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ACSI Retail Report 2014

Industry Results for:

Department & Discount Stores

Specialty Retail Stores

Supermarkets

Health & Personal Care Stores

Internet Retail

Gasoline Stations

American
Customer
Satisfaction
Index®

Internet Retail Sole Bright Spot as Customer Satisfaction Slumps for Retail Sector

After three consecutive years of improvement, customer satisfaction with the retail sector declines 1.4% to an ACSI score of 76.8.

With the exception of Internet retail, all retail categories show weakening or flat customer satisfaction. Higher prices contribute to the downturn, with the strongest impact on retailers that sell nondiscretionary products. Rising cost of food and staples creates challenges for supermarkets and drug stores, while department stores and specialty retailers are less affected.

Internet retailers rebound from 2013 when winter storms and a surge in online shopping caused widespread delivery delays. As online sales reached record levels this holiday season, retailers and shippers were better prepared and there were far fewer incidents with delivery. Promotions that began well before Thanksgiving also helped, as consumers did more of their online shopping early.

Customer satisfaction with gasoline service stations is down 2.7% to an ACSI score of 73, although the outlook should be considerably sunnier for 2015, as a rapid decline in oil price has reduced prices at the pump by 40% in the past three months.

Department & Discount Stores

Customer satisfaction with department and discount stores is unchanged at an ACSI score of 77, making the industry the only brick-and-mortar category not to decline. However, foot traffic and sales dropped by 8% on average for big box retailers during the 2014 holiday shopping season, which should have translated into an improved shopping experience and higher levels of buyer satisfaction due to better service in less crowded stores.

About ACSI

The American Customer Satisfaction Index (ACSI) is an independent national benchmark of customer satisfaction with the quality of products and services available to household consumers in the United States.

Each year, 70,000 customers are surveyed about the products and services they use the most. The data serve as inputs to an econometric model that benchmarks customer satisfaction with more than 230 companies, 43 industries, 10 economic sectors, and various services of federal and local government agencies.

The ACSI's time-tested, scientific model provides key insights across the entire customer experience. ACSI results are strongly related to a number of essential indicators of micro and macroeconomic performance. At the micro level, companies with high levels of customer satisfaction tend to have higher earnings and stock returns relative to competitors. At the macro level, customer satisfaction has been shown to be predictive of both consumer spending and GDP growth.

Department & Discount Stores ACSI Scores			
Company	2013	2014	% Change
Department & Discount Stores	77	77	0.0%
Nordstrom	83	86	4%
Dillard's	81	81	0%
All Others	79	81	3%
Kohl's	81	80	-1%
Target	77	80	4%
Dollar Tree	NM	79	N/A
Macy's	76	79	4%
Meijer	NM	78	N/A
J.C. Penney	79	77	-3%
Dollar General	80	75	-6%
Family Dollar	NM	75	N/A
Sears	77	73	-5%
Exchange	75	68	-9%
Wal-Mart	71	68	-4%

The ACSI top and bottom companies in the department and discount store category continue to move in opposite directions, creating a growing gap between them. Nordstrom gains 4% to an ACSI score of 86, while Wal-Mart drops 4% to 68. With its customer satisfaction at the lowest level since 2007, Wal-Mart also posts its weakest annual sales growth in five years. The company's ACSI score is now well behind national rival Target (80) and regional chain Meijer (78). Wal-Mart also lags Sears (73) by a wide margin, but Sears is struggling too—falling 5% for customer satisfaction while closing more of its Kmart stores and spinning off the Land's End division.

Behind ACSI leader Nordstrom, there is a cluster of retail chains hovering just above the industry average. Dillard's ties the average of all smaller chains at 81, followed closely by Kohl's, Target, Dollar Tree, and Macy's. Target and Macy's both join Nordstrom in making strong gains from a year ago (up 4%). For Target, the improvement represents a rebound from a drop in customer satisfaction during its credit card security issues a year ago.

