THE STATE OF DISRUPTION

Annual Report 2021

FACEBOOK

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The words **"never waste a good crisis"** were made famous by Sir Winston Churchill in the mid-1940's as World War II drew to an end and he was beginning to form what is now known as the United Nations. More recently, these words have been used at the height of the 2008 recession, as our leaders looked for opportunities within the wreckage to rebuild our country.

Looking back twelve years, some incredible businesses were accelerated by the financial crisis of 2008, including Airbnb, Uber, and Shopify, the last of which now drives hundreds of billions in GMV for millions of direct to consumer brands. The pandemic and it's second and third order effects on businesses and the economy are arguably the crisis that will define our decade, and as we begin to turn the corner with new medical breakthroughs, we begin to turn our eyes from damage control to opportunity discovery.

Despite the incredible headwinds felt by businesses last year, we saw technology and innovation continue to march forward, allowing us to not only display unexpected resiliency but actually drive growth and record investment in many categories.

I'm proud to say that Facebook was a leader in building for small businesses and even prouder that our team was a small part of the work our own Disruptor brands have done to give back to the community even as they were managing their business throughout the pandemic.

As I reflect on 2020, I realize it's actually unsurprising that our Disruptors found their footing quickly and pivoted back to growth despite the challenges last year presented. Regardless of the macro-environment, businesses that champion social good, diversity and inclusion, customer obsession, and perhaps most importantly, continued innovation, will always be leading out front. These types of businesses will always be disrupting the status quo.

If nothing else, the challenges we've faced in the last year have led consumers to align their purchasing decisions even more closely with their personal values, as we strive to support each other, our communities, and our planet with every decision we make, including the things we buy.

Here at Facebook, and especially here on our Disruptors team, we're honored to be a part of the incredible impact and growth that our partners had as we navigated these headwinds. I'm excited to highlight some of the truly amazing work that our Disruptors have achieved in the last year, and as I look forward to 2021, there are truly countless opportunities ahead to not simply drive growth, but to build the most resilient, innovative, and socially aligned businesses of tomorrow.

— SIMON WHITCOMBE
VICE PRESIDENT, GLOBAL MARKETING SOLUTIONS
FACEBOOK

CHAPTER 1

CONSUMER TRENDS

FACEBOOK IQ

CONSUMER TRENDS

Forecasting the Post-COVID-19 Consumer

THE PANDEMIC HAS CHANGED YOUR CUSTOMERS. HOW WILL IT CHANGE YOUR CUSTOMER OUTREACH MOVING FORWARD?

There are decades where nothing happens, and there are weeks where decades happen ...

At the time of this writing, the COVID-19 pandemic is still a source of disruption in the lives of people around the world. For close to a year, individuals, governments, businesses, and healthcare professionals have grappled with the virus and its effects on peoples' capacity to live safely: what they do, where they go, who they see, how they spend money, and how they spend time.

In addition to the devastating personal and communal consequences, COVID-19 had a seismic impact on consumer shopping behavior in 2020. According to IBM estimates, lockdowns, physical retail restrictions, and risks to personal health have heightened the need for at-home ordering and delivery convenience, which may have accelerated the consumer shift to ecommerce by up to 5 years.[1]

It could be another year or longer before societies return to a state approximating the old normal. In the meantime, consumers have taken the initiative of converting many of their browsing and buying experiences "from IRL to URL" — moving from in-person shopping, to digital. Some of these adjustments may be temporary, but others are expected to stay. The challenge for businesses of all sizes — from established global brands, to disruptors and startups — is understanding which trends are COVID-19-specific, and which are likely to last beyond the pandemic.

In this chapter, we'll highlight the significant consumer changes that emerged in 2020, from increased mobile usage and product discovery, to new expectations around brand loyalty and engagement. And we'll forecast which trends will be most important moving forward, to profile the new, post-COVID consumer and help you adopt strategies that keep you relevant in an era of rapid change.

— MAYA ABINAKAD, INSIGHTS LEAD, BUSINESS SUCCESS AND THOUGHT LEADERSHIP, FACEBOOK

1. "COVID-19 pandemic accelerated shift to e-commerce by 5 years, new report says" by TechCrunch, August 2020.

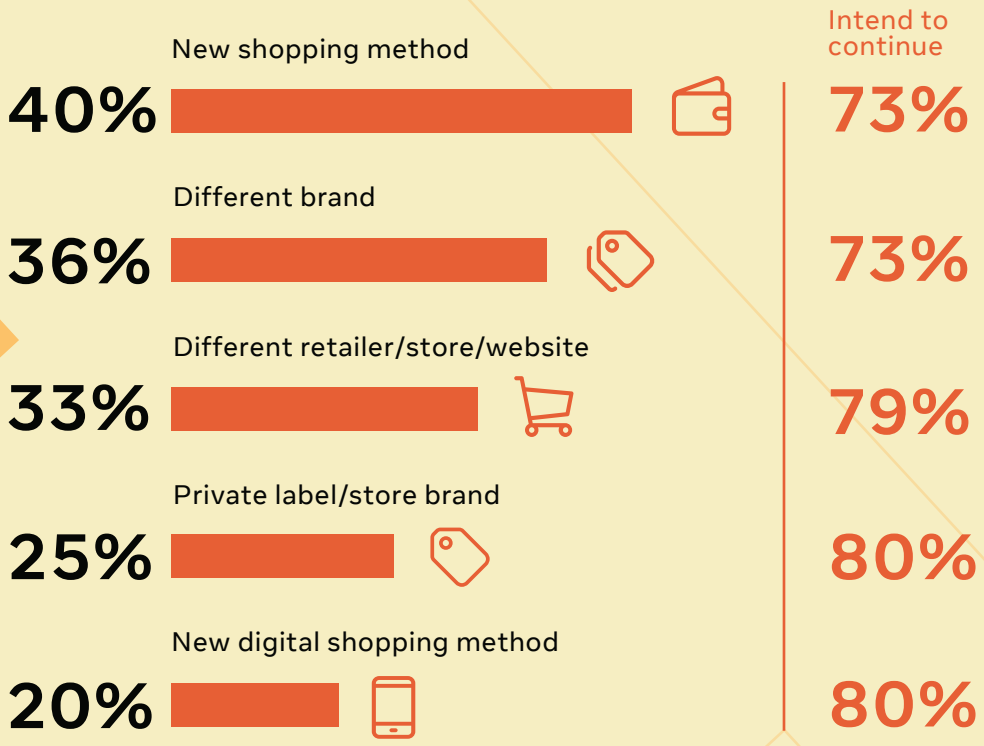
How have consumers reacted to the pandemic?

TIME AT HOME HAS BRED CURIOSITY AND NEW SHOPPING HABITS

75%

of consumers have tried a new shopping behavior

Consumers who have tried a new shopping behavior since COVID-19 started[2]
% of respondents



2. "McKinsey & Company COVID-19 US Consumer Pulse Survey 6/15 – 6/20.

People have pivoted quickly to online experiences

90%

of consumers discovered new products, brands, or services online in Summer 2020[3]

79% tried a telemedicine service[4]

57% ordered groceries or meal kits from a subscription service[4]

51% took a virtual real estate tour[4]

46% joined a beauty or apparel subscription service[4]

Due to lockdown orders and restrictions on gatherings, as well as business and school closures, people quickly shifted common shopping behaviors from IRL to URL. In fact, **McKinsey predicted 15-30% post-COVID-19 growth in customers purchasing most categories online.[5]**

3. "Discovery-Led Shopping Study" by GFK (Facebook-commissioned online survey of 12,063 people ages 18+ across AU, BR, CA, DE, FR, ID, IN, JP, MX, SK, UK, US Jul–Aug 2020). Qualifying respondents made an online purchase of beauty, furniture, electronics and/or apparel in the past three months at the time of the study and use at least one Facebook platform weekly. Unless otherwise specified, data is a cross-country average across all 12 markets.
4. "Micro-Shifts Monthly Tracker" by Kantar Profiles (Facebook-commissioned online survey of 2,000+ gen. pop. respondents ages 18+ in the US), May 2020. People who engaged in a behavior in the past four weeks.
5. "The great consumer shift: Ten charts that show how US shopping behavior is changing" by McKinsey, September 2020.

Mobile has made things easier

BY MARCH 2020, WORLDWIDE MOBILE USAGE WAS INCREASING FASTER THAN LAPTOP USAGE[6]

GEN Z
+82% mobile
+56% laptop

MILLENNIALS
+72% mobile
+42% laptop

GEN X
+66% mobile
+33% laptop

BOOMERS
+43% mobile
+27% laptop

During the pandemic,

75%

of Millennials have shopped with online retailers and websites that they hadn't used before[7]

Boomers are a surprising ecommerce growth area right now.

Nearly half (45%) are shopping online more as a result of the pandemic[9]

41%

of Boomers in the US say they're now buying products online that they would have normally purchased in a store[8]

6. "Coronavirus impact: Global device usage increase by age, 2020" by Statista, June 2020.
7. "What COVID-19 Has Taught Us About U.S. Ecommerce Spending" by Multichannel Merchant, July 2020.
8. "How COVID-19 is impacting boomers' shopping behavior" by National Retail Federation, June 2020.
9. "Industry Micro-Shifts Monthly Tracker" by Kantar Profiles (Facebook-commissioned online survey of general population respondents ages 18+ (N=6,340 cross 3 waves fielded 5/5/2-020-7/11/2020, USA).

Ecommerce has finally taken hold

Buying decisions used to be based solely on what was available in-store. Price and selection were limited to what was available from local retailers. But this started changing in the last few years, as digital shopping and mobile usage grew. COVID-19 accelerated the trend, advancing years' worth of ecommerce penetration in a matter of months — with much of the credit going to mobile.

In a recent study,

78%

of online purchases made from Facebook ads happened on mobile[10]

MOBILE IS THE NEW STOREFRONT WINDOW

People use it as a way to discover new brands and products — just as they once window-shopped on Main Street. **Right now, especially during the pandemic, mobile is the primary way in which shoppers discover and evaluate products.[11]**

MOBILE HAS RESHAPED THE IN-STORE EXPERIENCE

"People are going out shopping with a purpose. They've probably done a lot of research, they know exactly what they want, they go, they do it, they leave … That suggests there's an awful lot of research that goes on online in advance of that store visit."

— Clare Bailey, Founder, The Retail Champion[12]

People are planning their store visits further in advance with the help of mobile resources. About two-thirds say most of their in-store shopping decisions are now planned, as opposed to spontaneous.

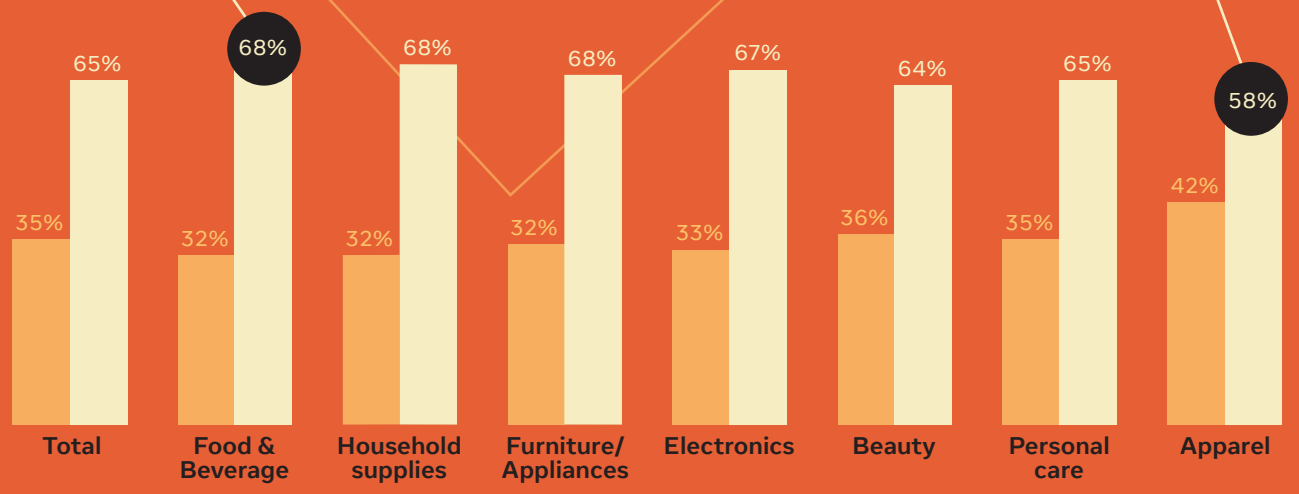
10. Internal Facebook data, May 2020. Analysis of Facebook pixel and app events for ads shown to people 18+ on Facebook.
11. "Discovery-Led Shopping Study" by GFK (Facebook-commissioned online survey of 12,063 people ages 18+ across AU, BR, CA, DE, FR, ID, IN, JP, MX, SK, UK, US Jul–Aug 2020).
12. "The Future of Shopping Has Come Early: Perspectives From the Industry" by Facebook Business, October 2020.

THIS IS ESPECIALLY TRUE FOR ESSENTIAL CATEGORIES:

Spontaneous vs. Considerate purchases across categories globally over the past six months.[13]

68% of food and beverage consumers

58% of apparel shoppers



And true among shoppers of all ages:

75% of Boomer shoppers

55% of Gen Z shoppers

Now plan their in-store shopping decisions

13. "Global Retail Re-emerge Study" by Ipsos (Facebook-commissioned online survey of 43,474 people ages 18+ across AU, BR, CA, DE, FR, IN, JP, MX, SK, TH, UK, US), Jul-Aug 2020.

"BOPIS" HAS GONE MAINSTREAM

Online shopping isn't the only thing that's increased. BOPIS is also on the rise, although most people aren't calling it "BOPIS" — at least not yet. (Note: it stands for **"Buy Online, Pick Up in Store"**).

Facebook IQ research found that 87% of people globally are at least somewhat concerned about going to a physical store right now.[14] Many are opting for safer shopping, including shorter trips, curbside pickups, and contactless delivery.

Demographic groups that might not have been aware of BOPIS in the past are now using it heavily. Six in 10 Boomers are aware of this option now — a higher rate than their younger counterparts. Two-thirds have tried it, and 63% said it improved their overall shopping experience.[15]

The most common Buy Online, Pick Up in Store methods used by Boomers are:[16]

58%

Picking up at the register

30%

Curbside pickup

SAFE DELIVERY IS BOOMING

Delivery carriers have seen a record-breaking volume of packages sent during the pandemic. UPS' domestic delivery service saw its average daily volume grow by 23%, to 21.1 million packages per day. Strong demand for residential delivery has resulted in business-to-consumer shipment growth of 65%.[17]

According to Facebook Conversation data, discussions around contactless delivery grew more than 6X from February to May 2020.[18]

61%

of Boomers say they're using delivery services, such as Shipt or Amazon Prime, more than they used to

25%

who haven't used one yet say they're still interested in trying[19]

14-15. Global Retail Re-emerge Study" by Ipsos (Facebook-commissioned online survey of 43,474 people ages 18+ across AU, BR, CA, DE, FR, IN, JP, MX, SK, TH, UK, US), Jul-Aug 2020.
16. "How COVID-19 is impacting Boomers' shopping behavior" by National Retail Federation, June 2020.
17, 18, 19."Homebound shoppers fuel record UPS growth during coronavirus" by Fox Business, July 2020.

Which changes are permanent?

1. **The decade-long wait for multi-channel shopping is over**
2. **Consumers expect brands to deliver social value**
3. **Customer loyalty is not guaranteed**

THE DECADE-LONG WAIT FOR MULTI-CHANNEL SHOPPING IS OVER

Now that more people have embraced the safety, convenience, and immediacy of mobile and online shopping out of necessity, we expect they'll continue many of these behaviors well into the post-COVID-19 future. **That's why we view increased ecommerce adoption as an acceleration, not a temporary shift.**

Analysts were always expecting consumers to move more of their shopping online — it's just happening more quickly than expected.

Who are these Omni-channel Shoppers of the future?

They'll probably look a lot like the Omni-channel Shoppers of the present, albeit with an increased appetite for in-store buying:

- Excited to try new shopping and brand experiences online
- Comfortable browsing products or services in one format (IRL/URL), then completing purchase and pickup in another
- Consistently researching and discovering products on mobile devices
- Channel-agnostic, with a willingness to engage with brands beyond the confines of either a physical or digital retail space

THE DECADE-LONG WAIT FOR MULTI-CHANNEL SHOPPING IS OVER

Is your business ready for the new normal?

Key elements of a successful hybrid shopping strategy include:

- Clean UX that's well-organized and easy to navigate
- Mobile-first design, to meet customers where they're spending more of their time
- Discoverable content, to satisfy browsing and make shopping online more fun
- Clear, articulate product attributes that make decision-making easier
- Easy search functions, so committed and returning customers find exactly what they want
- Updating your in-store inventory in real time, online
- Clear instructions for in-store pickup when applicable
- Connecting your online and in-person shopping environments as one, cross-channel experience, for maximum convenience.

CONSUMERS EXPECT BRANDS TO DELIVER SOCIAL VALUE

2020 was a turbulent year. While the pandemic and US elections dominated headlines for much of the time, demonstrations against racial injustice drew widespread civic attention as well. Though brands might've once shied away from attaching themselves to issues beyond the purview of their products, consumers now expect them to do more.

Disruptor and startup brands can engage consumers in 2021 and beyond by embracing this trend toward increased engagement, taking a stand on social issues, and giving back to their communities.

Consumers are rising to meet the moment

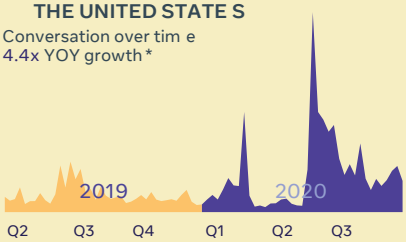
We saw an increase in discussions around advocacy, local government, and racial inequality in the US on Facebook in 2020.[20]

AWARENESS BECOMES ACTION

United States

RACIAL INEQUALITY IN THE UNITED STATES

Conversation over time
4.4x YOY growth*



Age

18-34	22%
35-34	45%
55+	33%

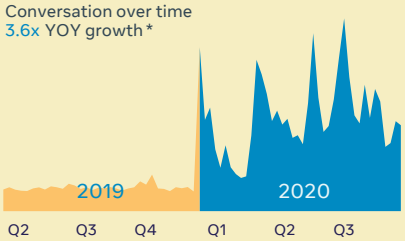
Gender

46% male

54% female

LOCAL GOVERNMENT

Conversation over time
3.6x YOY growth*



Age

18-34	13%
35-54	38%
55+	49%

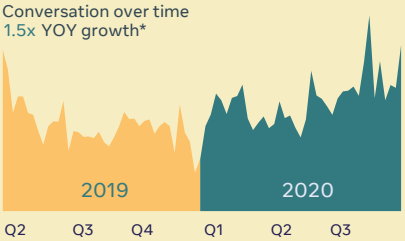
Gender

49% male

51% female

ADVOCACY

Conversation over time
1.5x YOY growth*



Age

18-34	22%
35-54	45%
55+	33%

Gender

29% male

71% female

20. Internal Facebook data, people ages 18+, US, Apr 2019–Sep 2020. All topics chosen grew from Sep 2019 through Sep 2020.

CONSUMERS EXPECT BRANDS TO DELIVER SOCIAL VALUE

People are spending more of their time and money on advocacy

Many people are going out of their way to support local and Black-owned businesses during this challenging time

- 64% of US consumers have taken at least one measure to support a small/local business (this includes buying from them, supporting them on social media, sharing positive reviews online, purchasing a gift card for later use, etc).[21]
- 60% said how a brand responded during the 2020 protests against racial injustice would influence whether they buy or boycott them in the future.[22]
- Interest in Black-owned businesses on Yelp increased by more than 7,000% over the course of 2 months in 2020, compared to the same time in 2021.[23]

Issues that matter to consumers

COVID-19 SAFETY

- 74% of consumers say that safety is important when deciding where to shop (compared to 81% for price) - safety is giving price a run for its money.[24]
- 41% Of 55-64-year-olds in the US say they're ordering products online that they would have normally purchased in a store.[25]
- Globally, 41% of people surveyed say they want to hear what steps brands and retailers are taking to ensure safety.[26]
- 85% of grocery shoppers globally have taken some measure to reduce safety risk while shopping in-store for food and beverage products, such as practicing social distancing and wearing masks. Additionally, more than one-third (36%) of grocery shoppers have stocked up on products to limit trips to stores.[27]

RACIAL INJUSTICE

- 58% of people say it's important that brands inspire customers and employees to get involved in the fight against racial injustice. And 57% say it's important that brands educate the public too.[28]
- 44% of people surveyed globally say the Black Lives Matter movement has made tackling racism a more important issue to them.[29]

CLIMATE CHANGE

- 45% of US consumers say environmentally-friendly practices that offset carbon emissions are an important factor when considering travel brands.[30]
- 61% of Gen Zers say they'd pay more for products produced in an ethical and sustainable way.[31]

EQUALITY

- In the US, 73% of Gen Z feels more positive toward a brand when it promotes gender equality on social media.[32]
- In the US, 66% of Gen Z would like to see more diversity in advertising.[33]
- In the US, only 36% of Gen Z feels represented in the ads they see.[34]

21. "Industry Micro-Shifts Monthly Tracker" by Kantar Profiles (Facebook-commissioned online survey of general population respondents ages 18+ (N=6,340 cross 3 waves fielded 5/5/2-020-7/11/2020, USA).
22. "2020 Edelman Trust Barometer Special Report: Brands and Racial Justice in America" by Edelman, June 2020.
23. "Increased Consumer Interest in May Correlates with COVID-19 Hot Spots in June, According to the Yelp Economic Average" by Yelp Economic Average, n.d. Retrieved November 30, 2020.
24-34. Global Retail Re-emerge Study" by Ipsos (Facebook-commissioned online survey of 43,474 people ages 18+ across AU, BR, CA, DE, FR, IN, JP, MX, SK, TH, UK, US), Jul–Aug 2020.
23. "Coronavirus Research: Multi-market research wave 5" by GWI, Jul 2020.
24. Trends 2.0" by Crowd DNA (Facebook-commissioned study of 11,300 people across AU, BR, CA, DE, FR, GB, ID, IN, KR, NG and US), Sep 2018. Gen Z is defined as ages 18–24.
25-34. "Gender Equality Study" by Qualtrics (Facebook-commissioned study of 4,000 Facebook and Instagram users in BR, GB, IN, US), May 2019. Gen Z is defined as people ages 18–24.

