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## AMERICAN CUSTOMER SATISFACTION INDEX RELEASES 3RD QUARTERREPORT:

***Customer satisfaction remains high for non-durable industries like food, soft drinks, beer, tobacco, apparel, athletic shoes, personal care products and pet foods***

MILWAUKEE, November 19, 2001 ---While consumer confidence has fallen considerably in the face of a weakening economy and in the aftermath of the Sept. 11 attacks, American customer satisfaction with everyday, non-durable goods and products has held steady, according to the quarterly American Customer Satisfaction Index (ACSI).

“Contrary to consumer confidence, there is no reason to expect a direct effect on customer satisfaction,” says Claes Fornell, professor of business and director of the University of Michigan Business School’s National Quality Research Center, which compiles and analyzes the ACSI data. “It seems reasonable to assume that products like ketchup, soup, oatmeal, cheese, blue jeans and soap have the same qualities now as they did before Sept. 11, and that people’s experience with these products has not changed markedly as a result of the terrorist attack or its aftermath.”

The index is produced by a partnership of the U-M Business School, American Society for Quality and CFI Group, and supported in part by Market Strategies Inc., a major corporate sponsor.

For all practical purposes, the ACSI remains unchanged in the third quarter, slipping from last quarter’s score of 72.1 (out of a possible 100) to a current mark of 72.0. Over the past year, the ACSI has dropped a little more than 1% (down from 72.9 a year ago).

Although the decline in the overall ACSI score from this time last year is small, the drop in customer satisfaction is even smaller (a 0.6% drop from 80.8 to 80.3) for goods in the manufacturing non-durables sector---comprised of eight industries (food processing, soft drinks, beer, tobacco, apparel, athletic shoes, personal care products and pet foods) measured specifically in this quarter.

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The score for this sector remains high---almost 12% higher than the overall ACSI score for all industries, Fornell says.

"There are several reasons why non-durables typically produce higher customer satisfaction than most other industries," he says. "Customer switching costs are low, and, as a result, there are few 'captive' customers, as dissatisfied buyers can easily switch to another product.

"The market offers numerous brands with many purchase alternatives, thus satisfying many different consumer tastes. Also, customer service, which often creates havoc in other industries, plays only a minor role in the purchase and consumption of non-durables."

Among these eight industries, however, only food processing registered an increase in customer satisfaction compared with last year. After four straight years with a score of 81, this sector bumped up to 82.

While this industry has seen a rash of mergers and acquisitions in the past year, the reduced number of competitors has had no negative effect on ACSI, so far, Fornell says.

The H.J. Heinz Co., with a score of 89, remains the highest-scoring company for the second year in a row, not only among food-processing companies, but among all the non-durables.

"While the company offers more than 5,000 products, ketchup is by far the dominating item," Fornell says. "It may not always be easy to get it out of the bottle, but the reward appears to be worth the trouble."

Fornell says that the company boosted its ACSI last year to an all-time high (90), thanks, in part, to the introduction of green ketchup---a big hit with kids.

"Although not quite as clear-cut as is the case with pet foods, the buyer and user of ketchup are not necessarily identical," he says. "As children are responsible for much of the ketchup consumption in the United States, research suggests that they are also more influential in purchasing decisions than ever before. As with pet food, the purchaser is more likely to be satisfied if the user of the product also appears to be content."

Other high-scoring companies in the food-processing sector---all with scores of 86---include the Quaker Oats Co., Hershey Foods Corp. and Mars Inc., which saw its score rise nearly 5% (the second-highest increase among all companies in the non-durables industries).

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"The big gainer is chocolate-maker Mars," Fornell says. "Most of the gain appears to be due to the fact that customers perceive more value in the product. Whether this has anything to do with price is unclear. We have seen a similar phenomenon in other countries where candy, chocolate and the like tend to be more satisfying when economic times are characterized by uncertainty."

While the food-processing sector was the only non-durables industry to raise its ACSI score, the personal care products sector scored highest overall with a mark of 83---down from 84 a year ago. Colgate-Palmolive registered the largest score increase among all personal care products and all non-durable companies, moving up from 80 last year to 85 this year. The Clorox Co. also scored 85.

The pet foods industry, although down a point, came in at 82, which matched the ACSI score of the soft drink sector. The overall score for soft drink companies, however, dropped nearly 5 % from an industry-high of 86 a year ago. Cadbury Schweppes paced the category with a score of 85, while the Coca-Cola Co. fell nearly 6% to a mark of 81.

The ACSI score for the beer industry declined overall from 82 last year to 80 this year, as the scores for all the major brewing companies dropped.

"Beer sales have been stagnant for the past year or so and brewers are increasingly looking overseas for future growth," Fornell says. "The reason for the recent ACSI decline appears to be due to a combination of value and quality, both of which have deteriorated in the eyes of customers. Another reason some consumers cite is that they have more difficulty finding their favorite micro brewery brand today and sometimes feel that they have to settle for their second choice."

The bottom three industries among non-durables are apparel, with an ACSI score of 79, and tobacco and athletic shoes (primarily NIKE and Reebok), each with scores of 76. In the athletic shoe category, the score declined nearly 4% from last year (from 79 to 76).