Among the “dollar” discount stores, Dollar Tree far outpaces both Dollar General and Family Dollar for customer satisfaction. The discounter is slated to become larger as Family Dollar shareholders recently approved Dollar Tree’s takeover bid, putting an end to Dollar General’s competing offer. Dollar Tree has been particularly successful with frozen and refrigerated food offerings, which have increased both sales and earnings. Dollar Tree is also the only one of the three that sells all of its merchandise for a dollar or less.

Customer experience benchmarks for the department and discount store industry show that customers give the highest rating to the convenience of store locations and hours of operation (86). Sales and promotions are frequent (81) and customers give good marks to merchandise variety and selection, customer service, and store layout and cleanliness.

Website and call centers perform at a slightly lower level (76). According to customers, the speed of the checkout process at department and discount stores (72) is the slowest of all retailers.



Specialty Retail Stores

Customer satisfaction with specialty retailers (including wholesale warehouse clubs and chains specializing in clothing, home improvement, electronics, office supplies, pet supplies, games, and books) dips 1.3% to an ACSI score of 79.

Specialty Retail Stores ACSI Scores			
Company	2013	2014	% Change
Specialty Retail Stores	80	79	-1.3%
Costco	84	84	0%
L Brands	NM	83	N/A
Barnes & Noble	82	81	-1%
Lowe's	82	81	-1%
BJ's Wholesale Club	NM	81	N/A
Bed Bath & Beyond	NM	81	N/A
Sam's Club	80	80	0%
PetSmart	NM	80	N/A
Staples	81	79	-2%
All Others	79	79	0%
Office Depot	79	78	-1%
TJX	79	78	-1%
Menards	NM	78	N/A
Best Buy	77	77	0%
Big Lots	NM	77	N/A
GameStop	NM	77	N/A
Home Depot	79	76	-4%
Gap	77	75	-3%

Costco holds steady in the lead at 84, followed closely by L Brands (Victoria's Secret, Bath & Body Works), which debuts in the ACSI with a score of 83. Costco's customer satisfaction surpasses that of the other major warehouse clubs, BJ's Wholesale Club (81) and Sam's Club (80), as well as wholesale merchandiser Big Lots (77).

Among the home improvement chains, Lowe's is king again (81), finishing well ahead of Menards (78) and Home Depot, which falls 4% to near the bottom of the industry at 76. Like Target a year ago, Home Depot faced a high-profile credit card security breach in the fall of 2014. Other specialty retailers with above-average customer satisfaction scores are Barnes & Noble, Bed Bath & Beyond, and PetSmart (scores of 80 to 81).

Stores selling office supplies, electronics, or clothing tend to rank near or below average in the specialty retail category. Staples leads among office suppliers with an ACSI score of 79, and may soon be the only major player left in the field. Barely a year after Office Depot completed its merger with OfficeMax, Staples put forward a bid to acquire Office Depot, which has a similar ACSI score of 78. Best Buy and GameStop are below the industry average at 77, while clothing retailers TJX (TJ Maxx, Marshalls) and Gap (Gap brands, Banana Republic, Old Navy) are far behind L Brands.

According to customers, specialty retailers provide reasonably good service overall, with clean, well laid-out stores and good availability of brand names (ACSI scores of 82). But compared to other retail categories, specialty store locations and hours are somewhat less convenient. However, customers rate the websites and call centers of specialty retailers better than those of department and discount stores. Lowest marks are reserved for the frequency of sales promotions and speed of checkout (76), although according to customers, the checkout process is better than at department and discount stores.



Supermarkets

Customer satisfaction with supermarkets declines 2.6% to an ACSI score of 76. Higher prices play a major role as the cost of food rose 3.4% last year whereas the Consumer Price Index went up a mere 0.8%. Despite frequent sales promotions and generally good customer service, it is a challenge for supermarkets to moderate the negative effect of rising food cost on household budgets.

