IVEY BUSINESS REVIEW

AN HBA STUDENT-RUN PUBLICATION

BUZZFEED: PAVING A FUTURE IN FOOD INNOVATION

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Pearson: Setting the Standard for Education

To fight its slipping financial condition and address public demands, Pearson should move into the Project-Based Learning space

Editorial Board

Ivey Business Review is an undergraduate business strategy publication conceived, designed, and managed exclusively by students at Ivey Business School. Its mission is to provide a forum for tomorrow's business leaders to develop, voice, and discuss their thoughts on today's business strategies, threats, and opportunities. Articles are written by undergraduate students in the Ivey HBA program, and have been created specifically for the publication after several months of intense collaboration between student writers and members of the Editorial Board. Additionally, the publication's blog platform allows students and young alumni to further the *IBR* mission year-round.

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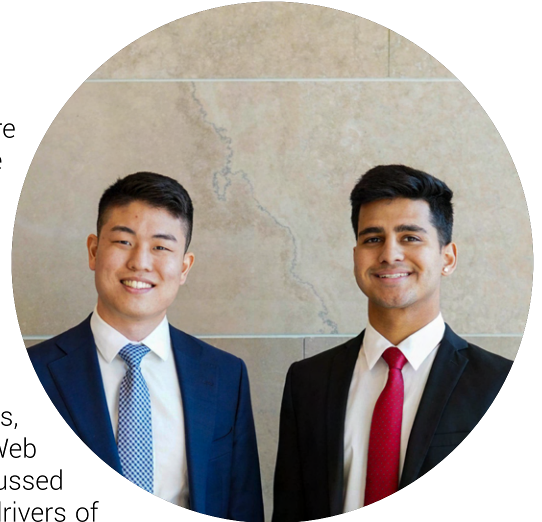
"Moonshot Thinking"



"Moonshots live in the grey area between audacious projects and pure science fiction; they are ten times improvement, not ten per cent." These are the words Google used in 2010 to introduce X, an initiative to solve problems through radical ideas and new technologies. It abandons the traditional innovation framework of small incremental improvements in favour of thinking without limits. Although Google X is one of the more well-known practitioners of this mindset, we believe that all companies could stand to benefit from exploring it.

By accepting the status quo and dismissing any appetite for bold solutions, firms risk becoming fragile in the face of disruption. Indeed, Amazon's Web Services or Cineplex's Rec Room once existed solely as bold ideas discussed in a boardroom, with no guarantee of success. Today, they are strong drivers of growth within the organizations that dared to pursue them. In this edition of the *Ivey Business Review*, our team focuses on 10 companies that have opportunities to adopt moonshot thinking and join these success stories.

With BuzzFeed facing stagnant viewership growth, we recommend it capitalizes on opportunities in food product development to diversify revenues. In light of public demands and a turbulent competitive landscape, we recommend that Pearson moves into developing educational resources for Project-Based Learning. With the rise of gaming amongst millennials, our article on Gucci addresses a strategy to partner with Razer to capture the demographic. Lastly, our feature on Airbnb demonstrates how the brand can increase loyalty amongst users by providing at-home tourism experiences.

Our articles on Chartmetric, the NBA, and LinkedIn present novel strategies that strengthen the companies for the long term. Finally, we present bold solutions for WarnerMedia, InterContinental Hotels Group, and Indigo, as their businesses undergo significant disruptions.

As with all issues of the *Ivey Business Review*, we hope you will be inspired by the material within. Through a diverse team that employs moonshot thinking, *IBR* hopes to deliver the solutions for today with the vision of tomorrow.

