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"On with the dance, let joy be unconfined" is my motto, whether there's a dance to dance or any joy to unconfine.
- MARK TWAIN

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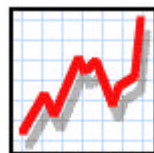
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FORBES MAGAZINE APRIL 5, 1999
MANAGEMENT. STRATEGIES. TRENDS
Technology

What's a good neighborhood? What's a bad one? Where might your employees get mugged? You can't blame statisticians for telling the truth.

Redlining software

By Seth Lubove



SEE CHART

AS THE SENIOR DIRECTOR of loss prevention for Marriott International, Chad Callaghan worries about the security of guests and employees in 800 hotels scattered across the U.S. in towns and cities safe and otherwise. He pleads with local police for crime reports. If he gets them at all, they may be old or unreliable.

There's gotta be a better way. And now Callaghan has found one. An obscure outfit started by two former academics has figured out how not just to log crime but to predict it. The King of Prussia, Pa.-based company, CAP Index Inc., doesn't bother with arrest records, which municipalities may manipulate anyway. Instead, it uses 21 demographic variables culled from updated census tracts. The variables are weighted and pumped into a formula that produces color-coded maps. An Excel spreadsheet breaks down the likelihood of murders, robberies and other crimes in the area relative to a national and state average.

We checked out the quiet West Los Angeles neighborhood where this FORBES writer lives: The murder risk is about on par with the country as a whole. Outside our New York headquarters, however, the odds of robbery are nearly five times the national average; at our downtown Chicago Bureau, they're almost eight times.

Is this accurate? Is, say, a preponderance of single-parent households, deteriorating housing and low education levels a predictor of what CAP Index delicately calls "social disorder"? Callaghan and clients including Bank One, Dayton Hudson's

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and clients including Bank One, Dayton Hudson's Target stores, Tricon Global Restaurants and Wendy's International swear by the results, which they use to budget security spending.

Daniel Faketty, division director of loss control for Kmart Corp.'s Super Kmart Centers division, says while he still relies on shoe leather for the chain's crime analyses, he now uses CAP Index to validate his own staff's research. Says Faketty. "They could give me a criminal activity rating for an area where I already had a rating, and it amazed me how accurate they were."

CAP Index cofounder and chief executive, Robert M. Figlio, was a Ph.D. and criminologist at the University of Pennsylvania's Wharton School of Business, where he was an expert on metropolitan crime patterns with a bent for demographics. In 1987 one of his guest lecturers, a security consultant concerned with gas station robberies in Maryland, asked Figlio to rate the stations from safest to most dangerous. The companies didn't want to invest in costly security measures where they weren't needed, as some politicians were demanding.

Using a test group of 100 gas stations, Figlio had to come up with a prediction that would closely match the stations' crime rates. His prediction was almost perfect, with the exception of what he thought would be the five safest stations: These turned out to have been plagued by robberies. Employees later fessed up that they were ripping off the stores but claiming they were robbed. "We lucked out on that one pretty well," chuckles Figlio.

As word spread among other security directors, Figlio and an associate at Wharton, Steven Aurand, started CAP Index out of their homes in 1988. But until recently, they had a hard time convincing skeptics in corporate security—many of whom are ex-cops—that math formulas can head off more crime than a SWAT team. The business still clears less than \$5 million in sales on site reports that can cost up to \$345. "You deal with potential prospects who say, 'I'm ex-FBI and I can smell crime. I don't need your fancy algorithms to tell me that sort of thing,'" says Aurand.

Street smarts or not, it's a big country out there, and technology offers a ready handle on it. Pinkerton, the big guard-outfit, and alarm companies Mosler and ADT have signed to distribute CAP Index product. And the company is expanding into the residential market, buying a small Houston firm that sells crime reports based on FBI data over the Internet through sites such as Microsoft's HomeAdvisor. In its infinite wisdom the federal government has made it illegal for a real estate agent to tell you that a house you like is in a crummy

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neighborhood. So you go on-line to get the facts.

Let's not mince words. This is redlining software. It draws circles around urban decay and tells you to stay away. Don't put a bank branch there. Avoid deliveries. Don't write homeowner insurance policies.

Depending on how a company selects sites, it can get in hot water with the regulators or with protest groups like Acorn. How will CAP or its clients defend themselves against charges of illegal redlining?

Figlio's answer: His algorithms are race-neutral in their calculations and conclusions. Pizza Hut has used the software to defend itself in the media against charges of arbitrariness in determining what neighborhoods it will serve. Daniel Kropp, a former bank security director who's now CAP Index head of marketing, recalls Philadelphia Mayor Edward Rendell hounding his institution to install a teller machine in a grocery store in a lousy section of town. Kropp, then a client of CAP Index, produced a crime forecast map that indicated the bank's employees were in danger if they entered the area. "Rendell accepted that," Kropp smiles.

CAP Index also may curb the plaintiffs' bar, which has made a meal ticket out of "premises liability" claims. An attorney representing injured parties will argue that a business should have foreseen the crime and taken measures to prevent it. A CAP Index map at least shows a company's attempt to be prudent.

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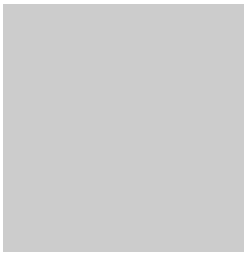
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