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Black consumers: Where to invest for equity (a preview)

McKinsey Institute for Black Economic Mobility

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Effectively pursuing broad racial-equity goals can help consumer-facing companies better serve Black consumers and grow.

This article is a collaborative effort by Nick Noel, Sara Prince, Sara Providence, Brian Rikuda, Shelley Stewart III, and Ammanuel Zegeye, representing views from McKinsey's Institute for Black Economic Mobility.

Despite the unevenly distributed human and economic devastation of the COVID-19 pandemic, Black consumers' collective economic power is set to expand dramatically, from about $910 billion[1] in consumption in 2019 to $1.7 trillion (in nominal dollars)—equal to the projected GDP of Mexico—in 2030. Even so, Black Americans are more likely than their non-Black counterparts to live in consumer deserts.[2]

Inequities in Black consumers' experiences, such as higher prices in predominantly Black communities for the same products sold elsewhere,[3] are the result of historic and systemic failures to meet the needs of Black families.[4] Consumer research shows that Black Americans think they don't receive fair or equitable treatment as consumers.[5] For instance, 25 percent of Black survey respondents are dissatisfied with products and services that support their financial health and security. Only 15 percent of non-Black respondents feel the same way. These inequities stem from factors such as ongoing disinvestment in Black communities,[6] and—crucially—they hinder human development, an integral system for driving economic mobility and sustainable inclusive growth.[7]

In this report, we argue that many consumer-facing companies lack credibility with Black consumers because their offerings do not adequately meet Black consumers' tastes and needs. According to our research—based on surveys of 1,565 Black consumers and 1,932 non-Black respondents in 2021—the quality of offerings and experiences, and the channels through which they're offered, is more important than price for Black consumers. But many companies are failing to deliver good value for the price. This is a problem for both consumers and companies, because Black consumers are highly engaged researchers and recommenders. Black consumers are a growing economic bloc—but not a monolithic one—and their preferences are shifting and diversifying as they attain increasingly high levels of education.

Addressing these challenges requires consumer-facing companies to make visible, authentic, and effective commitments to focus on—and meet—Black consumers' needs an increasingly fundamental part of their strategic agendas.[8] Indeed, our research suggests that Black consumers' hearts, minds, and spending power can be won and kept by recognizing and serving their aesthetic, social, and cultural needs. In other words,

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1 This number, rounded up from $906 billion, is a departure from the $835 billion calculated in Michael Chui, Brian Gregg, Sajal Kohli, and Shelley Stewart III, "A $300 billion opportunity: Serving the emerging Black American consumer," *McKinsey Quarterly*, August 6, 2021, McKinsey.com. This latest calculation uses data from the 2019 US Census and 2019 Consumer Expenditure Surveys (US Bureau of Labor Statistics, bls.gov) and includes the full population of Black Americans, which the $835 billion figure does not. We also use households as the unit of analysis for the purposes of this report.

2 For more, see "The economic state of Black America: What is and what could be," McKinsey Global Institute, June 2021, McKinsey.com.

3 Ibid.

4 For more on our past work on current manifestations of ongoing racial inequities, see "The economic state of Black America," June 2021; see also André Dua, JP Julien, Mike Kerlin, Jonathan Law, Nick Noel, and Shelley Stewart III, "The case for inclusive growth," April 28, 2021, McKinsey.com.

5 "The economic state of Black America," June 2021.

6 For more on financial inclusion, see Aria Florant, JP Julien, Shelley Stewart, Jason Wright, and Nina Yancy, "The case for accelerating financial inclusion in Black communities," February 25, 2020, McKinsey.com; for more on racialized health outcomes, see Aria Florant, Nick Noel, Shelley Stewart, and Jason Wright, "COVID-19: Investing in Black lives and livelihoods," April 14, 2020, McKinsey.com. For the purposes of our report, we define "Black communities" as communities whose population is more than 14 percent Black. For more on human development, see "The case for inclusive growth," April 2021.

7 For more on sustainable inclusive growth, see Eric Chewning, Anu Madgavkar, James Manyika, and Asutosh Padhi, "A sustainable, inclusive, and growing future for the United States," November 8, 2021, McKinsey.com.

8 For more on inclusive corporate agendas, see "Why ESG is here to stay," May 26, 2020, McKinsey.com.

serving Black consumers well is socially and civically valuable—an investment in companies' social license to operate.[9]

Black consumers in all seven segments and 12 neighborhood archetypes we identified are underserved (without a grocery store or retail location within a mile),[10] but investments in Black consumers can help create Black wealth and community-level prosperity. In addition to increasing access to Black-owned brands and supporting their growth, we estimate that the grocery and retail sectors can gain $45 billion in additional revenue by opening 10,000 new stores in predominantly Black metropolitan communities and—crucially—can provide access to consumer options for 10.5 million consumers of diverse races.

In this report, we will show in broad strokes that integrating broad racial-equity goals into consumer businesses has both social and commercial benefits. It builds on our existing work on meeting the increased demand for products and services from Black-owned brands and serves as a preview of upcoming in-depth explorations on topics that affect Black consumers.

We first outline Black consumers' spending patterns, demographics, and geographic attributes by identifying 12 community archetypes.

In the second section, we discuss Black consumers' preferences and shopping experiences in key areas of consumption and highlight unmet needs. The discussion addresses categories across four themes: living necessities (such as groceries), modern and working essentials (such as consumer technology), financial health and income security (such as banking), and culture, expression, and connection (such as beauty). Brand equities—factors that affect purchasing decisions—vary for different consumption themes and categories. However, we have found that Black consumers are distinguished by their emphasis on brands' trustworthiness, stated social mission, credibility among Black communities, and clean or healthy products.

In the final section, we outline the scale and types of investments consumer-facing companies should make—with the help of a variety of stakeholders—to better serve Black consumers and win their loyalty. Companies can start by applying the principles behind broad racial-equity goals to address consumer pain points that disproportionately affect Black Americans. To be sure, the actions of consumer companies are only one piece of the long-term work of dismantling the structures that constrain Black Americans' experiences and lives. But getting to know Black consumers with the goal of understanding how and where to invest in them is a start.

