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A $300 billion opportunity: Serving the emerging Black American consumer

There's a big market to be unearthed if companies meet the real needs of Black consumers.

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For decades and decades, Black consumers have been regularly overlooked by companies that don't see them as a priority demographic. Black consumers continue to be underserved in areas such as food, housing, healthcare, broadband, and banking. Essential needs are going unmet because of decisions made by companies. Yet these companies may well be missing the chance to cultivate a significant emerging market. With a little ingenuity and deeper analysis, companies may find that serving the Black American consumer will allow them to tap into significant value while contributing to a meaningful economic revival.

Black households do have lower income and wealth. Despite being 13.4 percent of the US population, Black households accounted for just under 10 percent of the nation's total spending on goods and services in 2019. Because Black workers bring home smaller paychecks, they have less money to work with every month, especially after accounting for debt.

Nonetheless, companies that interpret this data as proof that there's little profit in serving Black consumers are making a big mistake.

Many years of underserving the Black community has created significant opportunities for companies that are willing to look beneath the surface. There are two significant strategies for companies to pursue: expanding local access to goods and services and creating offerings that are better tailored to the needs and preferences of Black households. We estimate that companies filling these needs could tap into $300 billion of value annually. That's a significant reason for innovative companies, in the United States and globally, to compete for this market.

The state of the Black consumer

There's no denying that Black consumption has been constrained, and while it's growing quickly that growth is starting from a lower base. The steadily rising costs of housing, healthcare, and higher education—needs that are foundational to the quality of life and the possibility of future mobility—are eating up a larger share of household budgets for all poor and middle-class American families, particularly for Black households: the share of expenditures Black households direct to these three categories rose from 38 percent in 1984 to 45 percent in 2019.

Our analysis of publicly available but previously uncompiled microdata from the Census Bureau's Consumer Expenditure Survey shows that at similar income levels, Black households spend a smaller share of their income than White households, although more goes toward the basics. This has not, however, translated into more liquid savings. More money in Black households goes to giving financial support to extended family, servicing higher student debt burdens, and paying higher interest rates on various consumer loans. McKinsey recently surveyed 25,000 Americans to get their views on economic opportunity and the obstacles they face to achieving it. Black respondents were most likely to say that their level of debt had increased over the past year, and they were 50 percent more likely than White respondents to say that they had student or medical debt.[1]

Beneath these sobering realities, however, is a market with substantial buying power and influence—and plenty of upside for the future. In 2019, consumer expenditures by Black households totaled approximately $835 billion. Combined spending by all Black households has increased 5 percent annually over the past two decades. It has outpaced the growth rate of combined spending by White households (3 percent), driven mostly by faster population growth.[2]

Black consumers are younger, more plugged into smartphones, and more brand-aware than other groups. The median age of Black Americans is 34, a decade younger than the median for White Americans. Black consumers are highly digital: they are more likely to own a smartphone, and they use their phones 12 percent more than White Americans. They are nearly three times more likely than White Americans to expect the brands they use to align with their values and support social causes.[3]

How Black communities are underserved

Years of underinvestment by the private sector has left some Black communities with a dearth of retail options and key services. For Black households, this can translate into

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[1] André Dua, Kweilin Ellingrud, Michael Lazar, Ryan Luby, Matthew Petric, Alex Ulyett, and Tucker Van Aken, "Unequal America: Ten insights on the state of economic opportunity," May 26, 2021, McKinsey.com.

[2] Based on analyses of BLS Consumer Expenditures Surveys.

[3] *It's in the bag: Black consumers' path to purchase*, Nielsen, September 12, 2019, nielsen.com.

persistent inconveniences, such as tacking additional travel time onto errands. It can also have more serious implications: “food deserts” that contribute to poor nutrition, a lack of affordable rental housing, fewer healthcare providers, and gaps in broadband coverage.

