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The rise and rise of the creator economy

While the pandemic acted as a catalyst for individual entrepreneurship and changing consumer habits, will it be enough to sustain the 'creator' economy? *Here, Walter Scott investment manager Laura Clark explores the market landscape.*

E-commerce is no longer just for monolithic retailers. Marketplaces and e-commerce tools have built the essential infrastructure for individuals to create digital global businesses. Today, many people are just as likely to buy from individuals on a dedicated e-commerce platform or website as they are to step through the doors of a department store or a retail chain[1].

As the pandemic pulled forward years of e-commerce demand, the industry is now experiencing a cyclical slowdown as economies reopen. But many of the new shopping habits that people adopted during this period look set to endure. The question now is: where does the 'creator'[1] economy go next?

Some of the changes triggered by the Covid-19 pandemic appear to be here to stay. One is consumers' increased connectivity, which has accelerated a digital transformation of some areas of commerce. Lockdowns, company closures and layoffs radically affected how people worked and many turned to hobbies to make a living.

As lockdown restrictions came in, many people set up sole-trader businesses. The number of new US business applications during summer 2020 was higher than at any time during the past 15 years, with one-third of that growth coming from the non-store retail sector[2].

The pandemic also enabled workers to reassess their job satisfaction and career aspirations, prompting a swathe of voluntary resignations that has become known as 'The Great Resignation'. Two years on, new US business applications remain elevated and have yet to be affected by the deteriorating economic climate.

These changes turbocharged the creator economy, in which entrepreneurs use digital platforms to build audiences at scale and make a living from their skills. This economy is now worth more than US$100 billion, with an estimated 50 million creators around the world[3].

"The pandemic acted as a catalyst for individual entrepreneurship," explains Walter Scott investment manager Laura Clark. "Although the pandemic restrictions were devastating for so many people, it did give workers the time to pause and reflect on their jobs. And in record numbers, through necessity or desire, new businesses were created."

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[1] The creator economy is defined as an economy whereby people are able to create their own products and messages in order to create revenue from them. Source: PCmag.com creator economy. Accessed July 2022.
[2] World Economic Forum. New business applications in the US hit historic highs last year. September 12, 2021.
[3] The Economist. Li Jin on the future of the creator economy. November 8, 2021.

Once, it would have been economically inconceivable for a smaller-scale producer or service provider to compete with standardized products – let alone offer something personalized. But now, entrepreneurs can use digital platforms to power their online shops and build audiences at scale through social media. Previously, these activities would have required large capital investments.

Consumer shift

Changing consumer habits are another factor propelling the creator economy. The rise of responsible consumption and the desire for handcrafted unique items produced by small businesses or individuals are both playing their part in this shift.

Increasingly, it is our belief that consumers want to 'shop better', and they care both about the businesses they purchase their products from and about those businesses' supply chains. "With the cost-of-living hikes now upon us, whether a product is handmade or unique is unlikely to be top priority for many consumers," says Clark. "However, in the long term there is a clear trend of consumers demanding more from businesses – particularly when information about corporate behavior is so accessible."

Some companies have found themselves primed for these developments. One of these, a leading online digital marketplace for handmade goods, is now focused on driving communication between buyers and sellers on the platform as it increases purchase conversion rates and order value.

"You can have a conversation with the seller – you might want something in a particular colour or want to alter and personalize a design," says Clark. "The buyer also benefits from a feel-good factor that comes from knowing that their purchase is having a positive impact on that individual's small business and livelihood."

Elsewhere, consumers are becoming increasingly aware of the fashion industry's destructive effects on the environment. As a result, the rental and resale market has also increased in popularity among consumers – particularly Generation Z and Millennials. This, in turn, is leading to a growing number of business acquisitions, investments and business expansions in this area.

"There is a fundamental shift occurring in the luxury industry, with consumers embracing sustainable values and circularity and being more willing to buy second-hand items," says Clark. "Luxury brands have historically been cautious around resale due to counterfeits, distribution and pricing. But more are now willing to test new authentication processes and figure out where and whether resale might dilute brand equity." In some cases, specific brands are working to take back ownership of the second-hand market from third-party sites that might not be providing an authentic brand experience[4].

[4] Harper's Bazaar. Net-a-Porter Is Getting Into Resale, Finally. December 9, 2021.

Social commerce

It is not just in the resale market where brands are being forced to rethink their approach. Another growth area is social commerce, where brands, retailers, individuals and small businesses sell to each other via social media.

According to global management consulting firm McKinsey, 75% of consumers changed their shopping behaviors during the pandemic, and 39% – mainly Generation Z and Millennials – deserted trusted brands in favor of new ones[5].

So, brands are looking for new ways to connect with customers whose loyalty is waning. One global sports footwear and apparel manufacturer, for instance, is getting ahead of the curve by launching its own social channel. Currently in development, the community-based app will bring together content on style, sport and self-care for Generation Z consumers, and enable them to shop directly within the app.

Social commerce is a rapidly growing part of the e-commerce landscape in the US, accounting for US$37 billion (about 4%) of retail sales in 2020. In the UK[6], the industry is expected to grow by 37.5% on an annual basis to reach US$21.13 billion in 2022. In China, it has grown to 14% of retail sales. “Many Western brands are now looking East to find out how this trend could develop,” says Clark.

Brands are not the only innovators here. Digital platforms are investing billions of dollars into so-called creator funds and exploring new revenue-sharing models with creators to maintain high levels of user engagement through original content. In some cases, these platforms offer extremely generous pay-outs to creators to support their careers online which are based on engagement with their videos.

But this can be a tricky balancing act. While platforms are trying to encourage creators’ loyalty, the creators themselves are increasingly aware of their own marketability and contribution to the success of the platforms on which they appear.

So far, creators have struggled to negotiate better terms when dealing with some of the platform behemoths. So, the next evolution of the creator economy could include a balance-of-power shift that sees creators build, operate and own the products they rely on.

To match this exponential growth in online content there are a slew of platforms and digital companies ready to assist. Technology news site The Information has estimated that venture capital firms invested US$2 billion into 50 creator-focused start-ups in the first half of 2021[7]. And with more tools comes greater freedom for creators to produce the content they want with the brands they want. That may well lead to brands resetting those relationships by moving from

[5] Forbes. Archive Raises $8 Million To Fuel Growth Of White-Label Resale Technology. January 26, 2022.
[6] McKinsey & Company. Emerging consumer trends in a post Covid-19 world. June 7, 2021.
[7] Theinformation.com. Investments in Creator Economy Start-ups Hit $2 Billion; An Interview With Homebrew’s Hunter Walk. June 23, 2021.

the transactional to the more collaborative. Either way, the evolution of the creator economy, with its different players and powerplays, shows no sign of slowing down.

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