A growing consumer group in underserved locales

To meet Black consumers' needs, companies should first understand these consumers' current position in the economy and where they live. In forthcoming publications we will explore the interplay among Black consumers' growing economic power, their geographies, and the consumer segments in which they fall. For now, these factors serve as context for our exploration of Black consumers' unmet needs and the actions required to meet them.

More consumption dollars up for grabs

Black consumers' economic might is projected to mushroom from about $910 billion in consumer spending in 2019 to $1.7 trillion (in nominal dollars) in 2030. Geographically, this spend is spread out across the country, with the top 30 markets

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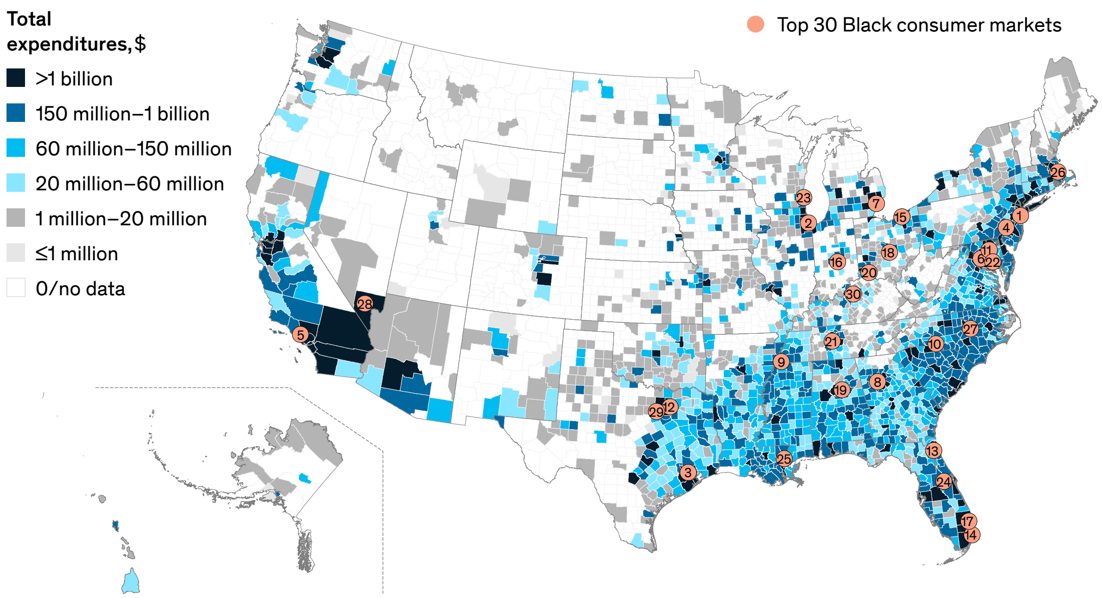
[9] For more on doing business in the 21st century, see James Manyika and Monique Tuin, "It's time to build 21st century companies: Learning to thrive in a radically different world," May 12, 2020, McKinsey.com.

[10] We use this measure as the threshold for underserved neighborhoods, even in urban areas, to better identify the neediest communities. For context, the United States Department of Agriculture (USDA) uses 0.5 miles as the threshold at which some communities are considered to have low access to retail and grocery options. For more, see Victor Oliveira, Mark Prell, and Laura Tiehen, "Eligibility requirements for SNAP retailers: Balancing access, nutrition, and integrity," USDA Economic Research Service, January 25, 2018, ers.usda.gov. Of course, this measure does not reflect the quality of the stores in or near any neighborhoods.

Exhibit 1, part 1

The 30 largest Black geographic consumer markets are spread across the country and represent nearly $250 billion in spend.

Current consumption, 2019, $



Top 30 Black consumer markets, 2019, $ billion

1. New York, NY	$53.4	9. Memphis, TN	$8.2	17. Ft. Lauderdale, FL	$4.8	25. New Orleans, LA	$3.9
2. Chicago, IL	$17.4	10. Charlotte, NC	$7.5	18. Columbus, OH	$4.6	26. Boston, MA	$3.9
3. Houston, TX	$15.4	11. Baltimore, MD	$7.3	19 . Birmingham, AL	$4.5	27. Raleigh, NC	$3.9
4. Philadelphia, PA	$12.6	12. Dallas, TX	$6.5	20. Cincinnati, OH	$4.3	28. Las Vegas, NV	$3.8
5. Los Angeles, CA	$9.2	13. Jacksonville, FL	$5.7	21 . Nashville, TN	$4.3	29. Fort Worth, TX	$3.7
6. Washington, DC	$9.0	14. Miami, FL	$5.5	22. Upper Marlboro, MD	$4.2	30. Louisville, KY	$3.5
7. Detroit, MI	$8.9	15. Cleveland, OH	$5.2	23. Milwaukee, WI	$4.1		
8. Atlanta, GA	$8.3	16. Indianapolis, IN	$5.1	24. Orlando, FL	$4.1		

Source: "Consumer Expenditure Surveys," US Bureau of Labor Statistics, 2019 data, bls.gov; American Community Survey, US Census Bureau, 2019

representing $250 billion or over 25 percent of Black consumption (see, Exhibit 1, parts 1 and 2).

Income growth among Black consumers has been 0.6 percentage points higher than that of their White counterparts and is fueled by the simultaneous growth of the Black population (measured by the number of households) and the growing number of households headed by people with higher levels of education.[11]

[11] "Consumer Expenditure Surveys," US Bureau of Labor Statistics, 2020 data, bls.gov.

Exhibit 1, part 2

Black consumers spent about $910 billion in 2019.

