

ACSI

American
Customer
Satisfaction
Index®

ABOUT ACSI

The American Customer Satisfaction Index (ACSI) is a national economic indicator of customer evaluations of the quality of products and services available to household consumers in the United States.

The ACSI uses data from interviews with roughly 70,000 customers annually as inputs to an econometric model for analyzing customer satisfaction with more than 300 companies in 43 industries and 10 economic sectors, including various services of federal and local government agencies.

ACSI results are released throughout the year, with all measures reported on 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. At the macro level, customer satisfaction has been shown to be predictive of both consumer spending and GDP growth.

Department & Discount
74 ▼ -3.9%

Internet Retail
80 ▼ -2.4%

Gas Stations
75 ▲ +2.7%

Specialty Retail
77 ▼ -2.5%

Health & Personal Care
73 ▼ -5.2%

Supermarkets
73 ▼ -3.9%



February 23, 2016

ACSI RETAIL REPORT 2015

INDUSTRY RESULTS FOR:
Department & Discount Stores
Specialty Retail Stores
Supermarkets
Health & Personal Care Stores
Internet Retail
Gas Stations

Lower Customer Satisfaction for Retailers in a Return to Long-Term Average

Two years removed from its all-time high, customer satisfaction with the Retail Trade sector falls for a second consecutive year, sliding 2.6% to an ACSI score of 74.8. Despite the decline for 2015, the overall score for retail stands almost exactly at its long-term average (74.6).

A closer examination of historical ACSI results for retail shows that the sector earned its best marks for customer satisfaction as the economy emerged from the Great Recession. During this period of recovery from 2009 to 2014, companies had to compete for a smaller pie of consumer dollars with discounts, incentives, and better customer service. High unemployment made for a very competitive job market, which kept retail employees motivated to provide good customer service lest they be replaced. At the same time, customers may have been more forgiving. The convergence of these factors contributed to higher customer satisfaction.

But as recovery settles in and economic conditions start to look more optimistic, that honeymoon is over and the recent declines in retail customer satisfaction begin to look more like an adjustment rather than a tailspin.

The ACSI covers six retail industries: department and discount stores, gas stations, drug stores, specialty retail stores, supermarkets, and online retail. Among these six, only gasoline stations improve, benefitting from the low cost of gas. Gas prices are down 9% in December from the previous year and customer satisfaction for gasoline stations jumps 2.7% to 75.

Internet retail continues to be the highest-scoring category despite a 2.4% drop for 2015. During the last two months of the year, retail sales rose about 3%. But a greater share of those sales were conducted online, as foot traffic to retail brick-and-mortar stores fell 6.4% in the holiday shopping months of November and December. During the critical period holiday season, e-commerce sales were up about 13% year over year. Among the brick-and-mortar retailers, drug stores see the steepest ACSI decline in 2015 and tie supermarkets at the low end of the sector. Customer satisfaction ebbs nearly 4% for department and discount stores, and the industry continues to trail specialty retail overall.

DEPARTMENT AND DISCOUNT STORES

Customer satisfaction with department and discount stores falls 3.9% to an ACSI score of 74, the lowest level since 2008. But like the entire retail sector, the drop brings the department and discount store category back in line with its long-term average.

