

Customer Satisfaction Halts Slide, Glimmer of Hope for the Economy?

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Southwest Airlines, AT&T, Pizza Hut, McDonald's Gain, US Airways, Continental Airlines, Sprint Nextel, Comcast Tumble

After a year of stalling and falling, the American Customer Satisfaction Index (ACSI) reverses course and registers its first gain in a year. The Index jumps 0.4% to 75.2 on ACSI's 100-point scale, according to the quarterly release today.

The improvement in ACSI may boost consumer spending and jumpstart the economy, but conditions are much different than they were the last time a reversal in ACSI signaled recovery from the economic downturn in 2000 and 2001, primarily because consumers' ability to spend is more limited today.

'Households are under pressure from falling housing prices, tight credit, and rising food and fuel costs, making it more difficult for satisfied consumers to spend more even if they want to,' said Claes Fornell, founder of the ACSI and author of *The Satisfied Customer: Winners and Losers in the Battle for Buyer Preference*. 'The smart move for companies in this economic environment is to make sure they keep the customers they have by shoring up their customer relationships.'

In the first quarter ACSI measures customer satisfaction with the quality of products and services in utilities, transportation and warehousing, information, health care and social assistance, and accommodation and food services.

Airlines: More Turbulence Ahead

Customer satisfaction with airlines drops to its lowest point since 2001, falling for a third year in a row. Faced with the soaring cost of jet fuel, airlines are raising ticket prices, overbooking flights, and charging extra fees for checking more than one bag and for 'premium' seats.

Continental Airlines and US Airways suffer the largest nosedives. Continental's ACSI score plummets 10% to 62, while US Airways falls 12% to 54. The four airlines at the bottom of the industry are also in various stages of merger talks. United Airlines, which scored 56 for a second consecutive year, is contemplating a merger with US Airways. Northwest (-7% to 57) and Delta (+2% to 60) recently announced that they are going to merge.

'When it comes to mergers, combining two negatives doesn't make a positive,' said Fornell. 'Passenger satisfaction is dismal, and things probably won't get any better if airlines continue to charge more for less.'

American Airlines improves 3% to match the industry average, but it should be noted that ACSI reflects the first quarter, which was prior to the large cancellation of flights in which more than 100,000 of American's passengers were affected.

Southwest continues to be a bright spot (+4% to 79). The airline has led the industry in passenger satisfaction for the past 15 years, and is one of only three airlines to improve since last year. Its strong ACSI results kept the airlines from setting a record low.

Hotels: You Get What You Pay for

Marriott (-1%), Hyatt (+1%) and Hilton (+3%) are tied at the top of the industry at 78. Budget hotels such as Choice Hotels (Comfort Inn, Quality Inn, and Econo Lodge) and Best Western are at the other end of the scale, scoring 71 and 70 respectively. These results underscore something that is more common than not: the strong impact of quality and the relatively weak effect of price on satisfaction.

The hotel industry ties an all-time high after improving 6% to 75. Much of the gain can be attributed to the 'all others' category, which leaps 9% to 76 and includes smaller budget hotel chains and luxury resorts.

Telecom and Cable: Telephony Dials Up, Satellite Better than Cable

Traditional local and long distance service is up 4% to 73, reaching its highest score since 1999. AT&T, which recently merged with high customer satisfaction provider BellSouth, improves 7% to lead the industry at 75. Cox Communications jumps 6% to 74, while Verizon's fixed-line telephone service slips 3% to 70. Comcast improves 3% to 69 but remains at the bottom of the industry.

Customer satisfaction with wireless telephone service stays at an all-time high for the second consecutive year at 68, with Verizon Wireless topping the industry at 72. Two other industry giants are heading in opposite directions. AT&T Mobility (formerly Cingular) registers the biggest gain, improving 4% to 71. AT&T was the first wireless company to let customers use phones from any manufacturer, and it is also the only company to offer Apple's iPhone.

Sprint Nextel plummets 8% to 56, still suffering from service problems and customer defections after the acquisition of Nextel. The company's huge drop drags down the ACSI score for the wireless phone service category.

'Business is unsustainable in a competitive marketplace when customer satisfaction scores are as low as Sprint Nextel's,' said Fornell.

Rising scores for smaller cable TV providers offset the deterioration in customer satisfaction by Comcast and Charter Communications. The industry gains 3% to 64, led by a 5% jump to 69 for the collection of smaller cable TV providers. Among the large cable companies, Comcast drops the most, shedding 4% to 54, sharing the basement with Charter communications (-2% to 54). By contrast, Satellite TV continues to do better than cable. DirecTV edges up 2% to 68, and while DISH Network slips 3% to 65, it remains well ahead of the large cable TV providers.

Restaurants: Good Times for Fast Food, Not So Good for Restaurants

The fast food restaurant industry improves 1% to 78, its highest score ever, while the full-service restaurants drop 1% to 80. In an economy where discretionary spending is shrinking, the restaurants need to have a larger lead vis-à-vis fast food. A 2-point customer satisfaction difference that may well shrink further is not going to be enough.

Pizza Hut's customer satisfaction jumps 6% to 76, which is, along with Papa John's (-1.3% to 76) the highest in the industry. McDonald's has its biggest gain ever, rising 8% to 69. Even though McDonald's remains below KFC (70), Taco Bell (70) and Burger King (71), the world's largest fast food company doesn't have to compete on customer satisfaction to the same extent as its smaller competitors.

Health Care: Healthy Satisfaction Scores

Patient satisfaction with health care is high, despite rising costs. Although ACSI with hospital care falls 3% to 75, this is still a respectable score. Ambulatory care debuts this quarter with an even higher score at 81. Ambulatory care includes office visits with all types of healthcare professionals, such as physicians, dentists, optometrists, chiropractors, and physical, occupational and speech therapists. Customer satisfaction with these health care providers is among the highest of any industry measured in the first quarter.

Utilities: Uneven Performance

Customer satisfaction with the utilities sector is up 1% to 74, its highest level since 2001. Ameren has the largest improvement, up 13% to 64 a year after being hammered by customers due to rate hikes and a long outage caused by a winter storm. Still, it has a long way to go to get out of the industry basement. At the other end of the spectrum, Southern Company (81) continues to hold the top spot.

Some utilities are offering environmentally friendly energy options, which may contribute to higher satisfaction. Reliant Energy, which gives customers the option to buy a wind-power plan at the same cost of traditional power, charges up 12% to 72.

For a complete list of measured companies and scores, please visit www.theacsi.org.

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