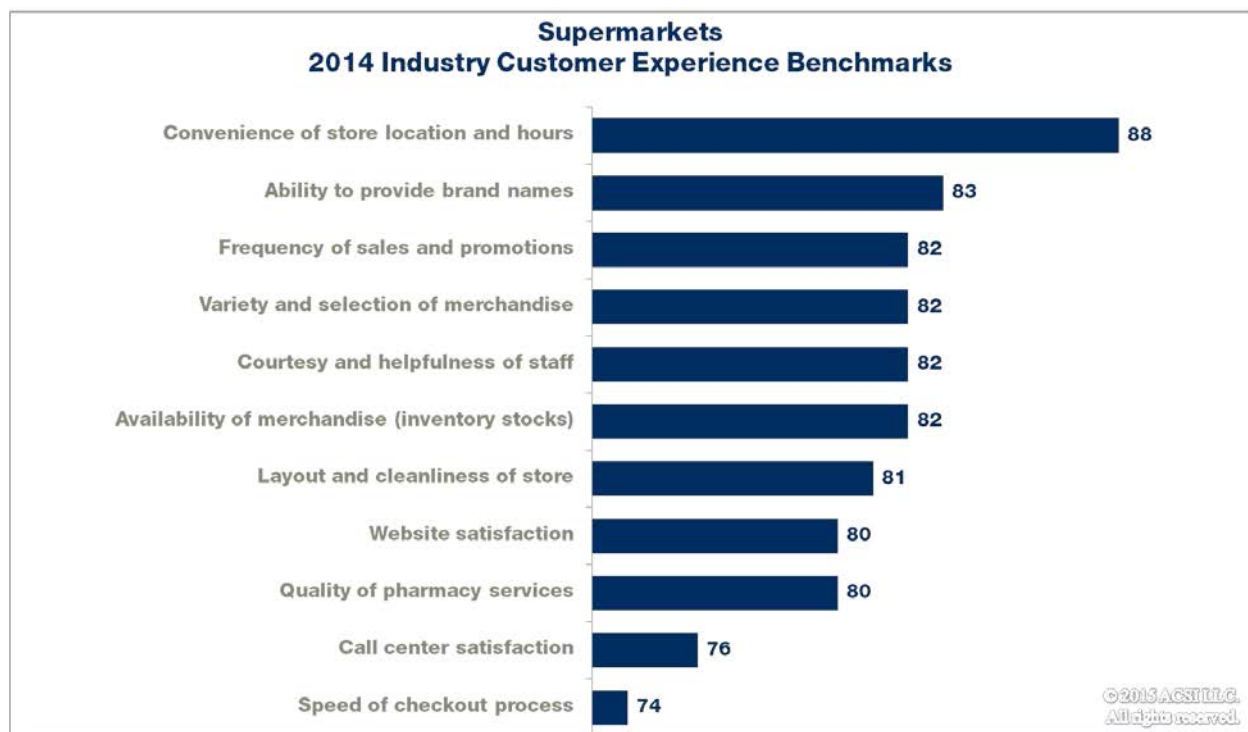
Among the largest supermarket chains, there is a shake-up at the top as Trader Joe's and Wegmans enter the ACSI and tie for the lead at 85. They supplant perennial leader Publix, which drops 5% and ties ACSI newcomer H-E-B at 82. While customer satisfaction with Publix is still very strong, this is the first year that the chain is not on top.

Supermarkets ACSI Scores			
Company	2013	2014	% Change
Supermarkets	78	76	-2.6%
Wegmans	NM	85	N/A
Trader Joe's	NM	85	N/A
Publix	86	82	-5%
H-E-B	NM	82	N/A
Whole Foods	78	81	4%
Target	NM	81	N/A
ALDI	NM	81	N/A
BI-LO	77	79	3%
Kroger	80	78	-3%
All Others	81	77	-5%
Delhaize America	NM	77	N/A
ShopRite	NM	77	N/A
SUPERVALU	77	75	-3%
Safeway	76	75	-1%
Albertsons	NM	74	N/A
Ahold USA	NM	72	N/A
Giant Eagle	NM	72	N/A
Wal-Mart	72	71	-1%