Sincerely,

Gary Wu & Rahul Guggali

Editor-in-Chief & Publisher

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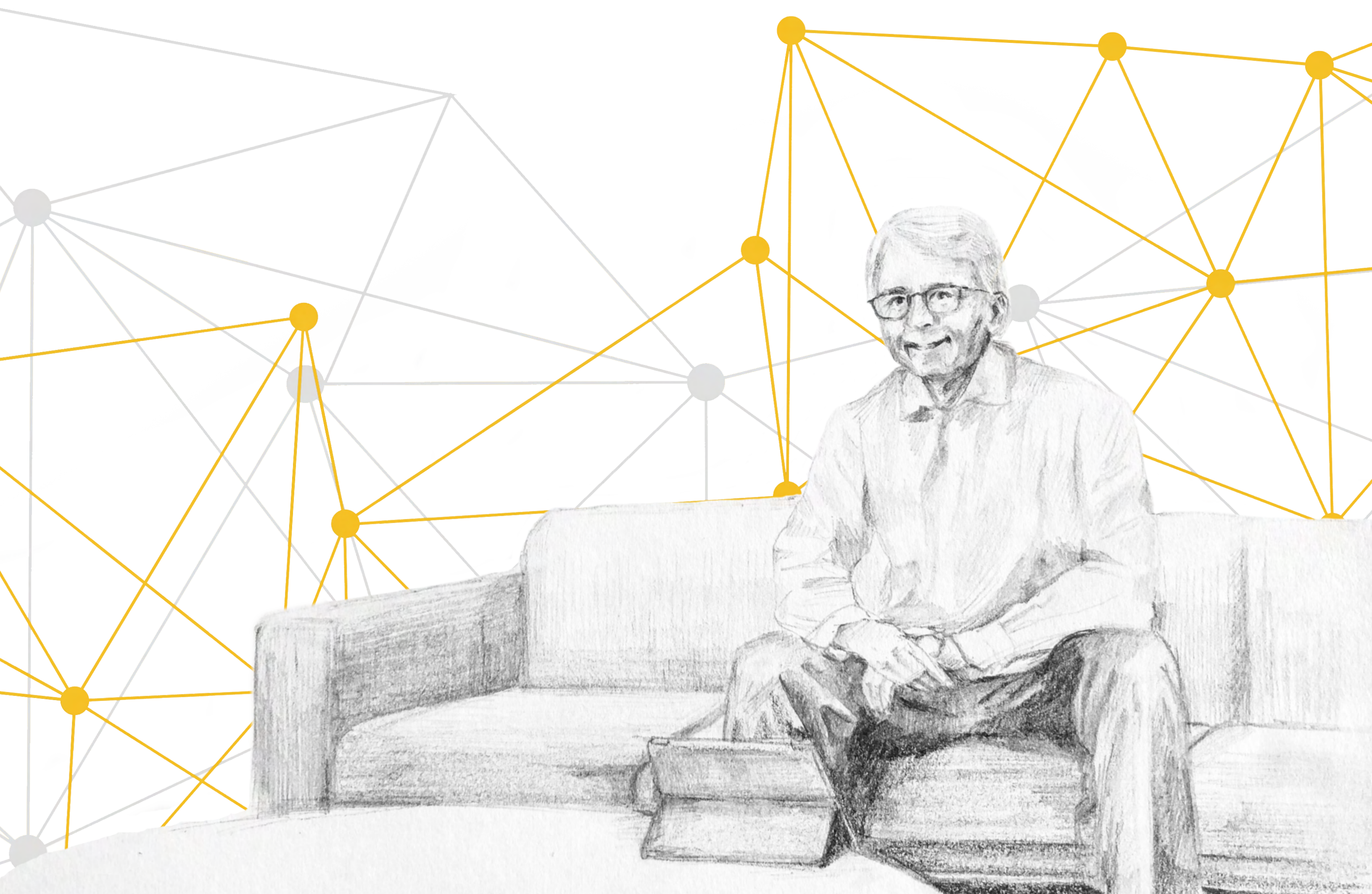
Interview: Dean Connor
CEO of Sun Life Financial



IBR: You spent nearly three decades working at Mercer, how did you know it was the right time for a career change?

