

Retail and Organization Practices

The diversity imperative in retail

Consumers are expecting more from brands than ever before, and the cost is high for retailers that don't take action on racial equity, diversity, and inclusion.

by Tiffany Burns, Diana Ellsworth, Emily Field, and Tyler Harris



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The time has come

Today's crises, like the deaths that fuel the calls for racial equity, are not new; however, the responses to the crises are unprecedented. People in more than 4,200 cities and towns around the world have staged protests.¹ Fifteen to 25-plus million people in America have participated in them, and not just people from Black communities.² Over half of protestors (54 percent) are white, marking a notable difference from racial protests of the past.³ By contrast, the US civil rights movement had hundreds of thousands of protestors. In addition, the largest group taking to the streets represents America's newest generations, with the majority of protestors under the age of 35.⁴

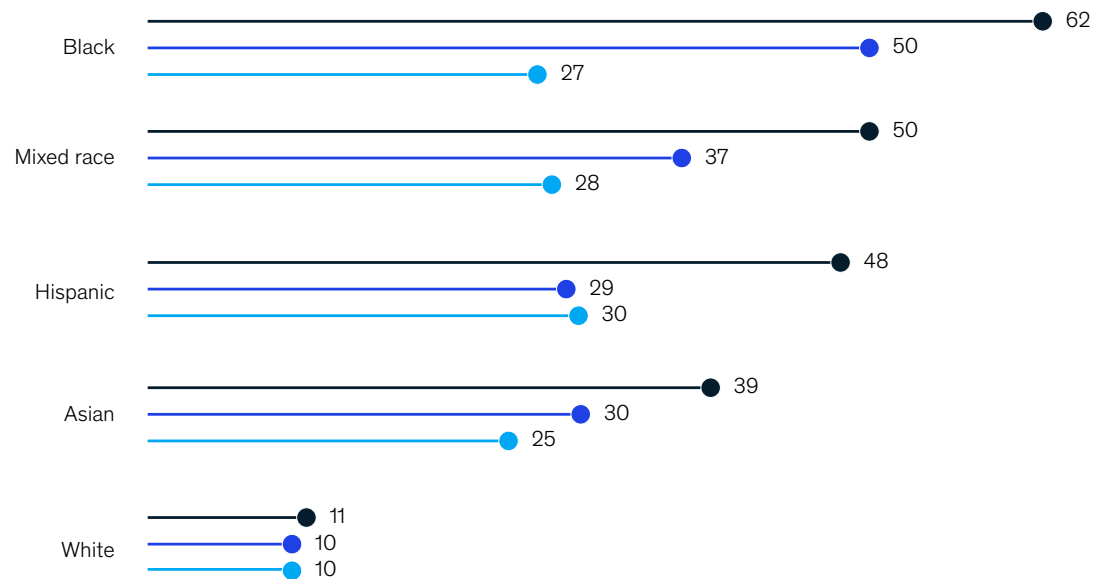
The statistics suggest that we are in the midst of the largest equity and justice movement of our time. It's big. It's powerful. And it will shape the future for consumer-centric businesses.

Retail is no exception. In a survey conducted by the *Journal of Consumer Affairs*, about one-third of minority consumers responded that they have experienced racial discrimination from an advertisement.⁵ That percentage spikes when looking at what happens physically inside a retailer's doors. More than 60 percent of African Americans say they have experienced racial discrimination inside a retail store, and half have experienced racial discrimination when making a purchase (Exhibit 1).

Exhibit 1

More than 60 percent of Black consumers report facing racial discrimination in retail stores; 50 percent report discrimination while making a purchase.

Racial discrimination experienced by minority consumers in the United States, % ● In a store ● When making a purchase ● In an advertisement



Source: Aronté Marie Bennett, Kara Daddario, and Ronald Paul Hill, "Shopping while nonwhite: Racial discrimination among minority consumers," *Journal of Consumer Affairs*, July 2015, Volume 49, Number 2, pp. 328–55, onlinelibrary.wiley.com

¹ Larry Buchanan, Quoc Trung Bui, and Jugal K. Patel, "Black Lives Matter may be the largest movement in U.S. history," *New York Times*, July 3, 2020, nytimes.com.

