



AMERICAN CUSTOMER SATISFACTION INDEX

ANNUAL E-BUSINESS REPORT

AUGUST 14, 2007

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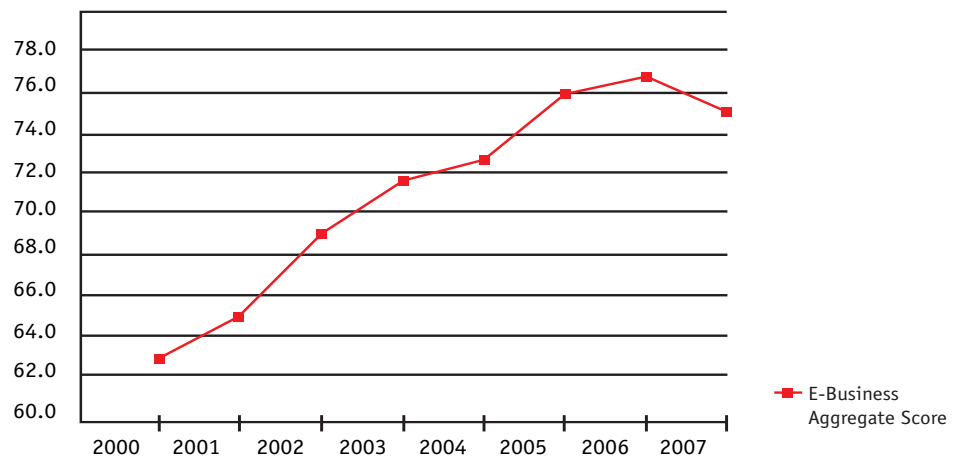




CUSTOMER SATISFACTION WITH E-BUSINESS DIPS FOR THE FIRST TIME

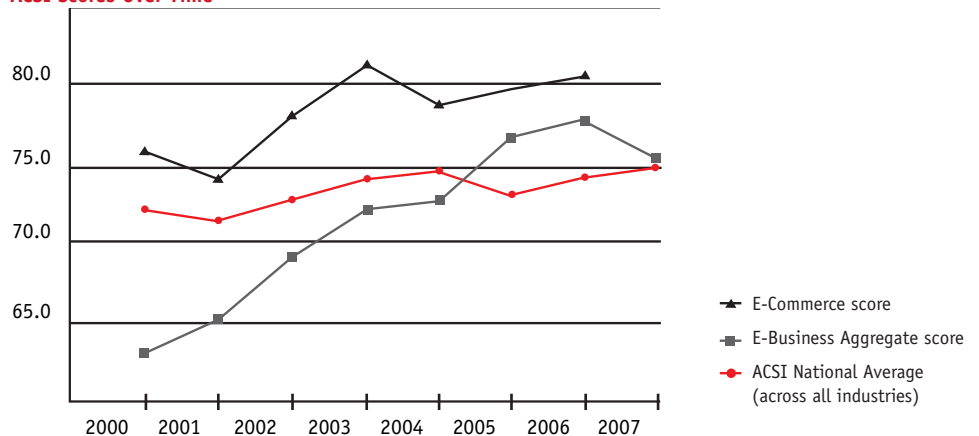
After six straight years of rising aggregate scores for the e-business sector in the University of Michigan's American Customer Satisfaction Index (ACSI), the 2007 score for the e-business sector falls 1.7% to a score of 75.2 on the ACSI's 100-point scale. This is the first decline that the sector has experienced since its initial inclusion in the ACSI in 2000.

ACSI E-Business Aggregate Score



The chart below shows how ACSI e-business scores (including portals, search engines, and news and information sites) compare to e-commerce (online retail, brokerage, travel and auctions) and the most recent quarterly cross-industry ACSI score. As shown below, the e-business category (75.2) dips just below the ACSI national average (75.3) for the first time in three years. The ACSI e-business score also lags the ACSI e-commerce score, which was an 80 when last measured in 2006.

ACSI Scores Over Time



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Comparative ACSI Scores Over Time

	2000	2001	2002	2003	2004	2005	2006	2007
E-Business Aggregate Score	63.0	65.0	68.7	71.4	72.5	75.9	76.5	75.2
E-Commerce Aggregate Score	75.2	74.3	77.6	80.8	78.6	79.6	80	NM yet
ACSI National Average (across all industries)	72.8	72.1	73.0	73.8	74.4	73.0	74.4	75.3

The dip this year for the e-business category overall is largely a result of a decline in perceived quality; customers do not rate the quality of e-business sites as highly as they once did. This could be in part because recent innovations (maps, social networking sites, etc.) have been of interest and use to the most tech-savvy users but not necessarily to the population at large.