CONSUMERS EXPECT BRANDS TO DELIVER SOCIAL VALUE

NOT ONLY IS ACTIVISM THE RIGHT THING TO DO ... IT'S TRENDING

In 2020, we saw several Disruptor brands lead by example, in ways that aligned with their company values:

COVID-19 response

- Donating to relief efforts: **Thrive Causemetics** committed to donating $1M worth of products and donations to people impacted by COVID-19, and raised $350K in one day alone by donating an entire day of profits
- Shifting production to make protective equipment: **Blenders Eyewear** shifted its production line to make medical-grade safety goggles for healthcare workers, shipping tens of thousands to hospitals in cities hardest-hit by the virus
- Giving products to causes that help: Apparel brand **Bombas** led an effort to redistribute unused office supplies, such as soap and hand sanitizer, to high-risk groups that lacked access to these products
- Partnering with organizations for support: Subscription box service **Bespoke Post** launched an initiative to buy and promote $25M+ worth of products from emerging brands and small manufacturers throughout the pandemic
- Free services for frontline workers and the public: **Headspace** offered free access to its meditation and mindfulness app to healthcare workers in some areas, and made a library of free content available to the public

Taking a stand against racism and social injustice

- Sneaker and apparel retail site **GOAT** stood in solidarity with protests against the killings of George Floyd, Breonna Taylor, and Ahmaud Arbery by contributing to the bailouts of peaceful protesters, and issuing a public statement in support of the Black community
- **Instacart** donated $1 million to support actionable change — $500,000 to compensate in-store shoppers and teams for disruptions to their shifts imposed by store closures and curfews; $250,000 to Feeding America and Food Banks Canada food banks, to support communities of color struggling with food insecurity; and $250,000 to the Equal Justice Initiative.

GET INVOLVED

- Start internally. Promote social good as part of the company culture. Get your employees involved.
- Set an example. Address issues such as diversity, health care, and equal pay within your own ranks
- Speak authentically. If your message doesn't clearly align with your values, it'll be obvious to consumers
- Educate yourself and others. Stay apprised of what matters in society-at-large. Do your part to share updates with employees and customers
- Give back. Pitch in and do what you can to address important issues. Find ways to commit company resources, both financial and otherwise, that can help

CUSTOMER LOYALTY IS NOT GUARANTEED

The old formula for inspiring brand loyalty relied mostly on having a great product, regardless of price. Disruptors from earlier eras personified this phenomenon. They thrived at creating happy and loyal customers, who then became reliable word-of-mouth advocates, primarily on the strength of the products alone.

But loyalty isn't the same as it used to be. Due to myriad issues facing society right now, modern consumers are making decisions based on more than products alone. Especially during the initial wave, the pandemic presented various logistic and supply challenges that made it difficult for brands to meet consumer demand.

Combined with the need for safety and the convenience of increased mobile browsing and buying, more than 60% of global consumers changed their shopping habits in 2020, by trying a new brand or retailer. And 44% who've tried a new brand in the US say it's now become their go-to choice.

The new loyalty is multifaceted

With so many changes taking place in such a short period of time, the elements that drive customer loyalty are looking a lot more complicated than they used to.

We've identified seven key loyalty characteristics — call them the "7 A's": availability; affordability; accessibility; attributes; action; altruism; and assurance.

The brands that are most successful at driving customer loyalty during this difficult time will be those that are able to successfully address these consumer needs.

CUSTOMER LOYALTY IS NOT GUARANTEED

Building loyalty is now multifaceted

AVAILABILITY

7 to 10 consumers globally say its very important that retailers always have stocked up inventory[35]

AFFORDABILITY

Half of consumers globally say good pricing drives them to make repeat purchases from retailers[36]

ACCESSIBILITY

70% of online shoppers say they feel more connected to a brand if they are able to contact it directly to ask questions or provide feedback[37]

ATTRIBUTES

55% of shoppers globally say it's very important that the brands they buy use environmentally-friendly manufacturing practices[38]

ACTION

Half of consumers globally say offering a good omni-channel shopping experience is very important when deciding where to shop[39]

ALTRUISM

Globally, 2 in 3 people say the way a business responds to the crisis will seriously impact their future spending[40]

ASSURANCE

Globally, 77% of people surveyed want brands to tell them how they're responding to (or helping customers) the pandemic[41]

Where do you go from here?

1. DISCOUNTS STILL COUNT — BUT THERE'S MORE TO CONSIDER

With so much choice in the marketplace right now, competitive prices only go so far in keeping customers loyal.

How well are you delivering on the other elements of loyalty? Where can you improve? If you're not willing to make changes after the year we've all just been through, you're not meeting the **moment.**

2. WELCOME CUSTOMER FEEDBACK — THEN LISTEN OPENLY

People gravitate to brands that listen and understand. Create new opportunities, via social and messaging services, for your customers to give you open feedback. **Then... get out of the way.**

Defensiveness is the enemy of innovation. Sometimes the most difficult feedback yields the deepest truths — and points you in a better direction.

3. GIVE YOUR LOYALTY PROGRAM A SHOT IN THE ARM

A loyalty program is your first line of defense. If you're not keeping your most active customers happy ... how do you think your newest customers feel?

Sales and promotions are still important, but service matters too: faster access, exclusive products, new experiences. Add new perks that reinforce the 7 A's.

35. Facebook IQ Source: 4 "Industry Micro-Shifts Monthly Tracker" by Kantar Profiles (Facebook-commissioned online survey of 96,938 adults across AU, BR, CA, DE, ES, FR, HK, ID, IN, IT, JP, KR, MX, TW, UK, US), May–Aug 2020. Unless otherwise specified, data is a cross-country average across all 16 markets.
36. 10 "Global Retail Re-emerge Study" by Ipsos (Facebook-commissioned online survey of 43,474 people ages 18+ across AU, BR, CA, DE, FR, IN, JP, MX, SK, TH, UK, US), Jul–Aug 2020. Qualifying respondents purchased food & beverage, beauty, personal care, furniture/appliance, electronics, apparel and/or household supplies in the past 6 months at the time of the study. Unless otherwise specified, data is a cross-country average across all 12 markets.
37. 11 "Discovery-Led Shopping Study" by GFK (Facebook-commissioned online survey of 12,063 people ages 18+ across AU, BR, CA, DE, FR, ID, IN, JP, MX, SK, UK, US Jul–Aug 2020). Qualifying respondents made an online purchase of beauty, furniture, electronics and/or apparel in the past three months at the time of the study and use at least one Facebook platform weekly. Unless otherwise specified, data is a cross-country average across all 12 markets.
38. 23 "Tracking the Coronavirus" by Ipsos (survey of people ages 18–75 in CN, VN, IN, IT, RU, US, AU, JP, GB, CA, FR, DE, UK, BR, MX, ES), Apr 2–4. 2020.
39-41. 24 "Coronavirus Research" by GlobalWebIndex (online survey of 15,271 people ages 16–64 in AU, BE, BR, CN, FR, DE, ES, GB, IN, IT, JP, NZ, PH, PL, RO, SG, US, ZA), Jun 29–Jul 2, 2020

CHAPTER 2

DTC TRENDS

DTC TRENDS

CAN'T STOP, WON'T STOP

Even after a tough year, the Direct-to-Consumer environment is more crowded than ever.

Both new entrants and incumbents are finding ways to innovate, while capitalizing on still-strong consumer demand.

Fuel on the fire

FAR FROM SLOWING THE GROWTH OF DISRUPTOR BRANDS, THE CHALLENGES OF 2020 WERE AN ACCELERANT INSTEAD

"In the midst of chaos, there is also opportunity." — Sun Tzu

The nimble, low-barrier Direct-to-Consumer (DTC) model has long been a canvas for new business growth. Historically, changing consumer behavior, tech advancements, and the expansion of the services market have reduced DTC's barrier to entry across industries, while resulting in new, consumer-centric innovations such as Financial Tech, Ed Tech and Health Tech.

Surprisingly, COVID-19 has only poured fuel on the fire. In 2020, we saw more consumers using mobile and ecommerce than ever before, more physical businesses shifting to digital, and more stay-at-home entrepreneurs spinning up disruptive new ideas. Following the first wave of shelter-in-place orders in the US, for example, Shopify's new merchant growth ticked up 62% in just over a month.[42]

Despite a global pandemic and widespread economic uncertainty, consumer demand is marching on — and that's important, because it accounts for 70% of US economic activity.[43] Brands that were already well-positioned for the stay-at-home economy thrived in the back half of 2020. For example, Peloton shattered its Q2 and Q3 expectations, with almost 95% growth in the third quarter.[44] And both beauty and personal care brands saw growth, as the work-from-home population found itself with more time for self-improvement.[45]

Despite upstart challengers and multiple obstacles, established DTC brands found a winning match among new consumers — demographic groups who weren't born into ecommerce, but pivoted quickly to contactless shopping last year, such as Boomers.

But there's still room for improvement. As you're about to learn, we're rapidly shifting to a new DTC world, and the rules are changing fast. We're finding that disruptor brands are again taking the initiative to incite change, by disrupting both their own business models, and the DTC landscape as we know it.

Hold tight, because the journey is just getting started.

— CHRIS SARANDOS, MARKETING LEAD, DISRUPTORS & VENTURE CAPITAL, FACEBOOK

42. "Shopify Announces First-Quarter 2020 Financial Results" by Shopify, May 2020.
43. "What's gonna happen to the consumer economy?" by Marketplace, April 2020.
44. "Peloton sales surge 66%, as more people buy bikes during coronavirus pandemic; shares jump" by CNBC, May 2020.
45. "Why DTC beauty's future may look more like its past" by Glossy, May 2020.

Don't they ever rest?

Can you believe it's already been 13 years since the first DTC brands came onto the scene? Today, ecommerce brands are following the same pattern in new ways: disrupting their predecessors (yet again), while redefining "DTC" in the process.

ARE YOU KIDDING? DISRUPTION IS A FULL-TIME GIG.

OPPORTUNITY JUST KEEPS KNOCKING

Even though the growth in new digital buyers has declined over the past five years, the DTC market will expand to a projected $17.75 billion in 2021[46]. Clearly, this is still an attractive opportunity for brands of any background — especially given the accelerated consumer shift to ecommerce. Segments such as packaged goods, clothing, and app-based services are demonstrating much of this growth right now.

46."Direct-to-Consumer Brands 2020" by eMarketer, March 2020.

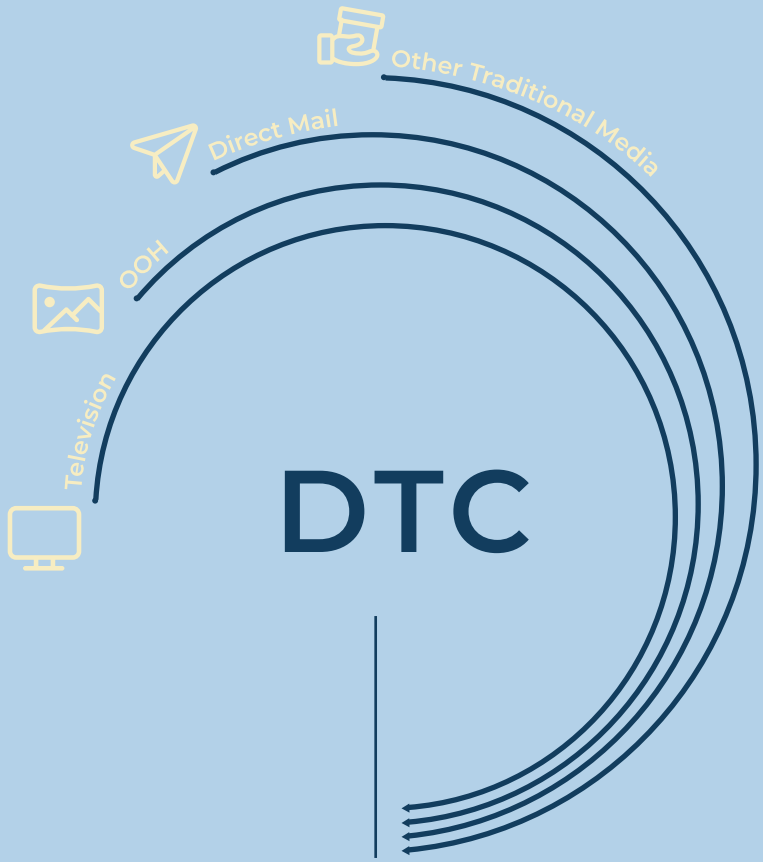
DISRUPTION HAS COME FULL-CIRCLE

As brands of all life stages compete for new customers, the defining pillars of DTC — digital advertising, ecommerce, and hyper-focused product categories — are evolving to make room for new strategies. Brands that were once identified as disruptors are now disrupting themselves, and embracing the strategies of the businesses they once challenged.

Brands that first built their name on the strength of single-product excellence are finding new customers by expanding their revenue streams. **Away**[52] has grown from a luggage company to a lifestyle brand, with an eye on a 2021 expansion into apparel. And **Rothy's**[53] has diversified from sustainable footwear to handbags and purses that use the same eco-friendly material.

Companies like **Warby Parker**[47] and **UntuckIt**[48] have found success moving from digital retail to physical locations, expanding their sales channels (and their customer bases) by setting up shop in a whole new space. And now, startups such as Function of Beauty are moving their specialized product lines to big retailers like Target, delivering a whole new product experience to a wider range of customers[49].

Marketing teams from **Mack Weldon**[50] and **ThirdLove**[51] are supplementing digital-only strategies by welding performance marketing DNA to traditional channels such as TV and print.



47. "Click-to-Brick Success Story: Warby Parker Continues to Disrupt, Innovate" by Multichannel Merchant, August 2018.
48. "Untuckit to open 100 brick-and-mortar stores by 2022" by Retail Dive, November 2017.
49. "Function of Beauty enters Target in first retail expansion" by Glossy, December 2020.
50. "Mack Weldon CEO on Customer Loyalty and Creating a Captivating Offline Retail Strategy" by eMarketer, March 2020.
51. "ThirdLove Unlocks the Power of Quantifiable TV Data" by Live Ramp, October 2020.
52. "Fashion's favorite luggage brand is branching out into clothing, accessories and wellness" by Harpers Bazaar, May 2019.
53. "The New Rothy's Handbag Might Just Be The Most Sustainable Thing In Your Closet" by Refinery 29, March 2020.

Growth is cool. Profitability is even cooler.

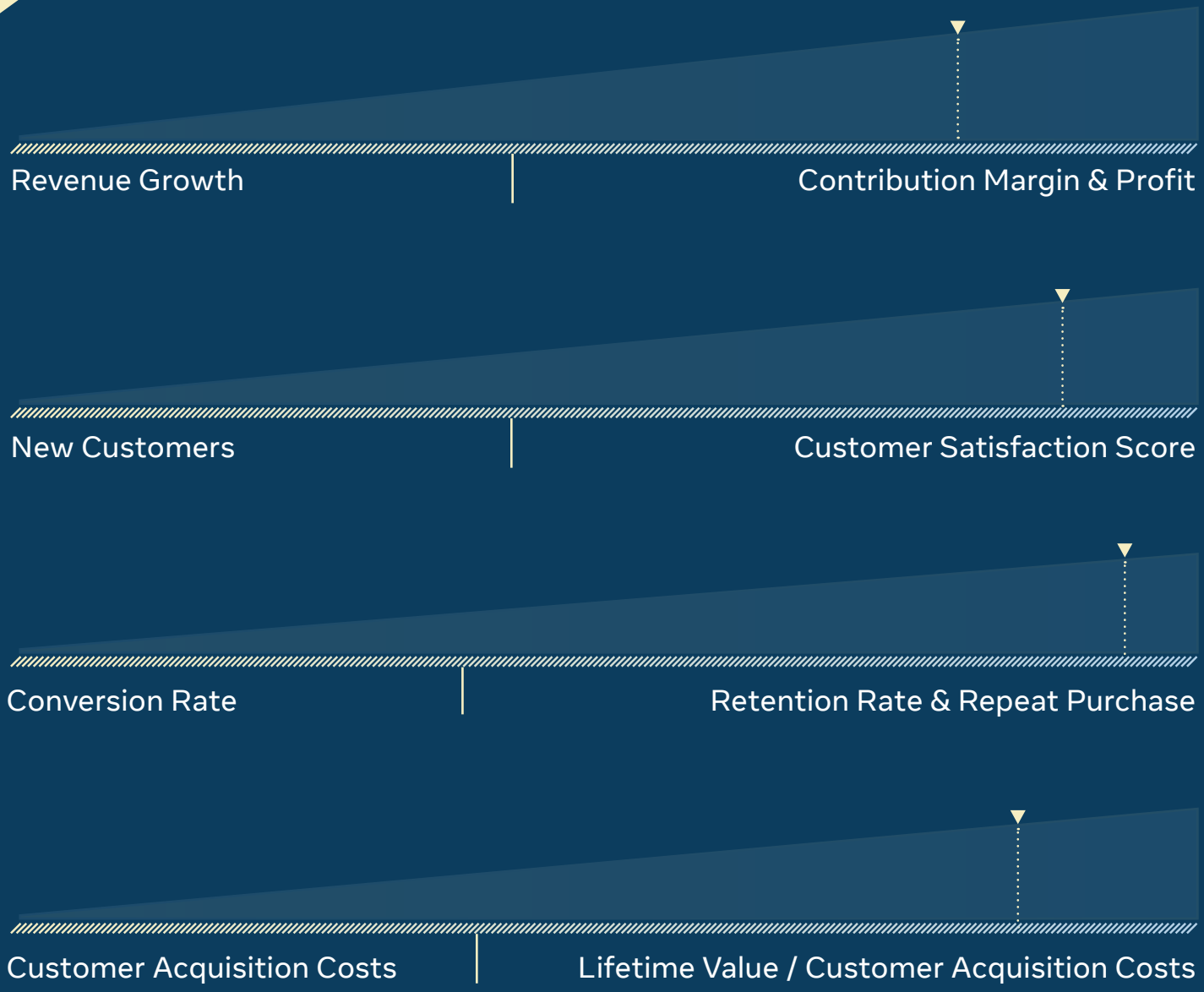
NEW YEAR, NEW UNIT ECONOMICS...

With DTC now well into its second decade, brands and investors are excited to move to the next stage of the business life cycle: turning hyper-growth into sustainable profit. Consequently, many of the brands we've all studied and loved over these past 13 years are pivoting to become household names.

To do this, they're emphasizing value-driven marketing, customer retention, new metrics, and brand marketing. Positive return on acquisition is a must for many now-established brands, as they look to forge lasting identities. Part of the push companies like Peloton are making into new products and updates is driven by a desire to offer their products to a wider array of customers.[54]

54."Peloton Expands Product Suite With All New Bike+ And Tread, Offering More Ways For People To Access And Enjoy World-Class At-Home Fitness" by PR Newswire, September 2020.

When it comes to measurement and marketing performance, we're seeing disruptors prioritize new metrics to determine the success of their efforts:



And in the brand space, there's a mindshift from companies thinking of themselves as performance marketers alone, to thinking of themselves as performance brands. There's a newfound emphasis on creative quality, with a greater effort on using storytelling for performance marketing goals. Brand identity is being considered across channels and customer touchpoints, reinforcing unity. And more time and energy is being invested in building awareness, with brand campaigns reinforcing direct-response marketing, and expanding to traditional channels such as TV, print, OOH, and direct mail.

Disruption: The Sequel

TOMORROW'S DTC LEADERS WILL BE DIFFERENT FROM THE ONES WE KNOW TODAY. BUT ONE THING WON'T CHANGE...

Innovation has always been a core component of a DTC brand's identity. It not only acts as a competitive advantage, it helps differentiate the brand. And in the most successful DTC businesses, innovation is evident everywhere, from the product itself, to the business model, industry, brand positioning, and customer-service approach.

As the leaders of tomorrow look for new ways to establish themselves today, they'll focus not only on innovation, but on finding new ways to appeal to the audience that, first and foremost, demands innovation above all else: the consumer. Ultimately, success for disruptors comes from creating delightful, compelling products built on consumer needs and behaviors. And that will never change.

As DTC matures, so do the business models of its most successful brands. Disruption across established segments is currently happening in areas where technology improvements and consumer demand have combined to make new products and services available in familiar fields. For proof, look no further than the brands that thrived during the tumultuous year that was 2020.

Calm

betterhelp

Varo

HEADSPACE

chime

In Health, disruptor brands such as Calm, Headspace, and Betterhelp helped people improve their mental health and deal with stress during a tough time. And in the Financial sector, Chime and Varo serviced the underbanked; people who don't usually have access to products and services offered by traditional financial services companies.

A NEW ATTITUDE TOWARD COLLABORATION

While DTC brands aim for the reach and ubiquity of older brands, first-gen disruptors and traditional advertisers are looking for ways to be nimble and stay relevant. To help each other get there, we're seeing brands from all backgrounds form partnerships that capitalize on their strengths. There's recently been an increase in both brand collaborations, and mergers and acquisitions activity, to this effect.

For example, **Adidas** and **Allbirds** partnered on a sustainable sneaker[55], working together to champion a cause that helps differentiate both brands from competitors. While other legacy "big brands" might feel threatened by disruptors, and newer brands that have reached Allbirds' level of success might not want to be seen teaming up with "the establishment", both found a way to partner together and step forward.

Headlines from the world of M&A prove there's still an appetite for larger brands to "acqui-hire" too, bringing in new ideas and talent when it's time to expand to new audiences. In late 2019, Italian eyewear giant **Safilo** took a 70% stake in the US sunglasses startup **Blenders**[56], giving the former brand access to the Millennial audience, and the latter the distribution and reach of a global organization. Luggage and handbag maker **Vera Bradley** added an extremely loyal customer base when it acquired a majority stake in handmade bracelet maker **Pura Vida** in the same year.[57] And **Peloton** moved into the acquisition game itself at the close of 2020, with its acquisition of global commercial fitness business **Precor**.[58]

55. "Adidas and Allbirds Are Joining Forces-And Rewriting the Rules of Competition" by Vogue, May 2020.
56. "Pacific Beach sunglass brand, Blenders, acquired by Italian giant at $90M valuation" by San Diego Union Tribune, September 2019.
57. "Vera Bradley acquires a majority stake in online jewelry store Pura Vida Bracelets" by CNBC, June 2019.
58. "Peloton stock heads toward record after $420 million Precor deal" by MarketWatch, December 2020.

BRAND AFFINITY AS A DIFFERENTIATOR

During a time where consumers already feel physically isolated, digitally-native brands help people maintain a sense of connection. And by publicly giving back, these brands can help consumers feel connected to their communities as well.

For proof of what this could look like moving forward, check out recent COVID-19-related support efforts from notable DTC brands:

DOORDASH

DoorDash's Supporting Local Business initiative extended financial assistance and sanitization resources to restaurants. The company also reworked its search function to surface small local businesses first.[59]

classpass

ClassPass created a Partner Relief Fund to donate to fitness studios and small gyms impacted by COVID-19. The Fund matched user contributions up to $1 million, and allowed partner businesses to livestream classes on the ClassPass app.[60] The company also organized a petition calling on governments to offer financial assistance, alongside rent, loan, and tax relief, for the businesses it works with.

Omaze

Fundraising site Omaze created a donation hub for a set of causes that supported COVID-19 relief efforts, including International Medical Corps, Feeding America, and Direct Relief.[61]

Bespoke Post

Subscription-box service Bespoke Post launched Support Small as a way to financially help and promote smaller businesses to its customers.[62] By the end of 2020, Bespoke Post had far exceeded its goal of purchasing $20 million goods from small brands to help them through COVID-19. This provided guaranteed bulk purchases and manufacturing and packaging help, at a time when it was needed most.