² Pew Research (poll taken June 4–10); Kaiser Family Foundation (poll taken June 8–14).

³ Dana Fisher, "The diversity of the recent Black Lives Matter protests is a good sign for racial equity," Brookings Institute, July 8, 2020, brookings.edu.

⁴ As of July 2020; Civics Analytics.

⁵ Aronté Marie Bennett, Kara Daddario, Ronald Paul Hill, "Shopping while nonwhite: Racial discrimination among minority consumers," *Journal of Consumer Affairs*, 2014, Volume 49, Number 2, pp. 328–55.

When looking at the leadership diversity among retail and consumer companies, it is clear that there is work to do.

Furthermore, when looking at the leadership diversity among retail and consumer companies, it is clear that there is work to do. In 2019, women held on average only 26 percent of board seats for retail and consumer companies and made up 14 percent of executives. Even worse, ethnically diverse individuals held just 16 percent of board seats and 13 percent of executive positions.⁶ In the midst of these statistics, there is evidence of progress, with players like PVH leading the way. Through a dedicated focus on diversity, PVH's senior leadership team is roughly 50 percent female with 33 percent of board seats belonging to women as well.⁷

We also see top retailers taking recent actions that signal real commitment to change. Their actions have included pledging donations to support racial-equity initiatives, making bold commitments to increase racial representation of employees at all levels, and doubling down on training for employees at headquarters and in stores.

For example, Gap has committed publicly to closing the space between the diversity of its employees and the diversity of the US population by doubling the representation of Black and Latinx employees in

its US headquarters by 2025. Sephora was the first large retailer to take on the 15 percent pledge. In doing so, the beauty retailer is dedicating 15 percent of its shelf space to Black-owned businesses, thereby using its merchandising prowess to turn shopping into activism. Macy's has also accepted the pledge, which, alongside the retailer's "Workshop" project to educate women- and minority-owned businesses on growth, represents a dedication and cross-category commitment to diversity.

These leading retailers aren't just speaking out, they're acting.

Diversity and inclusion are business imperatives

Diversity is a matter of who is in the workplace. Companies measure diversity with metrics on representation and advancement. Inclusion is a matter of how people experience the workplace. Companies measure inclusion through both employees' perceptions of the organization and their personal experiences at work. Both diversity and inclusion are critical and mutually reinforcing—organizations cannot simply focus on one or the other.

⁶ Sundiatu Dixon-Fyle, Kevin Dolan, Vivian Hunt, and Sara Prince, *Diversity wins: How inclusion matters*, May 2020, McKinsey.com.

⁷ "Prioritising a Culture of Inclusivity at PVH Corp.," November 19, 2020, [businessoffashion.com](https://www.businessoffashion.com).

The business case for increasing diversity and inclusion is indisputable:

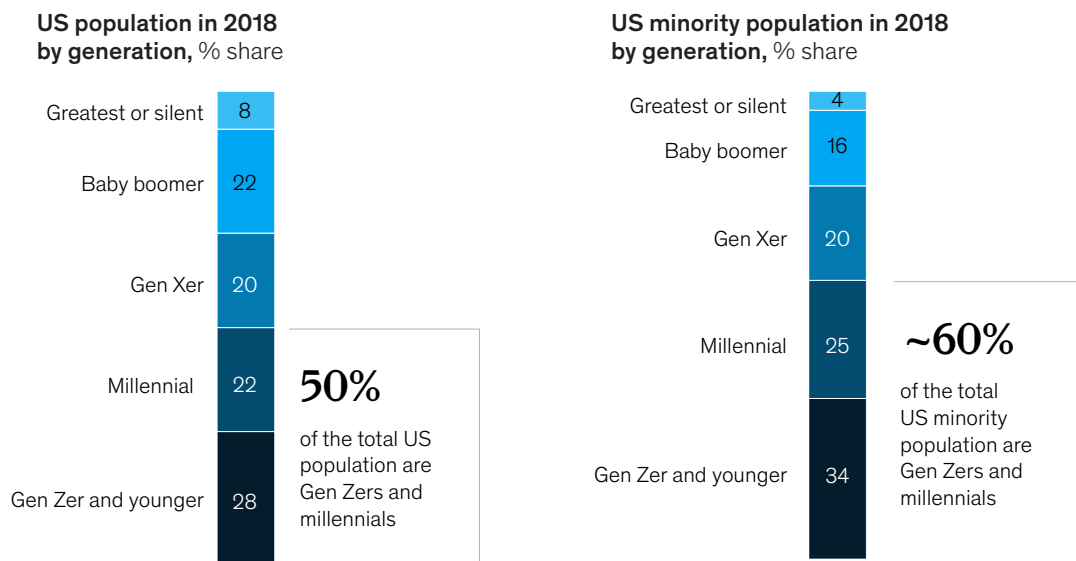
First, there are real financial benefits. Looking over five years of data, including 1,000 companies in 15 countries, we see a strong connection between diversity in company leadership and the likelihood of financial outperformance. Companies in the top quartile for gender diversity are 25 percent more likely to outperform those in the bottom quartile. Similarly, companies in the top quartile for ethnic diversity are 36 percent more likely to outperform their less diverse peers.⁸

Second, consumers care. Today's consumers are more diverse than ever, and they are expecting and demanding more from brands (Exhibit 2).

This growing cohort of younger consumers votes for diversity and inclusion with their wallets and spreads the word on social media. A recent survey found that more than 75 percent of Gen Z⁹ consumers will end relationships with companies that run ad campaigns perceived as macho, racist, or homophobic.¹⁰ We conducted customer interviews to understand, in their own words, what customers of some of the largest apparel brands think about

Exhibit 2

Today's consumer is more diverse than ever before.



Note: Figures may not sum to 100%, because of rounding.
Source: Pew Research Center

⁸ Sundiatu Dixon-Fyle, Kevin Dolan, Vivian Hunt, and Sara Prince, *Diversity Wins: How inclusion matters*, May 2020, McKinsey.com.

⁹ Gen Z is defined as people born between 1995 and 2010.

¹⁰ Tracy Francis and Fernanda Hoefel, "True Gen: Generation Z and its implications for companies," November 2018, McKinsey.com.

the role of retailers in creating a more socially just and equitable world. The connection is clear. One said,

"By purchasing an article of clothing, I am also partaking in social responsibility with their brand identity."

On what "good" looks like, one customer said,

"I think the brands that are doing it best are being quantitative instead of qualitative. So they are saying 'we are going to commit to the number' or 'here is where we are and here is our goal.'"

We also heard that a single statement is not enough:

"If I wanted to know—I would see it in their marketing materials, their photographs, the labels, and other things; not necessarily this press release sent out to everybody."¹¹

Diversity and inclusion matter in the war for talent. Employees believe that their companies have a growing social responsibility. For 78 percent of millennials, that means a responsibility to better the world.¹² And that responsibility takes center stage when attracting and hiring top talent. Almost 40 percent of millennials have not pursued or have turned down a job because they perceived their potential employer to lack inclusive mindsets and actions.¹³ More than half of people of color (52 percent) will not work for a company that fails to speak out on racial inequality.¹⁴

In an interview with Jyothi Rao, President of Intermix (acquired by The Gap in 2012), she emphasizes the importance of winning the battle for diverse talent. She says,

"If your company isn't diverse and if you're not hiring and cultivating diverse talent, how much can you really have your finger on the

pulse of culture? At the end of the day, consumer businesses are about relevance. If you aren't leading on diverse talent, you won't have your finger on the pulse of culture. And you won't be relevant."

