Complimentary article reprint

Diversity as an Engine of Innovation
Retail and Consumer Goods Companies Find Competitive Advantage in Diversity

BY ALISON KENNEY PAUL, THOM McELROY AND TONIE LEATHERBERRY
> ILLUSTRATION BY IGOR MORSKI
Diversity as an Engine
Five decades ago, the case for diversity was a compliance conversation that mainly centered on workplace race and gender differences and was largely motivated to action by civil rights legislation. By the 1990s, the diversity topic had broadened significantly in scope to include a wide range of other identity and cultural categories, including age, ethnicity, religion, sexual orientation and physical ability differences. By then, U.S. society had begun to embrace the concept of recognizing and respecting differences as less of a compliance concern and more a matter of social consciousness and fairness. In short, diversity became the right thing to do.
Fast forward to today, as a new conversation about diversity emerges. As the United States experiences major shifts in its demographic profile, businesses are paying attention, because customer needs and expectations are changing in ways that align with their cultural, ethnic and other demographic-related preferences. Retail and consumer goods companies, in particular, recognize that understanding and satisfying an increasingly diverse customer base is critical to growing market share and the bottom line over the next decade and beyond.

The United States is a far more diverse country than it was just 10 years ago, and it is far less diverse today than it will be in another 10 years. Increasingly, retailers and consumer goods companies must embrace diversity as a market force, and that includes diversifying their workforces – not simply to do what is right, but because they know that a diverse employee base will drive affinity with and understanding of the customer. The numbers support this:

- **Ethnic shift.** The U.S. Department of Commerce reports that 85 percent of U.S. population growth between 2011 and 2050 will come from nonwhite ethnic groups. Today, one in three individuals in the United States are people of color, and by 2050 that proportion is expected to climb to one-half.¹

- **The bottom line.** For nearly two decades, the growth in buying power of minority communities has greatly outpaced that of white consumers. (See Figure 1, “The rise in buying power by diverse groups.”) While purchasing dollars among whites increased by 139 percent between 1990 and 2008, growth in the same time frame was 187 percent among African Americans, 349 percent among Hispanics, 337 percent among Asians, and 213 percent among Native Americans. African Americans are seeing gains in disposable income, giving that segment the ability to spend more. The Hispanic market increasingly represents a larger proportion of all buyers as it is expanding in size more rapidly than other groups.²

- **The economic clout of women.** Women really do control the nation’s purse strings. Research shows that, in addition to experiencing social gains and improvements in workplace equality, their choices impact up to 85 percent of purchasing decisions. By some analyses, they account for $4.3 trillion of total U.S. consumer spending of $5.9 trillion, making women the largest single economic force not just in the United States, but in the world.³

- **Think strategically about untapped consumer segments.** It is estimated that the buying power of the lesbian, gay, bisexual, and transgender (LGBT) market will reach $835 billion in 2011.⁴ The LGBT community
on a per couple basis spends more on luxury goods – they are tech-savvy, early adopters, brand loyal and have more household discretionary purchasing power than other segments.5

**Figure 1: The rise in buying power by diverse groups**

<table>
<thead>
<tr>
<th></th>
<th>1990 Buying power</th>
<th>2014 Buying power (projected)</th>
<th>Increase between 1990 and 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>African American</td>
<td>$318 billion</td>
<td>$1.1 trillion*</td>
<td>246%</td>
</tr>
<tr>
<td>Hispanic</td>
<td>$212 billion</td>
<td>$1.3 trillion*</td>
<td>513%</td>
</tr>
<tr>
<td>Asian American</td>
<td>$117 billion</td>
<td>$696.5 billion*</td>
<td>495%</td>
</tr>
<tr>
<td>Native American</td>
<td>$19.7 billion</td>
<td>$82.7 billion*</td>
<td>320%</td>
</tr>
<tr>
<td>White</td>
<td>$3.8 trillion</td>
<td>$13.1 trillion*</td>
<td>245%</td>
</tr>
<tr>
<td>(LGBT) Lesbian, Gay, Bisexual, Transgender</td>
<td>Not avail.</td>
<td>$835 billion**</td>
<td></td>
</tr>
</tbody>
</table>

* Source: The Multicultural Economy 2009, Selig Center for Economic Growth
** Source: The Buying Power of Gay Men and Lesbians 2008, Witeck Combs Communications

As the retail consumer landscape evolves, diverse communities are representing a larger and more important part of total buying power. Leaders of retail and consumer goods businesses, in particular, will need to take steps to understand and create affinity with an increasingly multicultural and multifaceted consumer base.