E-BUSINESS OFFERINGS CONVERGING

When the ACSI began measuring the e-business sector in 2000, portals provided access to a wealth of online information, search engines enabled users to find information and news sites provided an alternative to offline media. Today, everything has converged, especially the portals and search engines. Sites like Google and Ask.com (formerly Ask Jeeves) that began as search engines now offer a wide range of tools, content and services. Portals like Yahoo and MSN offer extensive search services, news and other tools. And, users can now search the entire web from news sites like CNN.com and ABCNews.com.

As a result, though the ACSI used to separate the e-business sector into three categories, there are now only two: search engines/portals (those that provide access to content and tools, or *information aggregators*) and news/information sites (sites that create and house original content and whose primary purpose is content dissemination, or *information providers*).

SEARCH ENGINES AND PORTALS: A SHAKEUP IN THE RANKS

The new, combined category of search engines and portals sees a major shakeup this year. For the first time ever, Yahoo pulls slightly ahead of Google, though the bigger significance is not in the two sites' position to one another, but relative to their own scores over time. Google (78) is down a worrisome 3.7% from last year and Yahoo! (79) is up an impressive 3.9%.

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Yahoo! is emerging as the leading portal, fighting Google (and losing) for the search business, and Google is clearly the leader in search, fighting Yahoo! (and losing) for dominance as a portal.





Google is clearly winning the search battle. Recent research from market research firm Hitwise shows that in June 2007, Google enjoyed 63.9% of all U.S. Internet searches, triple Yahoo! Search (21.3%), which is the nearest competitor (MSN had 7.7%, Ask.com 3.4%, and AOL less than 1%). Yet, Hitwise also reported in May of 2007 that nearly 80% of traffic to Google's family of sites is to its search engine (with 10% going to Google property YouTube, 5% to Gmail, and 1% each to Google Video, Maps, and News), and that use of Google's portal and email services doesn't begin to compete with Yahoo's. For example, according to a June 2007 Hitwise report, Yahoo has 36% of the email market share compared to Gmail's 3% (Hotmail was at 14%, Live Mail at 3% and AOL at 3%).

For Yahoo! to gain any ground on Google in terms of search, it would have to develop an incredible and far more effective search technology, which seems unlikely at this stage of the game given the two companies' relative investments in search. Google's more likely challenger in terms of search technology is Ask.com (which is up an impressive 5.6% and four points to a score of 75). Or, Google could be challenged by another company we haven't heard of yet. In specific industries, Google might face challenges from specialized companies, such as GlobalSpec in engineering.

In short, both portals and search engines measured by the ACSI are vying to be the gateway to the Internet for a majority of users. Google and Ask have the philosophy that the way to do that is via search, and Yahoo!, MSN and AOL think that people want a portal as their gateway. There may be room for both business models.

Search Engines & Portals: ACSI Scores Over Time

	2000 Score	2001 Score	2002 Score	2003 Score	2004 Score	2005 Score	2006 Score	2007 Score	% Change from 2006	% Change from First Year
Portals & Search Engines	63	65	68	71	72	76	77	75	-2.6%	19.0%
Yahoo! Inc.	74	73	76	78	78	80	76	79	3.9%	6.8%
Google Inc.	NM	NM	80	82	82	82	81	78	-3.7%	-2.5%
All Others	67	72	72	78	78	77	78	75	-3.8%	11.9%
MSN (Microsoft Corporation)	71	67	72	74	75	75	74	75	1.4%	5.6%
Ask.com (IAC/Interactive Corporation)	NM	NM	62	69	71	72	71	75	5.6%	21.0%
AOL LLC (Time Warner Inc.)	56	58	59	65	67	71	74	67	-9.5%	19.6%

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YAHOO! BACK IN THE GAME AND STRONGER THAN EVER

Yahoo! took a hit in July of this year, when stock prices fell after Yahoo! reported lower quarterly profit and cut its revenue expectations for the year, blaming strong competition for ad dollars. But ACSI scores are less of a reflection of what has already happened and more of a predictor of future success or failure. Since the ACSI has long been proven scientifically to be a leading indicator of growth and stock prices, a rising ACSI score indicates that Yahoo's fortunes may again be on the rise, even as it suffers a beating in the financial press.

Yahoo! made major changes last year, including adding a Rich Internet Application (RIA) mail client and other significant application modifications...and with change comes risk. Yahoo! has paid the short-term price for its risk, with falling customer satisfaction scores, lower stock prices, and tighter profits. However, at the end of its year of risk, it finally seems to be reaping the rewards in customer satisfaction, which should lead to benefits in other areas in the coming year.

