The ForeSee Results Annual E-Commerce Report, American Customer Satisfaction Index (2011)

Customer Satisfaction with E-Commerce Stalls

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Executive Summary: Recovering Economy Tests Business Strategies and Large Companies Come Out on Top

Two years ago, the country was experiencing an economic downturn and the American Customer Satisfaction Index (ACSI) showed across-the-board decline in satisfaction. Last year, the ACSI predicted a recovery as customer satisfaction scores increased almost universally. Unlike previous years where the increases and declines were almost uniform across all measured industries, this year shows a mix of falling and rising customer satisfaction which provides insight to the success of companies' business models after they have weathered the economic downturn.

Because the ACSI is predictive of future financial success on both the macro- and micro-economic level, the ACSI provides valuable information for companies on whether or not the business model they followed to survive the recession is working now that the economy is recovering. The following report shows that some companies like, Amazon and Netflix, are well-positioned within their industry and have the profits and high satisfaction scores to show for it. Whereas other companies, like Priceline, have good profits now but large declines in satisfaction indicate that their current strategy is not sustainable. Overall, companies need to be aware of where they stand in order to remain competitive within their industries. (Visit www.theacsi.org for extensive academic research about the link between ACSI and stock prices, GDP, and consumer spending.)

The e-commerce sector (measured by the ACSI every fourth quarter for the past ten years) is comprised of **e-retail, online brokerage**, and **online travel companies**, chosen because they offer the greatest GDP contribution in the sector. The e-business sector report, which includes online portals, search engines, news and information, and social media sites, is released in July.

Key findings of the February e-commerce report include:

- Satisfaction with e-commerce is down 3% since last year to 79.3, which is its lowest level since 2004.

- The drop in the overall e-commerce sector score is driven by dramatic declines in the e-retail "all others" category, which falls 6% to 78.

- The e-retail industry, always the strongest within the e-commerce sector, falls 3.6% to 80. Amazon slips past Netflix for the top spot.

- The online travel industry reaches a new all-time high aggregate score of 78. Increases by Travelocity and the "all others" category more than offset declines by Orbitz and Priceline.

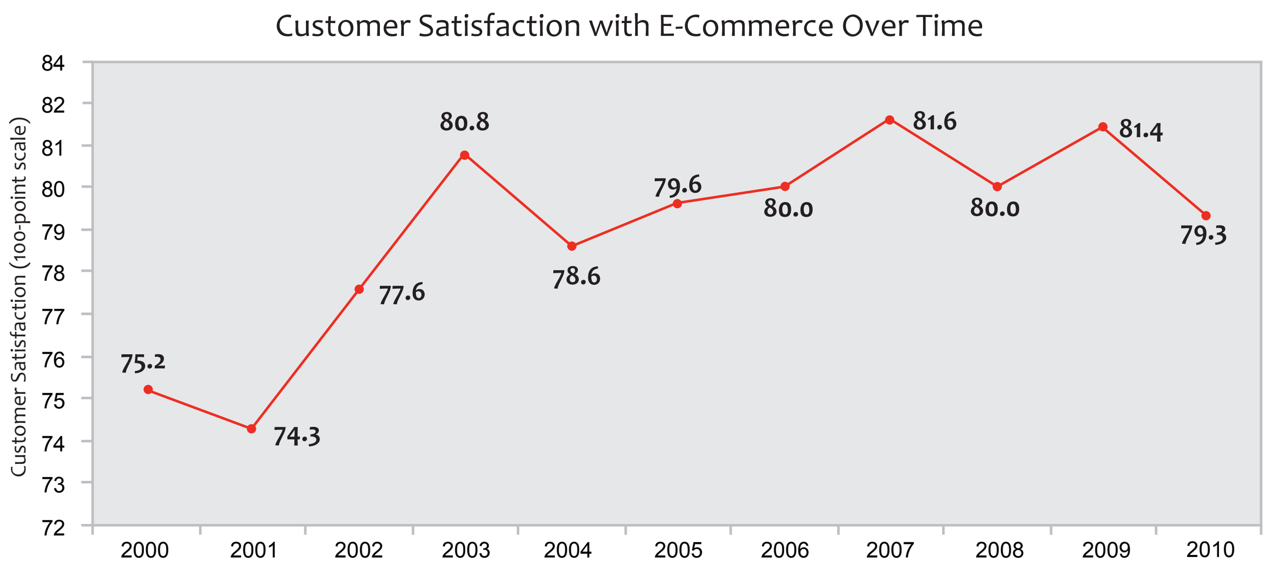
- The online brokerage industry remains flat at 78, but Charles Schwab overtakes Fidelity for the top spot for the first time since 2006.