$910 billion

	Living necessities	Modern and working essentials	Financial health and income security	Culture, expression, and connection
Total spend, $ billions	385	320	160	45
Spending categories	• Housing • Food (in and out of the home) • Healthcare	• Public transit • Automotive transportation • Education • Consumer technology • Household goods and services • Apparel and footwear	• Retail banking • Credit cards • Private wealth management • Insurance • Pension contributions • Social security and retirement	• Beauty • Luxury apparel and accessories • Vitamins and supplements • Fitness classes, equip-ment, and wearable tech • Reading • Other products that pro-mote subjective well-being
Aspects of human development supported	• Physical health • Safety • Basic civic engagement	• Productivity and connectivity at home and at work • Access and flow of information	• Income smoothing • Wealth building • Protection against economic shocks and risks	• Well-being • Enjoyment and happiness • Self-empowerment and replenishing of mental, spiritual, and emotional energy
% of total spend	43	35	17	5

Source: “Consumer Expenditure Surveys,” US Bureau of Labor Statistics, 2019 data, bls.gov; McKinsey Institute for Black Economic Mobility

Twelve neighborhood archetypes

Using US Census data from 2010 to 2019,[12] we identified 12 distinct types of neighborhoods where Black consumers live and divided them into categories based on access to consumer options and population density (Exhibit 2).

Commercial urban spaces

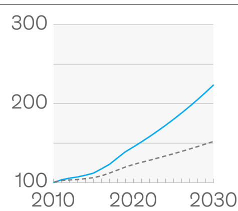
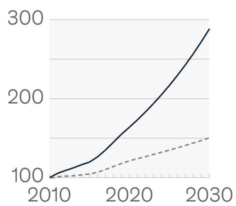
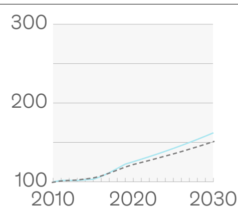
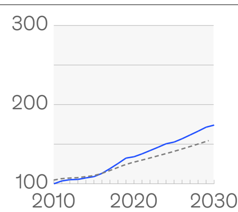
1. *Young cosmopolitan districts* have above-average household incomes and inclusive growth. They had the highest rate of net income growth from 2010 to 2019 of all the neighborhoods we identified (including for Black residents) and among the highest numbers of storefronts per census tract. These neighborhoods also have the most educated residents (across racial groups), who also tend to be young. These factors also mean that these formerly redlined neighborhoods are the most expensive to live in and have seen the fastest displacement of Black residents. Examples include the Bedford-Stuyvesant neighborhood in Brooklyn, NY, and South Loop in Chicago, IL.

[12] “U.S. Census Bureau releases 2014-2018 ACS 5-year estimates,” US Census Bureau, December 19, 2019, census.gov.

Exhibit 2

Our analysis uncovered 12 distinct neighborhood archetypes for growing Black consumer markets in the United States.

Black consumer markets are poised for growth across all neighborhood types

Cluster	**Consumer-power growth index by cluster, 2010–30,** 2010 = 100 (--------- White residents nationally)	**12 identified neighborhood archetypes**	**Consumption growth by cluster, 2010–19,** $ billions	**Share of Black population, 2019,** %
Commercial urban spaces		1 Young cosmopolitan districts 2 Young, economically inclusive neighborhoods	140 3.7% CAGR	15
Retail-oriented greater metro areas		3 Affluent and exclusive communities 4 Vibrant multicultural districts 5 Exurban areas & commuting zones	315 5.0% CAGR	30
Noncommercial urban spaces		6 Urban and Black economic growth centers 7 Stable up-and-coming working-class areas 8 Emerging urban working-class locales 9 High-potential urban core	305 2.4% CAGR	37
Greater metro areas with less commercial access		10 Upwardly mobile Black communities 11 Small town areas & urban hideaways 12 Rural (and low-density) outskirts	150 2.9% CAGR	19

Source: American Community Survey; "Consumer Expenditure Surveys," US Bureau of Labor Statistics, bls.gov; McKinsey Institute for Black Economic Mobility

2. *Young, economically inclusive neighborhoods* are middle-class neighborhoods distinguished by their potential for inclusive growth—Black and non-Black households hold very similar levels of income, and these neighborhoods have supported continued household and income growth for Black residents. They also trend young and retail-oriented, with high numbers of storefronts per census tract. Examples include Brooklyn Center in Minneapolis and Western Gwinnett County, GA, outside of Atlanta.

Our research revealed that Black consumers' unmet needs along the dimensions of access and quality—not including future growth—are worth $300 billion per year in consumer spending.

Retail-oriented greater metro areas

3. *Affluent and exclusive communities* are high-growth, retail-oriented neighborhoods with high average household incomes and accompanying characteristics, such as high broadband penetration and high rates of homeownership. However, these neighborhoods are notable for their low levels of economic inclusion; they have the highest rents and disproportionately low numbers of Black residents, in part because of high levels of displacement from 2010 to 2019. Examples include many of the localities in Middlesex County, MA, in Greater Boston or Westchester County, NY, in Greater NY.

4. *Vibrant multicultural districts* stand out for their diversity, economic growth, and economic outlook. They have grown their Black populations and—significantly—support high rates of Black social mobility as measured by the percentage of children from these areas who reach the top income quintile as adults. Examples include parts of Prince Williams County, VA, and Northwest Montgomery County, AL.

5. *Exurban areas & commuting zones* are very low-density neighborhoods that combine some of the highest numbers of storefronts per census tract with the lowest score for Black social mobility among all the neighborhood types. These neighborhoods have the highest incomes for low-density areas and are affordable, but population-growth rates are low. Examples include places in Macomb County outside of Detroit, MI, and Allegheny County outside of Pittsburgh, PA.

Noncommercial urban spaces

6. *Urban and Black economic growth centers* are less commercially developed urban neighborhoods whose residents are economically successful and have above-average levels of education, income, and household wealth. These neighborhoods are split between higher-than-average shares of Black residents and lower diversity areas. However, they have the highest levels of housing costs and one of the largest Black-White gaps in economic mobility. Examples include, the Flatbush neighborhood in Brooklyn, NY, or parts of neighborhoods in northwest Washington, DC, including Takoma Park and Brightwood.

