

Marketing News™

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Using market research to detect discrimination

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Paul C. Lubin: Analysis and testing will help protect companies against discrimination law suits.

Most companies don't recognize discrimination's effect on sales and marketing. The risk associated with discriminatory practices is high and can take different forms - financial liability, legal violations, and lost business. Bias charges can be made regarding equal employment opportunity, equal credit opportunity, and equal access to goods and services.

Shoney's, the restaurant chain, agreed to pay \$105 million to black employees and job applicants who claimed they were discriminated against. In another case, Denny's agreed to pay \$54 million to settle claims that it denied service to black customers.

More recently, Texaco tentatively agreed to pay \$176 million to African-

and damaging press that drained their goodwill in the community and set back sales and marketing.

Self-testing or self critical analysis helps companies detect and correct problems, practices, or policies that may represent a risk. Product testing is self-testing because it helps companies limit consumer rejection and identify potential product defects that can lead to lawsuits.

Market research also can measure whether marketing discourages minority business; minority and nonminority access to a company's goods and services; service bias towards whites or men; products made available to different consumer groups; and the role race plays in various business decisions. Measurement, however, is a difficult and time-consuming task.

In most cases, discrimination can be classified as either overt or subtle. Overt discrimination denies minorities the same opportunities offered to whites. Subtle actions are more difficult to measure; they encompass assistance issues and the level and type of accommodation.

The nature of your business and the way your company markets its products determine how you should test for discrimination.

Matched-pair testing measures whether a company provides differential treatment based on race to consumers or job applicants who inquire about a product, job, or housing unit. Trained testers match the race, gender, age, and disability which may receive different treatment across the company or by representatives. Matched-pair testing can detect subtle discrimination — differences in encouragement, types of products offered, time spent and wait time, information provided, and level of courtesy.

Another method surveys consumers who do business with your company. Surveys can be extremely valuable because they elicit candid responses about the advice provided, product and fee options explained and offered, ease in reaching a representative or buying a company's product, helpfulness, assistance in completing the application, responsiveness in returning calls, friendliness, and creativity in helping the customer. Do your image and marketing efforts dissuade minorities from doing business with you?

Surveys in the lending industry measure whether the service provided maximizes minority and nonminority opportunity for loan approval. Results are analyzed at the total level by minority or nonminority as well as by male and female customers. Comparisons also can be made across approved and denied applicants to measure whether assistance to denied minority applicants was similar to service to approved and denied nonminority applicants.

For such market research, companies should interview a variety of consumers. Employees also should be interviewed to detect whether they hold attitudes or

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American employees because of charges the company denied promotions on the basis of race. Texaco also agreed to increase employment of minorities and women. These companies faced negative

beliefs that could lead to discrimination toward consumers or other employees.

In the lending industry, the Home Mortgage Disclosure Act requires lenders to record the applicant's race. This makes it easy to interview minorities and nonminorities who applied for loans. For product lines where race is not measured, interview in areas where the likelihood of both minorities and nonminorities is high, or ask customers to describe their ethnic origin for classification purposes. Once coded, results can be analyzed to see if assistance varies across groups or communities.

The purpose of file reviews or audits is to help ensure that reasonable and professional treatment and policies are extended to all customers. Audits examine similarly situated customers and determine whether the same assistance was provided and outcome reached for minorities and non-minorities.

An audit of files of a sample of denied applicants helps ensure that the best effort was made to help the applicant. The files must support the decision of loan denial.

In a more intensive approach, lenders examine the files of all denied minority applicants. Files are separated into two groups: those who clearly did not meet qualification requirements and those marginally denied. The first group helps the lender verify that there were no omissions that could have changed the outcome, or file notes that suggest employee prejudices. The files of the marginally denied are compared to similarly situated groups of marginally denied and qualified white applicants to

ensure decisions were based on qualification, not discrimination.

Statistical modeling can help determine whether similarly situated consumers obtain the same end product. Statistical models can predict with a high degree of certainty the role of race in the credit decision and whether the applicant was approved or denied based on credit and underwriting policies. Statistical models also can identify minority applicants who should have

consumers or track employment trends.

Reports can identify communities where sales are underdeveloped or overdeveloped. If a company finds that its share of business with African-Americans is below that of its competitors, it can review its marketing to detect whether the lower share is because of discrimination.

Today minorities account for about 25% of the population, with forecasts of about 40% by 2020. The risk associated

MARKETING LESSON

- Market research can measure whether marketing discourages minority business; minority and nonminority access to a company's goods and services; and the role race plays in various business decisions.
- Measurement, however, is a difficult and time-consuming task. The nature of your business and the way your company markets its products determine how you should test for discrimination.
- You also should measure whether your image and marketing efforts dissuade minorities from doing business with you.

been approved. Modeling can help determine whether discrimination exists in government agencies, too.

Data warehousing and marketing customer information files provide companies with a wealth of information about consumers. These same data bases can measure a company's penetration or market share with different groups of

with discrimination will increase with this growth. Market research can help companies evaluate and reduce that risk. Self-critical analysis and testing will help protect companies against lawsuits and government investigations as well as increase profits by identifying opportunities for improved sales and service. •