Missteps can seriously damage reputation and sales, as Dolce & Gabbana learned after launching a 2018 ad campaign in China. The ad showed a Chinese model eating Italian food with chopsticks and caused the company's brand health score to plummet from 6.0 the week before the ad ran to -15.3 after. Given Chinese consumers account for about one-third of luxury-brand spending, boycotts ensued as a result of the grave misstep. In our interviews, we heard the cost of a misstep firsthand from a customer: "I don't spend money in places I don't believe in. I think it is really important to put your money in what you believe in."¹⁵

Diverse teams that mirror their customer bases are more likely to spot missteps before they happen. Airbnb is an example of a customer-facing company who learned this early in their history in 2016. Building its first platform, Airbnb wanted to create trust, given that, at the time, renting an unknown person's home was a new and largely untested concept at such a wide scale. To foster trust between hosts and guests, Airbnb put user profile photos front and center under the assumption that visualizing someone would build trust.

Unfortunately, the team of white leaders did not foresee the very real bias that was inherently being built into the system. In fact, guests with African American names were 16 percent less likely to get the rental. Airbnb's CEO and cofounder reflected that "three white guys" did not realize how their well-meaning business decisions could lead to biases. He also realized that they were "slow to address concerns about discrimination because the company's employees are not sufficiently diverse."¹⁶ In an

¹¹ Diversity imperative customer interviews, July 2020.

¹² "Attracting and retaining millennials in the global workplace," Aperian Global, aperianglobal.com.

¹³ Peter Bailinson, William Decherd, Diane Ellsworth, and Mital Guttman, "Understanding organizational barriers to a more inclusive workspace," June 2020, McKinsey.com.

¹⁴ "Trust barometer special report: Brand trust in 2020," Edelman, June 25, 2020, edelman.com.

¹⁵ Customer interviews, July 2020.

¹⁶ Brian Solomon, "Airbnb plans to fight racism with diversity. But will it be enough?," *Forbes*, September 8, 2016, forbes.com.

environment where 80 percent of consumers expect brands to solve society's problems,¹⁷ Airbnb vowed to change. Since then, Airbnb has taken actions to improve both diversity and inclusion at the company with the aspiration to "belong anywhere," including publicly sharing representation numbers.

The business case for diversity and inclusion has several practical implications for retailers. Sustaining and growing the business requires retaining current customers, who, regardless of race, are demonstrating with their foot traffic and wallets that diversity and inclusion matter. In addition, winning new customers who are increasingly diverse and committed to social justice requires reflecting their values in the retail business. Attracting and retaining the best talent to achieve growth aspirations requires responding to employee needs and building a workforce that reflects the customer base. If employees care, so must their employers. Leading the way requires proactive, not simply reactive, action.

Leading companies are showing what good looks like

No retailer has "solved" the diversity and inclusion imperative, and there is no one strategy or set of initiatives that can be applied to every company. However, the efforts of leaders across consumer-facing business, ranging from Delta Air Lines to Levi Strauss to CVS Health to West Elm, show the importance of acting on both internal and external fronts.

Looking internally, leading companies take an aspiration-back perspective. They ask themselves, "Who do we need to be to achieve our mission?" The aspiration-back approach starts by defining the desired outcome and then shaping actions to achieve it.

Levi Strauss, for example, set the aspiration of having the racial profile of its corporate employees match that of the US population. This aspiration led the company to pursue stronger partnerships with historically black colleges and universities in order to build a pipeline of more racially diverse talent. In addition, they set the clear goal of requiring that "half of the interviewees for open positions will be racially diverse candidates and . . . ensuring that they are interviewed by a panel [of] racially diverse leaders."¹⁸

Looking externally, leading companies take a capability-forward perspective. They ask themselves, "How can we use our unique capabilities and assets to be a change agent?" They look for opportunities to leverage their know-how, resources, relationships, footprint, or products to achieve meaningful societal impact that is aligned with their brand. West Elm, for example, is using its track record of collaborating with global artists and designers as a platform to deliver against the 15 percent pledge and put forth a more diverse design aesthetic that customers will live with and encounter daily in their homes.

Progress requires action

Leading companies do not just say the right things; they translate words into actions. More than 60 percent of US consumers agree that brands that issue statements in support of diversity, equity, and inclusion must follow up with action. If not, they risk being perceived as exploitative or opportunistic.¹⁹ However, successful companies do not jump into action without thought. They invest time and effort in understanding, examining their own facts and data, acknowledging their own starting point, and reflecting on the unique change they can create.