“The drop can be attributed largely to falling customer satisfaction for the big players—NIKE and Reebok,” says Jack West of the American Society for Quality. “NIKE and Reebok may be paying more attention to obtaining celebrity endorsements than they are to the quality of their products.”

West also points out that customer expectations of NIKE and Reebok remained high, while their ability to meet these expectations declined markedly.

Overall, while America's slowing economy and the after-effects of the Sept. 11 attacks have had minimal impact on customer satisfaction in non-durables industries, the relationship between ACSI and consumer spending is likely to be influenced, Fornell says.

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"Customer satisfaction may become somewhat less dominant in determining consumer spending in times of economic uncertainty," he says. "Customer satisfaction has predicted a large part of the variation in spending during the better half of the past decade. But this was also a time period when people were not worried about the health of the economy, their future incomes, unemployment or their accumulation of debt. Instead, the drive for gratification---satisfaction---was the dominant stimulus for spending."

Fornell also says that two other aggregate measures deserve attention---customer retention and perceived value, both of which have declined at a faster rate than the ACSI itself.

"In the face of shrinking customer satisfaction, it was possible to maintain, or even increase, customer retention as a result of low inflation and high productivity," he says. "For the consumer, this often meant price reductions, sales promotions or rebates, and it was rare to see large price hikes. Today, we don't see the same phenomenon. Declining satisfaction is no longer offset enough by lower prices as perceived by the buyers and the rate of customer defections is increasing."

"Last month, the producer's price index took its largest fall in 80 years," West adds. "This portends even more price reductions at the retail level."

The ACSI is a national economic indicator of customer evaluations of the quality of goods 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.

Company scores can be found on the U-M Business School's Web site (www.bus.umich.edu/acsi) and on ASQ's Web site (www.asq.org). The Web site for CFI Group is www.cfigroup.com.