- *Food.* Most Americans take for granted the convenience of a neighborhood supermarket with many well-stocked aisles and a bounty of choices. But buying healthy, affordable food is a harder task for the residents of many majority-Black communities. One out of every five Black households is situated in a food desert, with few grocery stores, restaurants, and farmers markets. Unspoken “supermarket redlining” in many Black communities means that food is more expensive, choice is limited, and healthy organic products are harder to come by.[4] This can reinforce poor nutrition, especially when convenience stores, whose offerings may not be considered health-oriented, are more often located in Black neighborhoods (Exhibit 1).

- *Housing.* The US Department of Housing and Urban Development defines households as “cost-burdened” when they spend more than 30 percent of their gross income on housing—a tipping point that begins to squeeze their ability to spend on other categories. In 2019, 43 percent of Black households were cost-burdened, compared with just 25 percent of White households. This is especially acute among low-income Black renters—53.7 percent were cost-burdened in 2019, and that’s before the COVID-19 pandemic disproportionately hit Black incomes.[5] Furthermore, a legacy of discrimination in housing markets results in limited opportunities for families of color to live in areas with higher-quality public schools. Much of the nation’s rental-apartment stock is geographically concentrated in ways that reinforce pockets of poverty and patterns of segregation.

- *Healthcare.* Black Americans are nearly 2.4 times more likely than White Americans to live in a neighborhood with limited healthcare services. This trend exacerbates the other challenges Black patients face when interacting with the healthcare system, which cumulatively produce worse treatment outcomes.[6] One in four Black respondents to a Kaiser Family Foundation survey in 2020 reported difficulties in finding conveniently located healthcare, and almost half reported difficulties finding healthcare they could afford.[7] “Safety net” hospitals in both rural areas and inner-city neighborhoods are under financial pressure, and some have closed.[8] The importance of healthcare access was underscored during the pandemic, when Black Americans were less likely than White Americans to be successful in their attempts to get tested or vaccinated. COVID-19 deaths were also higher in neighborhoods with socioeconomic vulnerabilities.[9]

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[4] See, for example, Ashanté M. Reese, *Black Food Geographies: Race, Self-Reliance, and Food Access in Washington, DC*, University of North Carolina Press, 2019; *Cultivating Food Justice: Race, Class, and Sustainability*, Alison Hope Alkon and Julian Agyeman, eds., Cambridge, MA: MIT Press, 2011; Mengyao Zhang and Ghosh Debarchana, “Spatial supermarket redlining and neighborhood vulnerability: A case study of Hartford, Connecticut,” *Transactions in GIS*, February 2016, Volume 20, Number 1, onlinelibrary.wiley.com.

[5] *The state of the nation’s housing 2020*, Joint Center for Housing Studies of Harvard University, jchs.harvard.edu; *Out of reach: The high cost of housing*, National Low Income Housing Coalition, July 20, 2020, nlihc.org.

[6] See, for example, Zinzi D. Bailey et al., “Structural racism and health inequities in the USA: Evidence and interventions,” *Lancet*, April 2017, Volume 389, Number 10077, pp 1453–64, thelancet.com.

[7] Survey on race and health conducted in 2020 by the Kaiser Family Foundation and ESPN’s The Undefeated; included 1,769 US adults with an oversample of 777 Black Americans.

[8] Jordan Rau and Emmarie Huetteman, “Some urban hospitals face closure or cutbacks as the pandemic adds to fiscal woes,” NPR, September 15, 2020, npr.org; Joseph P. Williams, “Code red: The grim state of urban hospitals,” *U.S. News & World Report*, July 10, 2019, usnews.com.

[9] Erica Coe, Kana Enomoto, Alex Mandel, Seema Parmar, and Samuel Yamoah, “Insights on racial and ethnic health inequity in the context of COVID-19,” July 31, 2020, McKinsey.com.