Recent research indicates that forging those connections effectively and for the long term depends, to a significant degree, on having an employee population that reflects the population overall, as well as specific communities served. Appealing to a carefully segmented, diverse market is no longer only a niche opportunity for adventurous store managers and edgy entrepreneurs: Multiculturalism is fast becoming a retail and consumer goods industry opportunity too big to ignore. A diverse workforce serving a broadened customer base is a critical success factor because, as market research further demonstrates, a diverse workforce improves service outcomes and enhances financial performance.

Embracing diversity as a way of thinking is the most effective response for business leaders and an important driver of an organization’s innovative engine.
This means diversity needs to be brought to the forefront of your value proposition and ingrained in the organization's cultural DNA so that it becomes a branded component of how you do business. When an authentic, inclusive culture is at work, a diverse workforce is capable of producing a range of original and engaging ideas that is simply not possible among homogenous employee populations. At the top of the organization, this can translate into more apt and financially rewarding decision-making.

**PARALLELS WITH ENVIRONMENTAL SUSTAINABILITY MOVEMENT**

Two separate but aligned studies form the basis of this article. The first was a survey of senior executives at 29 of the largest U.S. retailers based on STORES’ Top 100 list. Deloitte Consulting LLP conducted the survey in collaboration with the National Retail Federation (NRF) during the fall of 2009 to examine talent trends in the retail industry. Study findings clearly showed that the topic of workforce diversity had moved from being a set of progressive workplace programs to a competitive and value-building imperative for these organizations.

We followed up on the initial survey research in the spring of 2010 with a sharply focused project. The goal was to gain a more in-depth understanding of diversity, its apparent transformation from social issue to business strategy, and to identify best thinking and leading practices. In this endeavor, Deloitte Consulting LLP worked with the Network of Executive Women (NEW), an organization focused on providing leading practices, research and learning events related to gender diversity, to conduct more than 30 one-on-one interviews with diverse retail and consumer goods executives, including many respected industry leaders who also happened to be representative of various diversity populations.

Together, these two sets of research findings reveal several compelling lessons and opportunities:

1. Retailers and consumer products companies are missing key openings to capture their share of the growing purchasing power of diverse consumers.

2. Retail organizations must take deliberate steps to bring diverse employees
into their companies through ambitious recruiting efforts and the adoption of strategic practices specifically tailored to attract and develop such talent.

3. Where workforce diversity is aligned with demographics, those employees are playing an increasingly important role in helping their companies connect with a diverse customer base. Retailers have a huge opportunity to leverage their diverse workforce to increase revenue and market share by involving them in key business decisions.

- Diverse employees provide access to better consumer insights because they understand the cultural nuances firsthand.

- A workforce that reflects key characteristics of shoppers motivates improved loyalty as those consumers feel more comfortable doing business with people who understand them and mirror their “community.”

- The employee base is further strengthened by development of a pipeline of the best recruits.

4. Understanding how diverse communities make purchasing decisions can help retail and consumer goods companies adjust their product and merchandising strategies. Companies that focus on diversity in the workforce have a competitive edge in understanding their diverse customer base.

Increasingly, companies see a clear strategic connection between recognizing growing needs in a diverse consumer market and value to their bottom line in meeting those specific and distinct product or service preferences. (See sidebar, “Insights from Hispanic employees rekindle Kingsford growth; product manufacturer finds value in accessing a diverse market’s perspectives.”) If you are a food company, for example, the Consumer Expenditures Report of the U.S. Bureau of Labor Statistics makes for some interesting reading:

- African Americans and Hispanics spend more on food than on any other item each year.
• On average, Hispanic American families spend more annually on food than do any other consumer groups.

• On average, Hispanic (22 percent) and African American (14 percent) families spent more on apparel and services than did any other consumer groups.

But, often, having a workforce that understands and is part of the consuming community is essential to translating data into growing the bottom line.