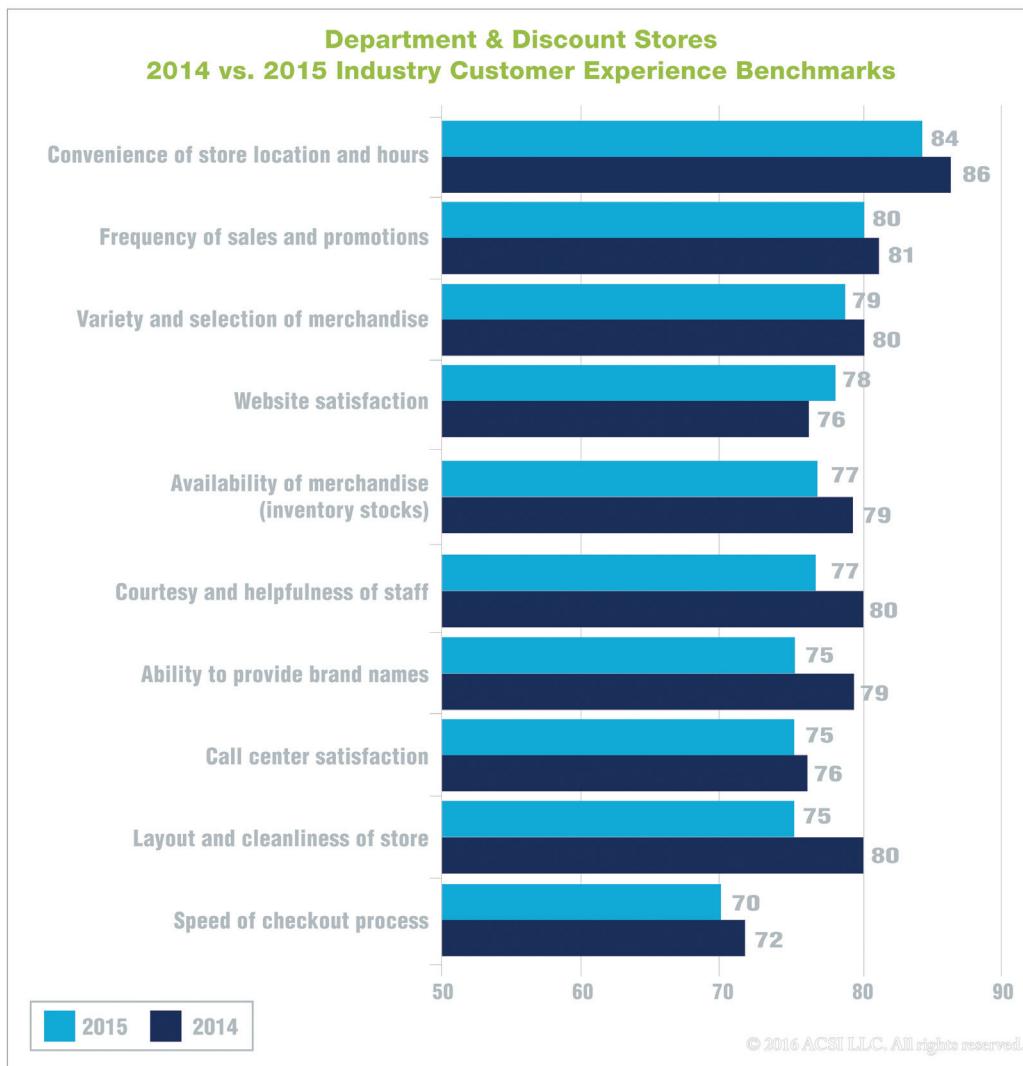
Although no company is up, the top and bottom chains remain in familiar territory. Nordstrom scores 82 to lead the category, showing one of the highest customer satisfaction levels in all of retail. Walmart, on the other hand, is again at the bottom of the industry with a score of 66. The next lowest department store is Sears, which scores 5 points higher at 71. Discounters Dollar Tree (76) and Dollar General (74) are in the middle of the pack. Macy's 8% drop to 73 returns the company's satisfaction to near pre-recovery levels, but the large decline coincides with a tough holiday quarter that included a year-over-year sales drop of 4.7%. Lower foot traffic and stronger online sales has prompted Macy's to restructure. The company plans to close stores and cut staff while investing in the online and mobile experience.

ACSI: Department & Discount Stores			
Company	2014	2015	% Change
Department & Discount Stores	77	74	-3.9%
Nordstrom	86	82	-5%
Dillard's	81	80	-1%
Fred Meyer (Kroger)	NM	79	NA
All Others	81	77	-5%
Belk	NM	77	NA
Kohl's	80	77	-4%
Dollar Tree	79	76	-4%
Meijer	78	76	-3%
Target	80	75	-6%
Dollar General	75	74	-1%
J.C. Penney	77	74	-4%
Ross	NM	74	NA
Macy's	79	73	-8%
Sears	73	71	-3%
Wal-Mart	68	66	-3%

NM=Not Measured
 NA=Not Available

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Customers of department and discount stores give the industry its highest mark for convenience of locations and hours (84). Customers are pleased with sales and promotions (80), as well as variety and selection of merchandise (79), although Internet retailers are able to provide a much better selection (benchmark of 84). The online channel (78) continues to improve for department and discount stores, but consumers are not as satisfied with call centers (75). Store layout and cleanliness shows room for improvement (75), but the speed of the checkout process is by far the low point for the industry (70).



SPECIALTY RETAIL STORES

Customer satisfaction with specialty retail stores declines 2.5% to an ACSI score of 77. Despite the drop, overall satisfaction remains higher than pre-recovery levels. Costco maintains its perch at the top with a score of 81, joined by L Brands, which saw year-over-year sales climb 8% at stores such as Victoria's Secret and Bath & Body Works. Costco competitors BJ's Wholesale Club and Sam's Club are significantly behind, each scoring 76. Barnes & Noble makes the top three with an ACSI score of 79, above average for the industry, but well behind its largest competitor, the online juggernaut Amazon (83).