¹⁷ "Trust barometer special report: Brand trust in 2020," Edelman, June 25, 2020, edelman.com.

¹⁸ "Levi Strauss & Co's diversity problem—and our plan to fix it," Levi's, June 2020, levi.com.

¹⁹ "Trust barometer special report: Brand trust in 2020," Edelman, June 25, 2020, edelman.com.

The companies that truly move the needle take a five-step approach to identifying, shaping, and deploying high-impact internal and external actions (Exhibit 3). They start with setting a bold but achievable aspiration grounded in a solid assessment of their current state qualitatively and quantitatively. Then they architect a series of initiatives to help move the organization from the current state to the desired aspiration.

For example, if a company sets an aspiration to increase Black representation by 2025, it needs to understand the current starting place and the barriers that are blocking progress. The intervention would look significantly different if, in the “assess” phase, the company found that there aren’t enough Black applicants versus if they found that Black applicants aren’t making it past the first-round interview. For the first situation, the company might

increase its diverse sourcing channels; in the second, the company might deploy unconscious-bias training for interviewers or require diverse slates.

Sustained progress starts with the first commitment

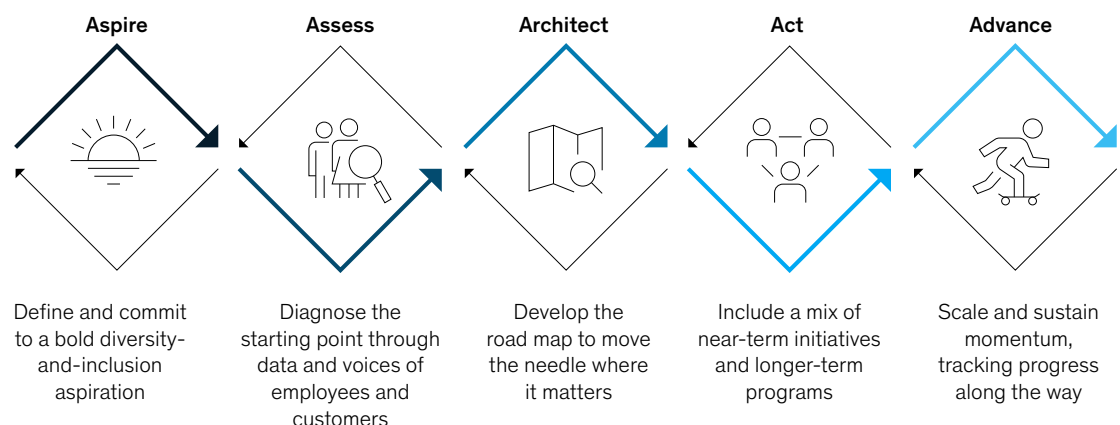
Achieving change requires making bold, transformational moves, not just incremental steps. And it all starts with a commitment to both internal and external change—today.

For internal commitments, retailers should ask themselves, “Who do we need to be as a company to achieve our mission?” For external commitments, consider questions like, “What are the company’s unique capabilities and resources? How can we use those as powerful tools to advance change?”

Exhibit 3

Companies can take a five-step approach to identifying, shaping, and deploying high-impact internal and external actions against racial discrimination.

The ‘5 As’ of taking action on diversity and inclusion



Achieving change requires making bold, transformational moves, not just incremental steps. And it all starts with a commitment to both internal and external change—today.

Then build the quantitative and qualitative fact base to understand the starting point:

- Analyze where the company is against key metrics by role and location (for example, racial and gender diversity and inclusion sentiment in stores versus headquarters), and examine the differences in experiences between majority and minority populations.
- Conduct a comprehensive and objective review of core processes to understand where risks for bias lie (for example, hiring practices, selling practices, product-design assumptions, marketing processes, asset protection, and technology). These reviews are often conducted in conjunction with a diverse, objective body to drive accountability.