7. *Stable up-and-coming working-class areas* are middle-income neighborhoods with high levels of inclusive growth, demonstrated by increasingly educated residents, strong income growth for Black residents, and modest growth in their Black populations from 2010 to 2019. However, these neighborhoods also have relatively low levels of access to consumer

options. Examples include the Back of the Yards neighborhood in Chicago, IL, and the North End neighborhood in Detroit, MI.

8. Households in *emerging urban working-class locales* are younger than those in other neighborhood types and have the lowest incomes. However, Black and non-Black households have comparable incomes, and economic mobility for Black residents is relatively high. These neighborhoods' Black populations have grown by about 13 percent from 2010 to 2019. Examples include the Spanish Harlem neighborhood in New York, NY, and the neighborhood of Little Haiti in Miami, FL.

9. *High-potential urban core* neighborhoods have the lowest incomes and have seen their Black populations decrease from 2010 to 2019. However, these communities show a hint of potential in that the incomes of Black residents who remain have grown faster than those of other groups. Examples include the neighborhood of Englewood, Chicago, IL, or Red Hook in Brooklyn, NY.

Greater metro areas with less commercial access

10. *Upwardly mobile Black communities* are marked by significant growth in their Black populations from 2010 to 2019, the highest rates of Black social mobility and wealth, and comparable levels of education and household income between Black and non-Black residents. Other signs of wealth building and upward mobility are above-average rates of broadband penetration and a high number of storefronts per census tract. Examples include Baldwin Hills in Los Angeles, CA, much of Prince George's County in MD, and North Fort Worth, TX.

11. *Small town areas & urban hideaways* are lower density communities with developed commercial areas, lower-than-average Black populations, and a lack of indicators of Black economic vibrancy, such as high Black household incomes, levels of education, and broadband penetration. Examples include parts of Southeastern, KY, like Knox County.

12. *Rural (and low-density) outskirts* have low numbers of storefronts per census tract, with no significantly favorable signs of economic growth. These neighborhoods are relatively affordable for lower-middle-income residents, but Black households earn significantly less than their non-Black counterparts. These neighborhoods have lost population from 2010 to 2019, with slight increases in their Black populations. Examples include southwestern Montgomery County in AL, and Southern Mississippi.

These geospatial insights can help companies understand the needs and challenges of Black consumers at the neighborhood level.

Dissatisfaction with current offerings

Our research revealed that Black consumers' unmet needs along the dimensions of access and quality—not including future growth—are worth $300 billion per year in consumer spending: $260 billion that consumers are willing to reallocate and up to $40 billion in new spending.[13]

Black consumers' high willingness to explore new products and services—81 percent of Black survey respondents are willing to switch brands—suggests that dissatisfaction with their current options is widespread. We found that the leading cause of dissatisfaction among Black consumers was a lack of evidence of diversity, equity, and inclusion efforts, such as marketing and outreach that do not feature people they recognize as representative of them (Exhibit 3).

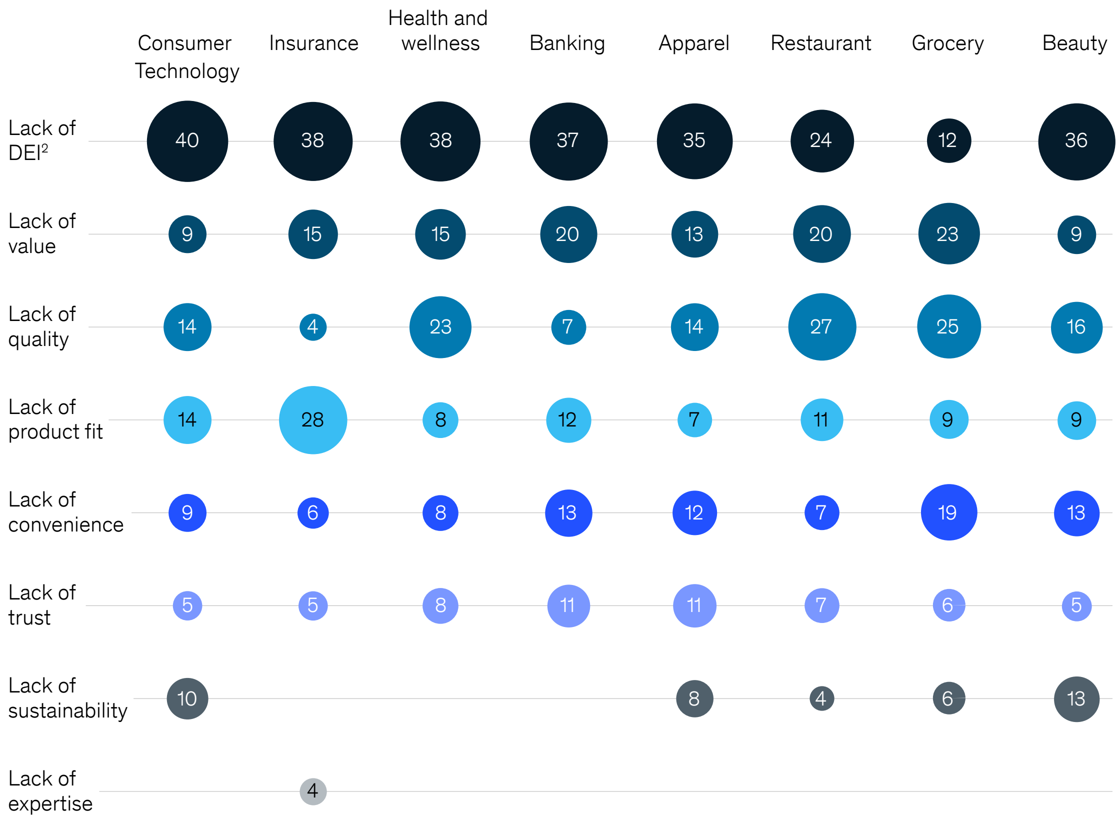
However, sources of delight for Black consumers are authoritative brands and products that are associated with cultural cachet and credibility, that are inclusive, and that inculcate feelings of trust, pride, and affinity based on cultural values. In

[13] Michael Chui, Brian Gregg, Sajal Kohli, and Shelley Stewart III, "A $300 billion opportunity: Serving the emerging Black American consumer," *McKinsey Quarterly*, August 2021, McKinsey.com.