59. Supporting Local Businesses and Communities in a Time of Need" by DoorDash Blog, March 2020.
60."ClassPass Throws Crucial Lifelines To Fitness Studios Struggling From Covid-19 Closures" by Forbes, March 2020.
61. "COVID-19 Relief" by Omaze, n.d. Retrieved December 03, 2020.
62. "Let's keep the wheels turning" by Bespoke Post, n.d. Retrieved December 03, 2020.

CHAPTER 3

VENTURE CAPITAL TRENDS

FACEBOOK

Funding the future

2020 FORCED CONSUMERS TO MAKE SURPRISING ADJUSTMENTS. LASTING NEW INDUSTRIES MAY THRIVE AS A RESULT.

At Facebook, we've recently launched a Venture Capital Partnerships team to research the latest VC trends and insights, and help incubate up-and-coming startups that have the potential to reshape their industries and deliver greater value for consumers.

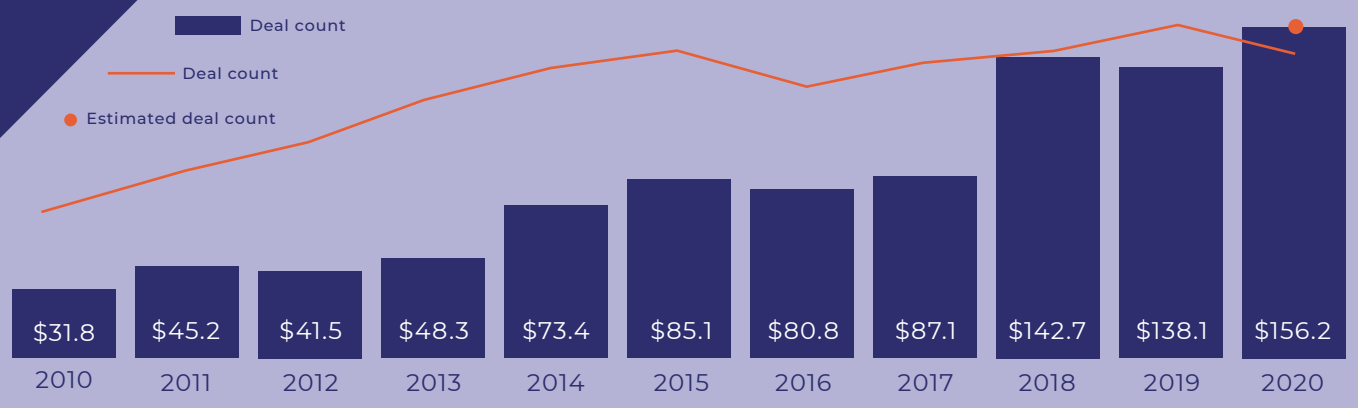
As we've shared elsewhere in this report, COVID-19 has heavily impacted consumers and businesses, reshaped some industries, and even helped create new ones. It's also changed how venture capitalists evaluate businesses and support emerging sectors. As you'll soon see, there have been some big recent shifts in the VC world that are having a tremendous impact on founders and consumers.

As we look to this year and beyond for the latest trends in VC, we expect to see significant growth from the Food, Health, Financial Services, and Fitness industries. In the next few pages, we'll take a closer look at each one to give you a high-level overview of where VC money is currently going, which firms are making the biggest impact, and what we think could happen next. We'll also highlight stories from the impressive startups we've seen in each space.

— GODFREY POWELL JR.,
PARTNER LEAD, VENTURE CAPITAL,
FACEBOOK

— BRAD MURPHY,
PARTNER LEAD, VENTURE CAPITAL,
FACEBOOK

A Look Back on 2020



US deal value passed

$150B

for the first time ever,

with

$156.2B

billion invested into startups

Investors liquidated

$290.1B

billion of value via exits

$73.6B

raised in traditional VC funding

A record

321 mega-deals

closed in 2020, with late-stage companies accounting for

82% of those deals.

This is a

32% YoY increase[63]

63. Pitchbook & NVCA Venture Monitor, Q4 2020.

FOOD TECH

Delivering disruption

FEWER DINE-IN OPTIONS AND THE NEED FOR CONTACTLESS SERVICE HAVE ACCELERATED DISRUPTIVE ALTERNATIVES

Restaurants & Grocery

SAFETY IS A NEW NON-NEGOTIABLE

Consumers and businesses have been forced to adopt safe dining options during the pandemic. Even though dine-in is still an option in many American cities, consumers have widely embraced contactless delivery from restaurants and grocery stores. This has carried a heavy price tag for many business owners. According to the National Restaurant Association, US restaurants lost $120 billion in revenue due to shelter-in-place orders during the first three months of the pandemic in 2020.[64] Many were forced to limit inside dining, or offer curbside pickup or delivery only.

Grocery shopping was also affected, with consumers making fewer trips to the store. But it's interesting to note that, when they did shop in person, 44% of customers spent more on each visit.[65] This indicates that grocery shopping became more intentional, and less impulsive, out of necessity.

64. "Restaurant Industry Has Already Lost $120 Billion" by QSR, June 2020.
65. "COVID-19's Impact on Grocery Shopping in Just Five Weeks" by FMI, April 2020.

VCs ARE FOLLOWING STAY-AT-HOME DEMAND

Global sales among food intermediaries and delivery businesses are expected to reach $199 billion over the next five years, at a compound annual growth rate of about 11.9%.[66] Responding to the shift in consumer behavior, VC investors poured $3.7 billion into "food tech" startups in Q2 2020 — a year-over-year increase of 28%.[67] This sector encompasses businesses and solutions that apply science and technology to create innovative, sustainable food growing and supply options.

goPuff + BevMo!

Notable investments and emerging companies abound. goPuff, which offers 30-minutes-or-less delivery of products frequently purchased at drug and convenience stores — such as alcohol, over-the-counter medicine, and baby food — raised $380 million on a $3.9 billion valuation in October 2020[68].Just a month later, goPuff acquired the alcohol retailer BevMo! for $350 million[69] ,a deal that integrates both brand's delivery services, and allows goPuff to leverage BevMo! stores nationwide as micro-fulfillment centers.

Grocery delivery service Instacart has also thrived during the pandemic. While in the past, Instacart struggled against the realities of unit economics, the 2020 surge in delivery and intentional grocery buying required the company to hire 300,000 additional workers.[70] This led to a $200 million Series H funding round, led by Valiant Capital Partners and D1 Capital Partners in October, putting the company at a valuation of $17.5 billion.[71] At the time of this writing, Instacart was prepping for an IPO in early 2021.[72]

instacart + VALIANT + D1 CAPITAL PARTNERS

66. Pitchbook Emerging Tech Research, Foodtech, Q2 2020.
67. "Delivery drives foodtech growth in Q2" by Pitchbook, August 2020.
68. "Delivery startup goPuff raises $380M at a $3.9B valuation" by TechCrunch, October 2020.
69. "Delivery startup goPuff acquires BevMo for $350M" by TechCrunch, November 2020.
70. "Instacart plans to hire 300,000 more workers as demand surges for grocery deliveries" by CNN, March 2020.
71. "Instacart Announces New Funding from Valiant Peregrine Fund and D1 Capital Partners" by Instacart, October 2020.
72. "Instacart taps Goldman Sachs to lead IPO at $30 billion valuation, sources say" by CNBC, November 2020.

FUTURE CHALLENGES REMAIN

While it's clearly an excellent time to be in the food delivery business, many open questions remain. We anticipate 3-4 major obstacles that will shape the long-term trajectory of this sector:

- **Delivery demand might decline.** While it may still be another year before society "returns to normal," the expectation is that we'll eventually make it back to a more public way of life. When people feel safe to dine out again, will they go back to their old habits? It remains to be seen if food delivery will continue growing at the same pace once COVID-19 vaccines are widely available.

- **Margins are slim.** The economics of restaurant delivery can be challenging given the already-low profit margins in the restaurant business, consumer price sensitivity (especially right now), and the additional fees and services involved. At what point do these factors become prohibitive?

- **Consolidation will continue.** With more than 100 VC-backed apps and companies already competing in this space[73], it will become increasingly difficult for smaller, newer players to make an impact. The biggest brands and investors have a long list of acquisition targets, and those names will feel well-incentivized to welcome investment, given tight margins and limited consumer attention.

- **When is too much enough?** Given the ubiquity of delivery, it's getting harder for businesses to gain market share. How will new and existing businesses continue adapting, to differentiate themselves from the competition? If the space gets overcrowded, will delivery services choose to operate at a loss in order to maintain their position? How soon will they be forced to bow out?

73. Pitchbook Emerging Tech Research, Foodtech, Q2 2020.

The State Of Food Startups

"INNOVATIVE FOODS" ARE ON THE RISE

While innovative foods — such as plant-based meat alternatives from the Beyond and Impossible brands — were already trending prior to 2020, we saw a big post-pandemic boost. In fact, during the early months, sales of plant-based meat alternatives skyrocketed, outperforming growth in meat sales.[74]

"Is coronavirus accelerating the growth of plant-based meat?" by Food Dive, October 2020).

A few factors likely explained the surge: decreased supply, increased costs, and a rise in health-consciousness.

COVID-19 outbreaks caused massive disruption to the meat and poultry industries, including supply reductions from forced closures and livestock euthanizations. As a result, there was a 25% loss in beef production, and the marketplace lost more than 2 billion pounds of pork[75], resulting in widespread shortages and higher prices.

Consumers have also become more health-conscious since the onset of the pandemic. Among Gen Z and Millennials, 48% say they've been eating healthier.[76] And approximately 70% of consumers have the perception that plant-sourced protein is healthier than animal protein.[77]

74. "Is coronavirus accelerating the growth of plant-based meat?" by Food Dive, October 2020.
75. "Effects of COVID-19 Meat and Poultry Plant Closures on the Environment and Food Security" by RTI International, July 2020.
76. "Evaluating Impact of COVID-19 on Grocery Shopper Habits" by Prepared Foods, June 2020.
77. "Consumer Perception Drives Interest in Plant-Based Eating" by The Food Institute, July 2020.

VC FIRMS ARE DIVING IN

Innovative food startups raised more from VCs in the first half of 2020 than in the entirety of 2019. This was the third-most-funded category during that period, replacing restaurant marketplaces, which had previously held the spot in 2019.[78] In fact, this sector was responsible for 13% of all H1 2020 funding, raising a total of $1.1 billion across 93 deals, compared with $1 billion across 158 deals in 2019.[79]

Notable successes include Impossible Foods, which raised a $200 million Series G round in a deal led by Coatue Management in August 2020, at a valuation of more than $4 billion.[80] While the company's flagship product, the Impossible Burger, was on shelves in only 150 grocery stores in the US back in March 2020, it was available in more than 8,000 grocery stores in all 50 states, as of this writing — including Walmart, Kroger, and Trader Joe's.[81]

IMPOSSIBLE™

Additionally, Impossible Foods has made headway with fast casual diners, with breakfast sandwiches now being served at thousands of Burger King and Starbucks locations nationwide.[82] In June 2020, the company debuted an ecommerce site that offers two-day delivery to the lower 48 states; about 95% of the brand's online customers say they're likely to be repeat ecommerce purchasers.[83]

NUGGS

NUGGS, a plant-based chicken substitute, sold more than one million pounds of nuggets in its first year. Its success led to a funding round of more than $11 million, which included the VC fund Lerer Hippeau, Reddit co-founder Alexis Ohanian, former Whole Foods CEO Walter Robb, and model Jasmine Tookes. SIMULATE, NUGGS' parent company, launched additional products in 2020, including spicy nuggets, and plant-based chicken patties and hot dogs.[84]

78-79. "Innovative Food startups raised more in H1 2020 than they did in the whole of 2019" by LABe, September 2020.
80. "Impossible Foods lands $200M in new funds" by PitchBook, August 2020.
81, 82, 83. "Impossible Foods Closes $200 Million in New Funding to Accelerate Growth" by Business Wire, August 2020.
84. "Plant-based chicken startup Nuggs gets $4.1M investment and creates parent corporation" by Food Dive, July 2020.

LERER HIPPEAU

"We're one of the most active early-stage investors in DTC brands, and have a strong interest in plant-based meat alternatives, particularly in relation to Gen Z customers. We felt that [NUGGS founder] Ben Pasternak's vision was unlike anything else on the shelf. He understands not only how to develop a unique product, but how to capture the attention of modern consumers with a novel narrative that's effectively communicated across digital and in stores."

— Joe Medved, Partner at Lerer Hippeau

PLANTING FUTURE SUCCESS

We expect that innovative, plant-based foods will continue to thrive even as the turbulence of COVID-19 subsides. Consumers will continue to seek fluidity in their diets, and they'll make food choices that reflect this. Understanding of the meat industry's impact on the environment, as well as personal health, will continue to evolve. Brands such as Memphis Meats, which grows meat from cells instead of harvesting it from animals,[85] should also gain traction with consumers who seek environmentally-friendly, cruelty-free alternatives.

MEMPHIS MEATS

FACEBOOK

85. "Ready for Meat Grown From Animal Cells? A Startup Plans a Pilot Facility" by NPR, January 2020.

HEALTH TECH

The rise of stay-home healthcare

THE PANDEMIC PLACED TELEHEALTH SERVICES AT THE CENTER OF OUR NEW NORMAL

8,336% > INCREASE IN US TELEHEALTH INSURANCE CLAIMS YEAR-OVER-YEAR BETWEEN 2019 AND 2020[86]

By the middle of 2019, fewer than 10% of Americans had used a telemedicine service, and the vast majority (74%) either lacked access or weren't aware of their telehealth options.[87] But with technology finally at a place where providers and consumers can facilitate remote interactions via apps and videoconferencing, and with COVID-19 necessitating safer contact for many medical appointments, that's all changed.

Telehealth has been essential for continuing the work of healthcare providers throughout the pandemic. These services permit patients to get important consultations without physical visits, which reduces the risk of COVID-19 transmission, and frees up important resources for patients suffering from the virus.

86. From April 2019 to April 2020. "Telehealth Continues Rapid Growth Tied to COVID-19" by U.S. News & World Report, July 2020.
87. "One in 10 Americans Use Telehealth, But Nearly 75% Lack Awareness or Access, J.D. Power Finds" by ATA, August 2019.

SOME FORMS OF CARE MAY NEVER BE THE SAME

Now that its effectiveness has been proven during a global crisis with low margin for error, telehealth is projected to expand dramatically over the next decade. Globally, the market is expected to grow from $41 billion in 2019, to $155 billion in 2027.[88]

Globally, the market is expected to grow from
$41 billion in 2019,
to
$155 billion in 2027.[89]

VC funding for companies in this sector surged to $788 million in the first quarter of 2020.[90] On the whole, it proved to be the largest-ever funding year for digital health. By Q3, health tech startups had seen

$9.4 billion

in investment — higher than all of 2018.[91]

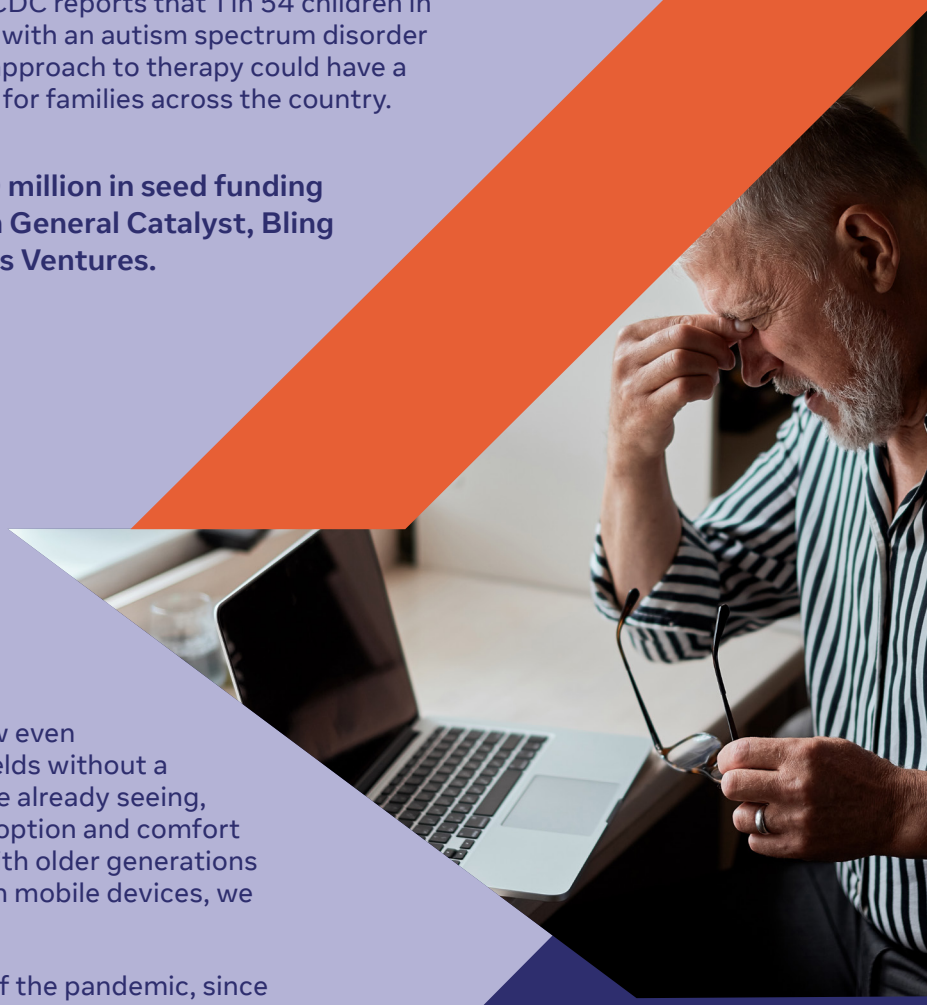
Specifically, firms are betting big on forms of care that won't require a return to physical visits once much of the population has been vaccinated. Companies that offer mental health therapy, meditation courses, and spiritual support services are seeing an increase in attention and investment. BetterHelp and Talkspace, which offer e-counseling services that connect clients with therapists, have both benefited from the shift to telehealth usage.[92]

88, 89. "Telemedicine Market Worth $155.1 Billion by 2027" by Grand View Research, April 2020.
90. "Telemedicine companies see funding boom of $788M in Q1" by Fierce Healthcare, April 2020.
91. "Q3 Fundraising Recap" by Morning Brew, October 2020.
92. "Feeling anxious about coronavirus? There's an app for that." by Recode, March 2020.

The rise of telehealth, and the relative privacy and tremendous access it affords therapy patients, could also be a boon for people struggling with specific challenges that weren't previously easy to address. Sprout Therapy is a tech-enabled platform that delivers autism care via virtual assessments that match patients with the right therapists. With autism impacting American families dramatically — the CDC reports that 1 in 54 children in the US is diagnosed with an autism spectrum disorder today[93] — this new approach to therapy could have a tremendous benefit for families across the country.

Sprout

Sprout raised $10 million in seed funding in July 2020 from General Catalyst, Bling Capital, and Felicis Ventures.



AN UPWARD TRAJECTORY

We expect telehealth will continue to grow even after the pandemic ends, particularly in fields without a need for in-person appointments. As we're already seeing, there's been a huge increase in patient adoption and comfort with using telehealth technologies, and with older generations continually getting more comfortable with mobile devices, we expect that to continue.

However, growth may slow with the end of the pandemic, since some patients will no doubt opt to return to in-person care. In addition, the scale of future growth will likely depend on the willingness of insurance companies to provide equal coverage to both digital and in-person visits. Rural medical practices (and their patients) could also help shape the growth of telehealth in the future, given that rural areas have less access to broadband internet and 4G cell phone coverage.

93. "Autism Statistics and Facts" by Autism Speaks, n.d. Retrieved December 23, 2020.

FINANCIAL TECH

Banking that's better for everyone

OVER THE LAST FEW YEARS, THE CONCEPT OF BANKING HAS FUNDAMENTALLY CHANGED.

Back in 1994, Bill Gates famously said: "Banking is necessary; banks are not."[94] While we'd argue both are still important, there's no denying that technology has disrupted traditional thinking around who should be serviced by banking — and even who should provide it.

During the pandemic, global shutdowns and branch closures accelerated digital and mobile banking.[95] But the truth is, the industry had already been trending in that direction for years. With mobile phones and fast internet widely available in many regions, in-person banking had already become less important to the customer experience. Financial technology solutions — aka, "FinTech" — had already replaced traditional banking for many people.

For example, mobile banking is now the primary banking channel for nearly 80% of consumers.[96] An institution's mobile app capabilities are now seen as fundamentally important to attracting new customers. And given that 3 in 5 consumers[97] say fees are the most important consideration when determining where to bank, many fin tech disruptors have seized the opportunity to build their businesses around no-fee services. Robinhood (no-fee trading), Chime & Dave (no bank-like fees), and Upstart (no prepayment penalties) are primary examples of FinTech disruptors who've established their name by removing traditional fees.

94."Banking is necessary; banks are not" by The Business Times, July 2019.
95."The $550B Race for Digital Banking: How Challengers and Incumbents are Competing for the Market" by CB Insights, November 2020.
96."The US Mobile Banking Competitive Edge Report 2020, Insider Intelligence" by eMarketer, December 2020.
97. "The US Mobile Banking Competitive Edge Report 2020, Insider Intelligence" by eMarketer, December 2020.

MEGA-DEALS DROVE FINTECH INVESTMENT IN 2020

In the first three quarters of the year, consumer-facing FinTech companies in North America and Europe raised $5.9 billion, up from $3.7 billion in all of 2019.[98] However, unlike previous years which saw lots of activity in the startup space, VCs focused their attention on FinTech mega-deals in 2020. In Q3, 25 mega-rounds ($100 million-plus) accounted for 60% of total funding in the sector.[99]

As with other recent VC trends, COVID-19 helps us understand this hesitancy to bet on less-than-sure things. Economic activity slowed tremendously in 2020. And as individual appetites for risk waned, interest in smaller services did too. Instead, investors turned to larger companies with more maturity, more market share, and proven business models. For example, trading app Robinhood experienced a surge of new users, leading to a $3.4B influx of new investments.[100] And Varo Money, the first FinTech company to get its own national bank charter, raised $241 million in Series D funding.[101] While overall deal volume in this space dipped 24% YoY in Q3 of 2020, total investment edged up to more than $10.6 billion, the second-best single-quarter tally since mid-2018.[102]

robinhood

Varo

One emerging FinTech category we observed involved companies that focus on improving financial literacy for teens and adults. This helps meet a fast-growing need in the US, as only 21 states currently require high-school students to take a course that focuses on personal finance, according to the Council for Economic Education.[103]

Meanwhile,

71%
say they're worried about their credit scores;

44%
worry about student loan debt;

34%
don't yet have a bank account.[104]

98. "Fintech VC keeps getting later, larger and more expensive" by TechCrunch, November 2020.
99. "The State of FinTech Q3'20 Report" by CB Insights, November 2020.
100. "Robinhood Raises Another $2.4 Billion, Eases Trading Curbs" by Bloomberg, February 2021
101. "20 of the Top FinTech Deals of 2020 (So Far)" by DyerNews, September 2020.
102. "4 takeaways from fintech VC in Q3 2020" by TechCrunch, November 2020.
103. "Survey of the States 2020" by The Council for Economic Education, February 2020.
104. "Step Launches No-Fee Banking App Built for Teens" by Yahoo! Finance, September 2020.

