

The elephant in retail

How retail nepotism can affect the marketplace **Interviewed by Meredith McKenzie**

You may think that the discount you receive at a hotel or on an airplane is just pure luck or part of a special promotion, but it may instead be a form of retail nepotism. And if the practice is taking place at your business, it could be alienating your customers.

While retail nepotism is an under-researched topic, it occurs every day in the marketplace as service providers give customers who share similar socio-collective traits — such as ethnicity, sexual orientation or club membership — unauthorized financial benefits or service improvements.

“Retail nepotism is the great elephant in retailing,” says Mark Rosenbaum, Ph.D., a Fulbright Scholar and assistant professor of marketing at Northern Illinois University who has done extensive research on the topic of retail nepotism. “Most people believe that consumers can receive discounts purely because of socio-collective bonds with providers. But consumers also don’t have their suspicions confirmed, yet they know that this type of discrimination is taking place.”

Smart Business spoke with Rosenbaum about retail nepotism and how you can stop it from occurring by educating employees.

What factors encourage retail nepotism?

One factor encouraging retail nepotism is that consumers seek community in the marketplace. There’s also a biological influence, which says that humans are inclined to display acts of favoritism toward family members.

Research has broadened the concept of nepotism to include people you like and who are similar to you. Humans have an incentive to extend favoritism to family members or preferred others.

There’s another research trend that says that consumers are looking for family or communal relationships in the marketplace. This has to do with people moving around the country and the decline of the community and traditional family. People will then form tribes based on common consumption.

For example, there are Harley Davidson rallies and Web sites based upon consumption, such as Nutella or M&Ms fans. People will form these communal bonds in diners, health clubs, gyms and other places.

Most people see these tribes as favorable and positive, but there is a negative aspect because they don’t always support the brand. For example, Apple fans don’t always sup-



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port everything the company does. There’s also the idea that some tribes engage in rituals of solidarity — taking care of like-others. Quite simply, employees may be thinking, “Those who look like me, think like me, talk like me and act like me are probably most genetically close to me, and therefore, I should be nice to them.”

How does retail nepotism differ from market segmentation?

Market segmentation is based on objective measures. Customers are extended favoritism based upon measures that are created out of *authorized* managerial procedures. For example, managers will typically authorize different benefits based upon things such as loyalty status or dollars spent.

With retail nepotism, customers receive *unauthorized* benefits that are not approved by corporate management. Unauthorized discounts are determined by the service provider in a haphazard, almost uncontrollable manner, making retail nepotism a form of market discrimination. But sometimes these consumers receiving discounts — usually a marginalized group that dominates a specific retail setting — may turn the tables. Instead of being discriminatory victims, they can actually become discriminatory agents.

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Where does retail nepotism occur, and what are the signs that it is occurring?

Retail nepotism will occur among marginalized ethnic groups in a society. When you don’t represent the majority or are a marginalized group or subculture, you actually appreciate the sense of community. This is heightened when marginalized groups are among like-others in a situation where they know they’re in the majority.

For retail nepotism to occur, the service provider must have some flexibility in either pricing or in enhancing service quality. It wouldn’t occur in situations or positions that are completely micromanaged, such as sales cashiers. It most likely will occur in hotels, airlines, bars and restaurants, health care — in other words, retail environments that still have a great deal of personal contact.

How can you prevent retail nepotism from occurring?

You need to bring it to the forefront and talk about it with employees as a form of discrimination. Employees need to understand that financial discounts must be *authorized* based upon customer segmentation.

You also need to be aware that like-service providers may simply enjoy working with like-customers to make it a win-win situation for both parties. For example, some banks in Germany now have Turk bankers working with the Turkish community. But because there’s a biological component to retail nepotism, where people are motivated to take care of others like them, it’s almost impossible for you to control this 100 percent.

Why is understanding retail nepotism important?

Retail nepotism is a form of marketplace discrimination. Even though the groups receiving it are satisfied and enjoy the benefits, it’s still a form of discrimination. Companies with personnel who engage in retail nepotism could receive bad press and word-of-mouth from disgruntled customers. You could also lose business from the consumers who didn’t receive a discount. The damage that could be inflicted on a company’s brand is staggering. Addressing retail nepotism through formalized employee training programs is more important than companies realize. <<

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