- Satisfaction with mobile commerce for the measured industries is included for the first time in this report. At 81, online brokerage leads satisfaction with mobile commerce. Retail and travel tie the industry aggregate at 75.

Falling E-Retail Satisfaction Leads Decline in E-Commerce Satisfaction

The ACSI, which has measured customer satisfaction with goods and services of more than 200 companies since 1994, first started measuring customer satisfaction with the e-commerce industry in 2000.

While customer satisfaction with the overall e-commerce sector has increased more than 5% since it was first measured at 75.2 in 2000, the 2010 scores marks one of the most substantial dips in the 11-year history of the measurement. Other setbacks occurred in 2001, 2004, and 2008, along with the normal recessions and contractions of the economic cycle.



As shown in the graph below, the gap between the highest and lowest scoring industries has narrowed significantly—from a 12-point gap in 2000 to just a two-point gap in 2010. E-retail has typically had a strong lead over both brokerage and travel industries in terms of satisfaction. This year, a big hit to customer satisfaction scores of smaller retailers, as measured in the Index's "all others" category, as well as improvements by the brokerage and travel industries, have narrowed the gap considerably. As satisfaction is based on the whole of a customer's web experience, travel and brokerage companies should still look to the highest scoring e-commerce companies, e-retailers Amazon and Netflix, for industry best practices.

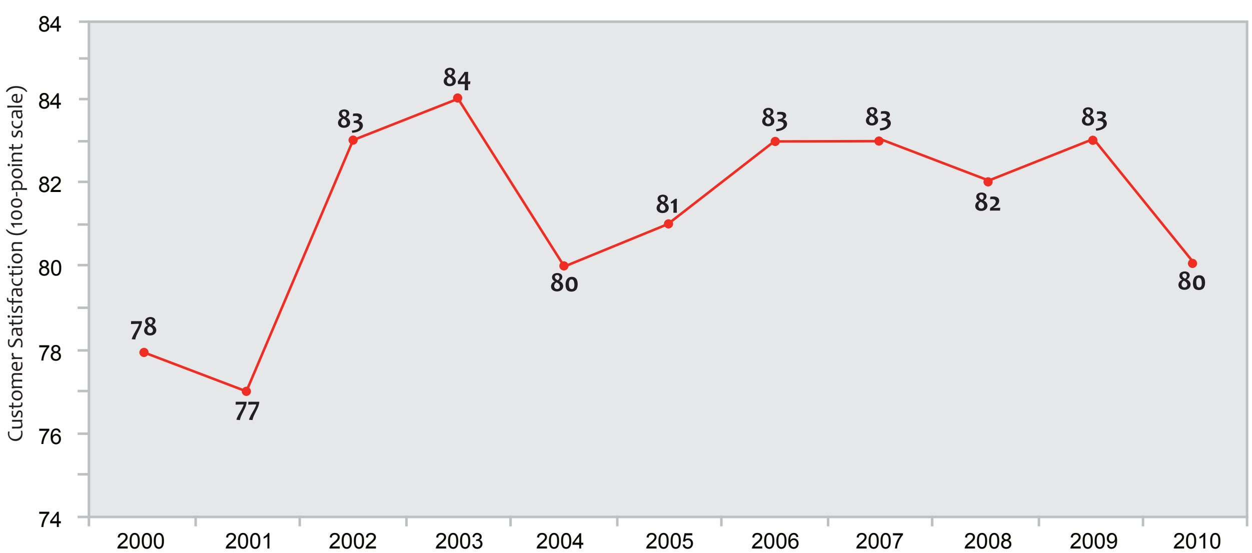
ACSI Category	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
E-Commerce Sector*	75.2	74.3	77.6	80.8	78.6	79.6	80.0	81.6	80.0	81.4	79.3
Retail	78	77	83	84	80	81	83	83	82	83	80
Brokerage	72	69	73	76	75	76	78	79	74	78	78
Travel	66	69	77	77	76	77	76	75	75	77	78

*E-commerce is the sector; e-retail, online brokerage, and online travel are the measured industries within the e-commerce sector.