It was a very interesting time. I loved my time at Mercer, I learned a lot, I worked with great people. I was working in New York in 2004, around the time New York Attorney General Eliot Spitzer was going after lots of firms in New York, and that included the sister company to Mercer, Marsh. It resulted in a new CEO at Mercer and a new CEO at the parent company MMC. To be honest, I woke up one day and I thought: "Are these the people I want to spend the next 10 years of my life working with?" But once I found the right question, I instantly knew the answer. I decided to work somewhere else.

IBR: Now that you are at Sun Life, what would you say Sun Life is trying to do differently than other insurance companies?

The first area is obsessing about clients. I use the word "obsessing" and the word "clients" very deliberately. You know lots of companies say we're client centric, client focused, or customer focused, but we are taking it to a whole other level. It's a step change where we are truly obsessing about our clients and obsessing about the client experience. We changed from "customer" to "client", and it may seem like a small change, but we did it quite deliberately. A client is somebody with whom you have an ongoing professional relationship that is based on trust, whereas a customer is someone you might transact with once and never see again. We were trying to signal to all of our people around the world that this is such a big step change in obsessing about clients that we are actually changing the name from customer to client. Along the way we changed everything—not just one thing—we changed the key performance indicators that we track and we changed what we talk about. When we are around the campfire with our employees, we are telling more client stories. We changed our annual incentive plans so that for all 30,000 employees around the world, 25 per cent of annual incentives depend on our client scores that we measure twice a year. That's a huge change. Now that's the first area, obsessing about our clients.

The second area is talent. Again, everybody says they're focused on talent; talent is the most important thing to drive success, but I would say we are really working hard on that. One of our mantras is every person we hire must upgrade the average. It sounds easy to do but it's actually hard. It's hard because, you're manager of underwriting for example, and you have two vacancies and you desperately need to get them filled and there's not a lot of underwriters out there in the market and somebody comes in who can do the job—doesn't upgrade the average but can do the job tomorrow. That's very tempting because you have goals you have to deliver on this year. To say to that leader, no we want you to wait and keep looking and find the person that's going to upgrade the average, now that's hard to do. The thought behind that is, think about 30,000 people, think about 10 per cent turnover, so every year we go out and hire 3,000 people and over the next five years we are going to hire 15,000 people. Depending on who we let into Sun Life, we could dramatically change this place for the better or for the worse—I'd like to think for the better. It's not just about recruiting, it's also about developing people within, helping them be the best they can be, giving them coaching feedback, giving them opportunities, helping them grow. Just this intense focus on talent.

The third thing I'd say that's different is, when I became CEO eight years ago we fundamentally changed our business mix. We declared our strategy in four pillars: Canada (where we do all lines of business), asset management, Asia (which although we've been in Asia since 1892, we've never really declared it as one of our core pillars and no one kind of knew where we stood on it), and lastly the U.S. (where we focus on group benefits and the work site). In doing that, we closed down two other businesses, life insurance and annuities, which we've been doing since 1895. We basically narrowed the business in the U.S. to something we could be really good at, focused on group benefits and got rid of the businesses that had a ton of risk and lower return. I would say we did that ahead of just about every insurance company in the industry and as interest rates have fallen, it has turned out, in hindsight, that those were good moves.

IBR: What were some of the key strategic elements that helped Sun Life grow its brand in the U.S.?

I would say it's focus. You know when you're trying to be all things to all people, sometimes, you're nothing to anybody. So just the act of getting out of annuities, getting out of life insurance, and then doubling down on the employee benefit space really helped us. It helped solidify our brand in that market and made it easier to recruit people. We kind of said to people we—unlike many U.S. insurance companies that do lots of different lines of benefits—we are majoring in group benefits, that's what we do, and that's what we are focused on, becoming the best benefits company in America, come join our team. Same with brokers that we distribute through. So I would say the biggest thing is focus.