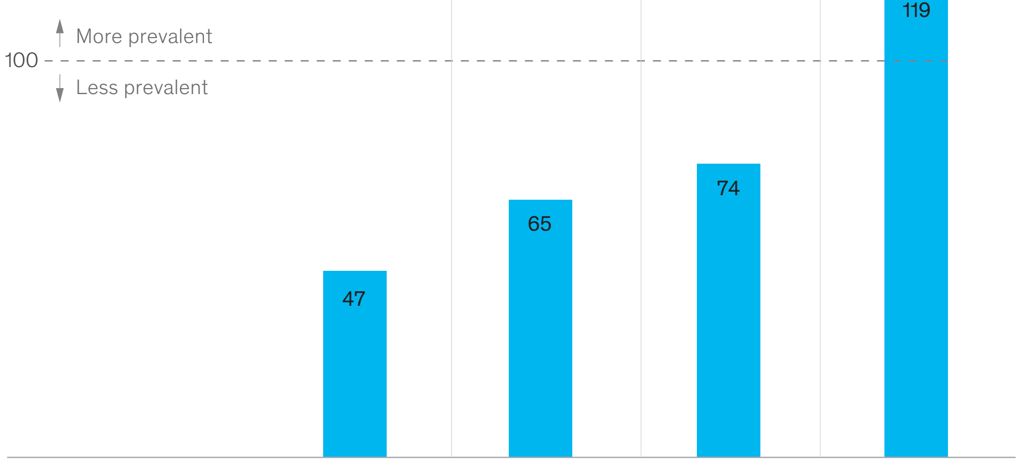
Exhibit 1

US counties with above-average Black populations tend to have fewer fresh-food options but more convenience stores.

Number of options per 10,000 residents by county, 2016, average

In counties with:	Farmers markets	Restaurants	Grocery stores	Convenience stores
Above-average Black representation	0.3	5.5	1.9	6.8
Below-average Black representation	0.7	8.3	2.6	5.7

Relative prevalence in counties with above-average Black populations,[1] %



[1]Average in this case means matching the Black share of the population (~13%).

Source: USDA Food Environment Atlas (September 2020); McKinsey Global Institute and McKinsey Institute for Black Economic Mobility analysis

- *Broadband.* Black households are 50 percent more likely than White households to live in areas with limited broadband service.[10] In urban neighborhoods without existing networks, internet service providers often conduct credit checks or require cash deposits from new customers, policies that disproportionately turn away Black households.[11] Gaps in broadband coverage and accessibility help create a digital divide that makes it harder for Black Americans to access information, hunt for jobs, do remote work, and engage in remote learning. Yet Black consumers are actually more likely

[10] We define "limited" as less than 80 percent coverage, based on FCC Census track data showing the number of residential fixed high-speed connections over 200 kbps in at least one direction per 1,000 households. See Form 477 Census Tract Data on Internet Access, fcc.gov.

[11] S. Derek Turner, *Digital denied: The impact of systemic racial discrimination on home-internet adoption*, Free Press, December 13, 2016, freepress.net.

than others to participate in e-commerce, despite disparities in broadband connections and computer availability. They have compensated for broadband gaps by becoming more "mobile first" than the rest of the population.[12] Black consumers account for 23 percent of US cellphone sales, own smartphones at a slightly higher rate than the overall population, and are more likely than the average consumer to use digital apps for e-commerce and financial transactions.[13] Companies serving these consumers, therefore, need to design digital experiences and interfaces accordingly.

- *Banking.* Bank branches have been closing rapidly in recent years, with a 7 percent decline in the total number of physical banks from 2012 to 2017.[14] These closures have increased the number of "banking deserts," for example, census tracts with no bank branches within ten miles of the center.[15] Black Americans are disproportionately affected by these banking deserts: according to FDIC data, nearly half of all Black households were unbanked or underbanked in 2017, compared with just 20 percent of White households. Closures of local bank branches place an outsize constraint on small businesses,[16] which drives residents to turn to alternatives such as payday lenders.