E-Retail's Big Losses

After regaining the previous year's losses in 2009, the e-retail industry falls once again, losing three points to 80, which is its lowest score since 2004. The score remains two points higher than when ACSI first started measuring the industry in 2000, but the decline is no small blip. This is only the second time in the last 11 years the score has fallen so much in a single year. The decline is a result of a large fall in satisfaction in the "All Others" category, which is an aggregate score of smaller online retailers whose market share isn't big enough to have an individual score. That category fell six points and 6% to 78 this year.

Customer Satisfaction with Online Retail Over Time



The large drop in satisfaction with online retailers narrows the gap between the satisfaction scores of traditional retail channels. As stated in the ACSI retail report, also released today, satisfaction with "brick and mortar" retail is down one point to 75. Online satisfaction has exceeded offline satisfaction ever since the beginning of the measurement in 2000. Despite the drop, customer satisfaction with e-retail is still 7% higher than satisfaction with the overall retail industry.

The aggregate e-retail industry score is made up of the scores of several of the largest online-only retailers in the field.

Online Retail Individual Company Scores

E-Retail Websites	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	% change from last year	% change from first year
E-Retail Aggregate	78	77	83	84	80	81	83	83	82	83	80	-3.6%	2.6%
Amazon	84	84	88	88	84	87	87	88	86	86	87	**1.2%**	**3.6%**
Netflix	NM	NM	NM	NM	NM	NM	NM	84	85	87	86	**-1.1%**	**2.4%**
Newegg	NM	NM	NM	NM	NM	NM	NM	87	88	86	84	**-2.3%**	**-3.4%**
Overstock	NM	NM	NM	NM	NM	NM	NM	80	82	82	83	**1.2%**	**3.8%**
eBay	80	82	82	84	80	81	80	81	78	79	81	**2.5%**	**1.3%**
All Others	77	75	82	83	79	80	82	82	82	83	78	**-6.0%**	**1.3%**

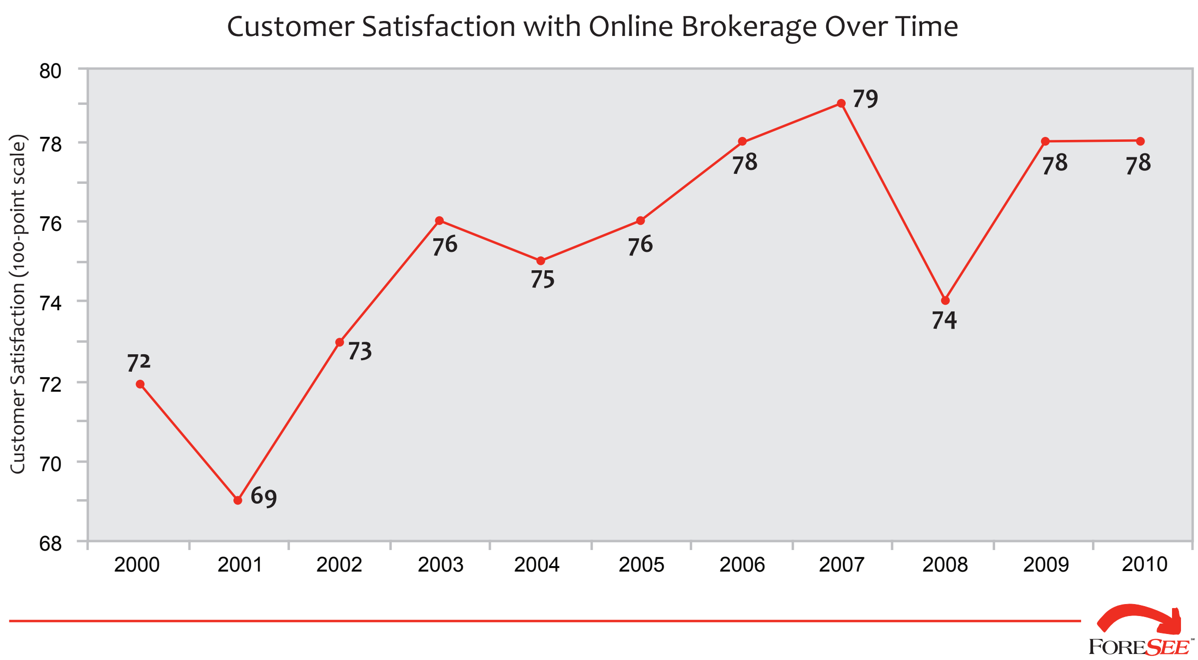
Amazon and Netflix continue to battle for the top spot and tend to have swapped places over the last few years. Amazon now leads the industry (+1% to 87) and Netflix follows close behind (-1% to 86). Newegg, which stood at the top of the Index two years ago and tied for second last year, now ranks third (-2% to 84). The downward trend should be a warning sign for Newegg as the majority of the companies included in this report are trending upward.