Adjacent to Publix and H-E-B are Whole Foods, Target's grocery division, and ALDI—all with ACSI scores of 81. Other chains with satisfaction that exceeds the industry average are BI-LO (includes Winn-Dixie), Kroger, ShopRite, Delhaize America (Food Lion, Hannaford), and the aggregate of all smaller chains and individual grocery stores. The latter group plunges 5% to 77 primarily because it is more difficult for small chains to compete on price. Smaller store operators are often forced to pass along a greater portion of cost increases in meat and dairy to consumers.

Below the category average, SUPERVALU, Safeway, and Albertsons group together with scores of 74 to 75, followed by Ahold USA (Stop & Shop, Giant) and Giant Eagle (72). Wal-Mart's supermarket business dips to an industry-low score of 71, declining alongside its discount store general merchandise business for 2014.

According to customers, supermarkets generally provide convenient locations and hours of operation (ACSI score of 88). It is important for supermarkets to provide locations fairly close to residential areas, as well as extended hours for quick trips and late-night shopping. The industry's variety of merchandise, inventory stocks, and ability to provide brand names are well regarded, as are frequency of sales promotions and customer service (benchmarks of 82 to 83).



Stores are clean and well laid out (81) and pharmacy services are of high quality (80), as are store websites (80). Customers give the lowest marks to speed of checkout lanes (74), which unlike most other types of retail, often include self-service. While self-checkout lanes are designed to boost speed and convenience, ACSI data suggest that they have done little to move supermarket customers through the checkout process more rapidly than traditional cashiers.

Health & Personal Care Stores

Customer satisfaction with drug stores slips 2.5% to an ACSI score of 77, equal to that of department and discount stores and ahead of supermarkets. The big three chains (CVS Caremark, Walgreens, Rite Aid) lag behind smaller drug stores, which top of the category with a combined score of 81.

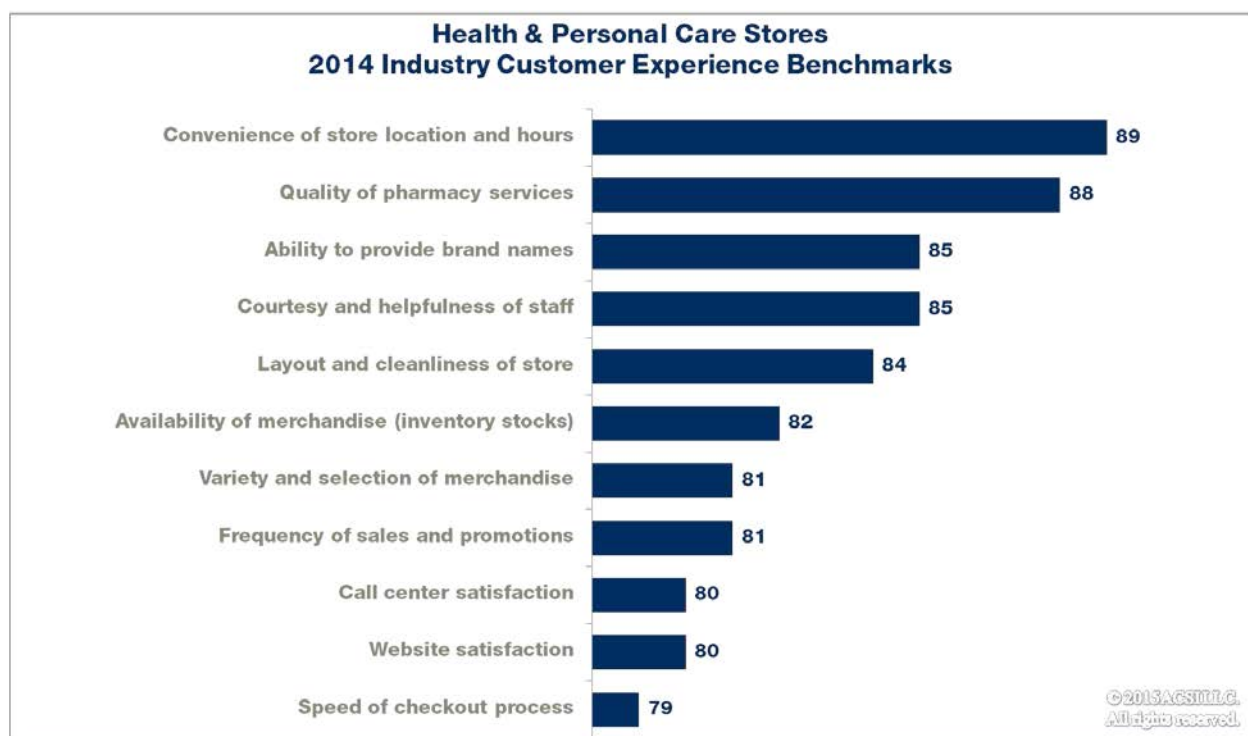
Health & Personal Care Stores ACSI Scores			
Company	2013	2014	% Change
Health & Personal Care Stores	79	77	-2.5%
All Others	83	81	-2%
Kroger	NM	81	N/A
Rite Aid	74	78	5%
Target	NM	78	N/A
Walgreens	76	77	1%
CVS Caremark	76	75	-1%
Wal-Mart	NM	68	N/A