Serving Black consumers by expanding into low-access neighborhoods

Sometimes the biggest driver of success is showing up. In many Black neighborhoods, residents are waiting for companies to do just that. Meeting the needs of those living in these underserved areas is both a moral and economic opportunity. In fact, legislation introduced in the US Congress would award credits and grants to companies that provide food deserts with healthy food. Site selection for retailers is not always guided by data-informed decision making. McKinsey has found that many chains choose new locations based on their existing footprint, expanding only into locations that match sites with currently successful stores. Since retailers perceive low-access locations as risky or unprofitable, being the first to populate relatively empty retail landscapes falls low on the list of priority investments. Yet our analysis indicates that these can be profitable moves.

We used our proprietary Omni site-selection platform to analyze food deserts and the location of grocery stores in Washington, DC. Using mobile-phone data as an admittedly imprecise but directional proxy for foot traffic, we created a model illustrating a hypothetical scenario in which new grocery stores were sited in underserved parts of Southeast DC. We identified three locations in areas currently classified as food deserts with enough potential demand to capture up to $22 million annually while earning profits that are as good as or even better than those earned by existing stores. The results suggest

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[12] Andrew Perrin and Erica Turner, "Smartphones help Blacks, Hispanics bridge some—but not all—digital gaps with whites," Pew Research Center, August 20, 2019, pewresearch.org.

[13] *From consumers to creators: The digital lives of Black consumers*, Nielsen, September 13, 2018, nielsen.com.

[14] *Perspectives from Main Street: Bank branch access in rural communities*, Board of Governors of the Federal Reserve System, November 2019, federalreserve.gov.

[15] *Liberty Street Economics* blog, "Banking deserts, branch closings, and soft information," blog post by Donald P. Morgan, Maxim L. Pinkovsky, and Bryan Yang, New York Federal Reserve, March 7, 2016, newyorkfed.org.

[16] Hoai-Luu Q. Nguyen, "Are credit markets still local? Evidence from bank branch closings," *American Economic Journal, Applied Economics 2019*, Volume 11, Number 1, pp. 1–32, aeaweb.org.

that new grocery stores sited in food deserts could be as profitable as current stores, or even more profitable. The needs of residents are so great that first movers are likely to benefit from considerable loyalty and other significant advantages.

We believe that this kind of detailed analysis can help companies find many such opportunities across the United States. Some existing examples prove the case, including a successful Whole Foods location in Midtown Detroit.[17] We also found fertile ground in East Liberty, a low-income neighborhood in Pittsburgh. In the early 2000s, the local development authority had success in attracting a Home Depot, with the city sharing some risk to overcome hesitation. The store eventually became one of the highest-volume locations in the region and spurred other development, including a new grocery store and an entire multitenant retail development.[18]

There's a caveat, of course. Community stakeholders, such as low-income renters who are especially vulnerable to displacement, may be divided on how retail development will affect them. Local leaders have to balance the benefits of development against the risks of gentrification.

Serving Black consumers with tailored products and improved experiences

Many companies fail to give Black consumers what they actually want. Previously uncompiled data from the 2020 McKinsey Consumer Sentiment Survey show that Black consumers are more open to switching what and how they buy than other demographic groups.[19] They are less likely than others to be satisfied with the current offerings available to them, and 25 percent more likely to change buying behavior. Yet even after they switch, Black consumers are less likely to be satisfied with a new product. Clearly, they are not being offered the products and services they need (Exhibit 2).