A look at individual company scores shows that Amazon and Netflix are in a strong position in the industry. Amazon is dominating, and our surveys show that users consider this online retailer superior because of the variety and selection of merchandise, as well as price. Its fourth-quarter earnings revealed smaller profit margins than predicted, which is a result of the retailer offering discounts in order to grow its market base. The fact that Amazon is succeeding in growing its market share and providing a great customer experience shows the company is in a good position to continue to lead the industry in sales.

This year, Netflix executed a big business-strategy shift from being a mail service to a streaming media service by allowing customers to purchase streaming-only accounts. Netflix's strong satisfaction scores show that they are adapting to new opportunities without letting their customer service suffer. Even Amazon slipped in satisfaction in 2004 when it changed its business model to allow other companies sell products on its site.

Four points behind the rest, the obvious outlier in the e-retail industry is the “all others” category, which maintained a fairly consistent score until this year. The drop may be attributed to a recovering economy, in which smaller companies with limited resources are hit harder than larger companies who have more flexibility and can still offer discounts and free shipping to draw in new customers and grow market share.

Online Brokerage: Scores Remain Stable



The online brokerage industry remains flat at 78, which is one point lower than the industry’s all-time high of 79, set in 2007. Overall, customer satisfaction with the online brokerage industry has increased six points and 8.3% since the ACSI first started its measurements in 2000. The aggregate industry score is made up of the scores of several of the biggest players in online brokerage.

Online Brokerage Individual Company Scores

Online Brokerages	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	% change since last year	% change since first year
Online Brokerage Aggregate	72	69	73	76	75	76	78	79	74	78	78	0.0%	8.3%
Charles Schwab	76	72	76	75	71	74	80	82	78	79	80	1.3%	5.3%
Fidelity	NM	NM	NM	NM	NM	NM	80	84	80	79	78	-1.3%	-2.5%
All Others	70	65	73	77	78	79	77	78	74	78	78	0.0%	11.4%
TD Ameritrade	NM	NM	NM	NM	NM	NM	77	80	71	76	77	1.3%	0.0%
E*TRADE	66	66	69	71	70	71	74	73	69	74	76	2.7%	15.2%

Since 2006, Fidelity has either led or tied for the top spot in the industry. After tying for first with Fidelity last year at 79, Charles Schwab is now the clear leader this year as it gains a point to score 80. While it is the only company to register a decline this year, Fidelity is second in the industry at 78.

Smaller than the other companies in the Index, TD Ameritrade (+1% to 77) and E*TRADE took the biggest hits during the recession and are slower to recover. Though at the bottom of the Index, E*TRADE is up more than 10 points from when it was first measured in 2000 and improves again to its highest score ever (+3% to 76). The gap from the highest-scoring company and the lowest-scoring company is now only four points compared to 10 points when the industry was first measured. E*TRADE has seemed to have found its niche among newer investors. Our research shows that E*TRADE's customers tend to be younger than the other firms included in the study. This demographic is more likely to interact with the firm through newer media like Facebook and mobile apps. If E*TRADE continues to measure and improve its interaction with this demographic through these channels, its satisfaction score should continue to increase.

When asked about what customers liked least about their online brokerage firm, not surprisingly, "fees" topped the list for all companies included. Customers cited "customer service," "ease of use," and "quality" among the things they liked best about their firms. In a situation where customers are getting quality and excellent customer service, customer satisfaction rose despite high fees because of the perceived value.

Online Travel: Satisfaction at an All-Time High

Online travel is up 1.3% to the industry's all-time high at 78. If the sustainability of online travel aggregator business was ever in question, we now can see that it is an industry that is here to stay. From 2005 to 2008, the industry was on a declining trend, but now, they have reversed that trend, which is remarkable considering the travel industry is one where lots of variables are out of the companies' control. This is not welcome news to competitors of this industry. American Airlines has pulled its flights from Orbitz and Expedia in order to avoid paying fees for securing customers. Delta has also pulled its flights from smaller online travel companies not measured in this report. Customers like being able to compare competing flight options and prices on a single site, and customers are far more satisfied with online travel companies than they are with airlines overall. The airline industry, which is measured every June, scored 66 and is one of the lowest-scoring industries in the ACSI.