Step is hoping to make a difference by offering banking services and educational resources for teens, to help ensure the next generation is better-equipped to manage their finances. Step offers an all-in-one banking solution that includes a personalized credit card that carries no interest or fees, but can be used to help teens build up their credit. There's also no minimum balance required. The company raised $50 million in Series B funding in 2020.[105]

Step takes a proactive approach to notifying teens of their financial health. It dynamically reminds users of their remaining balance each time they make a transaction, and gives parents visibility into their teen's spending. It also enables instant P2P payments in the Step App, which makes it easier for parents to give their kids an allowance, or add money for gas or a trip to the store. To help market itself to teens, the company has leaned into working with TikTok and Instagram creators, including Charli D'Amelio and Addison Rae.

COATUE

"Gen Z is a very passionate and engaged group, with an estimated spending power of $75 billion. As this generation continues to mature, they've been vocal about the importance of establishing healthy financial habits — with many having lived through two recessions. We've invested in Step because we think their game-changing technology and grass-roots approach will help capture the next generation."

— Michael Gilroy, General Partner, Coatue

105. "Step (Financial Software) Overview" by PitchBook, n.d. Retrieved December 23, 2020.

FUTURE INVESTMENT CONSIDERATIONS

Acquisition and retention

Financial habits take time to change. When coupled with the need to educate consumers about the different benefits of new, digital financial services, this presents a unique challenge for FinTech companies. While the goal is always to create products that feel easy to adopt, it can be difficult to change minds, and equally difficult to get people to stick with a new financial product once they try it. Despite this, evidence suggests that challenger brands are capable of sustained user growth.[106]

Competition and differentiation

Many startups in this space begin as specific service providers, but eventually move to bundled products as their user bases grow.[107] This makes them a greater threat to retail banking incumbents — which could, of course, lead to increased competitive challenges.

Some successful FinTech businesses are developing a sense of community and purpose around their brand in order to deliver long-term value. The "no fees" model has clearly been successful in attracting customers, but given its prevalence, it can't do the job alone. To counter this, many companies are adding value by humanizing their services (Chime: "Banking that has your back") and using language that feels everyday-approachable (SoFi: "Get your money right").

We've also admired the recent launches of FinTech businesses that have built their products for specific communities, such as Daylight, which offers banking to the LGBT+ community, and Public, which offers trading for new investors.

106, 107. "The State of FinTech Q3'20 Report" by CB Insights, November 2020.

FITNESS TECH

Staying in is working out

WITH GYMS STILL CLOSED IN MANY PARTS OF THE COUNTRY, FITNESS TECH IS THRIVING

TECHNOLOGY IS HELPING PEOPLE STAY FIT SAFELY

The in-person fitness industry is a clear victim of the pandemic, due to stay-at-home orders and gym closures. But thanks to advancements in Fitness Tech in the years prior to 2020, there were many brands well-positioned to capitalize. With 70% of people reporting that they're working out more during COVID-19[108], home fitness apps and products have had a relatively open lane.

The benefits of the Fitness Tech space became even more apparent in the pandemic. People save travel time to and from the gym, and can get a workout whenever time permits — between remote-work meetings, or even while watching their kids. Depending on the option, exercising from home can be more affordable too. And now that they've had more exposure to at-home fitness, people are finding it's an effective alternative to in-person gyms and clubs.

90% have described their at-home routines as being effective, and 77% of city dwellers say they're now working out three times a week, or more[109].

108. "How 3 Months of Lock down Changed Our Approach to Working Out" by Feed. FM, June 2020.
109. "Most Americans plan to continue at-home workouts even once gyms fully reopen" by Fortune, August 2020.

The categories driving the biggest growth right now are:

At-home devices: adaptive exercise equipment that customizes workouts by dynamically adjusting to the user and providing helpful tracking info, such as Peloton cycles and the at-home fitness device, MIRROR.

Fitness apps: mobile and computer applications that let people work out anytime, anywhere, by giving them access to on-demand audio and video classes while also tracking workout metrics, such as Apple Fitness+ and Strava. In 2019, the fitness app market was valued at approximately $2.7B and is expected to grow more than 20% annually over the next six years.[110]

Marketplace platforms: companies like ClassPass and Gympass, that connect consumers with physical gyms and other fitness providers, by offering discounts, class bookings, and more. Throughout the pandemic, many of these platforms have pivoted to offering remote and virtual classes, in partnership with the businesses they work with.

VC FIRMS ARE PUTTING IN THE WORK

The fitness and wellness category saw $1.26 billion investment across 21 VC deals in the first three quarters of 2020 — an average deal size of nearly $60 million.[111] Most of those investments were posted to more established companies — Series B or later represented 92% of the funding for startups in the space.[112]

Among the notable exercise brands in this space is Ergatta, which makes a smart rowing machine that offers a full-body workout via video-game based exercises and races, as opposed to trainer-led courses. The experience combines cardio exercise with interactive gaming.

GREYCROFT

Ian Sigalow, Co-founder and Partner at Greycroft, led the seed round at Ergatta. They believe the market for fitness apps and equipment will segment between class-based and game-based workouts. Ergatta is the emerging leader in gamified workouts, with an initial focus on rowing-based workouts. “Ergatta launched in 2020 and quickly scaled to over $40M of run-rate revenues during the holiday season. The company also reached profitability during the first year based on enormous consumer demand,” Ian Sigalow said.

> “We think that all home-fitness will end up being connected in the future, and in ten years a home gym will be in as much demand from new home buyers as a garage is today.”
>
> – Ian Sigalow, Co-founder and Partner at Greycroft

110. “Fitness App Market Share, Size, Trends, Industry Analysis Report, By Type (Workout & Exercise Apps, Disease Management, Lifestyle Management, Nutrition & Diet, Medication Adherence); By OS Platform (Android, iOS, Windows); By Device Type; By Regions; Segment Forecast, 2020 - 2027” by Polaris Market Research, January 2021.
111. “Q3 2020: A new annual record for digital health (already)” by Rock Health, n.d. Retrieved December 23, 2020.
112. “Digital health’s record-breaking Q3 saw big raises in COVID-impacted sectors” by Mobi Health News, October 2020.

HOW THE FUTURE IS SHAPING UP

We expect the growth in this sector to continue, even once people feel comfortable going back to the gym. Nine in 10 Americans who exercise regularly say they'll continue their at-home workouts post-pandemic.[113] Globally, the market size for Digital Fitness is expected to reach $26.55 billion by 2026, up from $9.59 billion in 2020, at a compounded annual growth rate of 18.5%.[114]

For example, Peloton's growth since going public near the end of 2019 has been tremendous. The company's stock price grew about 300% across 2020.[115] Per the company's fiscal Q2 2021 earnings report[116], its quarterly revenue (128%) and connected fitness subscriptions (134%) both saw significant growth, highlighting increased interest in the workout-from-home model.

VC money continues to flow to this space in order to fill the gaps left by key acquisitions. Connected fitness company MIRROR was acquired by Lululemon for $500 million in 2020,[117] a transaction made all the more compelling due to the relative youth of MIRROR. Additionally, this industry-adjacent acquisition indicates an operational fluidity that may allow each brand to service the other.

113. "Most Americans plan to continue at-home workouts even once gyms fully reopen" by Fortune, August 2020.
114. "Digital Fitness Market Size 2020 is Expected to Grow with a Magnificent CAGR During the Forecast Period 2020-2026 and Top Countries Data with Definition, SWOT Analysis" by MarketWatch, November 2020.
115. Google Finance.
116. "Peloton Q2 2021 Results" by Peloton, February 2021
117. "Lululemon: MIRROR Should Accelerate Digital Business Transformation of the Company" by Seeking Alpha, December 2020.

CHAPTER 4

DIVERSITY & INCLUSION

Make Diversity Your Differentiator

DISRUPTORS HAVE ACKNOWLEDGED THE BUSINESS NEED FOR D&I (DIVERSITY & INCLUSION) MEASURES, BUT THE MAJORITY ARE ONLY SCRATCHING THE SURFACE ON BRINGING THEM TO LIFE.

It's time to show the receipts.

The heightened social climate in 2020 exposed the gap that exists between D&I ideals and its reality within business. Following the many racially fueled injustices that happened throughout the year, companies were asked by their customers to provide metrics on how they would continue working to support diversity initiatives beyond their oft one-and-done PR efforts.

Throughout the summer we saw brands give back, recommit to D&I programming, and offer the public more transparency on their work to date. And along the way, startups and Disruptors both led the charge and came up short.

There was the creation of commitments like the 15 Percent Pledge by Aurora James of Brother Vellie, which encouraged retailers to commit a minimum of 15% of their shelf to Black-owned businesses. The #PullUpOrShutUp social media campaign, started by Sharon Chuter of Uoma Beauty, to raise awareness of the lack of Black beauty executives. And the internal conversations, content adjustments, and financial investments done by companies including Pinterest[118] and Netflix[119].

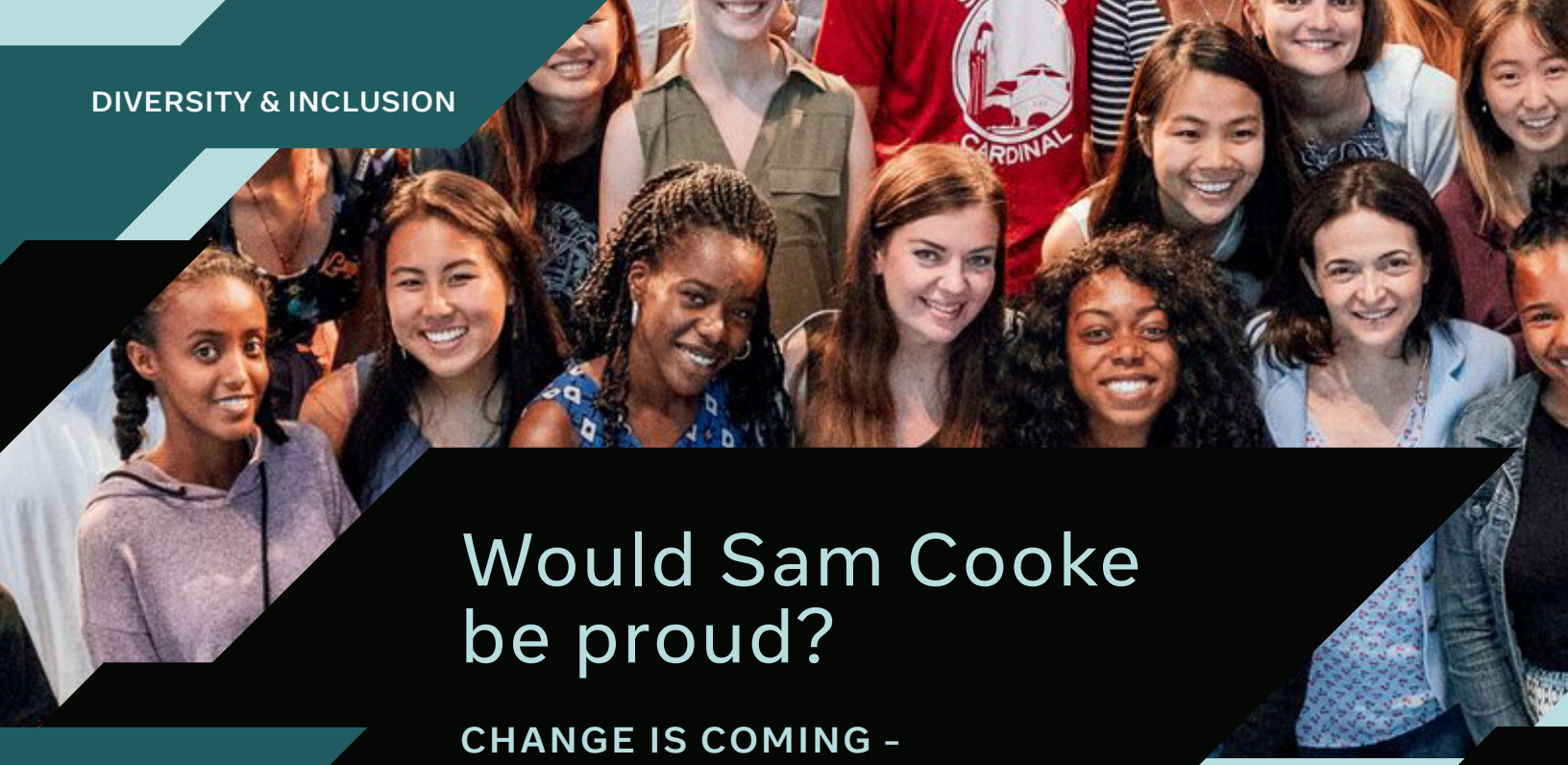
However, with transparency came the harsh reality of where many are behind. Numbers released on gender and ethnic diversity across tech and the funding landscape signaled a larger D&I trend and truth found within business: far too often brands' actions are not matching their words.

Thankfully, 2020 served as a wake up call, leading organizations to more thoughtfully address where they've fallen short. As they do, they're learning how complex it is to tackle D&I, and how doing so requires support across various groups, all employees, and as early on as funding minority-led businesses.

Disruptors and startups have a choice and a chance to embrace diversity early in their growth. Seizing this opportunity can help inform the DNA of a company long-term in a way that strengthens their business. At Facebook, we, too, are on a journey to identify opportunities to be more inclusive and representative and are committed to our work with brands to do the same.

— SINMI TINUBU, CLIENT SOLUTIONS MANAGER, DISRUPTORS, FACEBOOK

Financial investments done by companies including Pinterest and Netflix 118, 119.



Would Sam Cooke be proud?

CHANGE IS COMING – BUT IS IT HAPPENING FAST ENOUGH?

Even though people understand the need for diversity in business, it is still heavily lacking in tech and startups — where many Disruptors are born.

According to a Techstars Diversity and Inclusion Report, only 12 percent of the 680 startups surveyed employed more than four employees belonging to underrepresented minority groups. Yet 72 percent of these startups said diversity was important to them.[120]

Less than half (43%) of startups surveyed have company-wide promotion and hiring goals, while fewer than one-in-five had these goals for executive positions (the C-suite).

Only a quarter of start-ups (26%) are actively trying to increase diversity within their leadership teams.[121]

It's hard to pinpoint one exact thing that's causing the disconnect between corporate pledges and actions. However, creating a more equitable funding landscape is one place to start.

120. "How to Make Diversity A Hiring Priority at the Start Up Stage," Built In, June 2020
121. "These 5 Charts Reveal the Gender and Diversity Gaps Startups Must Bridge," World Economic Forum, August 2020

THE SPIRAL EFFECT OF FUNDING

Venture Capital funding is the ground floor for many Disruptor brands; the means by which many of the most successful ones have raised the capital that has helped propel them forward. And yet, the VC funding landscape has remained largely white, male, Ivy-league educated and Silicon Valley-based.[122]

2018

In 2018, of the **more than 9,000** companies that were venture funded, **only 227 had black founders** at the helm.

2020

And as of Aug 31, 2020, **Black and Latinx founders had raised $2.3 billion**, representing **only 2.6% of VC funding through Aug. 31, 2020.[123]** This is grossly disproportionate to the population demographics of the U.S., where these two groups combined make up **more than 30% of the population.[124]**

In addition to Black and Latinx founders, VC funding has also failed women. **Only 8% of VC funding currently goes to women.[125]**

Silicon Valley is aware of this diversity funding problem, yet the reasons why VC funding has continued to go towards those whom it has traditionally benefited are not always clear. While each topic deserves a deep dive, here are a few important ones to keep top of mind:

1. **OLD BOYS CLUB**

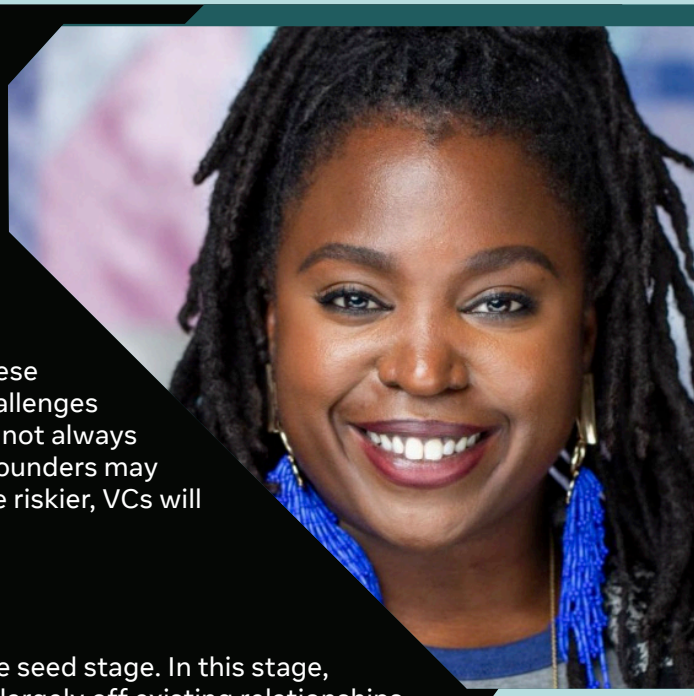
   VC has typically been an opaque space that has been difficult to navigate without close personal relationships. Historically that also includes a lack of diversity in a space dominated by white males.

2. **DIFFERENT EXPERIENCES = DIFFERENT SOLUTIONS**

   Diverse founders often have different experiences, such as upbringing and culture, that shape their worldview. These varied experiences may lead them to see new kinds of challenges or look for uncommon solutions. Unfortunately, VCs may not always understand the unique market opportunity that diverse founders may bring forth. And if these opportunities are perceived to be riskier, VCs will be less enthusiastic to fund these startups.

3. **SEED STAGE CHALLENGES**

   It's challenging for diverse founders to raise millions in the seed stage. In this stage, often early in a business' life, funding decisions are made largely off existing relationships and goodwill rather than solely metrics. And yet, founders who don't succeed at the seed stage aren't in a competitive position to raise funds in later stages.



122. "Untapped Opportunity: Minority Founders Still Being Overlooked," Crunch base, February 2019
123. "2020 Crunch base Diversity Spotlight Report" by Crunch base, 2020
124. U.S. Census Bureau (2019), "Quick Facts"
125. "Who We Are," Transparent Collective, 2019

Given how deeply systemic some of these challenges are, the lack of diversity in funding can cause a spiral effect. Without equal access to funding, especially early on, underrepresented populations will continue to be just that: underrepresented. Diverse-founded companies end up missing out on long-term growth opportunities and aren't in a position to be a part of changing representation in the space.

And without diversity at the founding level of startups, organizations may experience avoidable pitfalls. A lack of diverse representation can seep into everything from hiring and inclusivity efforts to the products that get built and the messages that get shared with the public.

AND YET, PROGRESS IS HAPPENING.

In many ways, 2020 served as a wake up call for institutions and individuals alike. By highlighting a legacy of racism and lack of opportunity and equality, 2020 pushed various firms to openly acknowledge their insufficient actions around diversity. Some took it a step further by committing to more transparency with hiring and doubling down on efforts for investing in BIPOC *(Black, Indigenous and People Of Color)*.

For perhaps the first time, VCs have begun an internal industry analysis, with some making attempts to remediate a deeply systemic diversity problem.

HERE ARE SOME OF THE GREAT THINGS WE'VE STARTED TO SEE:

TRACKING PROGRESS

In the past, data to track diverse founders and investors has been unreliable. Understanding that to know where we need to go, we need to measure where we are, Crunchbase started a new field in their data system to track the gender and diversity of founders.[126]

DEMONSTRATING DIVERSITY COMMITMENT

The Diversity Rider was created this year to generate opportunities for diverse check writers to participate in deals.[127] Investors who sign up will include a boilerplate in term sheets submitted to startups, requiring that best efforts are made to bring underrepresented investors into the deals.

EQUITABLE FUNDRAISING LANDSCAPE

#MovingForward, launched in 2018 with 39 pioneering VC firms, grew to 175 firms in 24 countries in 2020. Their mission is to help right the imbalance that exists between investors and founders to promote inclusive and equitable startup fundraising.[128]

Alongside these efforts, we've also seen examples across tech of the improving landscape for underrepresented minorities and women.

The proportion of female co-founded companies has doubled since 2009, **now up to 20 percent.**[129]

Impact America Fund (IAF) closed a $55M investment vehicle to serve companies that work on solutions for the world's overlooked and underserved. The close marks one of the largest funds ever raised by a sole Black female general partner.

645 Ventures, a Black-owned VC, closed a **$160M fund for tech investments.**[130]

Tech has taken strides to improve but we are only scratching the surface on what's possible. Let these examples serve as proof that change is possible once we decide that we value that change.

126. "2020 Crunch base Diversity Spotlight Report" by Crunchbase, 2020
127. "Introducing the Diversity Rider Program" Crunchbase, August 2020
128. "We Are #MovingForward": https://wearemovingforward.github.io/
129. "EOY 2019 Diversity Report: 20 Percent of Newly Funded Startups In 2019 Have a Female Founder," Crunchbase, January 2020
130. "645 Ventures Closes On $160M Fund for Tech Investors," Bloomberg, October 2020

The Upside of A Moral Imperative

WE HAVE LOTS OF STATS, FACTS AND FIGURES TO SPEAK TO WHY THIS WORK MUST BE DONE. BUT THE BIG TAKEAWAY IS: THIS WORK IS A MORAL IMPERATIVE.

DIVERSITY IS A DIFFERENTIATOR

Since not every company has prioritized diversity, those that do have the runway to build for long-term success. According to a study by The World Economic Forum, companies leading their region and industry for diversity, equity, inclusion and belonging perform better than their market average. These companies are:

- **25 - 36%**
  more likely to perform on profitability

- **Up to 20%** higher rate of innovation and **19%** higher innovation revenues

- **Up to 30%**
  greater ability of spotting and reducing business risks; A statistically significant causal relationship with engagement and retention for all employees.[131]

131. "Diversity Equity and Inclusion" by World Economic Forum, 2020

DIVERSITY JUST MAKES SENSE. AND CENTS.

When it comes to hiring, data shows that diverse teams financially outperform others. Diverse boards of directors are 43% more likely than non-diverse boards to achieve financial performance above the national industry average.[133]

And a similar story is found with startups. For every dollar of funding, startups founded and co-founded by women generated 78 cents, while male-founded startups generated less than half that — just 31 cents.[134]

GROUP-THINK DOWN, INNOVATION UP.