Yahoo! is clearly the stronger portal, even as it may have already lost the search battle to Google. The question for Yahoo! becomes whether it can secure enough dominance as a portal to increase ad dollars and profitability. Customers seem to be saying "yes," and brand new CEO Jerry Yang can move forward with a strong base of customer satisfaction.

GOOGLE: RESTING ON ITS LAURELS?

Google has long been the darling of the ACSI e-business sector and more recently of the investment world. Its previous scores in the 80s rival the highest that the ACSI measures in any industry, online or offline. But this year, Google slips significantly, down three points and 3.7% to a 78, the only time Google's score has dipped below 80 since it was added to the Index in 2000.

While remaining true to its core focus as a search engine through home page design and technology investment, Google has expanded to compete on many fronts, offering services ranging from maps to calendars to a fairly sophisticated and customizable portal. But while these new applications are competitive and may in some cases be superior to what's already out there, the more important question is: does anyone know they exist?

Google built its core search business with customer satisfaction and word of mouth alone, without using any advertising or marketing. Google's home page is clean and non-cluttered: a quality that has long been considered an advantage. But, Google's home page design may also be its downfall. People may not be taking advantage of Google's additional capabilities because they are hidden on the home page (unlike Ask.com, which makes its additional functionality more apparent). Search still makes up more nearly 80% of visits to Google properties, while other functions like Google Earth and the Google portal do not yet enjoy widespread popular usage. Clearly word of mouth isn't enough when it comes to making people aware of the breadth of functionality available on Google.

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In fact, not much has changed for the average Google user in the last few years. The innovation and technology that Google originally brought to search was a giant leap ahead of the competition. However, Google is now taking only small steps that are undetected or ignored by the mass population of search users.

Despite Google's stumble in satisfaction this year, the advent of Adwords and the acquisition of DoubleClick has made an impact on the industry and secured Google's supremacy. Google needs to carefully monitor its recent and significant downturn in customer satisfaction and make the appropriate adjustments, but it is still the dominant force in the search industry. Therefore, Google can afford small slips as long as it addresses the underlying issues, which are making enhancements and improvements that the majority of users can benefit from and enjoy.

AOL: HUGE SLIP FOR INDUSTRY VETERAN

AOL reverses its six-year trend of rising satisfaction scores with a fall of nearly 10% back into the 60s this year, making it the lowest-scoring of any company measured in the search engine and portals category.

To provide some perspective, AOL's 2007 ACSI score of 67 puts it in the company of some of the lower-scoring companies and government agencies in the ACSI. The 2007 AOL score is now lower than the average score for the perennially low-scoring wireless industry (68) and only two points higher than the IRS (65)! And, at a full seven points behind its closest competitors (MSN and Ask.com, both at 75), AOL could be in big trouble.

AOL is still having a hard time differentiating itself from the industry leaders. Its search function clearly loses to Google's. Its portal is inferior to Yahoo's. It competes with MSN in terms of offering fresh content and music, but MSN seems to be doing it better, or at least with bigger concerts like LiveEarth.

AOL continues to stumble with its transition from a subscription-based service to a free system. But AOL has proven to be incredibly tenacious as it has gone through a transition that no other company has made and survived. It has made good investments in its presentation and capabilities and it is still standing after years of turmoil. If AOL can make it through its current difficulties, it will be able to put all its time and effort into moving forward and becoming a contender again instead of spending so much energy on cleaning up old messes. That's a big "if," but AOL has been a survivor so far.

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ASK.COM: HUGE SATISFACTION INCREASES PAVE THE WAY FOR MARKET INROADS

Ask.com's ACSI score suffered last year from the well-established "relaunch effect:" website visitors who are used to a certain look, feel, and brand become confused when changes are made, and a relaunched website often sees scores drop temporarily.

But Ask.com has been more than rewarded by its customers for the changes in functionality and search technology, surging ahead 5.6% to a score of 75, the biggest increase in the e-business sector this year. And Ask.com has done this despite a second relaunch this year, which was apparently carried off so well that it didn't have the usual backlash and relaunch effect. Being able to relaunch without a slide in customer satisfaction shows Ask's mastery of the crucial mix of evolution and revolution.