ACSI: Specialty Retail Stores

Company	2014	2015	% Change
Specialty Retail Stores	79	77	-2.5%
Costco	84	81	-4%
L Brands (Victoria's Secret, Bath & Body Works)	83	81	-2%
Barnes & Noble	81	79	-2%
All Others	79	78	-1%
GameStop	77	78	1%
Menards	78	78	0%
TJX	78	78	0%
PetSmart	80	77	-4%
BJ's Wholesale Club	81	76	-6%
Burlington Coat Factory	NM	76	NA
Petco	NM	76	NA
Sam's Club	80	76	-5%
AutoZone	NM	75	NA
Bed Bath & Beyond	81	75	-7%
Gap	75	75	0%
Staples	79	75	-5%
Toys "R" Us	NM	75	NA
Best Buy	77	74	-4%
Big Lots	77	74	-4%
Lowe's	81	74	-9%
Home Depot	76	73	-4%
Advance Auto Parts	NM	72	NA
Abercrombie & Fitch	NM	65	NA

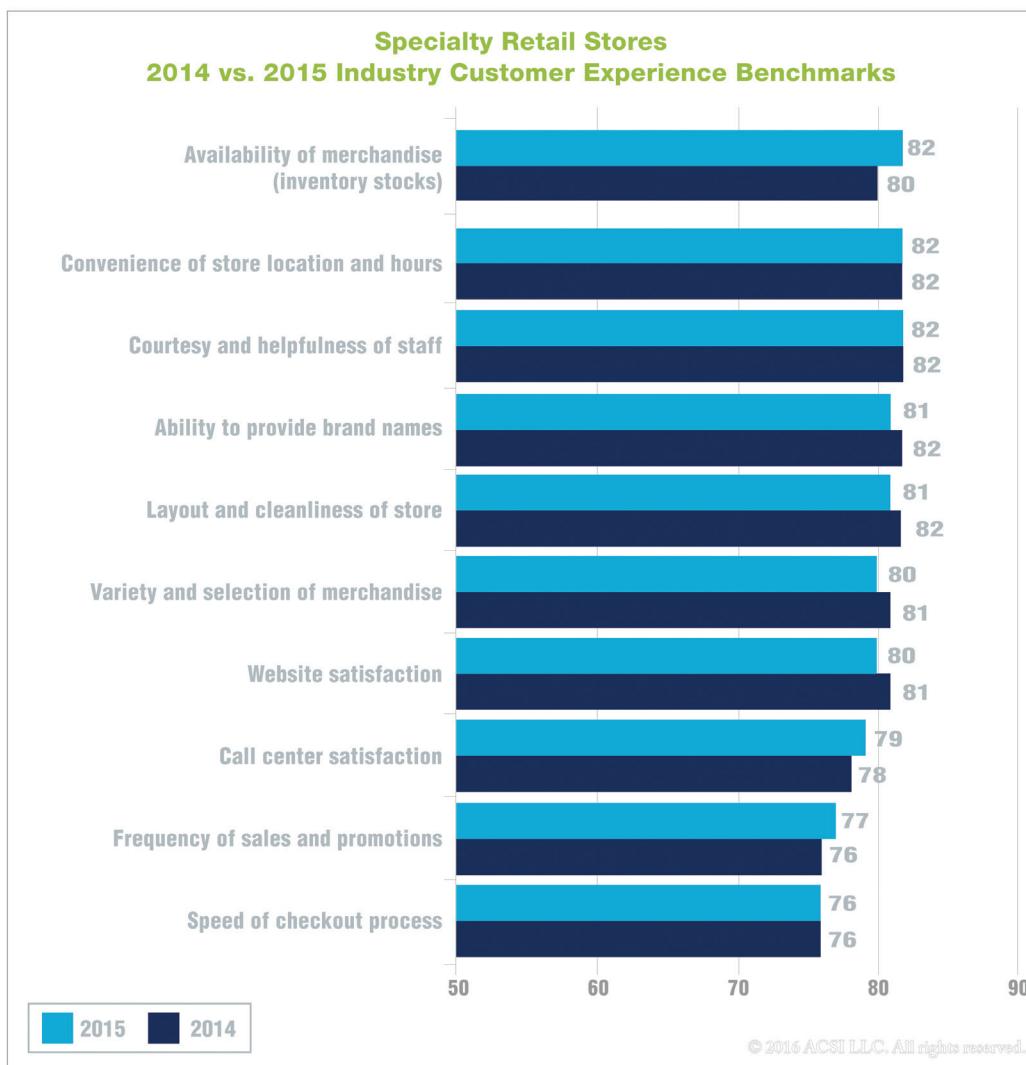
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With the housing market recovering, competition is heating up between Home Depot and Lowe's. As with most retailers, both companies experience customer satisfaction declines, but the gap between the two narrows with Lowe's at 74 and Home Depot just 1 point behind. PetSmart beats Petco by a slim margin (78 and 76, respectively). Big-box retailer Best Buy slides 4% to 74, which is close to its pre-recovery average for customer satisfaction.