Exhibit 3

A lack of evidence of diversity, equity, and inclusion is a top source of Black consumers' dissatisfaction.

Top reasons for dissatisfaction for Black consumers,[1] % of respondents



[1] Respondents were asked the following: "For the purchases you are not very satisfied with, please indicate why."
[2] DEI is diversity, equity, and inclusion. This includes concerns about products and services that do not meet needs of racial/ethnic groups or that do not address social inequities and inclusivity gaps in business ownership, marketing, and advertising.
Source: The 2021 McKinsey consumer survey

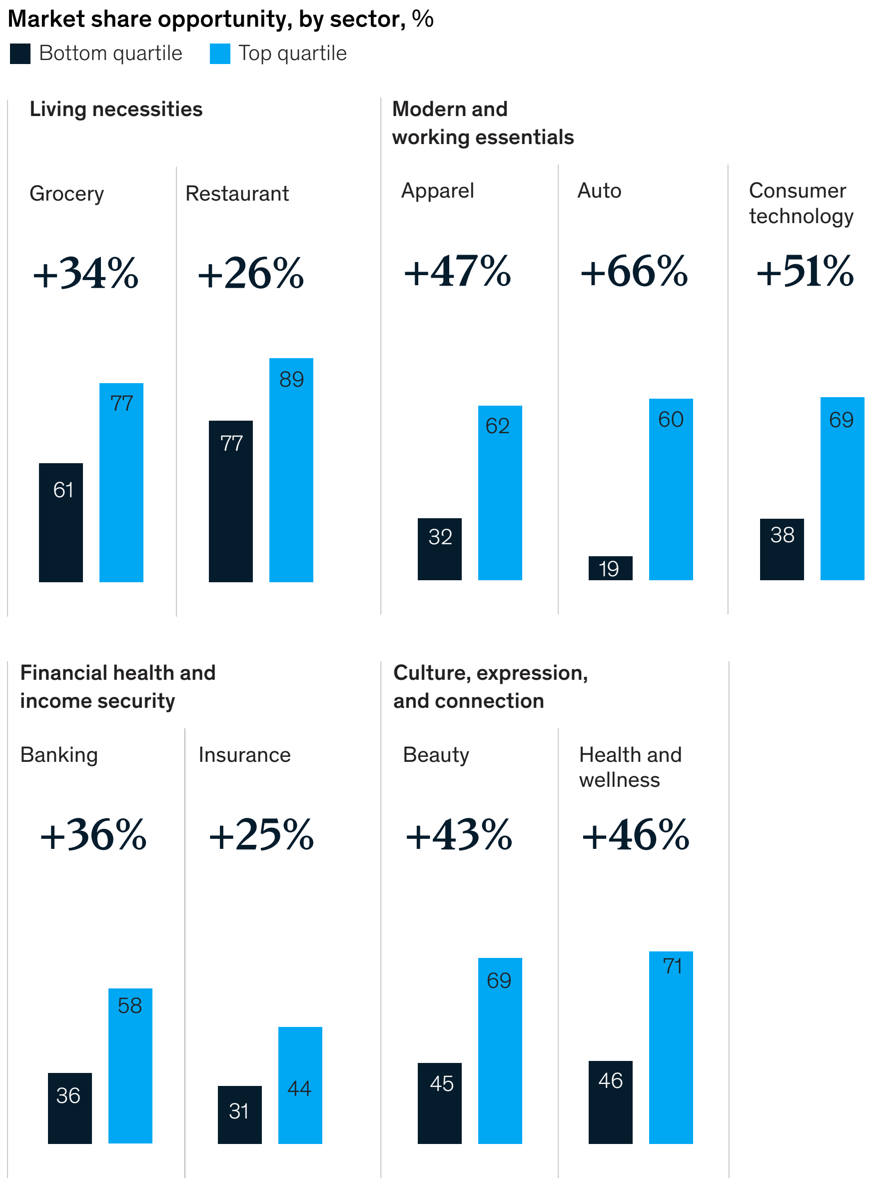
search of these attributes, Black consumers are more likely than non-Black consumers to conduct in-depth research (56 percent do) and to value personal recommendations, including one-on-one discussions with sales professionals (53 percent prefer to shop where they can get help).

Capturing the attention of Black consumers can lead to long-term loyalty: 68 percent of survey respondents reported that they're loyal to brands that satisfy them. Significantly, commercial outperformance with Black consumers can help brands win outsize market share with that population (Exhibit 4).

Despite their desire to patronize culturally resonant products and services offered by Black-owned companies, Black consumers are actually less likely than their non-Black peers to be aware of and to purchase products from Black-owned

Exhibit 4

Certain brands are winning with Black consumers—with greater than a 40 percent difference in purchase rates between top- and bottom-quartile performers.



[1]1. Market share opportunity is average of the top percentile (> 75th percentile market share for brands) less the average of the bottom percentile (< 25th percentile for brands) based on brands ever purchased by Black consumers.
Source: The 2021 McKinsey consumer survey

companies. These companies face obstacles when scaling, growing, and thriving,[14] struggles that mirror the obstacles facing Black Americans in the wider economy.

Finally, convenience is a persistent driver of dissatisfaction across categories. Despite the growth of online shopping, geography-based issues of access and availability continue to plague many neighborhoods where Black families live. This reinforces the pivotal need to frame geography and consumer needs together to ultimately create workable solutions.

in-depth view of Black consumers' needs and priorities, we examined our survey respondents' preferences in four consumption themes: living necessities, modern and working essentials, financial health and income security, and culture, expression, and connection. (Of course, Black

Seven Black consumer segments

Using our 2021 survey data, we identified seven consumer segments that describe Black consumers.

Value-oriented consumers

Passive recipients account for 17 percent of Black consumers and are typically students or members of Generation Z. These consumers are indifferent to brand, price, and product quality, and other household members generally shop on their behalf.

Online deal hunters make up 10 percent of the Black population and are generally low- to middle-income suburban women. They know what they are looking for, are committed to getting a good deal, and use online research to get it.