**INSIGHTS FROM HISPANIC EMPLOYEES REKINDLE KINGSFORD GROWTH; PRODUCT MANUFACTURER FINDS VALUE IN ACCESSING A DIVERSE MARKET’S PERSPECTIVES**

The Kingsford brand of charcoal products was at one time 10 percent of owner Clorox’s revenue and was on the verge of becoming a dead brand a few years ago because of the growing popularity of gas grills.

Clorox CEO Don Knauss discovered that a group of Latino employees had pointed out potential value in marketing more specifically to the Hispanic consumer base. That demographic segment, the Latino employees noted, possess a family orientation and penchant for cooking outdoors with wood charcoal that would make them an ideal target customer group.

According to Knauss, “We focused on getting them (the Hispanic community) acclimated with charcoal briquettes. Connecting them with our brand and introducing charcoal transformed what was a declining business to a growing … Kingsford has (since) resurged to 4-6 percent growth.”

In another example, a large consumer products manufacturer wanted to reach out and engage a minority segment of women consumers. Drawing on input from female employees in the same market segment, it created a highly successful affinity marketing campaign that celebrates the diverse, collective beauty of these consumers and focuses on their contributions toward positive change in their communities. The effort is positioning the manufacturing company as a socially responsible corporate citizen in addition to promoting and growing its many personal care brands.
DIVERSITY CHALLENGES FACED BY RETAIL AND CONSUMER GOODS COMPANIES

Participants in our research cited a variety of talent challenges associated with becoming more internally diverse and performing better among diverse consumers. One-on-one interviews included the following comments:

- Our workforce is not reflective of our customer base.
- Our leadership team is not diverse.
- We are having trouble recruiting diverse workers.
- We are held back by lack of understanding of the cultural nuances of diverse consumer groups, and/or diverse consumers do not identify with our brand.

GOING TO THE SOURCE TO GAIN CUSTOMER UNDERSTANDING

IKEA, the Swedish home furnishings manufacturer, has a knack for identifying consumer needs and tastes on a global basis. Several years ago, the popular and highly successful retailer realized it was not reaching Hispanics in California. Since the company is particularly attuned to the vast differences in consumer preferences across the United States, Mats Nilsson, the interior design director at that time, was curious what they had missed. He had designers visit the homes of a number of California Hispanic staff members, which revealed some important gaps in the store’s appeal within that community: Displays did not feature dining setups for large families or living room seating for more than two people, which is the Swedish norm. In addition, the IKEA color palette was too subdued and photo/picture displays too minimal to suit typical Hispanic tastes and preferences. By enlarging settings and warming up displays, the store was able to better position itself for success in the Hispanic consumer market.11

Keeping up with a changing customer demographic has great impact on the evolution of the retail value chain. In an era of global competition, retail and manufacturing companies must fully utilize all of the resources within their control, not the least of which are their human resources. (See sidebars: “Going to the source to gain customer understanding” and “Trends in LGBT market: Online, optimistic and loyal.”) The link between customer segmentation and product and service appeal can effectively be made by leveraging a diverse employee base – people who instinctively know what customers want because they understand in a very direct way the lifestyle and experience drivers of customers’ needs and desires.

Good news for employers is that diverse employees comprise a growing part of the overall talent pool. Growth of the U.S. labor market between 2010 and 2018
is being projected at about 6 percent, with increases among diverse workers the primary drivers of that expansion: For example, Hispanic workers are expected to increase in that timeframe by 27 percent, followed by Asians at 23 percent, African Americans at 9 percent and Whites at 4 percent.\textsuperscript{12}

Retailers and consumer goods companies that recruit their share of these new entrants at all levels of the organization may realize the opportunity represented by an enhanced cultural mix. This may include added perspective on marketing and merchandising campaigns, improved strategic decision-making and the benefits of these workers’ direct interactions with customers on the selling floor.