The ACSI adds two auto parts retailers this year. AutoZone registers 75 in its first appearance, and Advance Auto Parts scores 72. Clothing retailer Abercrombie & Fitch, another ACSI newcomer, debuts at 65—earning the lowest score in the retail sector and lagging the second-lowest specialty retailer by a whopping 7 points.

Specialty retail stores have consistently high marks across the customer experience. For 2015, the industry receives scores of 80-82 across 7 of 10 customer experience elements, including merchandise variety and availability, brand names, staff courtesy, and store layout. In a good sign for specialty retailers, website satisfaction (80) matches the ACSI score for the Internet retail category. Call center satisfaction (79) lags just behind the online channel, and customers are less happy with both sales and promotions (77) and speed of checkout (76). Nevertheless, the industry's checkout speed is well ahead of two other brick-and-mortar categories: department and discount stores (70) and supermarkets (72).



SUPERMARKETS

After several years of relatively higher customer satisfaction, supermarkets register their lowest ACSI score in more than a decade, dropping 3.9% to 73. Supermarket leader Wegmans is one of only three companies in the retail sector to improve customer satisfaction, up 1% to 86 and securing a share as the highest-scoring company in the Index overall. Trader Joe's (83), H-E-B (82), and perennial high performer Publix (82) round out the top supermarket chains. ALDI is stable at 81, while ACSI newcomer Hy-Vee, which is employee owned, debuts at 78.

ACSI: Supermarkets			
Company	2014	2015	% Change
Supermarkets	76	73	-3.9%
Wegmans	85	86	1%
Trader Joe's	85	83	-2%
H-E-B	82	82	0%
Publix	82	82	0%
ALDI	81	81	0%
Hy-Vee	NM	78	NA
All Others	77	77	0%
Delhaize America (Food Lion, Hannaford)	77	76	-1%
Kroger	78	76	-3%
ShopRite	77	75	-3%
BI-LO (includes Winn-Dixie)	79	74	-6%
Meijer	NM	74	NA
Whole Foods	81	73	-10%
SUPERVALU	75	71	-5%
Target	81	71	-12%
A&P	NM	70	NA
Ahold USA (Stop & Shop, Giant)	72	70	-3%
Albertsons	74	68	-8%
Giant Eagle	72	67	-7%
Wal-Mart	71	67	-6%

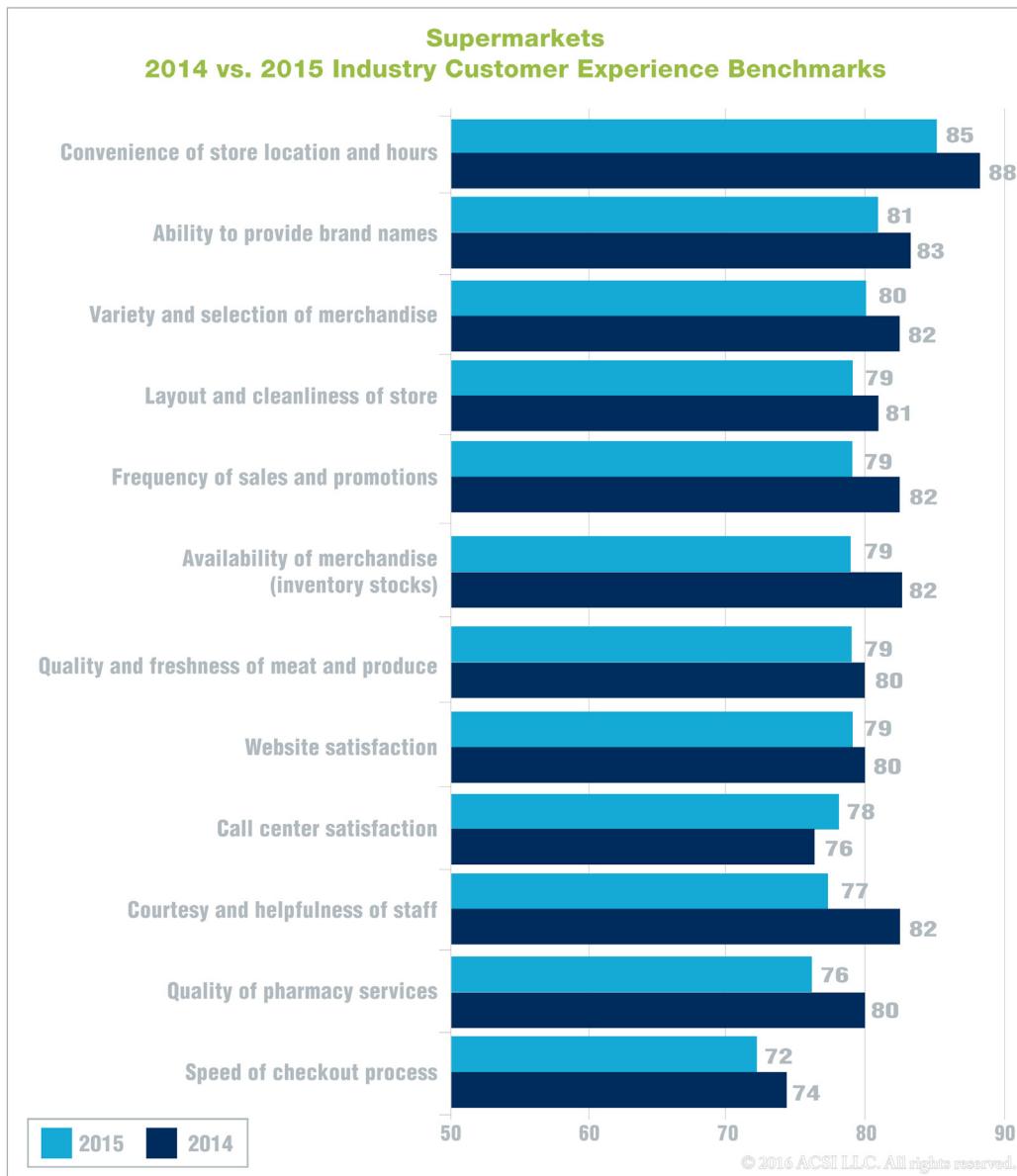
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Whole Foods suffers a 10% customer satisfaction hit, plunging to 73 to match the previous low posted in 2007 when the company debuted in the ACSI. Whole Foods cannot shake its reputation for high prices and customers have recently reported the perception of increasing prices despite the grocer's statement that they are trying to align their pricing to be competitive with other grocery stores. Furthermore, competition