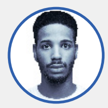
Coupon cutters account for 13 percent of the Black population and are typically lower-income adults over 55. They are budget driven and only make purchases when they absolutely need to. They make sure to find the best possible deal before they buy and prefer to shop in person and receive advice.

Quality-oriented consumers

Confident quality lovers account for 10 percent of the Black population. They have higher incomes and are over 55. These consumers know what they want but are not interested in showing off. They want the highest-quality products possible, and price and brand are not major considerations.

Confident loyalists, who make up 9 percent of the Black population, tend to be affluent and over 45. Like confident quality lovers, they know what they want, and what they want is brands. These consumers are the most brand-focused segment. They seek high-quality products and are loyal to the brands that offer them, regardless of trends.

Image-oriented consumers



Fashionable followers make up 13 percent of the population and are usually parents. A segment that is specific to the Black consumer population, fashionable followers want to be seen as trendy and look to others to help them make decisions and identify the right brands and retailers for them.

Trendsetters account for 28 percent of the Black population. Generally millennials or Gen Zers, they like to be the first of their peers to discover new trends and products. Consequently, they like to try new brands and to act as authorities on fashion. Trendsetters take pride in getting the best products, but at the right price.

These segments are key to understanding Black consumers' attitudes and motivations as they consider products from different categories.

[14] Jocina Becker, Pamela Brown, Tiffany Burns, Jihye Gyde, and Tyler Harris, "The Black unicorn: Changing the game for inclusivity in retail," November 17, 2021, McKinsey.com.

consumers are not monolithic. For more on our analysis of Black consumer segments, see sidebar, "Seven Black consumer segments.")

Living necessities

Living necessities support physical health and safety and enable basic civic engagement. For this consumption theme, we focused our analysis on food that is consumed both in and outside the home.

The brands that outperform in this category are distinguished by healthy options, large assortments, and efforts to reflect Black consumers—in the form of Black leaders in their companies and public commitments to combat racism.

Our research found that compared with 2019, Black consumers are seeking healthier, better-quality options for food—consumed both in and outside the home—that also fulfill their need for convenience (including availability) and affordability. Black survey respondents listed "the freshest possible ingredients" and "good value for money" in their top ten considerations and culturally relevant concepts. Non-Black respondents did not. Further examination of Black consumers' research and switching behaviors is needed to better understand and engage them.

Indeed, Black respondents are more eager to explore healthy and upmarket grocery options—including organic and specialty ingredients—than their non-Black counterparts. Significantly, the availability of organic foods at the grocery store was rated as important by 43 percent of Black respondents, compared with 36 percent of non-Black respondents. Black respondents are also more likely to be excited to explore products that are new to them.

Health considerations are also prominent in decisions around restaurant selection. We found that Black consumers value fresh ingredients and variety above other considerations. Sixty-two percent of Black respondents said they select restaurants based on the availability of healthy ingredients, compared with 47 percent of non-Black respondents. Indeed, 44 percent of Black respondents who reported spending less over the past two years on fast-casual and quick-service restaurants said the change was due to increased health-consciousness. By contrast, only 34 percent of non-Black respondents had the same feedback.

To be sure, convenience—especially accessibility—and affordability are evergreen considerations that still often win out over healthfulness. Consider that 37 percent of respondents think eating at fast-casual restaurants is less costly than eating at home, and 43 percent think these establishments offer the same product that full-service restaurants do at lower prices. Fast-casual restaurants are perceived to serve food that is less healthy than freshly prepared foods, but Black respondents still patronize them: Black consumers are eight percentage points more likely than their non-Black counterparts to have ever spent money at a fast-casual restaurant. This suggests that affordability and convenience sway Black consumers. Significantly, Black consumers are 13 percentage points more likely to expect to spend more on fast-casual restaurants in the future.

Compared with their peers, Black consumers are more enthusiastic about researching and trying new restaurants. Consistent with their behavior in other categories, Black consumers perform more research on their options than non-Black consumers do, leaning on the recommendations of friends and family; 60 percent of Black consumers consult friends and family before trying a new restaurant, compared with 51 percent of non-Black consumers.

Black consumers are also 11 percentage points more likely to switch restaurant brands. This behavior may be linked to the enjoyment they derive from discovering new restaurants.

Depending on the type of restaurant, Black consumers are nine to 12 percentage points more likely to say they enjoy trying new dining options. In fact, a greater share of Black consumers said they are likely to be the first of their friends to try new restaurants. These pioneers make up 33 to 39 percent of Black respondents, compared with 22 to 23 percent of non-Black respondents.

Modern and working essentials

Working essentials are products and services that help people manage their productivity, the flow of information, and physical and digital connectivity between home and work. Product categories within working essentials include consumer electronics, transportation, and non-luxury clothing. While satisfaction in these categories tends to be greater than 80 percent for all consumers, companies can capture a greater share of Black consumers' future spending by improving Black consumers' access to goods and perception of value. Our research shows that Black consumers diligently research their options and care deeply about value for money—the quality and fit, both figurative and literal, of their purchases—far more than about price alone. They make sure to resolve any questions they have about prospective purchases to confirm their quality. They also seek distinctive customer experiences and brands that reflect their identities and values.

Consider consumer technology. We found that Black consumers are more likely than other groups to have increased their spending on consumer technology in recent years, but consumer-technology companies should invest in securing their loyalty. Specifically, Black consumers are more focused than other respondents on tangible product benefits such as screen quality, and they are willing to switch brands if they can either get better value for money or see themselves in the brand.

Then there is transportation. We found that Black consumers research their options diligently and are generally open to considering a variety of vehicles, but tend to make their ultimate purchasing decisions based on affordability and financing.