IBR: Since technology is such a big part of business today, how has technology changed the way Sun Life is doing business since the time you joined and were there any changes

that were difficult for you to lead the company through as CEO?

You're right, technology is a huge change and a huge opportunity. One of the things that we are building out as part of our digital strategy is the technology so we can be personalized, predictive, and proactive with our clients. So, we can say, "Hey Rahul, congratulations on getting this new job. People normally look at their life insurance or their pension around that time. Here's five ideas on how to do that. Click here to buy some inexpensive life insurance". Or to say, "Liam or Alexander, congratulations on the birth of your child. You know this is the time when people look at their life insurance or health insurance. Click here to look at it." So, the technology to build that out, the data required to build that out is complicated; privacy rules, finding that right line between creepy and cool—you know what I mean. We don't want to nudge people on stuff where they go, that is really personal, how did you know that about me. That has been a huge change and we are driving that change, we're ahead of many of our competitors on that front and we're taking that idea around the world. Our bot, her name is Ella, nudges our plan members and our clients on trying to take action. There's lots of actions, that are not all about selling them more; lots of them are about learning more about the benefits they already have. For example, did you know that your company gives you a pension and you're leaving free money on the table by not joining the pension plan? Free company money. So, nudging people to get the most out of it, that's one big area of technology change.

Cyber security is another big area. Most companies would say it's not whether you are going to get hacked, but when. When you do, how do you react and how do you manage client data and client expectations? The amount of time and energy we spend on cyber is big, that's another big change.

Another thing that has changed is the investment required in technology has gone up and up, for all the mobile apps we have built. We're now building natural language processing and voice apps for our clients to interact with, voice bots, all of that requires big investment. One of the changes is the need to leverage that across the organization so that each business is not trying to build on its own.

On the second part of your question, changes are difficult to lead the company through. I would say this education process for our business leaders, it takes a lot of effort because not everybody learns at the same rate. Not everybody is aware of artificial intelligence and machine learning and what that can do, what kind of datasets you need, how you can apply that to real problems in your business. For example, we started some bootcamps for our P&L leaders around the world on data and data analytics, so just training bootcamps to get them up to speed. One of the fundamental questions we are asking them is "What data would you die to have in your business?" When you first ask that question a lot of people say, "Well I'm not sure really, I haven't thought about it". Well today, the leaders at Sun Life have thought about that a lot and are working hard on building all that out. I wouldn't call them difficult changes to lead but you realize that people learn at different rates and come up with ideas at different rates.

"But once I found the right question, I instantly knew the answer."

IBR: Moving forward in the next five years, what type of challenges do you see Sun Life facing?

Well I think one is regulation—the regulation of financial services. It's almost like the repercussions of the global financial crisis are not all over yet; there's still things that keep coming through. So additional regulation from regulators around the world. Like many other organizations, there's geopolitical risk—look what's going on in Hong Kong right now, look at some of the challenges in Europe with Brexit, as well as the divisiveness in societies today being sharper than ever. So, those are all things we think about; now having said that, at Sun Life, we've been doing business for 154 years—we've survived two World Wars, a Great Recession, the Great Depression, and many other recessions in between and lots of political uncertainties. So, I'm sure we'll come through all this in okay shape.

The other challenge I would point out is low interest rates. Low interest rates are challenging for a life insurance company because, basically, we take money from people today and we promise to give it back to them years in the future, either through a pension, life insurance payable when they die, a critical illness, disability, health payment, or whatever the case may be, and if you can't earn much interest on those investments when you're holding them, that affects what our clients get and that affects the way these products work. That has been a real challenge for insurance companies and I think it will continue to be for the next five years. On the flip side, it's also a challenge for our clients who are trying to save for retirement in a low interest rate world; we've been building out businesses to help support them, to help them earn more through real estate, commercial mortgages and things like that which have much higher yields.