is encroaching on its turf as a supplier of natural foods. Target, Wal-Mart, and others have increased their inventory of organic offerings providing an alternative to those who want organic foods at a lower cost.

Target's supermarket operations plunge 12% to 71. Popular as a discount store, Target quickly built up its grocery business to help attract more customers. But the luster of convenience is wearing off as the company works to expand its grocery brands and fresh food offerings. At the bottom of the industry, Albertsons dives 8% to 68 as it works out the kinks from its merger with Safeway. Giant Eagle and Wal-Mart share last place at 67.



According to customers, the supermarket experience has eroded across nearly every element compared with a year ago. The customer service areas that have suffered the most are staff courtesy and helpfulness (-6% to 77) and quality of pharmacy services (-5% to 76). These are also the weakest areas for grocers, along with checkout speed (72) and call centers (78).

Store locations and hours remain very convenient (85) and merchandise selection is well regarded, especially in terms of brand names (81) and variety (80). That said, Internet retail outpaces all brick-and-mortar categories for merchandise selection, including brand names (84).

HEALTH AND PERSONAL CARE STORES

Health and personal care (drug) stores experience a larger ACSI decline than any other retail category, shedding 5.2% to an all-time low score of 73. Pharmacies located within other retailers, like Kroger (81) and Target (80), lead the industry, indicating that the convenience of being able to fill prescriptions while shopping for other items yields higher customer satisfaction.

Meanwhile, consolidation looms in the industry. CVS, which scores 71, recently took over Target's in-store pharmacy business. Walgreens (74) scores highest among traditional drug stores and is in merger talks with Rite Aid, which plummets 12% to 69. ACSI data show that mergers consistently dampen customer satisfaction, at least in the short term. If consolidation continues, the industry could experience even further erosion in what is currently record-low satisfaction.