During the shopping process, 35 percent of Black consumers do not have a target brand in mind, compared with 28 percent of non-Black respondents. However, the drive for affordability often makes the difference between making a purchase and extending a search; 57 percent of Black respondents said their most recently purchased car was preowned, compared with 47 percent of non-Black respondents; 91 percent of Black respondents who purchased used cars cited affordable pricing as the top reason, compared with 83 percent of non-Black respondents. The majority of Black survey respondents said they purchased their cars through the sales channel that offered the best financing terms. Only 61 percent of non-Black respondents did the same. Despite these efforts to achieve the best possible financial outcome, the average Black consumer spends $2,000 more on auto financing than the average non-Black consumer.[15]

When it comes to apparel, Black consumers are interested, but apparel brands have not always returned that interest. Black consumers are more aware of established brands—including designer brands—than non-Black consumers are. However, Black consumers are also dissatisfied with current offerings, particularly business attire, swimwear, and formal wear. In fact, Black survey respondents said that current offerings from the apparel industry are low quality and untrustworthy.

[15] Andreas Barchetti, Michael Complojer, Thomas Furcher, Christian Richter, and Jakob Stöber, "Digitization in automotive retail in 2021 and beyond," May 6, 2021, McKinsey.com; "The economic state of Black America," June 2021.

Poor customer experiences reinforce this negative perception. Black consumers say the quality of customer service is often inadequate, staff may not be knowledgeable about products, and, in the case of discount retailers, the shopping experience may be poor. Many Black consumers conclude that online shopping is better. They are more likely than non-Black consumers to engage directly with brands online—browsing their sites, social media accounts, and written reviews.

One apparel brand that currently has an 85 percent satisfaction rate among Black respondents (compared with 70 percent among non-Black respondents) has a history of publicly supporting Black cultural figures. The company is further investing in Black communities by launching an initiative for youth from marginalized communities. It's also tying executive compensation to achievement of the company's workforce diversity and inclusion goals.

Financial health and income security

Financial health and income security support income smoothing, wealth building, and insurance against economic shocks and risks. Black consumers are at a significant disadvantage when it comes to wealth building, because they are historically underserved—and sometimes discriminated against[16]—by financial-services companies; dissatisfaction with insurance products is widespread, and 32 percent of Black consumers were underbanked as of 2019,[17] the most recent year for which we could find data. Such households stand to lose $40,000 over the course of a lifetime in higher fees.[18]

These discrepancies contribute to a historically fraught relationship between the sector and Black consumers, who experience these products as untrustworthy, low value for the cost, and not attuned to their needs. By contrast, Black survey respondents say that some digital-payments services have won them over with their accessibility, ease of use, and trustworthiness.

Increasing access to mainstream financial products and advice is socially, economically, and morally critical. But first, financial institutions should invest in establishing credibility and trust with Black consumers and draw on lessons from adjacent sectors such as fintech, whose products are considered more accessible and easier to use, especially on mobile devices.

Black consumers who do want to use traditional financial services face structural hurdles that make these products and services hard to access. Black households are 50 percent more likely than non-Black households to live in areas with limited broadband service,[19] which presents obstacles to online banking.

A few mainstream financial institutions are making strides toward more equitable experiences for Black communities. One credit-card issuer offers zero-fee cards and made a commitment to invest $500 million in services, products, and spending in Black communities. Another major bank opened branches to provide underserved communities with resources and tools, and publicly committed $30 billion toward racial-equity goals.

Culture, expression, and connection

Products in this category foster expression and connection and support individuals' and communities' well-being, enjoyment, and happiness. Crucially, these products help people replenish their mental, spiritual, and emotional energy. Because these products are often personally significant, credibility, trust, and getting the offerings right—making them a good personal and cultural fit—are key. A solid product section, including local options, can be valuable.

Finally, another theme is connecting through community via referrals and through trusted spokespeople via digital channels.

The significance of this theme may be one reason why 70 percent of Black respondents say finding

[16] "Justice Department announces new initiative to combat redlining," US Department of Justice, October 22, 2021, justice.gov.
[17] *How America banks: Household use of banking and financial services*, Federal Deposit Insurance Corporation (FDIC), 2019, fdic.gov.
[18] "The case for accelerating financial inclusion in Black communities," February 2020.
[19] "The economic state of Black America," June 2021.

the right product is more important than price. In search of the right fit, more than 75 percent of Black consumers are willing to switch, even though this category has the highest level of satisfaction out of the four consumption categories.

Even where Black consumers are more satisfied with beauty products, 83 percent are still willing to switch brands. Our research found that the attributes Black consumers value in beauty products are generally centered on the products' ability to foster positive feelings about themselves (confident, beautiful) and about the brand (trust). Endorsements from trusted figures such as friends, family, and reputable celebrities are more likely to sway Black consumers' purchasing decisions than those of non-Black consumers.

The dissatisfaction Black consumers feel is related to the quality of products (a concern all consumers share), their environmental impact, and their ability to meet the needs of consumers' racial group. Black consumers' complaints about shopping channels generally focus on in-store pricing and assortment and on customer service—including a failure to cater to Black consumers.

Another sector in which consumables are important to Black consumers is health and wellness. Black respondents prefer consumables, such as dietary supplements, to experiences such as fitness classes. Black consumers are 15 percentage points more willing than non-Black consumers to switch brands, especially for lower prices and promotional offers. In fact, branding is less important than product quality.

As an overall consumption theme, quality is an important consideration in expression and in connection. One successful beauty brand—whose products were purchased by 50 percent of Black respondents in the past year, 29 percentage points higher than by non-Black consumers—optimized its products for price to value, channel, and social mission. The CEO of the brand is a Black woman. The brand's parent company created a racial-equity task force in 2021 and committed to spending more than $2 billion per year with suppliers owned and managed by marginalized groups by 2025.

Racial-equity goals as long-term investments

Sustainably addressing Black consumers' pain points requires immediate and ongoing investments in racial equity, particularly in organizational capabilities. Done right, those efforts can meet Black consumers' needs, earn their trust and loyalty, and unleash economic value for historically marginalized communities. Anything short of that is likely to result in failure. We have identified ten broad actions for consumer-facing companies based on our framework for building inclusive organizations (Exhibit 5).

Diverse organizations

1. Employ a workforce that is representative of—and personally and culturally connected to—the communities and places served. This means not only hiring from the communities in which companies operate but also employing decision makers, leaders, and marketing professionals who understand and can speak to Black consumers' communities.