| ACSI Over Time | | | | | | | | | From Previous Year | From 1st Year Measured |
|---|---|---|---|---|---|---|---|---|---|---|
| **National ACSI = 72.0 (down from 72.1 in Q2)** | **1994** | **1995** | **1996** | **1997** | **1998** | **1999** | **2000** | **2001** | % Change | % Change |
| **MANUFACTURING - NON-DURABLES** | **81.6** | **81.2** | **79.0** | **78.5** | **78.8** | **80.0** | **80.8*** | **80.3** | **-0.6%** | **-1.6%** |
| **Food Processing** | **84** | **84** | **83** | **81** | **81** | **81** | **81** | **82** | **1.2%** | **-2.4%** |
| H.J. Heinz Company | 89 | 87 | 90 | 86 | 86 | 85 | 90 | 89 | -1.1% | 0.0% |
| Hershey Foods Corporation | 86 | 88 | 88 | 84 | 84 | 86 | 85 | 86 | 1.2% | 0.0% |
| Mars, Inc. | 87 | 89 | 86 | 85 | 81 | 84 | 82 | 86 | 4.9% | -1.1% |
| The Quaker Oats Company | 82 | 82 | 82 | 85 | 83 | 83 | 86 | 86 | 0.0% | 4.9% |
| General Mills, Inc. | 83 | 81 | 86 | 81 | 82 | 81 | 82 | 83 | 1.2% | 0.0% |
| Kellogg Company | 84 | 84 | 85 | 81 | 83 | 81 | 83 | 83 | 0.0% | -1.2% |
| Nestle S.A. | 88 | 86 | 82 | 83 | 83 | 81 | 84 | 83 | -1.2% | -5.7% |
| Kraft Foods, Inc. | 84 | 84 | 85 | 82 | 84 | 83 | 82 | 82 | 0.0% | -2.4% |
| All Others | 83 | 83 | 81 | 80 | 80 | 80 | 80 | 81 | 1.3% | -2.4% |
| Campbell Soup Company | 83 | 81 | 84 | 81 | 80 | 81 | 81 | 81 | 0.0% | -2.4% |
| ConAgra Foods, Inc | 83 | 83 | 82 | 80 | 80 | 80 | 82 | 81 | -1.2% | -2.4% |
| Dole Food Company, Inc. | 90 | 90 | 85 | 79 | 82 | 80 | 82 | 81 | -1.2% | -10.0% |
| Sara Lee Corporation | 86 | 82 | 84 | 80 | 80 | 81 | 82 | 81 | -1.2% | -5.8% |
| Tyson Foods, Inc | 83 | 80 | 79 | 80 | 79 | 79 | 81 | 80 | -1.2% | -3.6% |
| **Beverages-Beer** | **83** | **81** | **79** | **81** | **82** | **79** | **82** | **80** | **-2.4%** | **-3.6%** |
| All Others | NA | 79 | 78 | 83 | 83 | 81 | 83 | 81 | -2.4% | 2.5% |
| Anheuser-Busch Companies, Inc. | 84 | 80 | 79 | 81 | 81 | 78 | 81 | 80 | -1.2% | -4.8% |
| Adolph Coors Company | 81 | 84 | 79 | 80 | 84 | 78 | 82 | 78 | -4.9% | -3.7% |
| Miller Brewing Company | 80 | 82 | 78 | 81 | 81 | 81 | 81 | 78 | -3.7% | -2.5% |
| **Beverages-Soft drinks** | **86** | **86** | **86** | **83** | **83** | **84** | **86** | **82** | **-4.7%** | **-4.7%** |
| Cadbury Schweppes plc | NM | 85 | 86 | 83 | 88 | 85 | 86 | 85 | -1.2% | 0.0% |
| PepsiCo, Inc. | 86 | 87 | 86 | 83 | 83 | 82 | 85 | 84 | -1.2% | -2.3% |
| The Coca Cola Company | 85 | 85 | 87 | 84 | 82 | 84 | 86 | 81 | -5.8% | -4.7% |
| **Tobacco-Cigarettes** | **81** | **82** | **77** | **77** | **75** | **76** | **76*** | **76** | **0.0%** | **-6.2%** |
| R.J. Reynolds Tobacco Holdings, Inc. | 81 | 81 | 84 | 79 | 75 | 77 | 77 | 77 | 0.0% | -4.9% |
| All Others | NM | NM | 68 | 75 | 74 | 76 | 76* | 76 | 0.0% | 11.8% |
| Philip Morris Companies, Inc. | 80 | 81 | 79 | 77 | 75 | 75 | 75 | 75 | 0.0% | -6.3% |
| **Apparel** | **82** | **81** | **78** | **77** | **79** | **79** | **79** | **79** | **0.0%** | **-3.7%** |
| VF Corporation | 83 | 80 | 80 | 81 | 79 | 78 | 82 | 84 | 2.4% | 1.2% |
| Levi Strauss & Company | 84 | 83 | 80 | 81 | 75 | 76 | 79 | 80 | 1.3% | -4.8% |
| All Others | 79 | 80 | 78 | 77 | 79 | 79 | 79 | 79 | 0.0% | 0.0% |
| Jones Apparel Group, Inc. | NM | NM | NM | NM | NM | NM | NM | 79 | NA | NA |
| Liz Claiborne, Inc. | 84 | 81 | 81 | 77 | 78 | 76 | 79 | 79 | 0.0% | -6.0% |
| Sara Lee Corporation | 83 | 81 | 75 | 81 | 77 | 78 | 78 | 76 | -2.6% | -8.4% |
| **Athletic Shoes** | **79** | **79** | **77** | **74** | **74** | **76** | **79** | **76** | **-3.8%** | **-3.8%** |
| All Others | NM | NM | NM | 73 | 76 | 79 | 79 | 78 | -1.3% | 6.8% |
| NIKE, Inc. | 82 | 78 | 77 | 74 | 73 | 73 | 78 | 74 | -5.1% | -9.8% |
| Reebok International Ltd. | 75 | 80 | 77 | 74 | 74 | 75 | 78 | 73 | -6.4% | -2.7% |
| **Personal care products** | **84** | **84** | **80** | **82** | **82** | **81** | **84** | **83** | **-1.2%** | **-1.2%** |
| Colgate-Palmolive Company | 84 | 86 | 82 | 83 | 82 | 80 | 80 | 85 | 6.3% | 1.2% |
| The Clorox Company | 88 | 88 | 84 | 83 | 85 | 84 | 85 | 85 | 0.0% | -3.4% |
| The Dial Corporation | 86 | 85 | 85 | 83 | 81 | 79 | 85 | 84 | -1.2% | -2.3% |
| Unilever plc | 84 | 83 | 83 | 82 | 83 | 81 | 85 | 83 | -2.4% | -1.2% |
| All Others | 83 | 81 | 77 | 82 | 79 | 80 | 82 | 82 | 0.0% | -1.2% |
| The Procter & Gamble Company | 85 | 87 | 85 | 81 | 83 | 81 | 84 | 82 | -2.4% | -3.5% |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Pet Foods** | **NM** | **NM** | **NM** | **83** | **81** | **82** | **83** | **82** | | **-1.2%** | **-1.2%** |
| Colgate-Palmolive Company | NM | NM | NM | 85 | 83 | 86 | 82 | 84 | | 2.4% | -1.2% |
| Mars, Inc. | NM | NM | NM | 81 | 82 | 81 | 81 | 83 | | 2.5% | 2.5% |
| Ralston Purina Company | NM | NM | NM | 82 | 81 | 82 | 85 | 83 | | -2.4% | 1.2% |
| H.J. Heinz Company | NM | NM | NM | 85 | 80 | 81 | 84 | 81 | | -3.6% | -4.7% |
| Nestle S.A. | NM | NM | NM | 83 | 83 | 84 | 81 | 81 | | 0.0% | -2.4% |
| All Others | NM | NM | NM | NM | 81 | 82 | 82 | 80 | | -2.4% | -1.2% |
| The Procter & Gamble Company | NM | NM | NM | NM | NM | NM | NM | 80 | | NA | NA |

# ACSI 1994 - Q3 2001