 80. Wachovia, down 1 percent to 79, is still the top scoring bank, despite its first drop since 2000. JPMorgan Chase climbs 3 percent to 74, and Bank of America is unchanged at 72. Wells Fargo and Citigroup each drop 4 percent to 69, the lowest scores in the industry.

The property and casualty insurance industry improves 2.6 percent to 80, its highest score in over a decade. Progressive (79) makes the biggest jump of any company, up 8 percent to 79. Various website improvements and rate cuts helped fuel the recent surge in customer satisfaction. State Farm is tied at the top with the All Others category at 81. GEICO and Farmers are the only two companies to slide since 2006. GEICO slips 4 percent to 80, while Farmers falls 3 percent to 76. Allstate remains unchanged at 78.

As health care costs continue to rise with more households now footing the bill, the satisfaction with health insurers slips 1.4 percent, to 71. UnitedHealth declines the most, down 4 percent to 65.

E-Commerce: Amazon is King in Customer Satisfaction

The e-commerce sector rises 2.0 percent to a new high of 81.6. In the highly competitive e-retail category, Amazon.com leads with a score of 88, one of the highest regardless of industry. Amazon.com has been successful at keeping pace with increasing customer expectations and improving the customer experience accordingly. Newegg, Netflix, and Overstock make their first appearance in the e-retail category this year. Newegg (87) and Netflix (84) debut just behind Amazon, while Overstock's first appearance is at the bottom of the industry with a score of 80.

The online brokerage category also advances 1.3 percent to 79, a new high despite a shaky stock market. Fidelity leads, up 5 percent to 84, a new all-time high for the company. Another strong gainer, TD Ameritrade, climbs 4 percent to 80, closing the gap between second-place Charles Schwab, up 3 percent to 82.

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 43 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. ACSI can be found on the web at www.theacsi.org.

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