Diversity also encourages new ideas by reducing homogeneity and the resulting group-think that it may cause. According to The Techstars Diversity and Inclusion report, 8 in ten founders believed that having a diverse staff enhances creativity and innovation. And 71% believed that it improves problem solving.[135]

ACTION TRUMPS ACKNOWLEDGMENT.

In the past, companies received praise simply by issuing statements speaking to how they value diversity. Today it is no longer enough to advertise a commitment to diversity without real action or capital investment.

In the Edelman Trust Barometer Special Report 2020, 63% of the 2,000 respondents said that brands that issue statements in support of racial equality must also install concrete policies to "avoid being seen ... as exploitative or as opportunists."[136]

Over 45% of women and men surveyed felt that diversity in advertising alone did not feel sincere.[137]

1 in 3 people have stopped using a brand that didn't represent their identity in advertising.[138]

133. "The Board Challenge, 2020" https://theboardchallenge.org/
134. "Diversity Is The Key to Startup Success -- What Can Early Stage Founders Do About It," Forbes, November 2018
135. "How to Make Diversity A Hiring Priority at the Start Up Stage," Built In, June 2020
136. "40% of Companies Discussed Diversity on Earnings Calls, Up from 4% In Prior Quarter, New Data Shows," CNBC, August 2020
137. "Why More Luxury Brands Are Focusing On Diversity - 31st July 2019 Mintel
138. "Consumers Say The Diversity in Advertising Has An Impact On Them," Marketing Charts, September 2019

Consumers today have said -- with their voices and their dollars -- that they expect to see themselves represented in the businesses they support. Without a real commitment to inclusivity, showing diverse faces in ads can feel tokenistic. Taking action to promote diversity is business critical to drive trust with consumers.

REFLECTING THE WORLD.

Beyond just the business case for diversity - which is strong - there is inarguably a moral obligation companies have to reflect their customers and the world in which they're operating in. By 2045, the US will become "minority white" with whites comprising only 49.7 percent of the population in contrast to 24.6 percent for Hispanics, 13.1 for Black people, 7.9 percent for Asians, and 3.8 percent for multiracial populations.[139]

And yet, according to a Facebook-commissioned survey, only 40% of respondents said they feel represented in the ads they see, while 70% of participants said they want to see more diversity and inclusion in digital ads.[140]

Not only does diversity drive trust, but it's a reflection of the real-world. As companies that continuously inspire through innovative solutions, Disruptor brands have an opportunity to galvanize their respective industries by infusing diversity into the ethos and actions of their organizations. When they do, everyone from their employees and customers to their bottom line and industry standards will benefit.

139. "The US Will Become 'Minority White' in 2045, Census Projects," Brookings, March 2014
140. "Underrepresentation and Misrepresentation Have No Place In Advertising Today -- Insights From the Geena Davis Institute's CEO," Ad Week, 2020

SO, WHAT NOW? THE PATH FORWARD

At Facebook, we say the
"journey is 1% finished."

There is still a lot of work to be done in the tech industry when it comes to diversity and inclusion, and we are no exception.

We, too, are taking steps to put our commitments into action. Every business has it's nuances but at Facebook, our actions come to life in building on investments in underrepresented communities, elevating Black and Latinx voices and stories, and creating a more diverse and inclusive workforce.

Here are 5 diversity-focused best practices we recommend based on what we've observed from Disruptors and startups who've embraced diversity:

FACEBOOK IS COMMITTED TO:

- **Having 50% of our workforce come from underrepresented communities** by the end of 2023, and we're working to double our number of Black and Latinx employees in the same timeframe.[141]
- **Spend $1 billion dollars with diverse suppliers in 2021,** including $100M with black-owned businesses.[142]
- Through the Elevate Advanced Access Program, Facebook provides access to financial, human, and social capital to Black and Latinx and Hispanic small businesses, creators, nonprofits, students and job seekers. Support includes:
  - Dedicated account support to minority-owned business & venture capital firms
  - Social communities to (e.g. Founders Circle, leadership groups) to connect business owners, founders and VCs
  - Donated hardware and software to help increase productivity and collaboration
  - Mentorship Circles that help build expertise on Facebook Ads Manager and other relevant Facebook products.
  - Financial credits to take advantage of Facebook offerings
- Accelerating inclusive representation in advertising with the Ads for Equality program. By providing tools and best practices to generate advertising that is diverse and truly represents all people, Ads for Equality looks to help build a more equal world while unlocking business opportunities.

141, 142. "Supporting Black and Diverse Communities," Facebook, June 2020

1 INFUSE D&I IN YOUR DNA:

A company's D&I strategy cannot only be carried out by those with "Diverse" in their titles or in their Census responses. D&I must be included in every facet of your business and its operations, and be supported by teams across the organization. Within your business, it's important to have representation from the bottom to the top.

To build a diverse workforce, nurture your talent pipeline to ensure that young, diverse, and inclusive talent is mentored and supported. Efforts should not stop at hiring. Inclusive practices must be prioritized by leaders and championed by everyone in your organization. Additionally, work on integrating fair employment policies that encourage retention. In tech, it has been shown that unicorns that offer paid maternity leave have more female leaders and staff, and the female leaders stay longer.[143]

And it's never too late to diversify leadership teams. Many tech companies, including Zillow and Nextdoor, are taking a pledge to add a Black director to their boards within 12 months. Uber, Lyft, Redfin and Okta have supported the pledge as partners.[144]

beRESONANT

The beRESONANT Accelerator: Summer 2020, Resonance launched The beRESONANT Accelerator to reimagine the fashion industry by changing the creators behind it. The program was designed to empower talented Black creators of color to build sustainable and valuable fashion brands with no inventory.

Known for their sustainable, on-demand (i.e. no inventory) technology-based design/ sell/ manufacture platform fashion production, Resonance created a new model for the industry that their inaugural class of Black creators was able to leverage. Those selected for The beRESONANT Accelerator designed and launched made-to-order products using Resonance's proprietary technology platform.

The next phase of partnership with the inaugural class will be focused on adding more value through marketing support and amplification via Resonance's recently launched multi-brand retail store. The store features products from all of the brands who participated in the Accelerator, and will soon become a hub for pop-ups, collaborations, and a variety of other product and partnership experiments that will help increase awareness of and engagement with these creators.

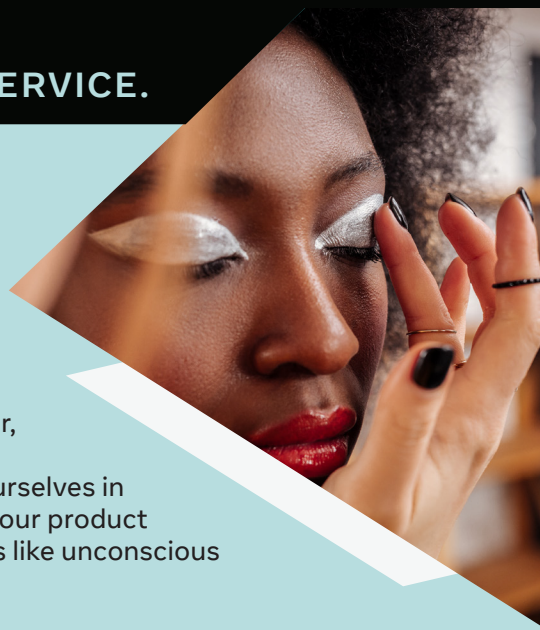
Every few months, beRESONANT plans to on board new classes of creators across geographies and artistic disciplines. Resonance will apply the insights they generate to further accelerate the growth of each brand.

"You can't change fashion without changing who is making fashion" said Lawrence Lenihan, Chairman and co-Founder of Resonance. "For the fashion industry to survive, it must change its structure –its basic business model, the impact it makes on our planet, and the opportunities it creates. Resonance exists to change the first two points; the beRESONANT Accelerator exists to address the third. Our mission is to give underrepresented creators with something to say the tools to compete effectively and profitably with any brand in this industry, using their creative talents as their competitive advantage, not their liability."

Lawrence Lenihan
Chairman and co-Founder of Resonance.

143. "Women Are Still A Rarity at Tech Unicorns, Survey Says," Crunch base, November 2020
144. "Over A Dozen Companies, Including Zillow And Nextdoor, Are Pledging To Add At Least One Black Director To Their Executive Board Within The Next Year," Business Insider, September 2020

2 ELIMINATE BIAS IN YOUR PRODUCT OR SERVICE.



To be a true champion for diversity, it's important to reflect on the ways your product or service can be used by different segments of the population. And as you do this, be aware that our individual biases can affect the final product or service we create.

Having diverse teams will increase the likelihood that you reflect your customers and their needs throughout the development process. However, alongside these efforts, one must continuously look for ways to challenge existing assumptions, use multiple data sources, and continuously put yourselves in your customers' shoes. Ask yourselves at multiple touch points whether your product or service is built with inclusivity in mind? And if offered, lean on resources like unconscious bias training to start recognizing your own implicit biases.[145]

Financial lending has long been a sector that favors the wealthy. Despite credit bureaus only covering 31% of the worldwide adult population, most banking institutions require a credit score to determine financial worthiness. Meanwhile, another 4 billion people are underbanked, having a bank account but still struggling to make ends meet. These individuals are liable to rack up steep fees when checks bounce and accounts are overdrawn or resort to high-interest alternatives like payday loans.[146]

TALA

Both the unbanked and underbanked are not left with many options for lending. Enter: Tala. Tala is a financial services company *built* for the globally underserved. Instead of relying on a credit score to determine someone's lending worthiness, Tala has created a scoring model that uses about 250 data points – both via smartphone and behavioral. To prevent algorithmic biases, the credit model does not use specific identifying information such as age or gender.

There are 1.7 billion people globally who are unbanked but two-thirds of them now have a mobile device. Tala has worked to make the financial services industry more inclusive by serving those who are traditionally left out of the conversation - the emerging middle class. By focusing on developing an inclusive product and service, Tala can unlock new opportunities and growth in previously untapped markets.[147]

GoodRx

Leaders at GoodRx, an American healthcare company, responded to the racial injustice of 2020 with a Hackathon aimed to address inequalities in healthcare. The company-wide, 2-day event challenged employees to create projects that provided potential solutions to Diversity, Equity and Inclusion problems. Teams conducted research to inform the product, allowing them to learn more about important segments of the organization's consumers and be an integral part of work that could deeply impact these communities.[148]

145. "3 Key Biases In Product and How To Avoid Them By eBay Director of Product," Product School, April 2020
146. "The $100 Trillion Opportunity: The Race To Provide Banking to The World's Poor," Forbes, September 2019
147. "Startup Uses Mobile Data As A Credit Score For The Global Unbanked," CNBC, January 2020
148. "GoodRx Hackathon 2020: Addressing Racial Injustice and Improving Diversity, Equity, and Inclusion in Healthcare," GoodRx Blog, August 2020

3 ELIMINATE BIAS IN YOUR ADS AND FOCUS ON REPRESENTING MULTIPLE GROUPS VIA YOUR MARKETING AND CREATIVE.

The truth is, if your marketing and creative doesn't infuse inclusion, much of the D&I work done to create your product and service will be misrepresented. It's important to continue to reflect the world within your creative execution by mitigating how biases show up in your work.

WE RECOMMEND TO:

- Get specific in your briefs, scripts and casting documents—include gender, race and sexual orientation.
- Use an intersectional lens even if (and especially when) it's not related to the brand or the message of the campaign.[149]
- Be careful not to play towards any stereotypes that can be harmful to underrepresented communities.

  As we've seen, biases can sneakily creep into work. For example, in a recent Facebook study we've found a gender imbalance among industries when it comes to ads. Women are 2x more likely than men to be depicted in situations related to the household such as cooking and caregivers.[150] This reinforces the antiquated idea that high-value verticals focused on auto and tech are for men and household, family and personal care products are for women.

When teams take the time to go through these resources, they not only decrease the likelihood of playing to harmful stereotypes, but they also create work that creatively pulls at human truths, while positively shifting perceptions.

149. "Underrepresentation and Misrepresentation Have No Place In Advertising Today", Geena Davis Institute & AdWeek, 2020
150. "Diverse and Inclusive Representation In Online Advertising: An Exploration of Attitudes and Impact" by the Geena Davis Institute (Facebook commissioned of online video ads (N = 1,022)

4 COMMIT TO WORKING WITH A DIVERSE SLATE OF SUPPLIERS AND BUSINESS PARTNERS.

Supplier diversity is another essential way to build in D&I into your company's DNA. Creating a supplier diversity program means you're proactively encouraging the use of businesses that are at least 51% owned and operated by an individual or group that is part of a traditionally underrepresented or underserved group. In addition to the moral and ethical advantages, these programs are a great way to promote economic opportunities and build more agility and resiliency into your supply chain.[151]

Be creative with how you find ways to support diverse suppliers. From catering, to office supplies, to work-from-home development - diverse suppliers can provide endless business solutions.

TO GET STARTED:

- Check out the national organizations that offer databases of diverse owned businesses to partner with, such as The National Minority Supplier Development Council (NMSDC), Women's Business Enterprise National Council (WBENC) and National Gay and Lesbian Chamber of Commerce (NGLCC) are a few examples.
- Look for ways to partner with small or local businesses too. There's never been a more helpful time to support these businesses that are the backbone of our respective communities.

Mature non-minority businesses far outpace businesses from underrepresented communities in revenue. Remember that economic justice is a key part of the fight to reach social justice and equal opportunity for all.

yelp

In 2020, **Yelp** rolled out a Black-owned business attribute to make it easier for consumers to find and support diverse owners.[156] This follows Google's addition of "veterans-led" and "women-led" attributes to its official business profile.[157]

At Facebook, we believe that our supplier base should reflect the communities and people that we serve.[158] For example, in 2020, 41% of Black businesses in the United States have permanently shut down due to COVID-19. We have an opportunity to support diverse business owners and contribute to their success. Facebook launched a #BuyBlackFriday campaign to increase support for Black-owned businesses during the holiday season and ensure they get a slice of the $1T holiday pie.[159]

155. "Why You Need A Supplier Diversity Program," Harvard Business Review, August 2020
156. "Yelp Rolls Out Opt-In Black-Owned Business Attribute," AdWeek, June 2020
157. "Google Adds New 'Veteran-Led' Attribute To Google My Business Profile," Search Engine Land, August 2018
158. "Why You Need A Supplier Diversity Program," Harvard Business Review, August 2020
159. Facebook for Business: https://www.facebook.com/business/m/buyblackfriday

5 GIVE BACK. AS A BRAND, YOU CAN GIVE BACK TO YOUR LOCAL COMMUNITY AND ELEVATE UNDERSERVED GROUPS.

Much of the most progressive and culture-shifting work is being led by organizations that were founded with missions to serve diverse communities. By donating funds and resources to these organizations, brands can make an immediate impact and play a role in furthering their mission.

Doing good is good for business. By working to advance equality you'll be helping to create an economy and society that's more resilient to future systemic shocks, which helps create an environment where your business and employees can flourish too. Change begins when we support the local diverse entrepreneurs in our own backyard.

THIRDLOVE

ThirdLove is a DTC company that specializes in comfortable bras and loungewear. To give back to the community that they serve and support movements like Black Lives Matter, ThirdLove designed a program that directly benefits women and diverse founders. Through the TL Effect program female entrepreneurs of color receive a $20,000 grant and direct mentorship from leaders at ThirdLove.[160]

Kyutee Beauty was the brand that received the first TL Effect grant.

"Participating in the TL Effect has been immensely valuable to both myself and my business because it's provided access, knowledge and insight--from a successful Silicon Valley company--that I previously hadn't been privy to. Through newfound relationships with Heidi and my 7 TL Effect mentors, I've received 1:1 coaching on business strategy/operations, branding, how to develop & deploy marketing campaigns, negotiate partnerships, improve social presence, and so much more. The experience has exceeded my expectations and I feel it's positioned my company for success. I'm truly grateful for the opportunity."

-- Arah Sims, Founder & CEO, Kyutee Beauty.

kyütee

160. "ThirdLove Creates TL Effect Program to Support Women Entrepreneurs of Color," AdWeek, October 2020

CHAPTER 5

THE FUTURE OF SHOPPING

Ecommerce + Social: a truly modern romance

CONSUMERS ARE FINDING WAYS TO CONNECT FROM ANYWHERE, CREATING A WORLD OF NEW COMMERCE POSSIBILITIES FOR BRANDS

WE SHOULD'VE SEEN IT COMING

They say hindsight is 2020. Back before the stay-at-home economy took over, it was already clear that ecommerce and social were made for each other. Heading into last year, 90% of Instagram users were following at least one brand on the platform[161], and we'd already seen a huge number of people discovering (83%), researching (81%), and deciding to buy a product or service (80%) after using Instagram.[162]

Social proof, via user-generated content (UGC), had proven to be an effective commerce persuader too. Brands learned the value of positive customer photos, videos, and reviews in online shopping experiences. By the beginning of last year, 84% of Millennials reported that UGC influenced their online shopping behavior, and 70% said they considered customer ratings and reviews before making a purchase.

SAVE THE DATE

Shopping had always been a social activity in the past, whether that meant meeting a friend at a store, or gift-buying together with family during the holidays. But the pandemic really kicked things up a notch. Physically distant consumers, forced to limit their in-person interactions, used social as a natural gathering place to safely connect with people and brands in ways that felt tangible.

This not only accelerated increases in time spent online, mobile usage, and contactless shopping, but it made social a more valuable commerce partner than ever before. And that strengthened the bond for good. Technology stepped in to help brands and consumers make better connections, with video calls, gaming, streaming, and messaging — all enabled by social platforms — creating new possibilities for conversion.

GOOD NEWS! WE'RE ALL INVITED

There was a time when it seemed like Direct-to-Consumer (DTC) brands and social shopping might've only mattered to younger customers — but those days are over. Post-2020, we're all on the guest list. The "C" in DTC really does stand for "consumers of all ages". Each consumer group has different needs and behaviors, but each has learned to get what they need from ecommerce. And that means Boomers and Gen X shoppers are now just as valuable for your DTC business as Gen Y, Millennials, and Gen Z.

The most successful brands in the post-COVID-19 economy will be those that find ways to reinvent what it means to be DTC. In this chapter, we'll take a deeper look at the marriage between ecommerce and social, help you understand what this means for the traditional conversion funnel, and show you new ways to delight your customers and enable Discovery Commerce.

— LAUREN MARIE KEHE, MARKETING LEAD, EMERGING PLATFORMS, FACEBOOK

161. "Important Instagram stats you need to know for 2020" by Sprout Social, August 2020.
162. "Project Instagram" by Ipsos (Facebook-commissioned survey of 21,000 people ages 13–64 in AR, AU, BR, CA, DE, FR, IN, IT, KR, TR, UK, US and ages 18–64 in Japan), Nov 2018.
163. "46 Mind-Blowing Stats About User-Generated Content" by TINT, January 2020.

Love at first sight

THE JOYS OF DISCOVERY COMMERCE IN THE "APPOINTMENT SHOPPING" ERA

What makes ecommerce and social such a winning partnership? Their ability to deliver moments of shopping discovery that feel truly serendipitous.

This marks an evolution from destination-driven shopping, to something that closely mirrors the fun of discovering a new product or experience in a store.

When we say appointment shopping, we're thinking of all the practical ways consumers incorporate DTC into their lives, such as monthly dog-food shipments, regular grocery deliveries, or last-minute ink jet refills. Customers initiate these purchases because they've already decided exactly which products they want. Appointment shopping meets an important need — convenience — but it typically doesn't create moments of joy.

For years, Disruptor brands have succeeded by adding delight and discovery to online shopping — inspiring customers to try new products they couldn't possibly have expected to find in advance. We call this phenomenon Discovery Commerce — marketing that meets people where they are. And now, we've developed a system of Facebook tools that anticipates customer needs, and then matches products with the people most likely to love them, to make Discovery Commerce a reality for more businesses.

Instead of people finding products via search or destination-driven shopping, Discovery Commerce helps products find people where they're already spending their time — on the social apps they use most. When consumers experience these moments of joyful product discovery, curated by social interactions and their own interests and activities, the end result feels serendipitous for both customers and brands.

EVERY LOVE STORY IS UNIQUE

People don't always visit a site or app ready to make a purchase. Sometimes, they don't even know they're ready to buy. They discover new products and experiences by listening to experts they trust, reading community feedback, or finding new offerings on their own time. And in this important economic moment, when people are doing less in-person shopping, but spending more time online — this is even more likely to be true.

Is your marketing doing everything it can to enable those "I've-finally-found-the-one" ecommerce moments?

If you're building your business for the future, you can't wait for people to come to you. To find customers that love your products … you have to be a brand they can love.

Our Discovery Commerce tools help brands leverage **powerful machine learning, exciting creative, and seamless checkout,** to build intent organically, and increase the chances of making the right connection. By incorporating social surfaces like conversations, creator channels, and live streaming, with organic product experiences, you can engage people in exciting new ways.

IF YOU'RE ON SOCIAL … YOU'VE ALREADY TAKEN THE FIRST BIG STEP

In 2020, we saw a meaningful increase in the percentage of users who made a purchase from a brand they followed on our platforms.

The overall % who made a purchase from a brand they followed on Facebook rose from

36% in 2019

to

49% in 2020,

at Instagram that percentage rose from

41% in 2019

to

52% in 2020[164]

When we take a closer look, we see that personalization, enabled by social, is a key lever for driving discovery. When paired with on-platform checkout, these curated experiences help increase chances of conversion.

48%

of people on Instagram who bought something from a new brand said it was because they saw a sponsored ad[165]

164, 165. "Cowen Millennial Tracker Survey" by Cowen, June 2020.

Discovery Commerce Success Story: Pura Vida

"Facebook and Instagram have been crucial to our business growth because of their ability to scale high-touch word of mouth. No other platforms let us get in front of the people we know will love our products, in a more seamless and efficient way."

— Griffin Hall, CEO & Co-Founder

In planning for its Black Friday/Cyber Monday sales push, the artisanal jewelry company Pura Vida designed a Discovery Commerce ad campaign to help grow sales to new customers.

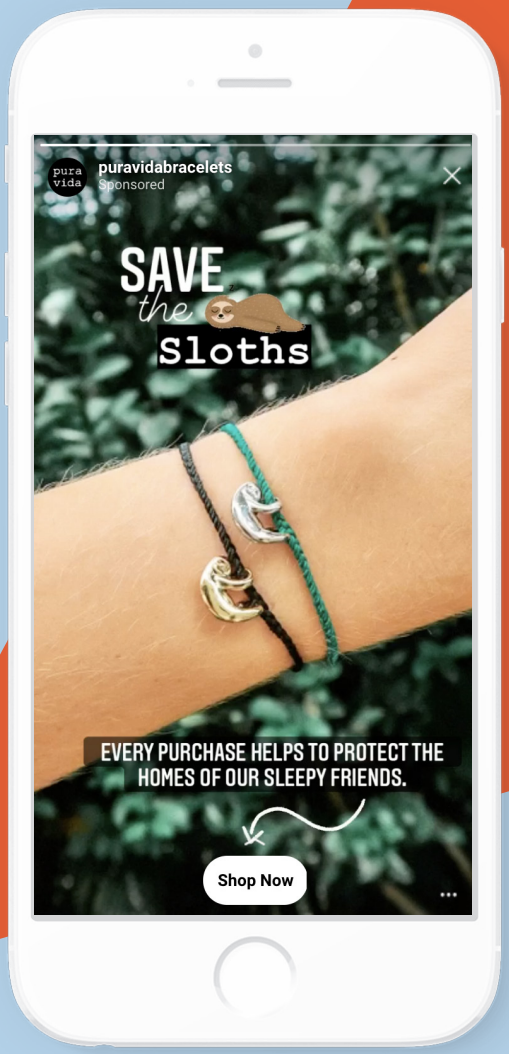
Pura Vida delivered ads across the Facebook family of apps and services, including Facebook News Feed, Facebook Stories, Instagram feed, Instagram Stories, Messenger Inbox, Messenger Stories, in-stream video, Instant Articles and Marketplace.