IBR: Bringing you back to your time at Ivey–in what ways do you think your Ivey education has helped you succeed in your career and even as a CEO today?

I would say a couple things–one is that there's a good element of critical thinking that you learn at Ivey. You read a case and you have to talk about the case; you very quickly get to see that the way you thought about it is either not right or not complete, or in some instances you were ahead of others in the way you thought about it. But it does teach you critical thinking skills and that's important.

The second thing is because the Ivey curriculum covers so much ground in terms of case studies and industries you look at, you have to be able to learn about all these different types of industries. I left Ivey thinking, you know if I work hard enough, I will be able to understand just about anything if I stick with it. That comes in part from the two years of, you know, one week you're doing a case on a company that builds yachts and then the next week it's a company that makes contact lenses for chickens. It's amazing–you ask people, even my vintage of 40 years later, we can still tell you a bunch of the cases we worked on. That tells you something, doesn't it?

The third thing I would point out is there is a heck of a lot of volume of material that you have to digest, as you work through cases in particular. You have to learn how to read fast and digest information, sift and sort, and synthesize what's important, and I believe Ivey helped me do that. In this job, the torrent of information coming to me as a CEO is enormous and takes effort to stay on top of. I think some of those skills come out of Ivey–I remember being swamped with case studies, trying to get through these 20-page case studies, three a night at some points; it was a tremendous amount of reading.

"You know when you're trying to be all things to all people, sometimes, you're nothing to anybody."

IBR: How would you say your perception of what it takes to run a business has evolved from when you were a student at Ivey to where you are today?

I have to confess, when I was at Ivey, I didn't really think about what it would be like to run a business. I didn't necessarily see myself as a CEO back then. I was just trying to get through school and get my first job; so I don't really have a comparison. If I had wondered about it, I would observe that it is just way more complex than I could have ever imagined at the time. The other part of it is, the part that makes it easier. If you surround yourself with amazingly good people and you organize them in the right way, create the right culture–it's not just about you, it's about the whole team. I take a lot of comfort in the fact that we've got amazing people at Sun Life–if there are any issues, I hear about them quickly. We've got so many people who care about the firm as much as I do. We all care about it a lot, so even though it's complicated, it's much easier when you've got a strong team.

IBR: If you could go back and give yourself advice as a student at Ivey, what would you tell yourself in order to have a successful career?

First, at some point, go work outside of Canada, in particular go work in the U.S. or Asia, where the pace of business runs much faster and people take more risks. I was in my forties before I did that and in hindsight, I am so glad I did it. I moved to New York City, and there's a buzz, a hum and a click to the business world there that runs at two to three times the pace that it does in Canada. I wish I had done that earlier in my career; that's the first point.

The second point is that there's a whole category of stuff they do not teach you around how to get stuff done. You can have two people, equally bright, and yet one person is able to get so much more done than the other person. They take big, complicated problems, break them down into smaller pieces, solve them sequentially, figure out workarounds, get other people to help them, redefine the problem, etc. How you get work done or how you get buy-in, is half the battle in business; and at least when I went to business school, they didn't teach us a lot of that. So that's not necessarily advice for the students, that's actually advice to the Dean of the business school.

The third thing is that your number one job between age 16 and 25 is to open doors, because most people don't know what they want to do when they graduate. The way you open doors is to get really good marks; pick your courses carefully because you may not know what you want to do later. It's the summer jobs you get, not always going back and doing the same summer job, rather getting a variety of jobs that expose you to different things. Travel experiences, volunteer experiences, the networks of friends you develop and keep alive–all of that is opening doors. If you focus on opening doors, good things will happen, and it will take a lot of pressure off thinking about what you want to be when you grow up. I wish someone had said that to me when I was 20 years old!