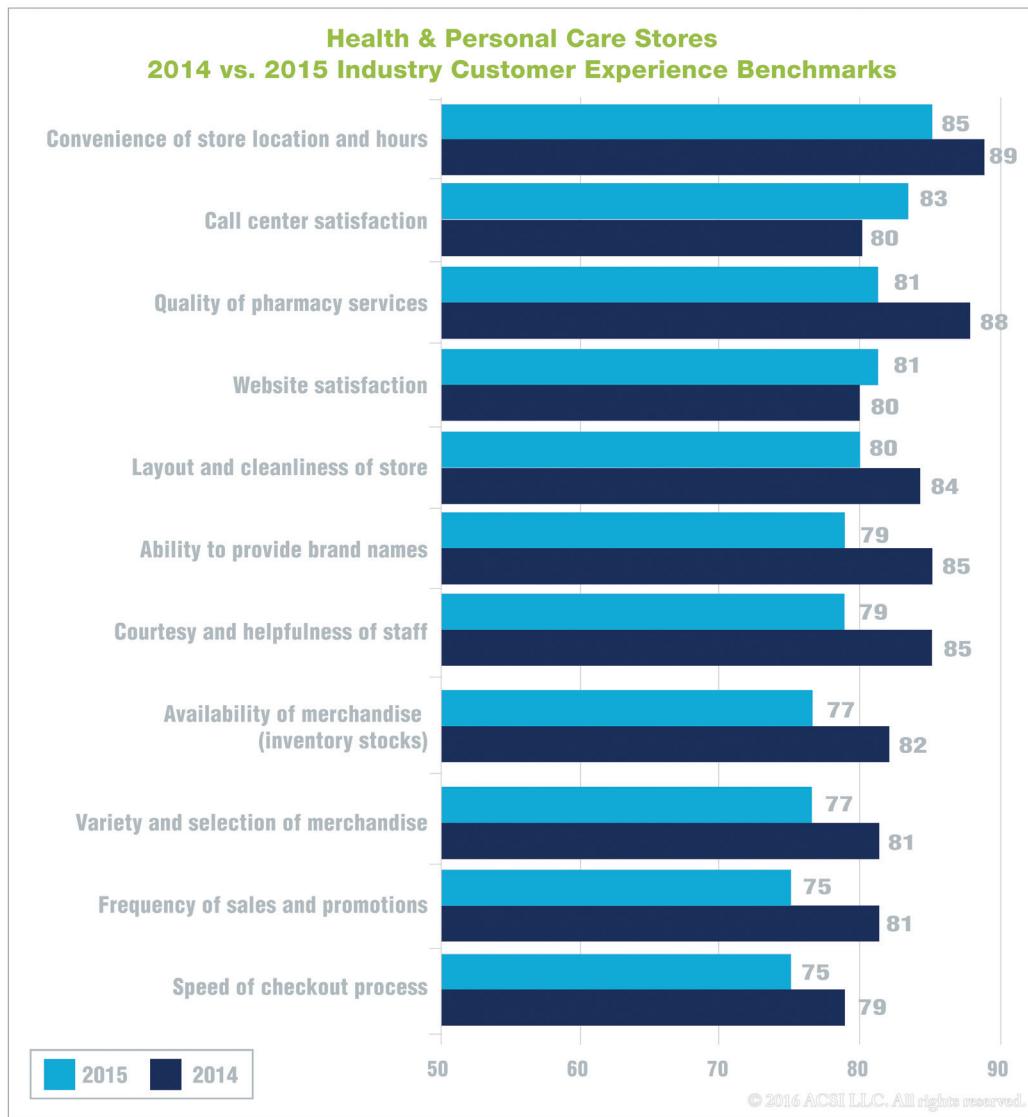
ACSI: Health & Personal Care Stores			
Company	2014	2015	% Change
Drug Stores	77	73	-5.2%
Kroger	81	81	0%
Target	78	80	3%
Kmart (Sears)	NM	76	NA
All Others	81	75	-7%
Walgreens	77	74	-4%
CVS	75	71	-5%
Rite Aid	78	69	-12%
Safeway (Albertsons)	NM	69	NA
Wal-Mart	68	68	0%

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Customer experience benchmarks for health and personal care stores decline in every category except call centers and website satisfaction. Drug stores, like supermarkets, receive their top mark for convenience of location and hours (85), although this score has dropped 4% compared with 2014. Call center satisfaction is up 4% to 83, and website satisfaction remains strong at 81.

For drug stores, the biggest decline occurs for a critical area: pharmacy services (-8%). While the quality of pharmacy operations for drug stores (81) still beats that of supermarkets (76), the gap between the two narrows in 2015. Consumers are happy with drug store cleanliness and layout (80), but merchandise selection (77) still lags supermarkets.

As with other brick-and-mortar categories, the checkout process (75) could be faster. Consumers would also like more promotions and sales (75), but this can be difficult to achieve in the tightly controlled pharmaceutical market.



INTERNET RETAIL

Internet retail overall declines 2.4% to 80, but consumers still prefer online shopping compared to traditional store experiences. As noted earlier, holiday e-commerce sales grew about 13% year over year compared to the lower 3% growth for retail overall.

Although every Web retailer declines in score, Amazon stays on top for customer satisfaction at 83, remaining among the highest-scoring companies in the Index even after dropping 4%. Amazon's high customer satisfaction helps explain why it accounted for 43% of all online sales in November and December. The company's fourth quarter sales were up 22% over the prior year, but a strong dollar and high shipping costs ate into those revenues.