Using the fact base, architect a road map to close the gap between today and the future aspiration:

- *Publicly commit to goals with clear metrics to drive accountability and transparency.* For instance, Nike reports progress against diversity goals and employee makeup by gender, ethnicity, and race in its annual impact report.²⁰

- *Communicate the rationale behind goals.*

Eighty-six percent of consumers say that authenticity is key to deciding which brands they like and support. And younger generations lead the way: the statistic jumps from 80 percent for baby boomers to 90 percent for millennials. Connecting actions with the “why” will help create an authentic link for the target consumer.²¹

- *Create a road map with both short-term and long-term actions to deliver against the aspiration.* Success with short-term actions will help gain momentum for actions that require more time to execute.
- *Engage business owners to stand for diversity and inclusion through brand and marketing.* For example, Aerie’s #AerieREAL ad campaigns feature unretouched photos of diverse women across ages, ethnicities, and body types.²² Nike’s powerful “For once, don’t do it” campaign urged customers and followers: “Don’t pretend there’s not a problem in America; Don’t turn your back on racism.”²³
- *Engage store managers and associates to develop actions and to help hold the company accountable on the front lines.*

²⁰ FY19 Nike, Inc. impact report, purpose.nike.com.

²¹ Michael Fertik, “As trust among consumers wavers, authenticity is critical,” *Forbes*, January 14, 2019, forbes.com.

²² “Meet the 2020 #AerieREAL changemakers,” #AerieREAL Life, ae.com.

²³ “Nike releases new film ‘For once, don’t do it,’” Nike News, May 29, 2020, news.nike.com.

— *Rethink store operations to be more inclusive.*

For example, Wegmans launched Aria, a smartphone-based app, in an effort to create an inclusive environment that makes shopping more efficient for visually impaired customers. The tool offers audio descriptions of users' surroundings to aid shopping (for example, store navigation, finding the right product) without requiring the assistance of a store associate.²⁴

Today's thoughtful planning and traction against short-term actions will establish the foundation; however, make no mistake that the road is long and requires dedicated effort and resources to ensure sustained progress.

Retail leaders can sustain progress by practicing the following:

- *Investing in building a diversity and inclusion strategy and capability at all levels of the organization.* H&M offers an example through its "Layers" program. Layers is an internal monthly workshop that educates corporate employees at all levels on the impact of diversity on the business. The program also provides space for reflection on how to best support colleagues of color across departments.²⁵
- *Creating accountability by establishing a dedicated team that transparently and objectively tracks progress and holds leadership accountable* (for example, across

functions, headquarters, and stores). Nike provides an example of not only tracking progress and data internally but also sharing the data publicly. The company provides detailed Excel spreadsheets of KPIs as a part of its annual impact report.²⁶

- *Consider budgeting, compensation, and resource allocation tools to help close the gap between today and tomorrow.* Retailer Target boldly tied achievement of diversity and inclusion goals to the compensation of the company's top 300 leaders.²⁷ Diversity and inclusion goals ranged from increasing the number of multi-cultural products on shelves (for example, greater diversity in doll assortment) to ensuring the company hires and retains top diverse talent.
- *Conducting regular pulse checks with customers to measure success and act on suggestions aligned with your strategy.*

Progress takes time. The best retail leaders will launch meaningful initiatives immediately and also recognize the need for efforts that can take longer to complete, such as leadership capability building. Leaders need to start planning now to craft a capability-forward external strategy and an aspiration-back internal strategy that will deliver sustained progress and impact over time.

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²⁴ "Meet the 2020 #AerieREAL changemakers," #AerieREAL Life, ae.com.

²⁵ Janice Gassam Asare, "How H&M has completely revamped their diversity and inclusion training," *Forbes*, March 18, 2020, forbes.com.

²⁶ FY19 Nike, Inc. impact report, purpose.nike.com.

²⁷ Glenn Taylor, "Moving toward inclusion: More retailers appoint C-level diversity officers," Retail Touchpoints, September 26, 2019, retailtouchpoints.com.