GUCCI: **COMBAT ON THE RUNWAY**

Gaming can help Gucci win the battle for the millennial market

Si Ran Wang

Gaming Peripherals

01 05

Illustrations by Shubham Bansal & Stanley Ho

Introducing the Players

Since its inception in 1921, the Italian fashion house Gucci has seen changes in its brand identity and perception but has remained consistent in its position as a global powerhouse in luxury. Under the direction of Marco Bizzarri and Alessandro Michele—Gucci's CEO and creative director, respectively—Gucci has maintained its leadership in the industry, while transforming into a popular brand for the younger generation with its eccentric designs and integration into mainstream culture. Gucci has adapted to the emergence of social media and the critical role it has on influencing spending choices, especially for the younger generations. This is demonstrated by their industry-leading social media presence, with their Instagram follower count of 37.9 million outshining its closest competitors such as Chanel, Louis Vuitton, Versace, and Armani. Furthermore, the company has engaged with the millennial community through various social media campaigns; under the #TFWGucci hashtag, Gucci commissioned brand-centered memes from popular meme creators and artists, generating thousands of posts across social media platforms.

However, the company's growth showed signs of slowing in 2019. Gucci generated 4.6 billion euros of sales in H1 2019, representing an annual growth of 19.8 per cent - this figure pales in comparison to the growth in previous years, with 36.0-per-cent and 45.4-per-cent growth in H1 2017 and H1 2018, respectively. With millennials under the age of 35 accounting for 62 per cent of sales in 2018, this demographic is a key driver of Gucci's success. As other luxury brands implement their own strategies to connect with younger consumers, Gucci's stronghold on this demographic will be eroded if the brand does not continue to innovate and differentiate itself from competitors.

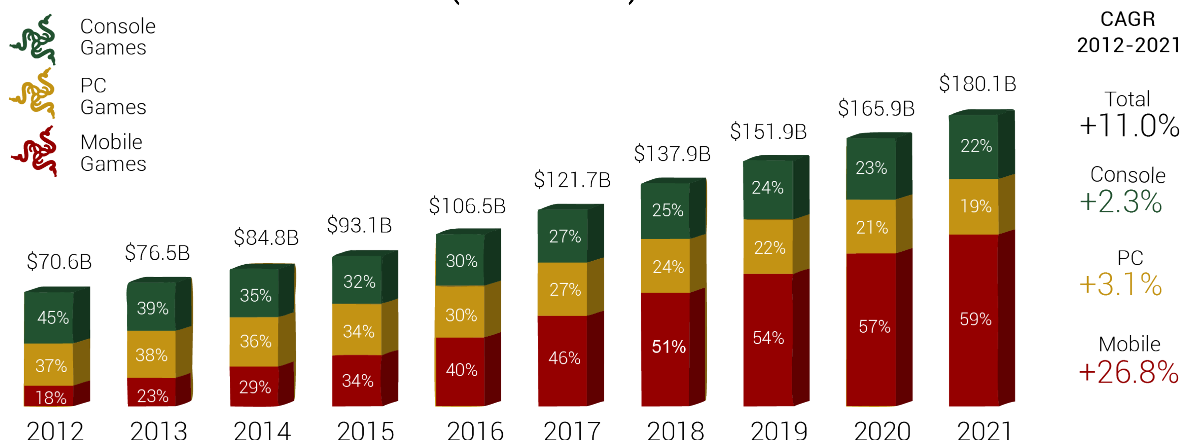
The Rise of Gaming

The gaming industry generated $131 billion in revenue in 2018 and is predicted to reach $300 billion by 2025. Gaming is no longer perceived as just an "antisocial hobby", but rather as a celebrity-endorsed medium capable of drawing in massive viewership figures. In 2018, Drake, Travis Scott, and NFL wide receiver JuJu Smith live-streamed a game of Fortnite with popular Twitch streamer Ninja, achieving around 700,000 live viewers at its peak. This helped solidify gaming's place in pop culture as celebrities publicly embraced the industry. The rising popularity of gaming among individuals aged 21-35—who account for 53 per cent of monthly esports viewership—makes advertising in this space increasingly attractive for businesses.

