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Idling Customer Satisfaction Can't Fuel a Fragile Economy

Heinz Beats Everybody on Customer Satisfaction; Sharp Drops for Mars Petcare, Sara Lee and Campbell Soup

ANN ARBOR, Mich., (November 15, 2011)—The overall American Customer Satisfaction Index (ACSI) is stuck in neutral for the third quarter of 2011, unchanged at 75.7 on a 0 to 100-point scale. According to a report released today by ACSI, customer satisfaction in the aggregate is going nowhere—mirroring the economy and contributing to its frailty.

"When there is little or no industry growth, the only way for many companies to expand is to take market share from competition," notes Claes Fornell, founder of the ACSI and author of *The Satisfied Customer: Winners and Losers in the Battle for Buyer Preference*. "In an anemic labor market with tight household budgets, this leads to more price competition, deflationary pressure, and a further weakening of aggregate demand. The best defense a company can have against competitive efforts to take market share is to have satisfied customers."

Food: Can't Catch Heinz
Condiment purveyor Heinz knows how to please customers. This year, customer satisfaction with the company's food products rises 1% to 89—good enough to lead the industry for a 12th straight year and rate number one among the ACSI's 225+ measured companies. Food manufacturing as a whole is stalled at 81, following last year's decline in the face of rising food costs.

Results are mixed for the individual companies, with even numbers of gainers and losers, alongside 3 unchanged scores. Candymaker Mars (+2%) places second at 87, but its score is well ahead of chocolate rivals Hershey (-2%) and Nestlé (unchanged) at 84. Like Hershey, PepsiCo's Quaker brand slips 2% to 84, while four companies are tied at 83 (ConAgra, Dole, General Mills and Kraft). Satisfaction with this latter group is mostly static (changes of 0% to 1%) with the exception of Kraft (+3%).

Sara Lee and Campbell Soup—both down 4% to 82 and 79, respectively—suffer the largest falloff in customer satisfaction. The loss pushes Campbell Soup to the bottom of the industry and into a tie with Tyson (+3%) and the aggregate of smaller food producers (-1%). For Sara Lee, cost is the likely culprit, as consumers encounter prices that average

10% higher on the company's big-name brands such as Ball Park and Jimmy Dean. Likewise, Campbell has raised its prices in response to cost increases at a time when competing soup labels have held steady.

Pet Food: Satisfaction Slumps for Mars Petcare
The customer satisfaction of consumers buying food to feed their pets slips for a second year, down 1.2% to 82. The decline at the industry level is driven by steep drops for Mars Petcare and the aggregate of smaller pet food labels. In 2010, both Mars and the smaller brands led the category at 85. After a 4% drop to 82, small brands tie the industry average, but Mars tumbles a steep 6% to last place with a score of 80. Here again, price plays a key role in depressed satisfaction.

With a 2% gain, premium brand Hill's Pet Nutrition (Colgate-Palmolive) takes over the industry lead at 84 and holds the advantage over Procter & Gamble's premium offering, Iams (+1% to 81). Del Monte (-1%) and Nestlé Purina PetCare (unchanged) round out the industry with middling scores of 82.

Athletic Shoes: Consumers Find the Right Fit Regardless of Brand
Customer satisfaction with athletic shoes moves up incrementally to 81 (+1.3%), but consumers see little difference among the brands—big or small. The largest players in the category—Adidas and Nike—are deadlocked with scores of 80 after a 2% drop for Adidas this year. While customers perceive Nike as the winner when it comes to a high-quality product, the superior value delivered by Adidas makes the satisfaction matchup a draw for 2011. The aggregate of smaller athletic shoe brands such as New Balance and Skechers inches ahead with a 1% gain to 81, but the difference is negligible.

Apparel: Consumers Look for Lower Prices
After two years of steady improvement, customer satisfaction with apparel products such as jeans, hosiery and underwear is unraveling—down 3.6% to 80. The substantial decline at the industry level comes from dampened satisfaction (-5% to 79) with smaller companies—the group that makes up the majority of the industry's market share. Adding to the problem is a lack of improvement among four of five major manufacturers.

"On one level, increasing costs—particularly cotton—have led to higher prices, which are at the root of the industry's problem with falling or stagnating customer satisfaction," explains Fornell. "Cotton prices, however, have plunged recently by more than 50%, while apparel prices have failed to follow suit. In order for customer satisfaction to return to previous levels, some adjustment in the industry's overall pricing structure is likely needed."

V.F. Corporation maintains the industry lead despite a 2% drop to an ACSI score of 83. Hanesbrands earns a close second place at 82 after posting the category's only gain (+1%). Levi Strauss fails to make progress at 81 (unchanged), while Jones Group retreats 3% to the bottom of the industry at 79. Jones now ties Liz Claiborne (unchanged)—a company that suffered a sharp drop last year. Over the past three years, satisfaction with

Jones has tracked steadily downward. Over that same time period, Jones's stock has plunged nearly 50%.

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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. Data from interviews with approximately 70,000 customers annually are used as inputs into an econometric model to measure satisfaction with more than 225 companies in 47 industries and 10 economic sectors, along with over 200 services, programs, and websites of approximately 130 federal government agencies.

ACSI results are released on a monthly basis, with all measures reported using a scale of 0 to 100. ACSI data have proven to be strongly related to a number of essential indicators of micro and macroeconomic performance. For example, firms with higher levels of customer satisfaction tend to have higher earnings and stock returns relative to competitors. Stock portfolios based on companies that show strong performance in ACSI deliver excess returns in up markets as well as down markets. And, at the macro level, customer satisfaction has been shown to be predictive of both consumer spending and gross domestic product growth.

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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