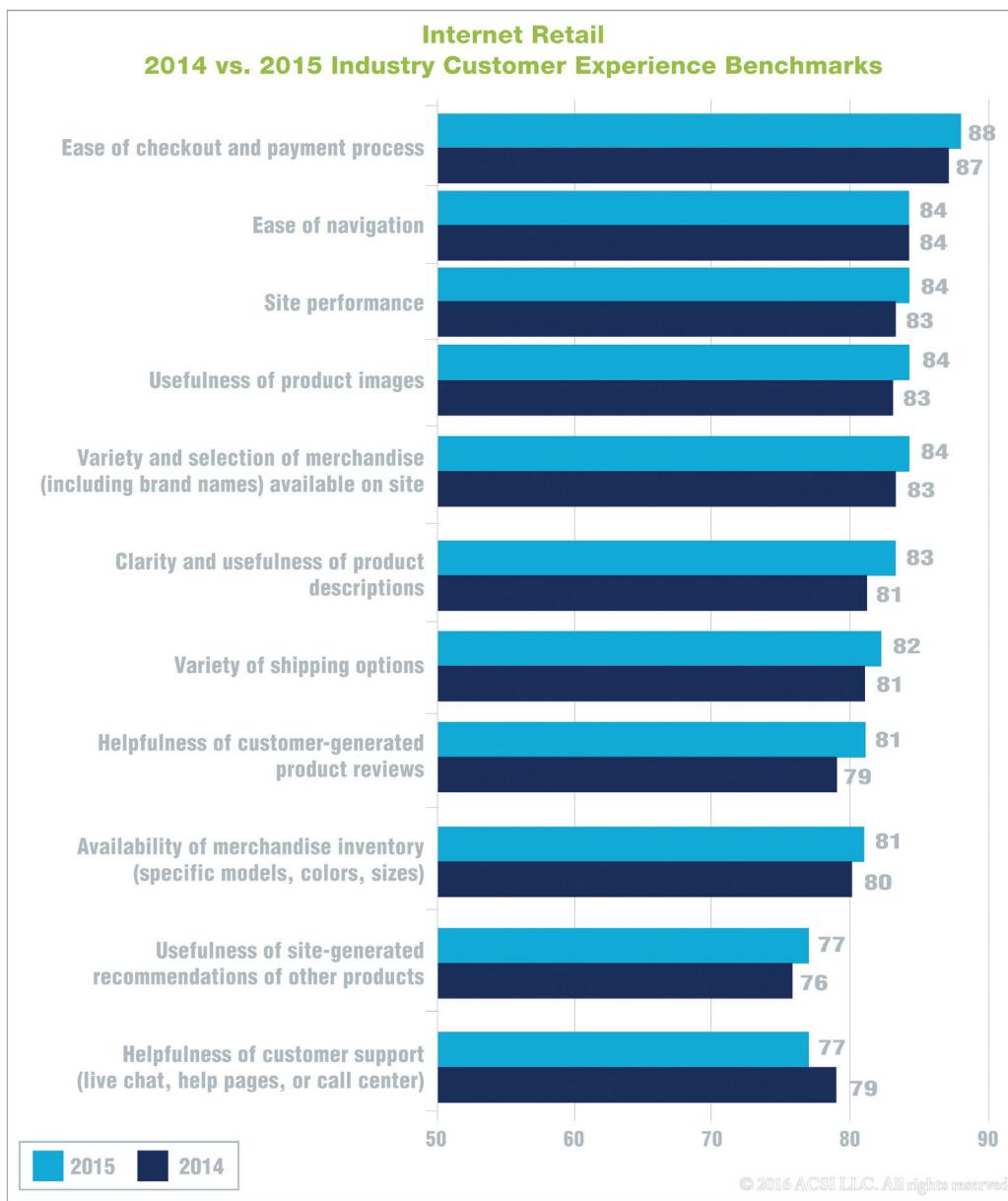
Netflix raised its subscription price for new customers in October and existing customers will be impacted later this year, all of which may be contributing to the company's 6% ACSI drop to 76. U.S. subscriber growth has slowed for Netflix, but it continues to invest in original content to compete for new subscribers. The group of "all other" Internet retailers, which includes smaller e-retailers as well as the online channel of traditional brick-and-mortar stores, slips only 1% to 80. This stable customer satisfaction shows that the online channel remains popular and pleasing even though online revenues are a fraction of brick-and-mortar sales.

ACSI: Internet Retail			
Company	2014	2015	% Change
Internet Retail	82	80	-2.4%
Amazon	86	83	-3%
All Others	81	80	-1%
Newegg	81	79	-2%
Netflix	81	76	-6%
eBay	79	75	-5%
Overstock	77	73	-5%

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Internet retail excels across nearly every customer experience benchmark. The ease of checkout and payment process (88) is one of the most appealing aspects of the online shopping experience. In comparison, all brick-and-mortar categories lag far behind, with checkout speed earning these stores their lowest marks.

Consumers also can find the merchandise they want online with relative ease. Site performance, navigation, product images, and merchandise selection are highly rated at 84. Customer-generated product reviews (81) are preferred to site-generated recommendations (77), which show room for improvement. Likewise, customer support—such as live chat, help pages, or call centers—is not as helpful as customers would like.