Serving the Black consumer well is entirely possible for companies that take the time to figure out the needs of what others may dismiss as a "niche" audience. Many products and services intentionally tailored to Black consumers have been immediately successful. Bevel, for example, is a brand of personal-care and grooming products created by a Black founder; the idea was born out of his own frustration that shaving products made for White men did not work for him.[20] Launched in 2013, the company was acquired by Procter & Gamble in 2018 and is now expanding to nationwide distribution. Similarly, Black women were long an afterthought for many major cosmetics companies. Singer and entrepreneur Rihanna saw an opening to create a brand centered on their needs and launched Fenty Beauty, with a signature foundation product offered in 50 shades and designed for all skin tones. Garnering rave reviews, the company was

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[17] Lolly Bowean, "As Whole Foods ventures to Englewood, many eyes on Detroit store," *Chicago Tribune*, March 16, 2015, chicagotribune.com.

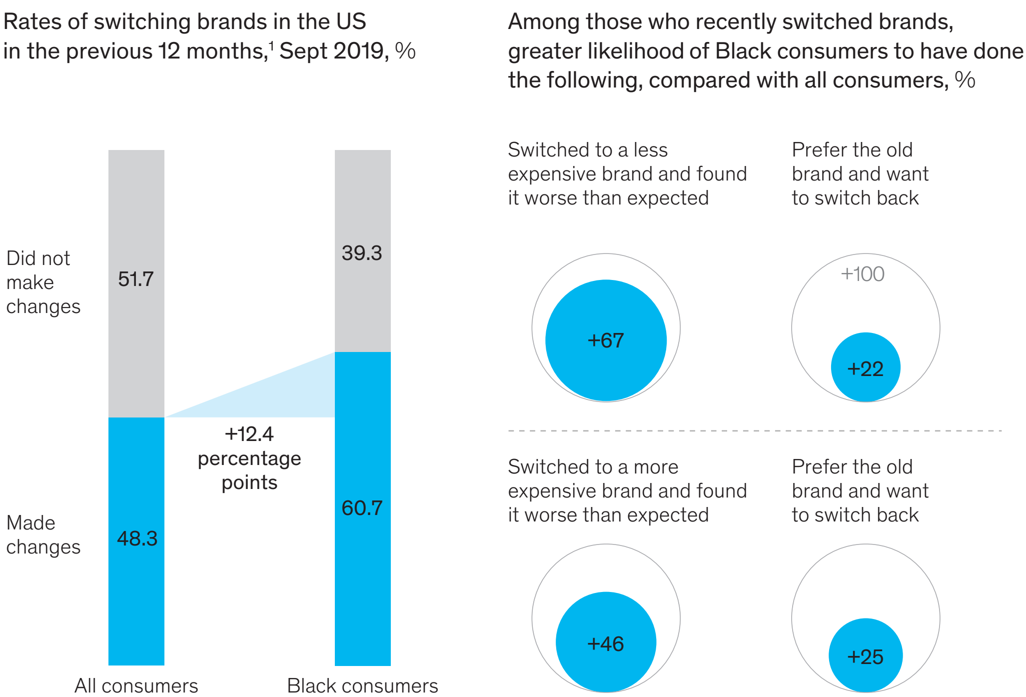
[18] Bridget Land and Maureen McAvey, *Retail in underserved communities*, Urban Land Institute, 2014, uli.org.

[19] "The McKinsey 2020 Global Consumer Sentiment Survey: A tale of two segments," February 25, 2020, McKinsey.com.

[20] Tristan Walker, "I created a shaving brand for Black men because we deserve better," *Men's Health*, August 10, 2020, menshealth.com.

Exhibit 2

Black consumers in the United States are seeking products that better suit their needs.



[1]Options for changing buying behavior are switching to a less expensive brand, switching to a more expensive brand, looking for lower prices on same brand, buying only when on sale, buying less frequently, and other changes.

Source: McKinsey 2020 Global Sentiment Survey, Sept 2019; McKinsey Global Institute analysis

valued at $3 billion after just 15 months. Rihanna has since introduced Savage X Fenty, a lingerie line celebrating body positivity, which was quickly valued at $1 billion. Greenwood is a digital-banking service geared to Black and Latinx customers. Named to honor Tulsa, Oklahoma's, "Black Wall Street," the site of a notorious racial massacre in 1921, it has attracted financing from some of the nation's largest traditional banks.