Their results spoke to the success of this new approach[166]:

2.8X
lift in return on ad spend

2X
increase in sales, compared to previous sales record

28%
increase in average order value, compared to previous year



166. "Pura Vida: Facebook ads case study" by Facebook Business, n.d.

2020 was full of surprises ... to put it mildly

ON THE COMMERCE FRONT, ONE OF THE BIGGEST DEVELOPMENTS WAS THE WAY SHOPPING RECLAIMED ITS "SOCIAL STATUS"

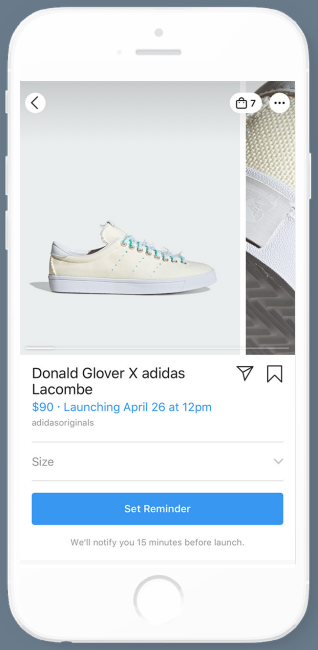
DTC started as a way to find business efficiencies online. Most early DTC businesses succeeded by moving the basic functions of in-person shopping to digital. But for a long time, physical retail maintained an advantage because it was more experiential.

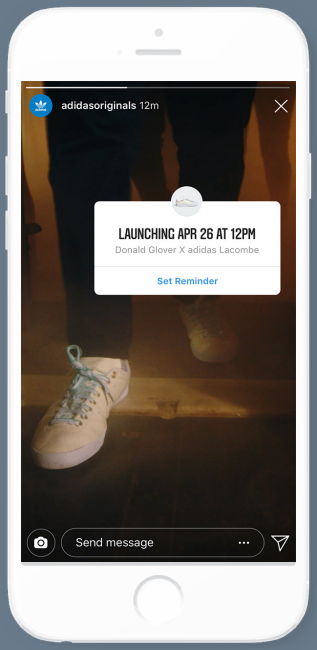
Nearly a third of consumers (30%) have said the inability to touch and see a product is a barrier to online shopping[167]. Obviously, ecommerce storefronts can't deliver the same level of immersion that in-person shopping does.

167. "Industry Micro-Shifts Monthly Tracker" by Kantar Profiles (Facebook-commissioned online survey of 96,938 adults across AU, BR, CA, DE, ES, FR, HK, ID, IN, IT, JP, KR, MX, TW, UK, US), May–Aug 2020. Unless otherwise specified, data is a cross-country average across all 16 markets.

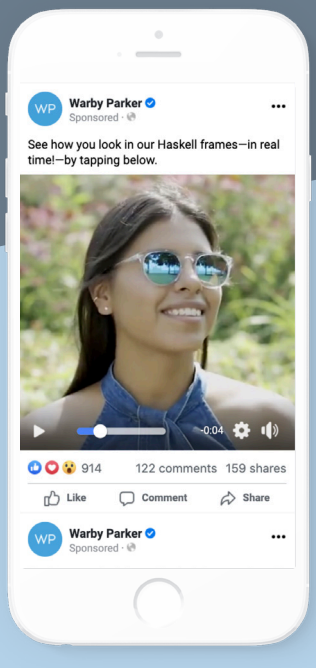
BUT DIGITAL HAS MADE GREAT STRIDES

The recent uptick in mobile usage and online shopping, combined with technologies like 5G and machine learning, are changing the dynamic. Digital is getting a lot more experiential, and consumers are better positioned to appreciate it.





For example, brands can now encourage digital "window shopping" and destination-less browsing on Facebook and Instagram. Brands like Adidas have had great success promoting and launching digital product drops[168] — first, building hype by promoting the drop in advance, and then, closing the loop from inspiration to purchase by reminding customers once the product becomes available.



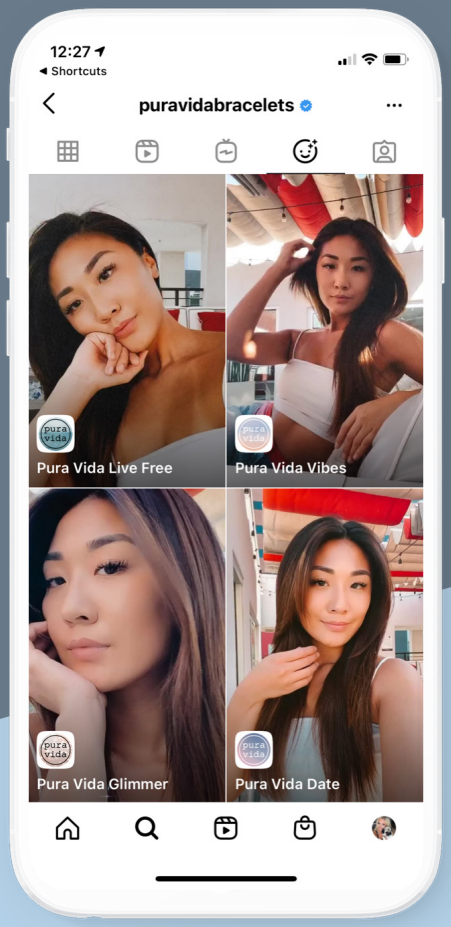
WARBY PARKER

And AR and VR technologies are helping companies craft experiences that blur the line between what's physical and what's digital. Warby Parker now offers an AR experience that lets people see how a new set of frames looks on their face — without ever trying them on in person.

168. "Set Reminders for Upcoming Product Launches on Instagram Shopping" by Instagram Business blog, September 2019.

pura vida

And Disruptors aren't just using AR to show products on social — they're building brand connections as well. Pura Vida saw great success from a recent AR filter that allowed people to augment their images and videos with the company's branding and special filter.



In less than two months, the filters delivered:

Impressions
46.6M

Opens
5.1M

Captures
1.3M

Shares
291K

"Creating value for our audience by providing an AR effect they love and want to use allowed us a new and innovative way to get our brand in front of consumers. We're constantly experimenting with new formats like this, and are excited to see what's next."

– Griffin Thall, CEO & Co-Founder, Pura Vida

This is only the beginning. Already, there are more than 600 million people using AR across Facebook apps and devices each month[169]. The trend will likely continue past COVID-19. After spending time at home with so much information available at their fingertips, shoppers may expect that new AR experiences (enhanced by smartphones or smart glasses) are waiting for them once they return to stores.

It isn't a big stretch to imagine a world where people can try new beauty products or clothes on at home, virtually, and then complete their purchase once they get to the store.

SHOPPING FEELS SOCIAL AGAIN

One of the pleasant surprises of 2020 was seeing shopping regain its status as a way to connect with others. Despite all the challenges of the year — and likely because of them — people were more willing to connect with each other online while shopping.

CREATORS

Creator marketing is at the forefront of integrated social/ecommerce experiences. Creators have turned one-way interactions into two-way, can't-miss content. Live streaming and live chats have become key vehicles for peer-to-peer marketing and conversational commerce.

MESSAGING

Integrations within messaging apps have made DTC connections easier and more immediate. Customers can message a business through WhatsApp or Messenger to ask questions, get support, track deliveries, and more. And soon, they'll be able to view a business' Shop and make purchases directly from the chat window.

Learn more about Conversational Commerce here.

LIVE SHOPPING

In that same spirit, communal media watching on digital has gained momentum. Using features such as Live and Watch, like-minded consumers can browse the same media together, with commerce touch points integrated along the way. Sellers, brands, and creators can now tag products from their Shop or catalog before going live, with products featured at the bottom of the video, so people can easily tap to learn more or purchase, while continuing to stream.

Nearly half of online shoppers >

49%[170] **agree:** "I would buy products directly from live videos where brands, celebrities, or influencers I follow are launching new products."

m d s

The Singaporean fashion label MDS Collections pivoted their business model from **80% offline to online**, and started using Facebook Live to pre-launch their new collections. This approach led to a **20% increase in total sales**.[171]

Learn more about Live Shopping here.

169. Facebook internal data, 2020.
170. "Discovery-Led Shopping Study" by GFK (Facebook-commissioned online survey of 12,063 people ages 18+ across AU, BR, CA, DE, FR, ID, IN, JP, MX, SK, UK, US Jul–Aug 2020).
171. "Influencers' next frontier: Their own live shopping channels" by The Verge, October 2020.

Here's to new beginnings

THE TRADITIONAL PURCHASE FUNNEL ISN'T YOUR ONLY OPTION. IN FACT, IT'S INCREASINGLY LIKELY YOU'LL CONVERT CUSTOMERS IN OTHER WAYS

New shopping experiences — powered by P2P, gamification, social buying, conversational commerce, shoppable media, and experiential digital marketing — are pushing ecommerce away from the traditional conversion funnel. They're reshaping it, weaving the customer journey across multiple screens and touch points, and incorporating everyday social interactions and discovery along the way.

66%[172]

of online shoppers agree that tech's role is to recommend products that meet in-the-moment shopping needs.

PEOPLE ARE SOPHISTICATED. COMMERCE SHOULD BE TOO.

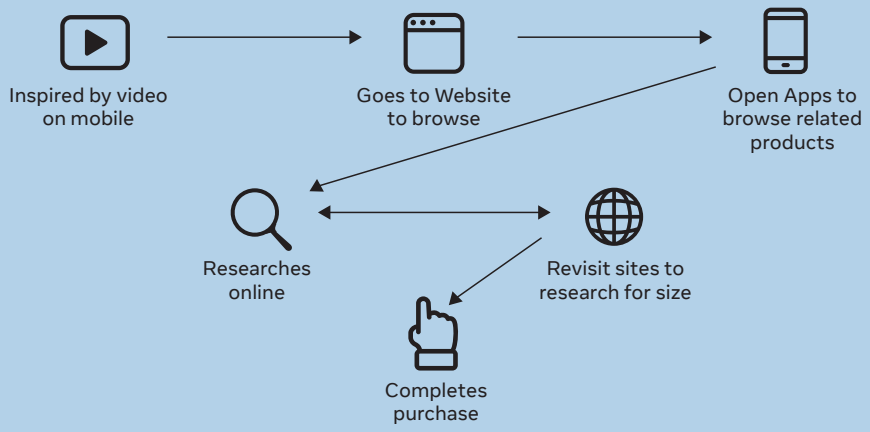
Branded destinations, such as websites, apps, and online retailers, are shaping up as pieces of a larger puzzle: your holistic brand presence. With consumers enjoying seamless integrations of products and brands in other parts of their lives — think of how the Amazon Echo enables ecommerce, plays media, and also acts as a smart-home hub, for example — social is making it increasingly possible to not only show people products where they spend their time (such as in ads, on mobile). It also brings other important features, like Payments and Fulfillment, along for the ride.

172. "Discovery-Led Shopping Study" by GFK (Facebook-commissioned online survey of 12,063 people ages 18+ across AU, BR, CA, DE, FR, ID, IN, JP, MX, SK, UK, US Jul–Aug 2020).

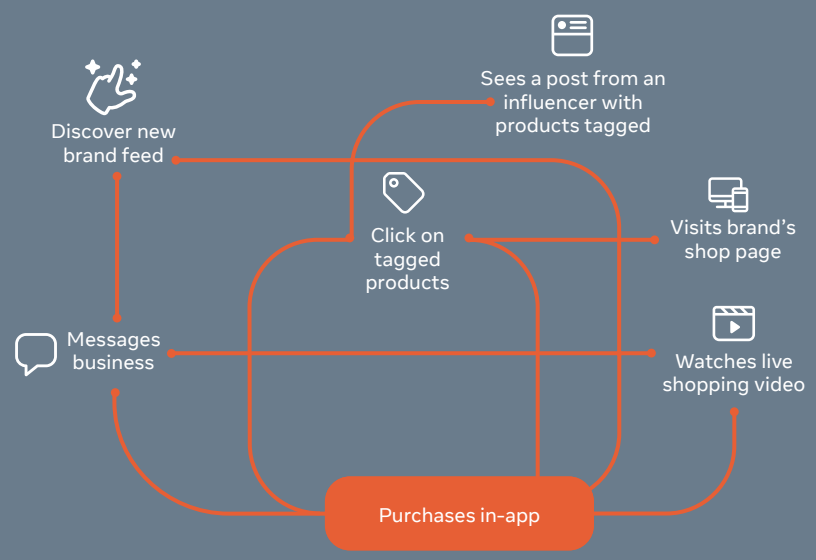
THE CONSUMER PURCHASE JOURNEY AS WE KNOW IT HAS CHANGED. AND THAT'S OKAY!

Think of the consumer purchase journey you once knew.
Now, think of all the potential ways social could reshape it.

It used to look like this:



But with social, it increasingly looks more like this — a non-linear, frictionless journey that relies on social proof and community engagement:

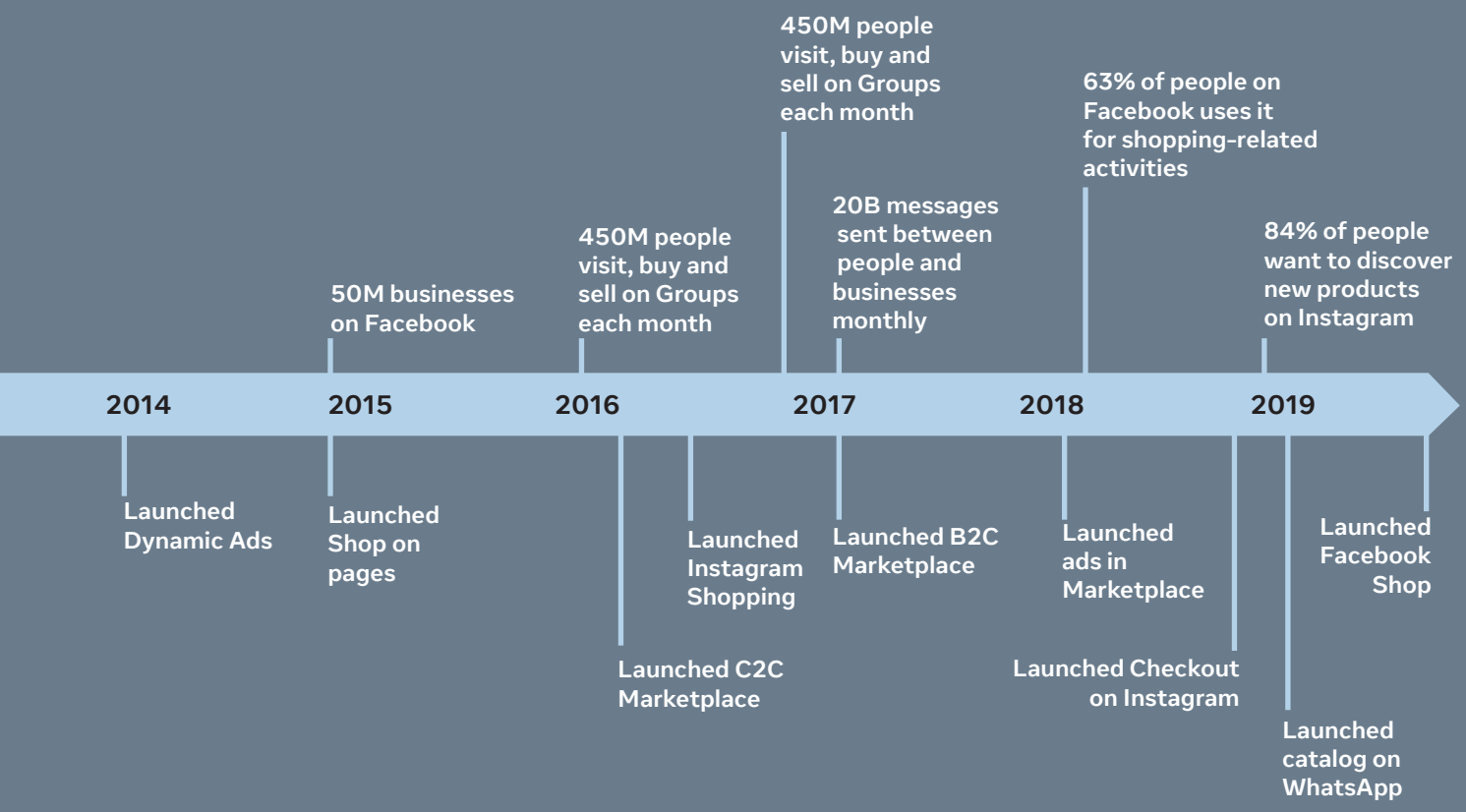


Sure, it looks a little different. And sure, sometimes "different" can seem scary. But there's no growth without change. In business, as in life, sometimes you have to know when to move on...

Ready to take the plunge?

GOOD — WE'RE RIGHT THERE WITH YOU. HERE'S A LOOK AT HOW OUR DISCOVERY COMMERCE SOLUTIONS HELP ECOMMERCE AND SOCIAL WORK BETTER TOGETHER

Every successful relationship requires effort. Just as you've likely experienced in your business, we've found that meeting the needs of brands and consumers requires constant change. Here's a look at the steps we've taken to help ecommerce and social work better together over the years.



WE'RE AN EVER-EVOLVING COMMERCE HUB

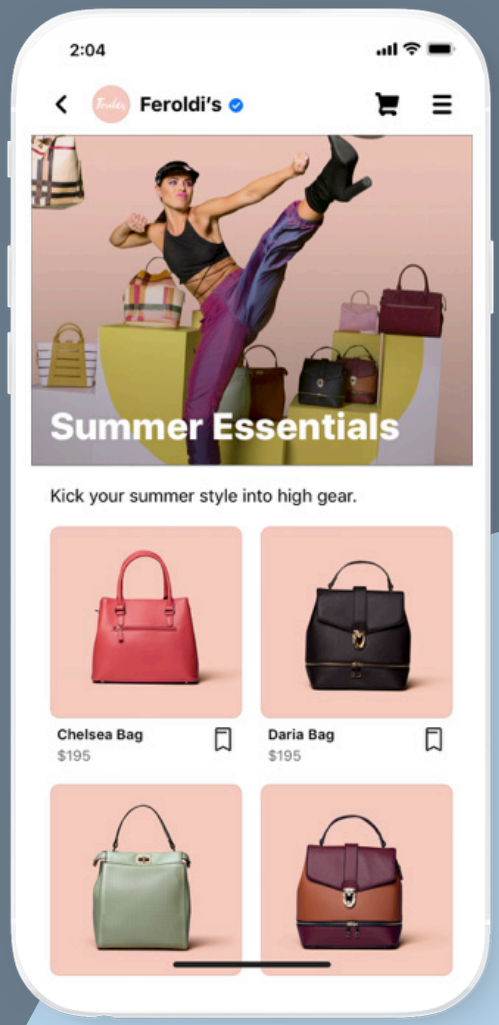
Each interaction along the Discovery Commerce journey should build brand affinity, add social proof, inform customers, and ultimately, increase consideration. To that end, we're continually updating our offerings to bring more of these experiences to life.

Take Instagram as an example. It now offers the ability to embed product and shopping tags in media, allow in-app conversions with Instagram Checkout, and curate a branded digital storefront within the app. Almost half (47%) of Instagram users 18+ say they've interacted with product tags.[173]

These product and shopping tags can be used by businesses to tag their products in posts, giving customers the option to save items they like, and make purchases directly from our apps with just a few clicks.

Checkout embodies the marriage of social and ecommerce that we've discussed throughout this chapter. Consumers can not only make purchases within Instagram, without ever leaving the app, they can keep discovering products and interacting with brands and people immediately after.

And we continue to push forward on inter-app compatibility with Shops and Payments, which allow consumers to personalize their path to purchase, and help you remove steps to conversion. Shops make it easier for you to set up a digital storefront and sell products natively across our apps. And Payments gives people the option to store their payment information for a fast and secure checkout experience.



173. "Cowen Millennial Tracker Survey" by Cowen, June 2020.

Shops Success Story:

zimba

> "Shops very quickly represented over 5% of our daily orders once we activated. By sometime in 2021, we're expecting Shops to be capable of driving as much business as our website, allowing us to scale our business and plan for aggressive hiring."
>
> — Joseph Trebitz, CMO, Zimba

Teeth whitening brand Zimba tested the use of Facebook Shops in July and August 2020, to see if the Discovery Commerce approach would help attract customers, boost brand awareness, and increase online sales.

Zimba quickly saw positive results, and hopes to drive as much business in Shops as on its website this year:[174]

1,200
incremental orders from Shops

6.7%
greater average order value from buyers who purchased via Shops, compared to those who bought on the website

174. "Zimba: Facebook ads case study" by Facebook Business, n.d.

CHAPTER 6

CREATIVE TRENDS & INSIGHTS

FACEBOOK

The ultimate performance driver

LOOKING FOR WAYS TO DIFFERENTIATE YOUR BRAND, DELIGHT CONSUMERS, AND INSPIRE MORE PURCHASES? GOOD CREATIVE IS THE KEY.

Disruptor businesses are often direct-response (DR) advertisers at their core. They've distinguished themselves by bringing new innovations to market, then investing to scale them quickly. And like other successful DR brands, they've built their reputations by being laser-focused on performance.

Many of the growth best practices we've shared in this paper are focused on optimizing efficiency — you could think of them as guidance for prioritizing the "direct" aspects of a "direct-response" business. So it might be helpful to think of good ad creative as the second half of the success equation — the variable that determines exactly how much "response" an advertiser gets from consumers.

When all's said and done, we think creative is the single most important lever an advertiser has to build attention and drive growth for their business:

- It **differentiates** a brand and establishes a visual identity, to help stand apart from the competition
- It **delights** consumers, using storytelling to capture and hold attention
- It **inspires** action, by building affinity and convincing consumers a product is right for them

As technology continues to evolve, brands have more opportunities to tell their story than ever. Disruptors have led the charge by embracing sophisticated ad formats such as Collections, Instant Experiences, Stories, AR, and Playable Ads.

Given creative's constantly evolving position as a growth driver, it can seem intimidating to some brands. For years, best-in-class creative was associated with making a massive resource investment. And while it's true that talent doesn't come cheap — and certainly deserves to be rewarded — we see more and more brands embracing the realization that they can build effective creative campaigns that don't break the bank.