This growth in the gaming industry has attracted investments and partnerships over time. One such example is how Fortnite partnered with the NFL to launch a series of football "skins", which are outfits worn by a player's avatar, for purchase in-game. Furthermore, a number of luxury fashion brands have also ventured into the gaming industry through various collaborations, such as in-game clothing designed by Moschino for the life simulation game "The Sims", character skins for the role-playing game "Final Fantasy" by Louis Vuitton ("LV"), and mini-games released by Hermés, Gucci, and LV.

The first large-scale partnership was announced in September 2019 between LV and League of Legends ("LoL"). Through this partnership, LV created a custom trophy trunk for LoL's flagship event, the World Championships, as well as a set of in-game skins that were released following the event. In 2018, the World Championships received a unique viewership of 99.6 million people from around the world, surpassing the Super Bowl. LoL has also worked with some of the biggest

GLOBAL GAMING MARKET GROWTH (2012-2021)



Source: Newzoo

names in the music industry to create custom songs and music videos for the game. With the average age of LoL players at 26, LV has made a bold move to penetrate an age bracket that is predicted to represent 55 per cent of the luxury market in 2025.

GUCCI x RAZER

As more competitors begin to look into gaming industry partnerships, Gucci needs to establish a foothold with players before the intersection of the luxury market and gaming market becomes saturated. To differentiate itself from LV's partnership with LoL, Gucci should look towards technology peripheral companies–producers of gaming headsets, mice, and keyboards–that target the overall gaming market and retain universal utility.

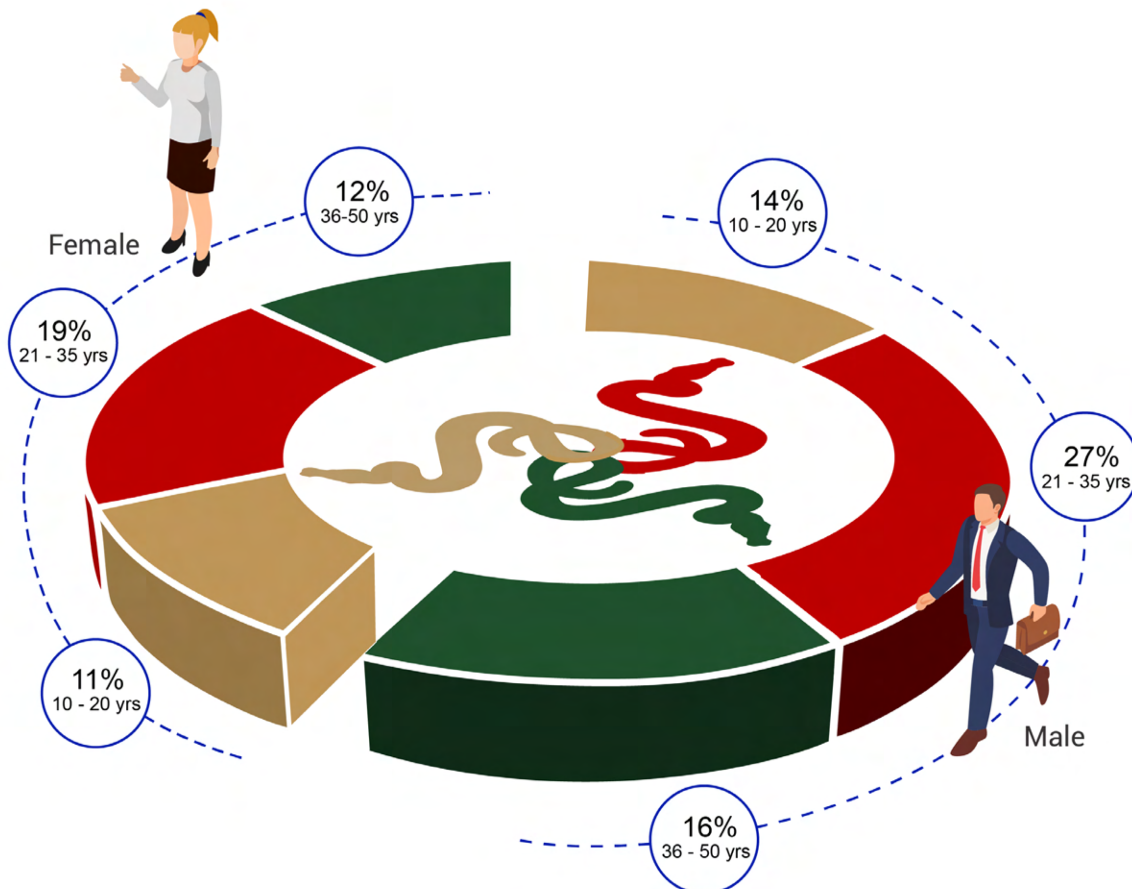
Razer, one of the most highly-regarded gaming hardware producers, is an ideal partner for Gucci. The company began in 2005 with a focus on sleek gaming hardware with a neon green and black motif. Razer has since introduced a new colour variation, Quartz, in an attempt to increase product variation and to embrace female consumers. This brand positioning matches well with Gucci's pivot into an eclectic lineup of "21st century contemporary coolness." A partnership could result in increased revenue, brand awareness, and new market share for both companies.