Online Travel Individual Company Scores

Online Travel Aggregators	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	% change since last year	% change since first year
Online Travel Aggregate	66	69	77	77	76	77	76	75	75	77	78	1.3%	18.2%
Expedia	NM	NM	80	78	76	79	78	75	77	79	79	**0.0%**	**-1.3%**
All Others	NM	NM	77	77	77	79	76	79	77	78	79	**1.3%**	**2.6%**
Travelocity	NM	NM	76	76	76	75	74	73	75	75	77	**2.7%**	1.3%
Orbitz	NM	NM	76	77	75	74	75	73	74	76	75	**-1.3%**	**-1.3%**
Priceline	66	69	71	71	73	72	72	73	72	76	73	**-3.9%**	**10.6%**

Expedia is joined at the top of the industry by the "all others" category with a score of 79. Travelocity, which placed last in the industry last year, increases its score 1% to 77, beating Orbitz (-1% to 75) and Priceline (-4% to 73). With a three point drop, Priceline saw the largest decline in the industry.

Last year, Priceline jumped from a 72 to a 76, which was the largest gain in the group and put them just below the industry aggregate score of 77. Priceline's aggressive pricing has resulted in high revenues over the past year, but their drop in score tells us that the future is not as bright. Their pricing approach may not be as valuable to consumers as the economy stabilizes and customers turn back to sites to which they are more loyal. In our research, we found that Priceline trails other sites when it comes to brand familiarity. The fact that most people are more influenced to visit Priceline as a result of search engines than the other sites shows less loyalty. Consumers that are less loyal to a site are typically less familiar with the site and therefore often less satisfied.

Mobile Commerce: Online Brokerage Companies Lead the Way

For the first time this year, ForeSee Results measured customer satisfaction with the companies' websites and applications accessed via mobile phone. The aggregate satisfaction score for mobile commerce as determined by ForeSee Results' Report on Mobile Shopping during the Holiday 2010 Season is 75. While e-retailers and online travel both fall in line with the aggregate satisfaction score (75), satisfaction with online brokerage firms' mobile apps is six points higher at 81. This is not surprising as the nature of stock trading is one of immediacy—at a moment's notice a customer must be able to check their portfolio for up-to-the-minute stock prices as well quickly buy and sell.

Satisfaction with Mobile Commerce

Industry	Satisfaction Score (100-point scale)
Brokerage	81
Retail	75
Travel	75
Aggregate Satisfaction (Mobile Shopping Report)	75

Companies must measure and pay attention to how satisfied customers are in this area of commerce, because an increasing number of customers are using mobile apps to research and make purchases. Understanding the level of satisfaction can mean the difference between a customer going to a competitor and completing a sale. Our study found that customers of online travel companies who completed a purchase via their mobile phone were slightly less satisfied than those who just used their phone for research. Knowing this can help companies refine the way they interact with customers through mobile apps.

About the Author

Larry Freed is an expert on web effectiveness and web customer satisfaction. He is President and CEO of ForeSee Results, a market leader in customer satisfaction measurement on the web, which utilizes the methodology of the American Customer Satisfaction Index (ACSI).

About ForeSee Results

As the leader in customer satisfaction measurement, ForeSee Results captures and analyzes voice of customer data to help organizations increase loyalty, recommendations and marketing value. Using a patented, scientific methodology developed at the University of Michigan, ForeSee Results identifies improvements across all channels and touch points that drive customer satisfaction. With more than 58 million survey responses collected to date and benchmarks across dozens of industries, ForeSee Results offers unparalleled expertise in customer satisfaction measurement and management around the globe.

ForeSee Results, a privately held company, is located in Ann Arbor, Michigan and at www.ForeSeeResults.com. Connect with ForeSee Results at http://www.foreseeresults.com/blogs-community/

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. ACSI releases results for various sectors of the economy on a monthly basis to provide up-to-the-moment coverage over the entire calendar year. The national index is updated quarterly and factors in scores from more than 225 companies in 45 industries and from government agencies over the previous four quarters. 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.