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ABOUT THIS REPORT

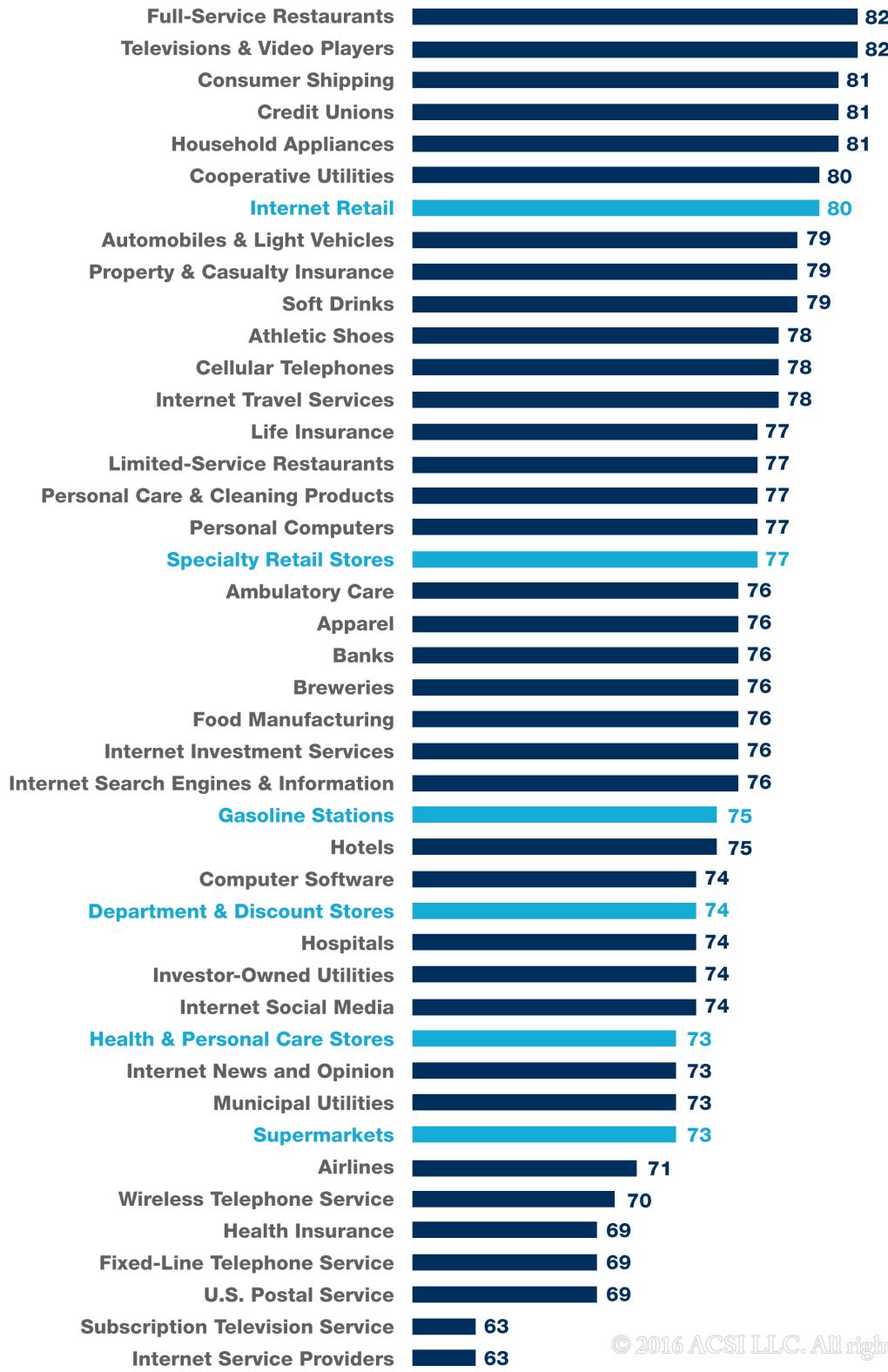
The ACSI *Retail Report 2015* is based on interviews with 9,358 customers, chosen at random and contacted via email between November 12 and December 9, 2015. Customers are asked to evaluate their recent experiences with the largest brick-and-mortar and Internet retail sector companies in terms of market share, plus an aggregate category consisting of “all other”—and thus smaller—retailers.

The survey data are used as inputs to ACSI’s cause-and-effect econometric model, which estimates customer satisfaction as the result of the survey-measured inputs of customer expectations, perceptions of quality, and perceptions of value. The ACSI model, in turn, links customer satisfaction with the survey-measured outcomes of customer complaints and customer loyalty. ACSI clients receive confidential industry-competitive and best-in-class data on all modeled variables and customer experience benchmarks.

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Customer Satisfaction Benchmarks by Industry



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