TRENDS IN LGBT MARKET: ONLINE, OPTIMISTIC AND LOYAL

Recent studies regarding the LGBT market’s buying power and purchasing characteristics indicate that a high percentage of gay consumers are college-educated, shop online and purchase the latest technology.\textsuperscript{13} Among other traits cited, gay and lesbian consumers tend to be more optimistic than other Americans about the overall direction of the country and the economic recovery, an observation that has led industry analysts to anticipate that this group’s spending may increase, despite the country’s slow progress in regaining its financial health. In addition, LGBT consumers are typically loyal to LGBT-friendly brands and those that speak to them directly. Consumer data indicate that 78 percent of gay online users prefer to buy from companies that specifically advertise to the gay market.\textsuperscript{14}

START WITH RECRUITING FOR DIVERSITY

Target Corporation’s presence at diversity recruiting events along with its reputation for promoting from within the company has created a recruiting brand that attracts diverse talent. In addition, Target makes a point of recruiting on historically diverse campuses and participating in diversity recruiting events, such as annual conferences organized by the National Black MBA Association, National Society of Hispanic MBAs, Out & Equal, and more. Diverse team leaders from across the company attend these recruiting events so that job candidates
are able to see employees who look like them and get firsthand information about a company where they can grow.15

Although many companies have found it difficult to measure the impact of diversity and inclusion initiatives on the bottom line, research indicates that executives from market-dominant companies overwhelmingly believe that diversity is profitable. In a 2009 study by Deloitte Consulting LLP of retail talent trends, senior executives were asked how important diversity and inclusion are to company performance; 90 percent of respondents agreed that it was critical. Furthermore, in another study, Catalyst found Fortune 500 companies with the highest percentages of female corporate officers reported, on average, a 35.1 percent higher return on equity and a 34 percent higher return to shareholders than companies with the lowest percentages of female corporate officers.17

Measurable goals related to attracting and maintaining diverse talent create accountability, telegraph the seriousness of the initiative, unambiguously define its scope, allow for the celebration of measurable successes, and clearly illuminate any need for reassessment or improvement. Toward that end, some companies have several diversity recruiters dedicated solely to recruiting multicultural talent.

**RETAINING DIVERSE TALENT**

Once you have them, you have to keep them. In *The Inclusion Paradox: The Obama Era and the Transformation of Global Diversity*, Andrés T. Tapia writes, “Many diversity best practices have focused on bringing those who are different in the door. Many of these efforts have been quite successful, and companies have achieved diversity – the mix. But in many places, the mix is not working well. We end up with *diversity without inclusion*. Here diversity’s promise—that greater diversity leads to greater innovation and profitability—dies.”18

Diverse employees have different motivations, attitudes and lifestyles than those who currently occupy the C-suite in many retail and manufacturing organizations, leaving many to feel that in the long term they simply don’t fit in. In these situations, traditional ways of retaining talent must be revisited and made relevant to the needs and values of diverse populations.
Retail is a demanding business, and successful retailers don’t just overcome challenges, they purposely challenge themselves to improve continuously. It is important that we leverage this willingness to challenge ourselves through our diversity programs and our associates, making diversity an integral part of our culture. The Office of Diversity should not build stand-alone “programs.” We must instead leverage our approaches into sustainable structures that change the way people think about diversity. Diversity is critical to our broader, fundamental goal of maintaining a competitive workforce, which requires maximizing the potential and value of all our associate base, including their diversity of thought, experience and perspective.19

Cole Brown, chief diversity officer, Walmart Stores, Inc.

Mentoring programs and thoughtful succession planning help engage diverse individuals in a well-supported, long-term career with their employer. Retention of high-potential, diverse talent starts with identifying individuals early on so that steps can be taken to invest them in the company and put them on a track to the next level. Another increasingly popular means of providing a community of support is Employee Resource Groups (ERGs) or Business Resource Groups (BRGs), which provide networking, support and professional development opportunities to diverse talent. (See sidebar, “ERGs lead to tasty and profitable investments.”)

In many instances, the paths that led current leaders to the top will not work with today’s diverse talent. Mike Vail, president and COO of Sweetbay Supermarket, tells how he recognized the limitations for women to become store managers based on the career path structures that were in place. He explained that the store manager position in his industry can be demanding, inflexible and sometimes physically challenging.