Ask has had the biggest increase over time of any e-business company measured by the ACSI, up a total of 21% since it was first measured as AskJeeves.com in 2002, which should scare Google even though the gap between the two companies is still large. Ask.com seems to be well-positioned to rival Google in the coming years because it has a strong search technology lauded by analysts and users alike, which grew out of Pentagon-funded work at Rutgers University. Ask.com is also developing impressive features (like Local Ask and Ask 3D) to challenge Google's lesser-known add-ons, and has been pouring money into marketing and development since being bought by IAC/Interactive (Research). If Ask can market these services effectively while Google waits for word of mouth exposure, it could take the lead in some of these services since the backing technology is so strong.

Ask has proven to be an innovator, and while it does not challenge Google's number one market position in search (with 3.42% of search market share compared to Google's 63.92%, according to a June 2007 Hitwise report), it has maintained its rather small market share while other search competitors have dropped. However, despite the challenges, Ask's redesign and repositioning have received favorable recognition and reviews and Ask.com could succeed in compelling users to switch allegiances, especially if it can continue to keep customer satisfaction on the rise.

MSN: STILL SEARCHING FOR A POINT OF DIFFERENTIATION

Like Yahoo!, MSN makes available a wide range of services and tools, ranging from videos to stock quotes to its popular Hotmail service, on its home page. In the world of search, MSN is a clear third behind Google and Yahoo!, with 7.7% of June searches, according to Hitwise.

However, there is nothing to truly set MSN apart from the rest of the field. LiveEarth was a huge hit, but can a one-time event (even the biggest entertainment event in online history) really be enough to keep loyal customers returning? Even without a distinct personality or clear advantage, MSN has seen fairly steady

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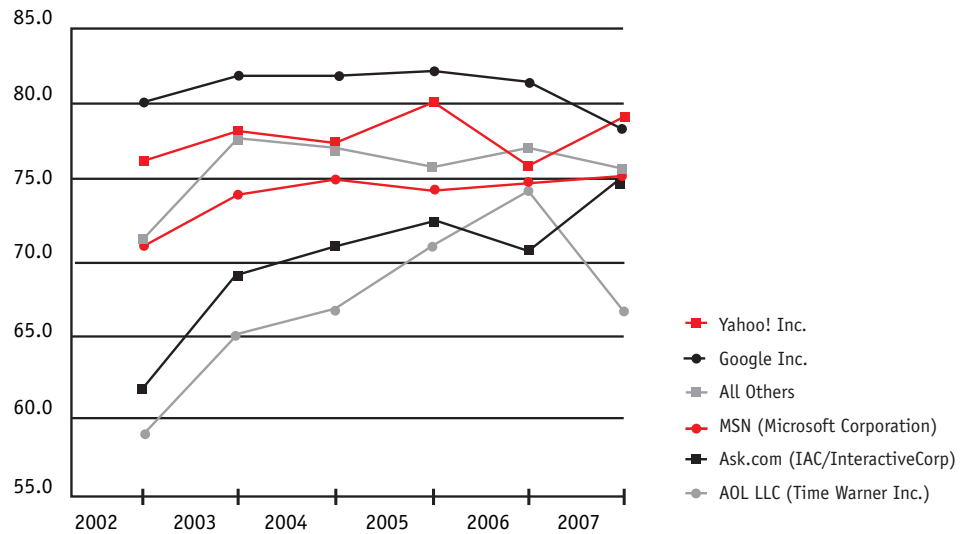


customer satisfaction scores for the last five years, increasing one point this year to 75. MSN probably won't be able to maintain a consistent customer satisfaction score like this for much longer without making the changes that rising customer expectations demand.

Microsoft has recently introduced the concept of rewarding people for using its search engine by offering prizes. It will be interesting to watch the success of this strategy, as the ACSI shows that buying loyalty is traditionally not a way to achieve real long-term success.

While Microsoft is clearly a recognized brand leader on the desktop, this link may not be advantageous to consumers who embrace the flexibility of the Internet. MSN will need to decide whether it's content being "in the middle of the pack," or whether it can develop a unique value proposition that will satisfy customers enough to increase revenues and market share. In the meantime, in such a competitive field, it may not be enough to maintain. MSN has always been behind Google and Yahoo! in terms of customer satisfaction, and has always been ahead of Ask.com and AOL. But this year, Ask.com surged ahead and will likely overtake MSN next year.

Customer Satisfaction Trends with Search Engines & Portals



NEWS AND INFORMATION SITES: NO CLEAR WINNERS OR LOSERS

While remaining true to their core focus of providing content, news and information sites have expanded over time to offer search capabilities (usually powered by Google or Yahoo!) as well as new ways of delivering information through video, podcasts and RSS feeds. However, none of the news and information sites have truly been able to set themselves apart from the others.