The pharmacy services of the three largest general merchandise and supermarket chains are now included in the ACSI. Kroger's pharmacy operations display the same level of customer satisfaction as the aggregate of smaller drug stores, followed by Target at 78. With a low ACSI score of 68, Wal-Mart's pharmacies lag all drug store competitors by a wide margin.

Rite Aid surges 5% to tie with Target and beats the most recent stock analysts' revenue and earnings expectations. Market-share leader Walgreens matches the category average, and CVS dips slightly to below average at 75. CVS Caremark has made a concerted effort in recent years to expand its health-related services through its MinuteClinics, but fewer than

10% of all stores have these clinics. Overall, MinuteClinics have not yet made a positive impact on customer satisfaction.

Like supermarkets, it is essential for drug stores to have convenient locations and hours of operation and the industry succeeds at this according to customers (ACSI benchmark of 89). Customers also give high marks to pharmacy services (88), making drug stores a much better option, on average, relative to supermarkets for pharmacy services (80).



Drug store employees are courteous and helpful, brand names are readily available, and stores are clean and well laid out (score of 84 to 85). Customers rate other elements on par with supermarkets, such as merchandise availability, merchandise variety, and sales and promotions.

While drug stores receive their lowest mark for checkout speed, their score of 79 is the highest among all retail categories. In part, this is a consequence of fewer items per buyer in drug stores as opposed to supermarkets.