Inclusive environments; equitable access to opportunities and benefits

2. Champion the hiring and promotion of Black workers into roles with decision-making power,[20] particularly profit-and-loss responsibility. Over time, these habits and norms should produce more inclusive and equitable workplaces where Black workers feel a sense of belonging and are valued and respected as much as their White counterparts.

Corporate citizenship and accountability

3. Align environmental, social, and governance (ESG) agendas and lobbying and philanthropic efforts with the goals of sustainable and

[20] We classify decision-making roles as manager-level roles in human resources, marketing, sales, finance, brand, and procurement, plus the CEO.

inclusive economic growth. For example, companies should raise or commit capital to help scale equitable commercial development in underserved consumer markets.

4. Ensure that offerings are consistent with ESG commitments. For instance, companies should discontinue products and services—such as high-interest loans that can become functionally predatory—that have been shown to harm Black communities.

Business operations

5. Institute policies and guidelines to ensure that Black communities are treated fairly and with dignity. For instance, abolishing in-store monitoring policies that disproportionately target Black shoppers can help restore trust between communities and the companies that want to serve them.

6. Ensure that a full range of products, especially offerings that offer good value for the price and affordable offerings, are accessible to Black communities.

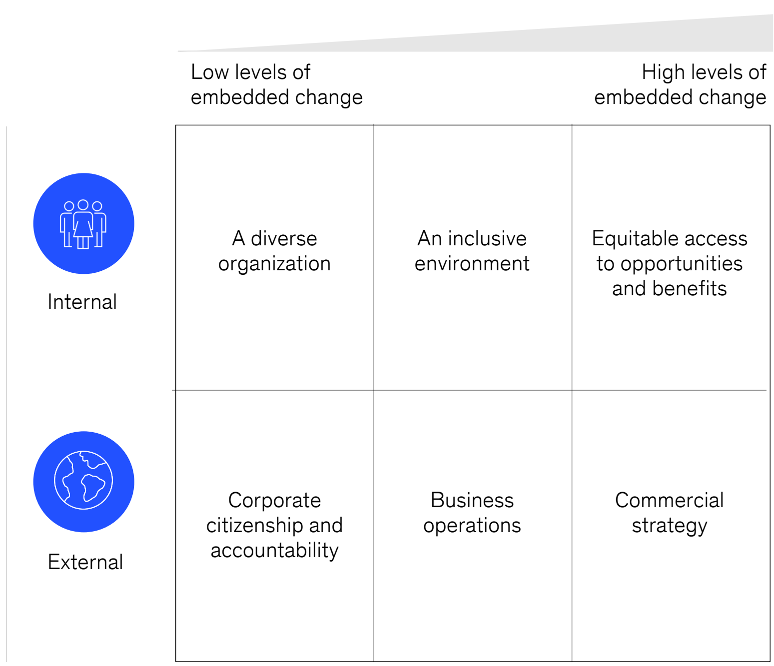
7. Ensure supplier diversity, and stock products from Black-owned and Black-focused brands in all channels.

Commercial strategy

8. Invest in growth and consumer access in underserved and disinvested Black communities by expanding the presence of physical stores and points of distribution to facilitate e-commerce.

Exhibit 5

Our framework for building inclusive organizations helps us identify actions for consumer-facing companies.



Source: Institute for Black Economic Mobility analysis

9. Ensure inclusive and diverse marketing content that is free from bias and fluent in Black cultures and Black narratives.

10. Invest in R&D, M&A, and product design to develop offerings and acquire capabilities to meet Black consumers' needs.

The most direct way to execute on these goals would require an investment of $6 billion (in 2021 dollars) in the grocery sector and $8 billion in the retail sector. Working in partnership with various stakeholders across sectors, these investments would help to open about 10,000 new stores and distribution points that facilitate e-commerce over a decade—still less than 10 percent of new retail store openings every year—in Black metropolitan communities. Significantly, we estimate that the investment would benefit about 3.5 million Black consumers and 7.0 million non-Black consumers.[21]

In addition, this investment—combined with the pursuit of the racial-equity goals we outline above—can drive spillovers that support economic mobility across the different areas of economic activity. These investments can help sustain at least 79,000 additional Black-owned businesses, 314,000 more Black decision makers, and $26 billion in wages from decision-making roles alone, in addition to other fiscal resources that these can generate that can further drive benefits for communities. These investments to improve consumer participation can also advance participation for savers and investors, workers, business owners, and residents.[22]

A revamp of the relationship between consumers and the companies that want to serve them is a crucial part of the larger work of building a social and economic environment that fosters equitable human development. The benefits will ripple throughout communities and economies. Companies should take the lead. We will explore how they can do that—and related topics that affect Black consumers—in upcoming articles.

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[21] We arrived at the estimates in this paragraph by calculating the portion of the population of each census tract that lived more than one mile from a grocery or retail store as of 2019. In urban settings, residents outside the one-mile radius are considered underserved. Census tracts that are more than a mile away from a grocery or retail store but whose per capita expenditures exceeded the county average were marked as being able to sustain at least one new store. We used that analysis to estimate the number of new stores that could be sustained, the initial investment required, and the number of consumers who stand to benefit from the improved access. Analysis of store counts was subject to data limitations on details on store quality (for example, physical size, EBT acceptance, availability of fresh food).

[22] To calculate the number of additional Black decision makers and their incremental wages, we assumed that Black members of the existing workforce could be promoted into managerial roles in the seven key decision-making functions: HR, marketing, sales, finance, brand, procurement, and CEO. We then identified the number of "missing" Black decision makers in those functional areas and calculated the total additional wages existing Black workers would make after their promotions into decision-making (managerial) roles. Similarly, we calculated the number of additional Black businesses that could be sustained by calculating the difference between the current number of Black-owned businesses and the number of Black-owned businesses we would expect at parity. For more discussion on driving economic development and economic mobility across the five major roles in the economy, see "The economic state of Black America," June 2021 and "The case for inclusive growth," April 2021.

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