Mastering both the human and quantitative components of successful creative is now an achievement that all brands can strive for. At Facebook, Disruptor brands are working with our Creative Shop team to find the balance between telling visually compelling stories and preserving their ability to hit the market quickly. How? By taking the test-and learn strategies they've been able to implement in other aspects of their business, and applying them to their creative work.

Ultimately, our goal is to make better creative accessible to everyone. Whether you're a marketer from a new startup, a growing Disruptor, or a legacy brand looking to shake things up, this chapter will show you how you can adopt a disruptive creative mindset in specific ways, even if you don't currently think of yourself as a creative expert.

— MICHAEL CHATFIELD, CREATIVE SHOP LEAD, DISRUPTORS, FACEBOOK

Simpler than you think

THE SECRET TO BUILDING DISRUPTOR-LEVEL CREATIVE? DON'T BE AFRAID TO BE HUMAN.

Why are so many marketers intimidated by creative planning?

In our experience, it's because they don't always think of themselves as "creatives". If you're not a designer, copywriter, or other professional artist, you might've convinced yourself that creative just isn't your lane. But from our perspective, you already have one advantage that makes you well-positioned to develop better creative for your brand.

You're human.

And that means you're messy. Complicated. Motivated. Focused. Unique. And a thousand other adjectives that apply equally to everyone you work with — and everyone you're trying to reach.

Luckily for you, the first step to designing breakthrough creative is simply to embrace your humanity: understand your own behaviors and motivations, so you can get in the headspace of the customers you care about. Once you know what makes other people tick, you're halfway there.

Creative is the most human element of any campaign. Sure, it can eventually be automated, analyzed, and templatized, to effective ends — but first it starts within.

EMBRACE YOUR CREATIVE MIND

We've observed several creative qualities in the most successful Disruptor brands that we think every marketer can tap into — whether or not they view themselves as creatives.

Check out the list we've put together below. We're willing to bet several of these qualities already apply to you:

CURIOUS ABOUT HUMAN BEHAVIOR.
Good creative marketers are interested in the latest consumer trends, and want to know more about how people use the platforms they love.

INSPIRED BY CULTURE AND INFORMATION.
They follow the news, fashion, or the arts; they care about people, and are deeply interested in exploring those "next big things".

DRIVEN BY IMAGINATION.
They trust the artists they work with to explore and express new ideas, but they're also not afraid to let loose with their own ideas and opinions.

ALWAYS WILLING TO LEARN MORE.
They know that in order to grow, they need to keep learning. They view data as a way to empower creative, not constrain it. And they understand the value of a great idea ...

The moral of the story? Today's most successful campaigns are being overseen by marketers who think a lot like you. Your inner creativity is well within reach.

Start with the fundamentals: Mobile-first creative

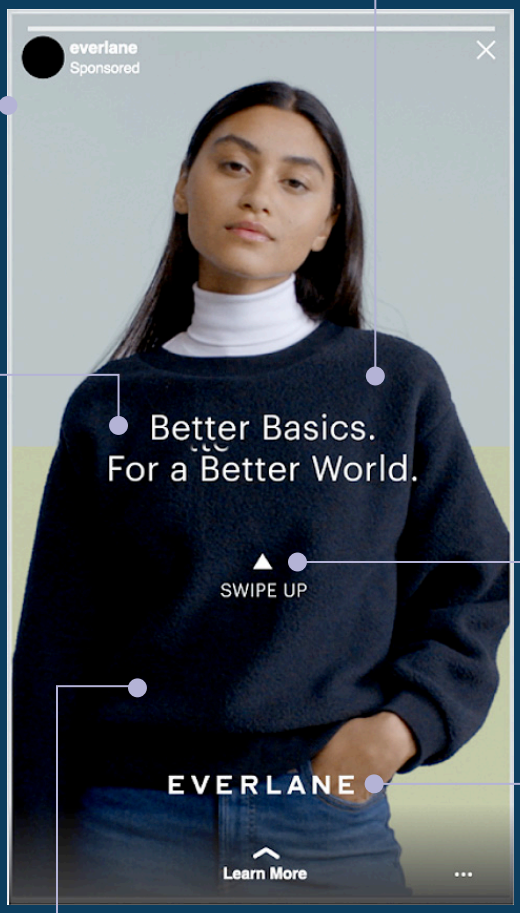
EFFECTIVE CREATIVE DRIVES SALES. THE WORK STARTS WITH PLANNING FOR MOBILE.

Now more than ever, people are browsing and buying on their handheld devices. That makes building your creative for mobile a crucial first step.

Facebook's Creative Shop has worked with hundreds of Disruptor brands, and studied thousands of creative assets across our platforms, to identify these key, mobile-first elements of highly effective creative:

1. FRAME ASSETS FOR MOBILE.
Creating images and experiences for the right aspect ratio is a simple first step, but you'd be surprised how often it gets overlooked in the early creative stages. Put simply: feed assets should be in 4:5; stories in 9:16; static images in 1:1.

4. FOCUS ON THE PRODUCT AND ITS BENEFITS.
Don't overcomplicate it — keep your message simple and focused, to maximize the chance you'll make an impact.



2. DESIGN FOR ACCESSIBILITY.
Don't assume people will always view your ads with the sound on — and don't assume your entire audience is hearing. Incorporate graphics and text to communicate your message too.

5. BE ACTION-ORIENTED.
Since the goal is to drive positive response, you should incorporate directive copy and visual calls to action that inspire your audience around what to do next.

3. CREATE FOR VISUAL IMPACT.
You don't get too many chances to get your audience's attention. Add bold visuals and unique editing choices to grab people's attention right away.

6. HIGHLIGHT YOUR BRAND.
Use quick logo "stings" and close-up product shots to ensure people remember your brand.

Following a checklist is one thing — putting creative principles into action is something else. Let's take a look at how you can apply your creative mindset to real-world business scenarios.

CREATIVE USE CASE #1:
Product launches

THE SCENARIO:

New product launches are a huge growth driver for Disruptor brands — and increasingly, for other companies as well.

But launches don't always take advantage of the entire mobile experience to break through to audiences, and aren't always executed in a way that captures audience insights that can be valuable moving forward.

RECOMMENDED STEPS:

Employ three key strategies to drive maximum response and glean valuable new insights when you launch a new product:

EMBRACE THE ECOSYSTEM.

Build a suite of assets across mobile ad placements on our platforms, to ensure that the right creative finds the right person, at the right time. Don't be afraid to experiment and incorporate interactive formats such as Polling Stickers, Stories Carousels or Instant Experiences that engage your audience on the topics they care about.

PLAN AROUND PEOPLE.

Ground your launch campaign in a strong, people-focused insight about your audience, so that what you build helps meet their needs in a unique way.

TEST AND LEARN.

Start with a hypothesis about which aspects of your product are most appealing to customers, then develop a testing strategy to investigate further. Split tests and conversion lift tests are great Facebook measurement options here. We call this approach to intentional creative experimentation "betatyping". Click here to learn more.

CREATIVE USE CASE #2:

Enabling active commerce within ads

THE SCENARIO:

Businesses of all sizes have been looking for new ways to connect with customers, especially as a result of the pandemic. And as customers have increased their mobile usage, and integrated their social and purchasing behaviors, they've become more open to discovering and buying products in easier ways.

RECOMMENDED SOLUTIONS:

We've made several developments to Facebook and Instagram Shops, to help brands and customers evolve from ecommerce to "discovery commerce". This approach gives consumers an increasingly active role in connecting with products they care about.

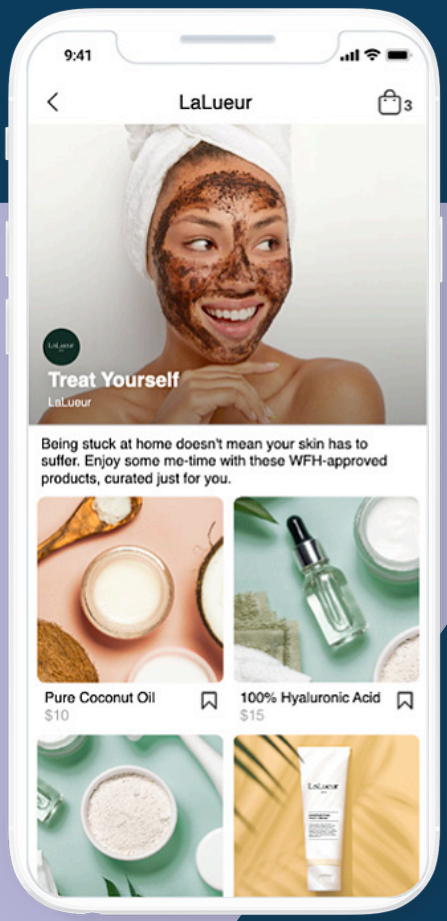
While some brands are mirroring their website shopping experiences in Shops, the most successful brands we've seen are being intentional and strategic about developing a unique commerce presence on our platforms. They're embracing purpose-driven creative strategies that meaningfully match products with customer needs: **creative merchandising, innovative ads, and loyalty strategies.**

CREATIVE MERCHANDISING

The distance between seeing an ad and making a purchase is shorter than ever before. With commerce actions now available to consumers within ads themselves, you could even say merchandising is the new advertising. By packaging and organizing your products around themes within your commerce surfaces and ads, you enable greater opportunity for discovery, and give people more reason to browse and buy on mobile.

LaLueur
BEAUTY

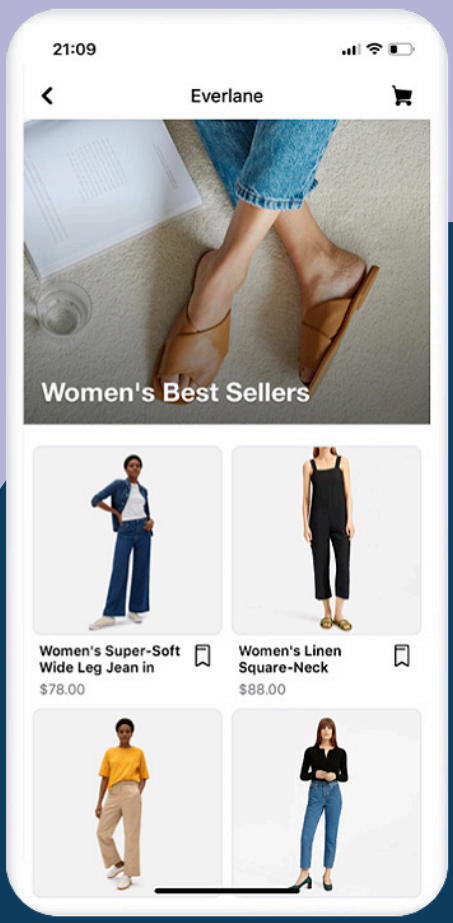
Ask yourself, “What’s my product edit?” How can you merchandise your products in exciting new ways? Check out these examples, which include themed collections around Summer Vacations, Holidays and Treat Yourself.

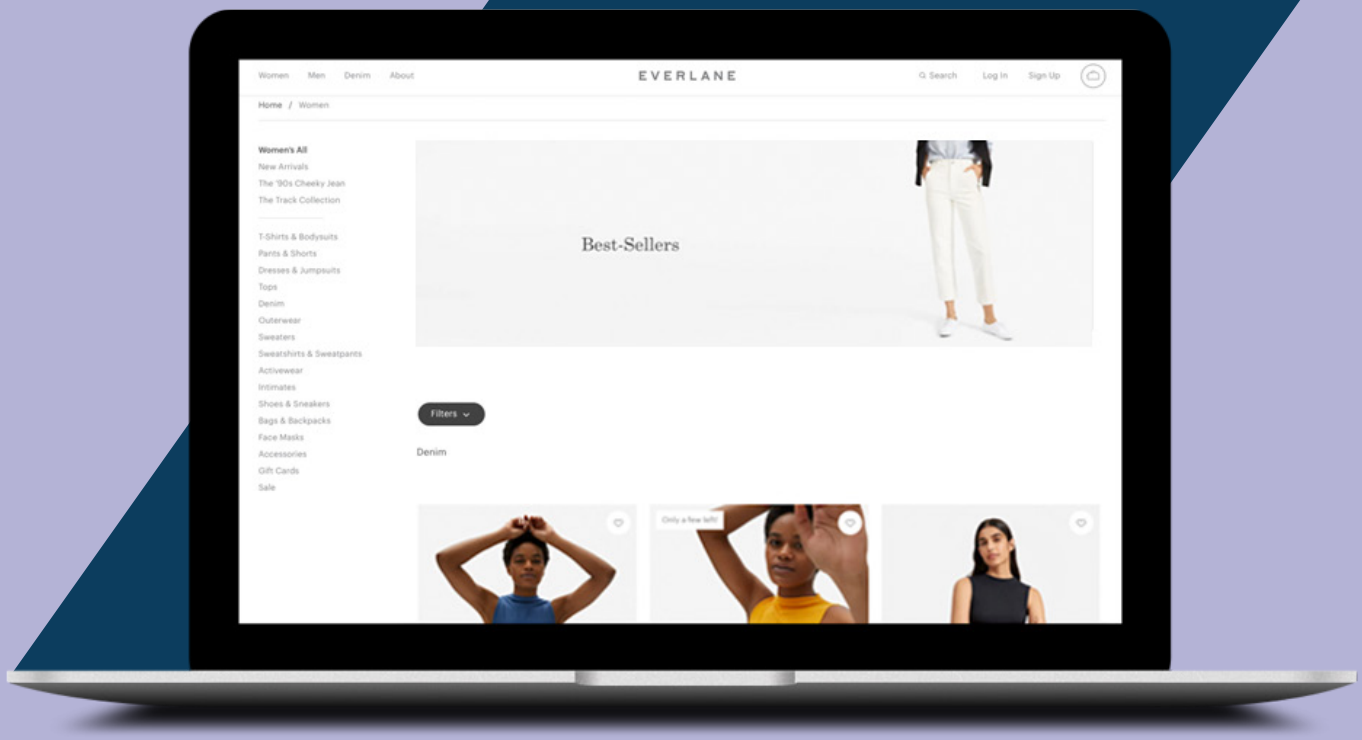


FACEBOOK

EVERLANE

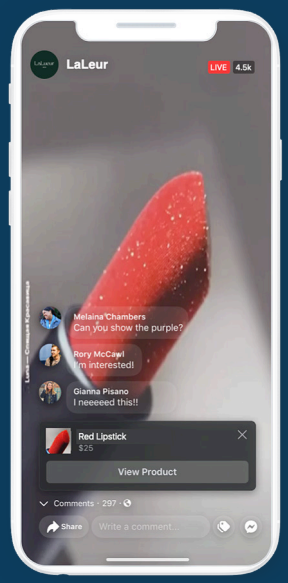
Everlane has repositioned its website Best Sellers page in a more engaging mobile format on Shops, curating its own content to fit a new digital storefront:

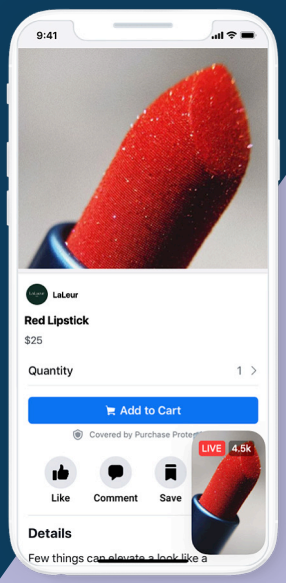




INNOVATIVE ADS

In the same way that merchandising can be a form of advertising on mobile, innovative ad formats such as Stories can be used to embody your products in a digital space. Check out these examples, which use the entire mobile screen to demo the company's products, mirroring the experience of putting on makeup in a mirror. By adapting messaging and creative to make the best use of the format, these ads unlock new storytelling possibilities.

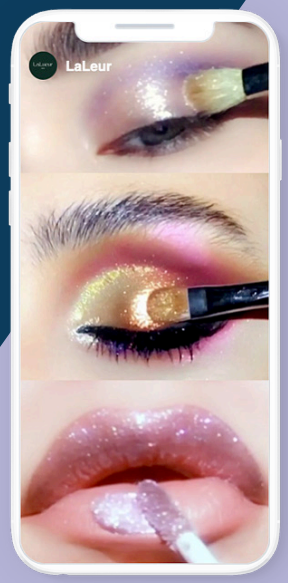


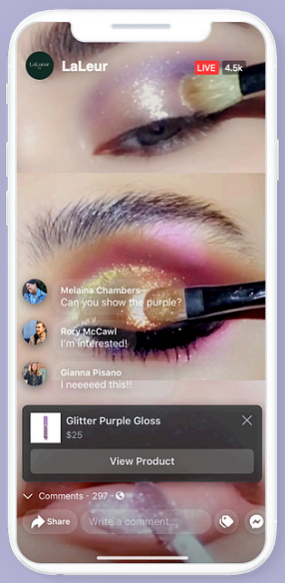


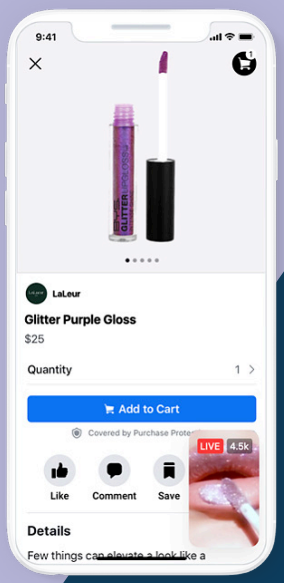
LaLueur

LIPS

Ask yourself, "How can I elevate my product catalog to tell a story?" Explore the features and functions of new ad formats to activate your creative mind and unlock new opportunities to highlight your products.

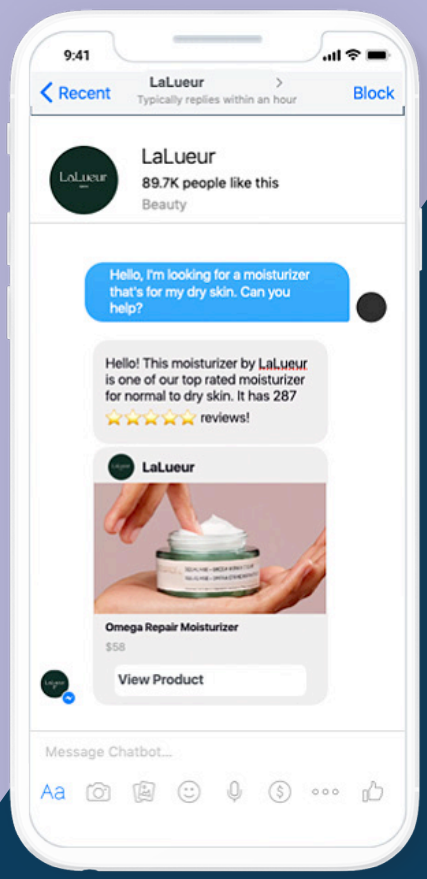


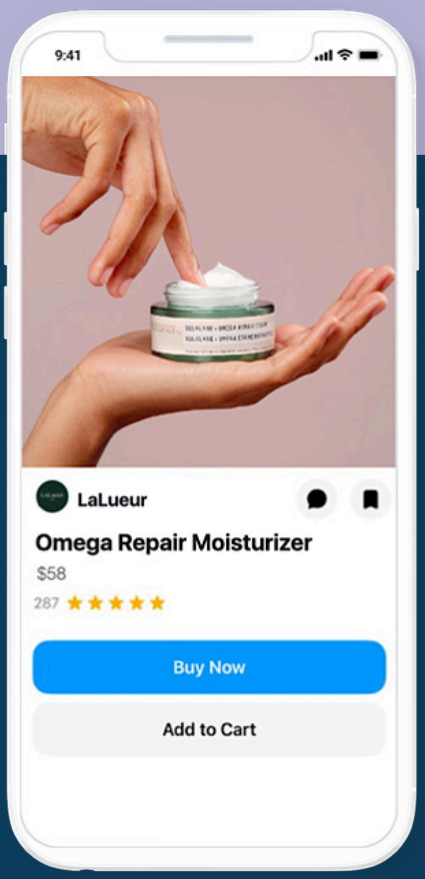


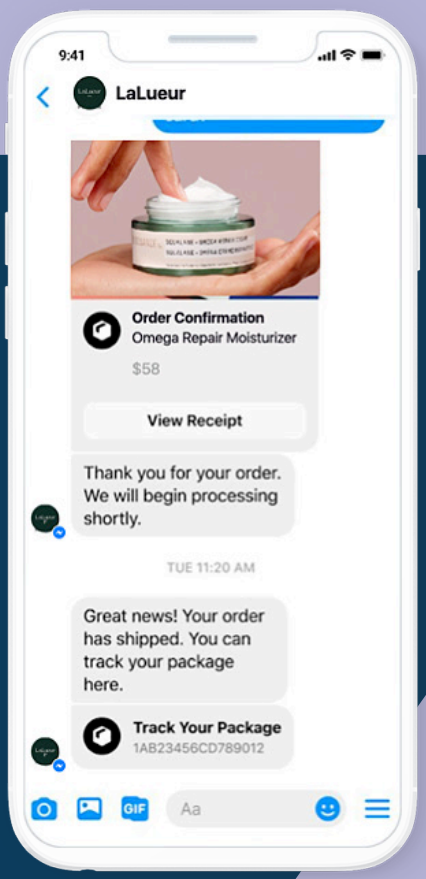


LOYALTY STRATEGIES

Brands are redefining their approach to loyalty by directly communicating with customers. People can use Messenger to reach out with specific questions about products and offers, and brands can respond with product links, recommendations, and other personalized information, to help build stronger brand loyalty and affinity.