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For the last four years, all the news sites' scores have ranged from 72 to 74: a narrow spread for a mature and crucial online industry. These mediocre and undistinguished customer satisfaction scores prove that none of these online media outlets has been able to replicate the success of its TV or newspaper counterpart. This lack of online personality contributes to the biggest challenge facing the online news and information sector: lack of differentiation, leading to an inability to surge ahead of the pack.

The "all others" category (which includes any media outlet mentioned in surveys that doesn't have enough market share to be named individually) has had the highest score or been tied for highest score since 2003. This category is typically made up of websites for local or regional newspapers, along with a few other broadcast outlets or other news sources.

News & Information Sites: ACSI Scores Over Time

	2002	2003	2004	2005	2006	2007	% Change from Last Year	% Change from First Year
News & Information	73	74	75	75	73	75	2.7%	2.7%
All Others	73	75	75	78	74	77	4.1%	5.5%
ABCNEWS.com (The Walt Disney Company)	74	74	74	74	73	74	1.4%	0.0%
MSNBC.com (NBC, Microsoft Corporation)	73	74	74	73	72	74	2.8%	1.4%
CNN.com (Time Warner Inc.)	72	72	74	72	74	73	-1.4%	1.4%
NYTimes.com (The New York Times Company)	71	70	72	72	72	73	1.4%	2.8%
USATODAY.com (Gannett Co., Inc.)	71	72	72	72	74	72	-2.7%	1.4%

News sites still struggle with maximizing their relationships with news aggregators, search engines, and portals, which send lots of traffic their way but discourage loyalty and engagement with any particular news organization's brand. The challenge for any news site is to have enough personality and content to become a destination site so that visitors go to NYTimes.com instead of, for example, typing "Iraq" into Google News or skimming Yahoo! news headlines.

Changes in Nielsen's online metrics may also spell trouble for the news industry. Nielsen recently announced the addition of "time spent" as a key metric, meaning it will now measure website popularity by how long users stay on sites, not by how many pages they view. This change will hurt news sites that are competing for ad dollars with Yahoo! and Google because news sites just don't enjoy the same level of loyalty and engagement that top search engines and portals do.

The "time spent" metric is incomplete and insufficient: does a longer time spent on a website represent deep engagement or poor search and navigation? A four-minute

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visit to a site that should have been two minutes is a lost customer, not a captive and valuable set of advertising eyeballs. But in the short term, the new metric will correlate with ad dollars until the industry can rise up and reject this poor and misleading metric.

CUSTOMER SATISFACTION DRIVES BUSINESS SUCCESS

Customer satisfaction as measured using the University of Michigan's American Customer Satisfaction Index (ACSI) is a proven predictor of financial performance. Academic research and corporate experience shows that satisfied customers are more loyal, more likely to engage in positive word of mouth recommendations and more likely to buy in the future. This link has been proven on the macro-economic, industry-wide and company-specific levels. For example, a stock fund comprised of high-scoring ACSI companies has consistently outperformed the S&P 500 and the ACSI has consistently predicted ups and downs in the U.S. GDP.

Based on this proven link between ACSI scores and financial performance, this year's e-business report may provide guidance to investors. Google's revenues and profit growth has remained steady and strong, along with steady and strong ACSI scores since 2002. In some ways, its IPO was perfectly timed with stellar customer satisfaction. But the decline in its 2007 ACSI score could mean that financial growth will not be as strong as expected by year's end. Yahoo!, on the other hand, which has recently been criticized by investors and analysts alike, is well-poised to have a strong financial performance this year, no matter what the naysayers think. Ask.com's satisfaction scores indicate that it also should do well financially.

ABOUT THE AUTHOR

Larry Freed is an expert on web effectiveness and web customer satisfaction. He is also 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

ForeSee Results is a top-rated web satisfaction management company. We utilize the methodology of the most respected, credible and well-known measure of customer satisfaction in the country, the American Customer Satisfaction Index (ACSI), to link customer satisfaction to measurable business results. We measure customer satisfaction and identify the impact that satisfaction improvements have on future behaviors. ForeSee Results is a privately held company located in Ann Arbor, Michigan.

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ABOUT THE ACSI

ACSI is a national indicator of satisfaction with the quality of products and services available to households in the United States as viewed by the actual customers of those products and services. Data from interviews with approximately





70,000 customers annually are used as inputs into an econometric model to measure satisfaction with more than 200 companies in 45 industries and 10 economic sectors. Results are released on a quarterly basis with all measures reported using a 0-100 scale.

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 is produced by the Stephen M. Ross School of Business at the University of Michigan in partnership with the American Society for Quality and CFI Group, and is supported in part by ForeSee Results, corporate sponsor for the e-commerce and e-business measurements.

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