Internet Retail

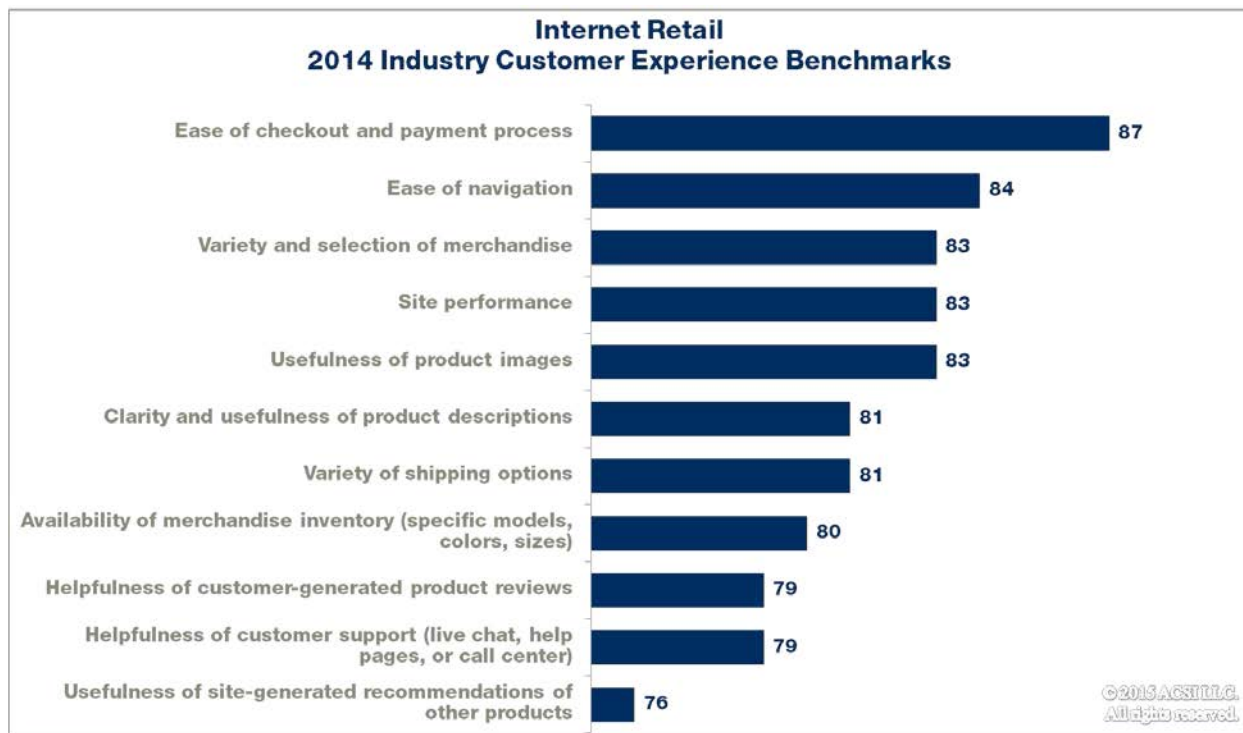
After a large customer satisfaction decline last year, online retail bounces back, up 5.1% to an ACSI score of 82. The gain is largely the result of an 8% improvement in the aggregate of smaller companies, which includes the online business of brick-and-mortar retailers, because most of the largest pure-play Internet retailers actually decline. Nevertheless, Amazon remains far above the rest of the category despite its 2% drop to 86. Amazon easily outdistances Newegg (-2%) and Netflix (+3%), which tie for second place at 81.

Internet Retail ACSI Scores			
Company	2013	2014	% Change
Internet Retail	78	82	5.1%
Amazon	88	86	-2%
Newegg	83	81	-2%
Netflix	79	81	3%
All Others	75	81	8%
eBay	80	79	-1%
Overstock	79	77	-3%

The gain for Netflix represents a third straight year of improvement following the company's customer satisfaction nosedive in 2011, which was caused by an increase in price. Netflix, however, has yet to return to its pre-2011 customer satisfaction levels. Moving in the opposite direction, both eBay (-1%) and Overstock (-3%) slip again, falling below the industry ACSI average.

According to online shoppers, Internet retailers provide an efficient process for checkout and payment (ACSI score of 87). In general, sites are easy to navigate, pages load quickly, and retailers offer a strong variety of merchandise with useful product images (scores of 83 to 84).

Consumers give good ratings to product descriptions (81), shipping options (81), and merchandise availability, including desired models, colors, and sizes (80). Product reviews by other customers are helpful, as is customer support via live chat, help pages, and call centers (79). Online shoppers are least satisfied with site-generated recommendations of other products to buy (76), apparently because such recommendations are less trusted.



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About This Report

The *ACSI Retail Report 2014* is based on interviews with 8,738 customers, chosen at random and contacted via telephone and email between October 7 and November 7, 2014. 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.



Coming in April 2015

In April, the ACSI will release its annual travel index with results for airlines, hotel chains and brands, and Internet travel websites, including customer satisfaction benchmarks for the largest companies in these categories.

Appendix: ACSI Industry Scores