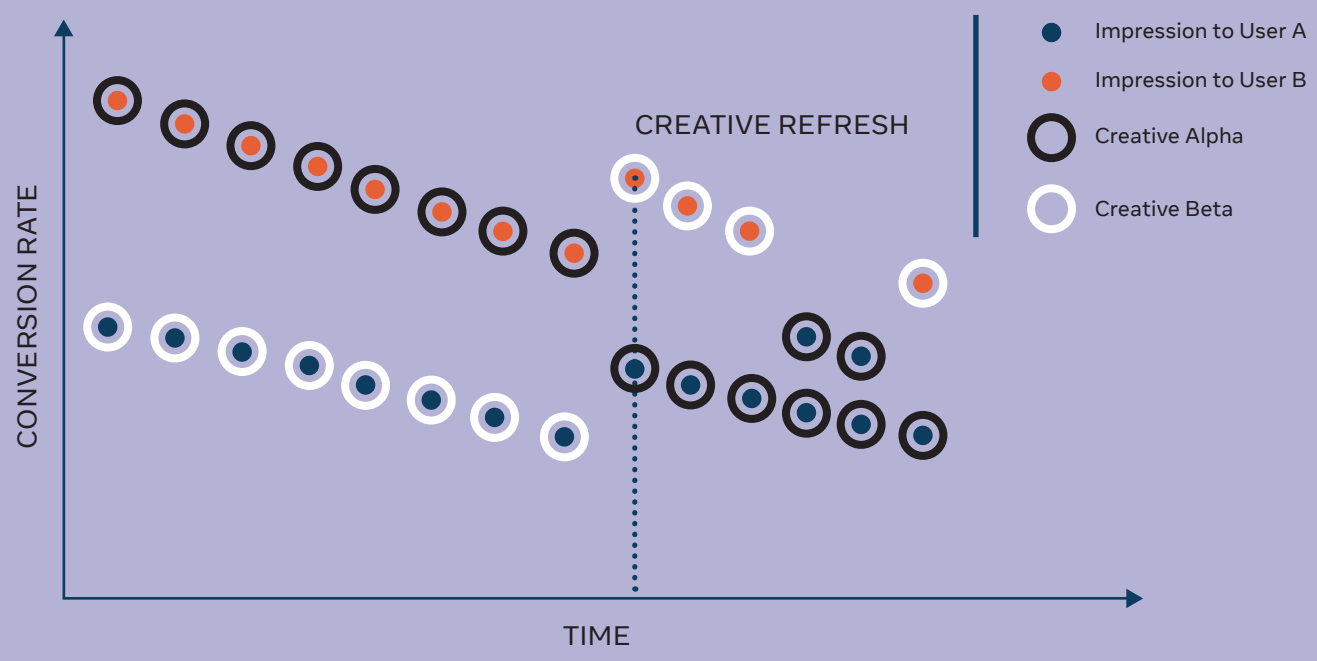


LaLueur
SKIN

CREATIVE USE CASE #3:
Fighting "creative fatigue"

THE SCENARIO:

The increase in mobile browsing and buying means people see many ads each day. Even the best ad creative is only effective for so long. Eventually, people get tired of seeing the same thing, and an ad's conversion performance can start to decline. For the same reason that major brands don't run the same TV ad for 10 years, we recommend that advertisers refresh their creative on our platforms over time, in order to keep response rates high.



Here we have Users A and B as well as Creatives Alpha and Beta. Both creatives are from the same advertiser selling the same product. Both users are peppered with ads multiple times. Both users start out just seeing a single creative repeatedly and their odds of converting start out relatively high, but over time decline with repeated exposures. Each user eventually begins to see a new creative and the likelihood of a conversion recovers significantly before fatigue again starts to set in.

RECOMMENDED SOLUTIONS:

BE ON THE LOOKOUT FOR CREATIVE FATIGUE WHEN IT OCCURS.

We're building new tools in Ads Manager to help you better identify creative fatigue as it occurs, so you can act quickly. In general, declining conversion rates, increased CPAs, increased CPMs, elevated ad frequency rates, and decreases in first-time impression ratio, could be early signs that you're sharing the same ads too often.

ADD NEW CREATIVE WHEN FATIGUE SETS IN.

Testing multiple creatives at once can help you determine if one asset is more likely to drive higher ongoing performance than another. We also recommend identifying a performance dip at which your team can agree on introducing new creative in advance, so you're ready in the event of a decline. In order to not risk accumulating too many underperforming ads, we recommend removing ads that aren't being shown as frequently in the auction, so you keep your most effective creative in circulation. While adding new creative doesn't guarantee better performance as it depends on how fatigued the existing ad set is as well as how strong the new and existing ads are. To control the number of ads, consider pausing the ads that get little to no spend or test the new creative beforehand and deploy the ones that perform best.

Change is unavoidable — here's why that's a good thing

Good creative happens when businesses embrace a growth-and-change mindset. Brands and marketers have to be open to constant evolution, driven by the belief that "better" is always out there. By continually testing to find what works, and being willing to refresh your creative when it's needed, you can keep your campaigns relevant and inspiring, while driving consumer responses that grow your business.

CHAPTER 7

CREATOR MARKETING

When innovation meets influence

ECONOMIC SHIFTS AND TECHNOLOGICAL ADVANCES HAVE UNDERLINED THE IMPORTANCE OF CREATOR CONTENT AND MONETIZATION FOR DISRUPTORS

Even before 2020 changed the game and forced more people to work from home or adopt side gigs, Disruptor brands were partnering with individual content creators to add more value for themselves and consumers, launching an entirely new segment of the economy in the process. In fact, the roots of creator prominence can likely be traced back to the 2008 recession, more than 12 years ago.

All this time, we've been witness to advancements in content creation, social connection, and online media that have allowed people to share more in exciting new ways — while also making room for brands to enter the conversation naturally. People are now comfortable discovering brands from their online communities, and engaging with the creator ecosystem we're all familiar with today.

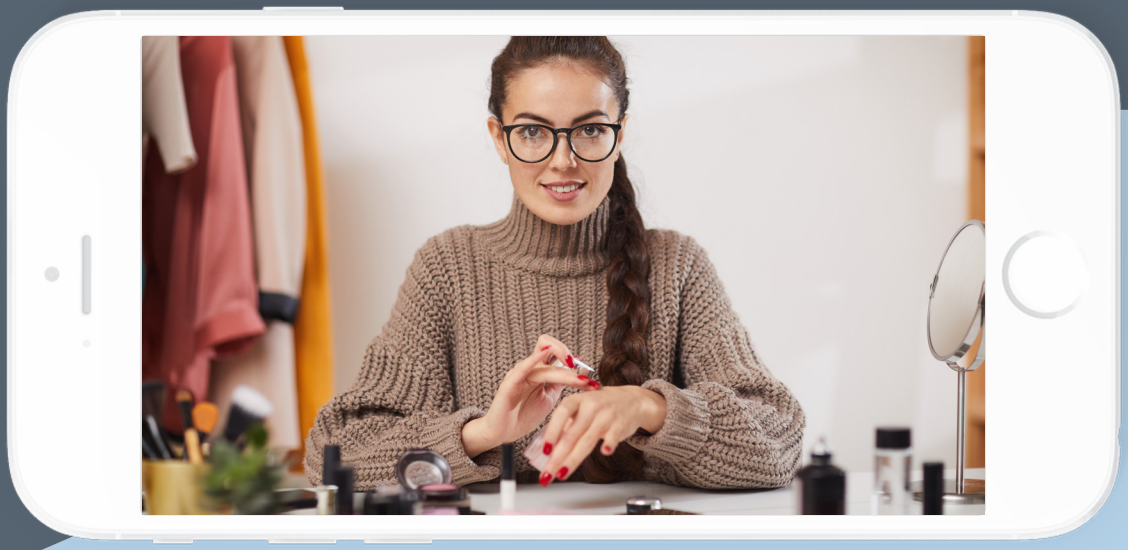
As always, Disruptor brands are leading the charge, partnering with creators to expand brand reach, build affinity, and drive outcomes through social proof. They recognize that both the content and the follower relationships formed by creators have value, and that creators are a core component of modern commerce, which relies heavily on social. Not only are Disruptor brands working with creators for paid media and promotion, they're driving enormous growth through collaboration, bringing live streaming events, long-form product reviews, meet-ups (when safe), and even product consultation to the fore.

By hiring the right growth-leading creators, building industry relationships, onboarding new technologies, and crafting long-term creator strategies for product distribution, leading brands are finding new ways to supercharge their marketing. In this chapter, we'll explore how Facebook and Instagram are enabling new methods of brand-creator collaboration, and bringing greater attention to both parties, while giving each the tools and insights they need to prove their value and find new ways to innovate.

— NICOLE LULINSKI
CREATIVE STRATEGIST, DISRUPTORS
FACEBOOK

— ILLEN ASMEROM
CREATIVE STRATEGIST, DISRUPTORS
FACEBOOK

Why should you consider working with creators?



- Reach new audiences
- Combat message saturation
- Innovate your marketing with new creative
- Build trust and authenticity
- Open a new sales channel

INNOVATION #1:

Micro-creators

When you think of creators, there's a good chance you picture big-name personalities with millions of followers. But one of the ways Disruptors are innovating right now is by pairing up with micro- or nano-creators instead. Small but mighty, these are creators with loyal followings and authentic voices, who create less polished, but more organic-feeling content that makes them relatable to consumers. Micro-creators often drive performance by sharing "day-in-the-life" stories.

MICRO-INFLUENCER SUCCESS STORY: ADORE ME

ADORE ME

Over the past decade, Adore Me evolved from a lingerie startup to a DTC womenswear label with a series of satellite brands. As the company's sales and market share grew, CPA costs rose as well. Concerned that its audience was becoming saturated, Adore Me turned to micro-influencer marketing in 2020 as a way to reach new audiences more efficiently.

With COVID-19 shutdowns requiring people to spend much of their time at home, Adore Me promoted micro-influencer posts that focused on how its products helped people feel comfy in this new circumstance. The team built a comprehensive lift study to study three different creative approaches for content on Facebook and Instagram.

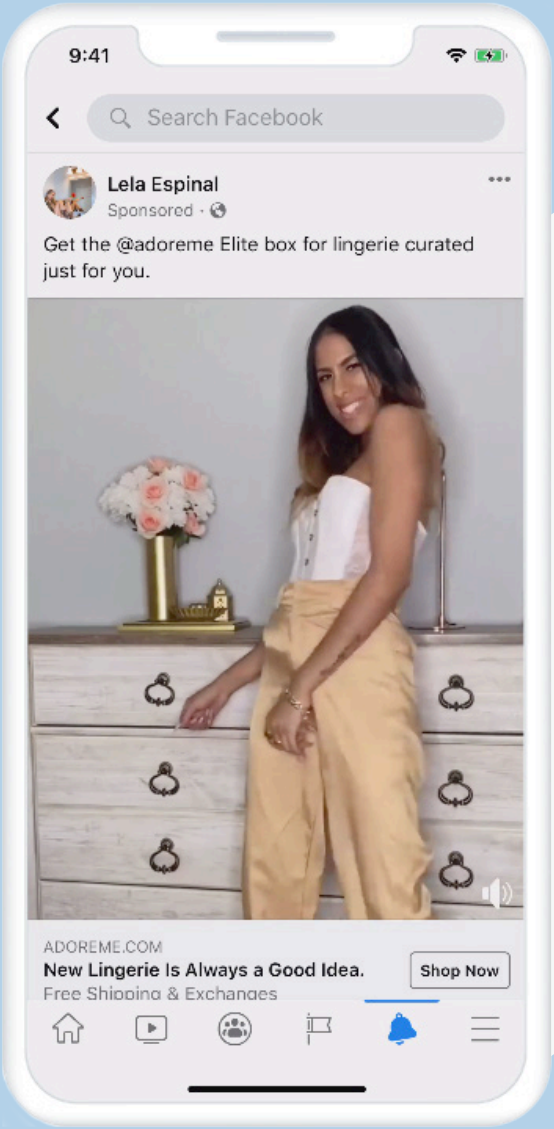
Ultimately, video content posted directly from creator profiles showed the highest impact. Following the success of this approach, Adore Me said it planned to double its budget for creator marketing.

37%
lower cost per incremental purchase[175]

2X
higher click-through rate[176]

7%
higher sales conversion rate[177]

2X
as many people aged 18-24 were reached[178]



"This campaign showed us how creators can very effectively target this hard-to-reach demographic, and has already inspired us to begin exploring a number of new creative strategies. "

— Chloe Chanudet, CMO, Adore Me

175, 176, 177, 178. "Adore Me: Facebook ads case study" by Facebook Business, n.d.

INNOVATION #2:

Scaling creator content

Across the Facebook and Instagram universe, many advertisers have seen big improvements in reach by integrating paid creator strategies as evergreen marketing to complement their core campaigns. When it comes from the right personality, creator content is seen as more honest, authentic, and relatable for consumers. Additionally, creator marketing gives advertisers a new avenue where they can connect with their audience and ultimately drive sales.

With the accelerated shift to ecommerce, driven by COVID-19, customers are looking for product advice and POVs from experts in a variety of categories. Creators have emerged as brand evangelists that have earned the credibility to engage their followers on behalf of their favorite products.

Here are some of the new ways we're seeing creators and brands partner together:

CREATOR-DRIVEN CAMPAIGNS

Remote production became the new normal in 2020. Brands learned to lean into this challenge by letting creators take the reins on video creation. This represented a pivot from creator partnerships that amplify a brand's reach, to allowing creators to act as another arm of content creation. For example, Adore Me reported doubling their video content thanks to creator partnerships in 2020.

FORWARD-FOCUSED INNOVATIONS

As brands continue to partner with creators more and more, they're recognizing the need for additional innovations to help them stand out, especially in crowded industries where creativity is a competitive advantage:

Owning originality.

To create content that stands out, brands are owning the audiences, insights, and product features that make them unique. They're briefing creators to highlight the brand's most unique product benefits — the ones that answer the question, "Why does our product exist?"

Finding the right talent.

Choosing the right creator partnerships is an essential task. Brands need to find creators that connect with the right audience, but are also proficient in video storytelling, and exude authenticity. As we mentioned earlier, the size of a creator's following doesn't have to be the only factor. What matters most is picking people who are interesting, passionate, and diverse. Brands are now tapping creators in niche communities who can create culturally relevant work that appeals to big audiences.

Pairing talent with the right tools.

With remote production being the current (and likely future) norm, brands have a responsibility to arm creators with the tools they need to enhance their creativity and output:

- Structured briefs that share clear ideas and consistent themes help talent craft videos people will easily recognize as belonging to the brand.
- Successful tactics include: simple phone footage that uses effects available to everyone in Stories and Reels; attention-grabbing techniques like slo-mo, close-ups, reverse motion, and quick edits; Instagram AR effects that enhance everyday moments; custom GIPHY assets; requiring specific copy in the intro; and highlighting the product being used in the first seconds of the video.

Collaborating in post-production.

Brands that have internal production teams can partner with creators remotely and assist with editing and overlay effects. Keeping the lines of communication open and enhancing creative work without taking away authenticity should be priorities.

INNOVATION #3:

Testing-based decision making

While we've noticed some common tactics that seem to resonate for every brand — such as increased Instagram Stories delivery and organic-looking creative driving the best performance — in most cases, testing is needed to find the right approach for each advertiser.

By using measurement to test and optimize everything from creative formats to account structure, brands are getting the most out of their creator partnerships. Some of the most common testing scenarios we've seen include:

- Testing whitelisted creative that comes directly from the creator against creator content that comes from the brand's account
- Determining if creators with larger followings and higher engagement drive better conversion rates than micro-influencers
- Testing creator content in its own ad account against creator content in the business-as-usual account
- Testing to learn how many creators an advertiser should be working with at any given time
- Determining if the addition of creator content adds incremental reach, compared with a brand's business-as-usual approach
- The lifetime value of creator marketing campaigns compared to business-as-usual campaigns, and the relative lifetime value scores of individual creator campaigns

TESTING SUCCESS STORY: CUROLOGY

Curology

Skincare brand Curology creates personalized, prescription-strength products that get delivered directly to the customer's door. Recently, Curology wanted to attract new subscribers to its trial program at the lowest CPA possible, believing that creator content shared on Facebook and Instagram could help reach new audiences at a sustainable ROAS.

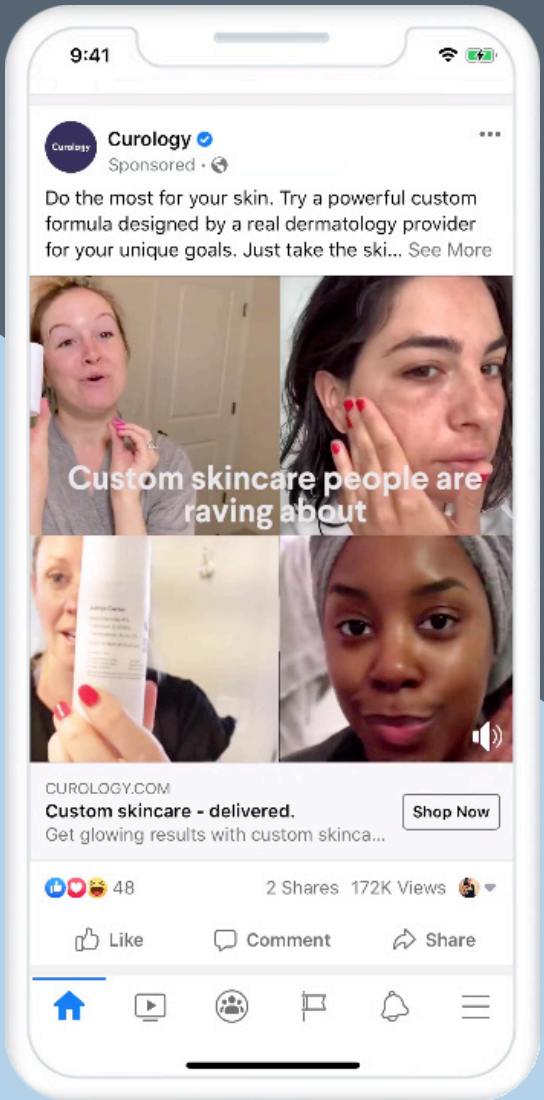
To learn more, the Curology team tested three different video campaign approaches: its standard creative content, promoted from its Facebook and Instagram profiles; standard creative and creator-generated content, promoted from its Facebook and Instagram profiles; and standard creative promoted from its company profiles, plus creator content promoted from the creators' own Facebook and Instagram profiles.

The testing results showed a clear benefit to the third approach. This inspired the team to change the way it partners with creators, and lean further into authentic storytelling that can reach new audiences.

20%
higher sales conversion rates[179]

35%
lower cost per sale[180]

2X
higher social engagement[181]



"Having Curology content creators tell their stories, from their own social profiles, is a highly cost-effective way to validate our products and engage new audiences."

— Krislyn Chan, Sr. User Acquisition Manager, Curology

179, 180, 181. "Curology: Facebook ads case study" by Facebook Business, n.d.

INNOVATION #4:

Streamlined creator marketing through partnerships

For most smaller brands, especially startups, building out an entire team to work with content creators would be nearly impossible. That's why verified Facebook Marketing Partners (FMPs) that specialize in the creator space are available to help brands manage their creator efforts in one place.

Creator FMPs offer a variety of services, from end-to-end solutions, to filling in the gaps where brands need extra support. Services include: sourcing and briefing creators based on brand input; managing negotiations and payments; communicating with creators; managing campaigns; measurement; and brand safety.

PARTNERSHIP TYPES

Content Creation, Sourcing & Workflows

Popular Pays
Help with managing creative production workflows; connect directly with creators for collaborative campaign work; manage creator marketing; run media

Social Native
Quick content delivery, using data based on creator audiences and interests, specialize with diverse creators

AspireIQ
Designed for working with brand ambassadors that have brand affinity, and have used your product before

Tribe
Designed for working with brand ambassadors that have brand affinity, and have used your product before

Creator Tools

Lumanu
Tooling to help with whitelisting of working with a creator, rights management platform, run media

SUCCESS STORY: BETTERHELP & POPULAR PAYS

The online counseling portal BetterHelp was looking for new ways to scale its creator ads on Facebook and Instagram. FMP Popular Pays approached BetterHelp with a solution to source creator content, and then managed the process by which creators could apply to work with BetterHelp.

This enabled the BetterHelp team to find new creator talent, quickly source content, and then deploy that content across creator accounts. Each creator also granted page access to BetterHelp, allowing them to run content on the creator's page, managed from BetterHelp's ad account.

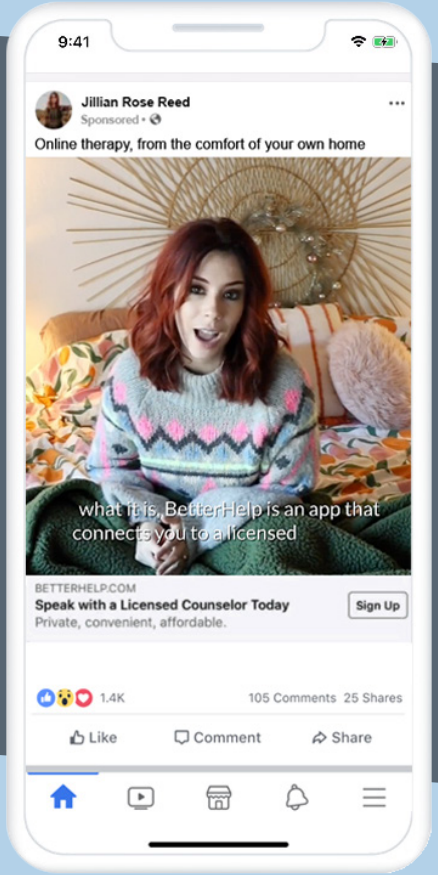
Compared with BetterHelp's previous approach, the partnership with Popular Pays resulted in:

An **8.7%**

improved efficiency on cost per acquisition (than any existing campaigns in their ad account for the same period)[182]

A **170%**

lift in click-through rates[183]



Planning your next innovation?

If you're interested in learning more about Facebook Marketing Partners that can help with your creator marketing, visit our Partner Directory or reach out to your sales team who will put you in touch with Partner Solutions team.

182, 183. "Popular Pays & Betterhelp: Facebook ads case study" by Facebook Business, n.d.

One of the most common questions I get from founders and business leaders is 'What does it take to be a Disruptor?' It's a challenging question, because the very nature of disruption is that it is ever changing, and only the fastest, most creative, and boldest among the bold are leading out front through innovation. This dynamic makes it all the more challenging for us to capture the incredible work that our Disruptors are doing in this Annual Report each year, and I am truly proud that our team can be a part of such a mission driven and innovative group of businesses.

For you, reader, as you turn the last page in this report and graciously give us a few more minutes for parting thoughts, I encourage you and your teams to not only draw inspiration from the creative and innovative tactical strategies that we've discussed here, but to take home what it means to have the heart and mindset that embodies a Disruptor.

2020 showed us, and I believe 2021 will show us again, that the success of Disruptors isn't simply adoption of best practices or implementing a new product, but the embodiment of a fearlessly testing, always learning, boldly first-to-market culture, paired with a business ethos aligned with building a better world and product development grounded in data & purpose.

Perhaps more relevant now than ever as we begin to turn the corner on the medical challenges of the pandemic and start building to address its implications, are some of Martin Luther King Jr's famous words: "The time is always right to do what is right." When I look at successful founders of successful businesses, they share common threads of finding opportunities at the intersection as leaders in business, innovation, and most importantly, being mission driven. It's clearer more than ever that these are qualities that will be present in the Disruptors of tomorrow.

Let's be clear - change is already here, and change can be scary! But after the last twelve months, I am more confident than ever that not only are our Disruptors the best equipped to handle change, but that they are best positioned to find opportunity for growth amid the uncertainty. And perhaps that is the best way for us to think about what it takes to be a Disruptor - it's the leaders, the teams, the businesses, that thrive in periods of great disruption, whether it's led by the business from the inside out, or external disruption that is completely unexpected.

And after a year with more than its fair share of the unexpected, I believe there is more in our future, and I can't wait to partner with you to capture the opportunities it will create!

— JAKE BAILEY
HEAD OF INDUSTRY, DISRUPTORS & VENTURE CAPITAL
FACEBOOK

FACEBOOK

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