Seizing the opportunity

To gauge unmet demand, we launched a proprietary consumer survey of 6,200 US consumers in April 2021. The responses yielded some reasons for consumer dissatisfaction that are shared relatively evenly across racial groups; value for money was the biggest issue for both Black and White respondents across all spending categories (most acutely in housing). But Black consumers were far more likely than White respondents to say that current product and service offerings do not meet their needs, especially in personal-care products and services, banking and financial services, healthcare, and food. Black respondents also noted not seeing themselves in advertising and marketing campaigns, a lack of same-race business ownership, and a lack of company commitment to social justice.

Our analysis of the survey results suggests that Black consumers are willing to shift approximately $260 billion—about 30 percent of their current aggregate spending—to companies that can better deliver what they need. They'll even pay up to 1.2 times more on average for offerings that are better suited to their needs and preferences. This could unlock another estimated $25 billion to $40 billion in net new spending.[21] Together, these two figures add up to $300 billion in unmet demand. This is an invitation for innovative companies to compete and better meet the needs of Black consumers.

To win these customers, however, companies will have to alter status quo practices that have hurt their relationship with Black consumers. Retailers, for example, must eliminate the phenomenon of "shopping while Black." Black patrons are too often denied good customer service or are met with suspicion based on their race. They encounter different security protocols, including being trailed by security guards or having Black beauty products locked up while White products are not. In a 2018 Gallup poll, 59 percent of Black respondents said they had been treated unfairly in stores. Corporate parents can put a stop to the racial profiling of Black shoppers by establishing clear values and guidelines for store managers and frontline workers—and then enforcing those expectations across franchises.

Companies also have to look internally and confront their history of failing to serve Black communities. Retail redlining in the urban environment is the product of decades of policy and investment choices and risk-averse decisions on siting new stores. There's no guarantee that technology will improve this situation: while companies are increasingly moving toward the use of analytics, the data they rely on may still "miss" Black consumers.

Lack of awareness is another part of the problem. There is a serious lack of diversity in occupations that shape decisions about which consumers to target with which products. Just 6.3 percent of marketing research analysts and 5.7 percent of marketing managers in the United States are Black. Not surprisingly, some brands have stumbled when speaking to Black audiences, particularly when trying to acknowledge social issues. If companies fail to act in a way that matches the sentiment of their campaigns,[22] these attempts will come across as glib, calculating, or jarring.

The best way for companies to avoid this kind of misstep is to have significant Black representation internally, especially in key decision-making roles affecting product design, R&D, site selection, and marketing. Consumer-facing companies that want to create inclusive campaigns may well want to seek agencies with multicultural talent.

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[21] Analysis based on Gabor–Granger method.

[22] See, for example, Sam Whiteout, "Popularizing wokeness," *Harvard Kennedy School Journal of African American Public Policy*, Volume 2017–18, hjaap.hkspublications.org.

Companies should be encouraged by the success of brands that have profited greatly by marketing directly to the Black consumer. Procter & Gamble acquired Bevel, as noted above, but it also established an online beauty platform for women of color that produced enough insights for the company to launch a hair-care line.[23] In 2018, the company released an Emmy Award–winning ad spot called "The Talk," featuring Black parents discussing prejudice with their children.

Wooing the Black consumer is a $300 billion opportunity beckoning companies around the world. Those companies that respond must rigorously look within to ensure that they have the people, policies, and technology to understand a market they may well have overlooked. If they do, they could drive outsize impact and outsize profits. Q

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For the full report on which this article is based, see "The economic state of Black America: What is and what could be," on McKinsey.com.

[23] "P&G's My Black Is Beautiful platform launches a new hair care line in partnership with Sally Beauty," Procter & Gamble press release, July 1, 2019.