“As I began to do work within the area of diversity,” he said, “I saw this first hand and we started making immediate changes. Traditionally, women would hold positions within service departments (i.e. bakery, deli, front end, etc.) with limited paths to growth. At Sweetbay today, aspiring store managers can complete a customized career path that exposes them to all required aspects of management but in a manner that doesn’t discriminate against any biases. We’ve seen great improvement with diversity among our store managers as well as in mid- to senior-level management positions. I’m proud of the work we’ve begun.”20

Ultimately strong recruiting, retention and development initiatives will build sustainability of the multicultural talent pool and become a self-perpetuating cycle of investing in and receiving value.
ERGs LEAD TO TASTY AND PROFITABLE INVESTMENTS

Tapping the innate cultural expertise of a diverse workforce can be quite profitable. Because the consumer is best served when diverse employees bring their unique perspectives to the table, companies often make use of ERGs to develop innovative products and services or bring together diverse task forces to generate solutions around major business issues.

There are many examples of successful products and solutions coming out of such groups. At the Campbell Soup Company, Select Harvest was successfully developed by women employees for women consumers. ConAgra Foods reached out to its Asian ERG for input into a new line of Healthy Choice Steamers that is seeing great returns. Similarly, the Frito-Lay division of PepsiCo involved its Latino ERG in new product development, resulting in the addition of product flavors that reflected Hispanic heritage and enhanced sales.

ENGAGE DIVERSE TALENT: AFFINITY DRIVES LOYALTY DRIVES BUSINESS VALUE

Top management must view workforce diversity not as a stand-alone program but as an essential element of their organization’s value proposition and a critical ingredient of their business survival. Moreover, they must demonstrate

Figure 2: A holistic approach to diversity means measuring performance at all levels and embedding diversity into the DNA of the organization

<table>
<thead>
<tr>
<th>Make leadership accountable</th>
<th>Set goals at all levels</th>
<th>Align diversity goals with corporate goals</th>
<th>Establish your brand for diversity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Build diversity goals in executive compensation</td>
<td>Create diversity goals at the executive, functional, team and individual levels</td>
<td>Create a diversity strategy that supports the corporate mission</td>
<td>Build diversity into the strategic marketing plan</td>
</tr>
<tr>
<td>Include people development of diverse talent in leadership goals</td>
<td>Hold everyone accountable for their contributions to a more inclusive workplace</td>
<td>Make diversity strategy an enabler of business growth</td>
<td>Establish a record of external recognition from organizations such as: Diversity, Inc.; Catalyst; Working Mother magazine; the Human Rights Campaign</td>
</tr>
<tr>
<td>Develop metrics for accountability in: recruiting, retention, development, advancement, bottom-line impact, employee engagement, etc.</td>
<td>Establish diversity councils throughout the organization to empower the workforce to innovate and create change</td>
<td>Develop relationships with women and minority leadership organizations</td>
<td></td>
</tr>
</tbody>
</table>
openness to fresh ideas and ensure that mere tolerance for differences is replaced by a commitment to inclusion. Rather than lip service, they must actively and genuinely embrace that which makes people different—even unique—in their experiences and aspirations as well as their physical and cultural distinctions.

Sustainable enterprises will be those that view diversity in a holistic, business-focused way. (See Figure 2.) Their leaders will architect a talent strategy that is inclusive of diversity and that gets the organization where it aims to go.

By these actions, company leaders lay the foundation for better insights about their customers, improved loyalty from diverse consumers who see themselves in the employees by whom they’re served, and enhanced results from both employee recruiting and new business development efforts. Retail organizations and consumer goods companies focused in a meaningful and credible way on diversity can inspire purchases and loyalty with entire populations of consumers who experience the regard, respect and affinity they seek.

With the commitment of their top leadership, retail and consumer products organizations will redefine the culture of their companies and genuinely reflect and embrace pluralism for the benefit of their consumers, communities, employees and shareholders.

Alison Kenney Paul is vice chairman and U.S. Retail Leader, Deloitte Consulting LLP.

Thom McElroy is a principal with Deloitte Consulting LLP and is the U.S. Retail Human Capital Practice Leader.

Tonie Leatherberry is a principal with Deloitte Consulting LLP and chairs its Diversity & Inclusion program.
Endnotes


10. Ibid, Don Knauss.


15. Ibid. Tracey Burton.


22. Angela Jones, Chief Marketing Officer, ConAgra. Interviewed via telephone, April 15, 2010.

23. Marie Quintana, vice president, ethnic sales development, PepsiCo; in-person interview. Network of Executive Women Multicultural Workforce Conference, Dallas, TX, March 16-18, 2010.