Unlikely Comrades

The entry strategy should be a three-pronged approach with a focus on product design, influencer marketing, and recurring revenue generation. To secure a partnership, Gucci should license its brand to Razer and release a line of collaboratively designed limited edition products. This ensures the products retain their artistic value, while also serving the unique needs of the gaming community.

Typically, luxury brands minimize dependency on wholesale and royalty revenue to maintain control over the sales experience and avoid brand deterioration. To maintain scarcity and prevent brand deterioration as a result of the proposed partnership, merchandise should be produced in limited quantities and be available for a limited period of time. Pop-up stores should be opened in Los Angeles, Shanghai, and London to maximize control

GAMERS WITH AVERAGE ANNUAL PERIPHERAL BUDGET OVER $300



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over the sales process by Gucci and encourage buyers to experience the product. These three cities each present themselves as the most attractive major city within the Americas, Asia, and Europe respectively—based on a large population, a fashion-centric millennial demographic, and substantial interest in gaming. This will not only cater to the 43 per cent of tech peripheral consumers who visit physical stores to make purchases, but also to luxury shoppers of which more than 90 per cent make purchases in-store.

The launch of the stores will be a joint project between the two companies and all sales associates will be trained on the norms of both industries to ensure a consistent sales experience. In addition, the first set of launches will be limited to the three pop-up locations in order to increase exclusivity and catalyze the formation of a secondary market where the products will be resold at an even higher price. Although Gucci and Razer won't receive the profits from this higher price, this will increase the allure of the products and the two brands. Prior to launch, PR packages will be sent to a collection of existing Razer affiliates in the streaming community. This aligns the product with established figures in the gaming world and would ease adoption by the community, as highly respected streamers have tremendous influence on the purchasing habits of regular players, and 74 per cent of consumers rely on social media networks when it comes to purchasing decisions. These representatives will be spread across different gaming platforms to maximize exposure to a broader variety of audiences, giving Gucci an edge over its competitors.

"As other luxury brands implement their own strategies to connect with younger consumers, Gucci's stronghold on this demographic will be eroded if the brand does not continue to innovate and differentiate themselves from competitors."

Razer will be able to cement its position as a leader in the tech peripherals industry through the early adoption of luxury brand partnerships. This will elevate Razer's status and reinforce the premium image of their products. Additionally, it will expand their product offering even more to cater to gamers seeking more prestigious designs. By breaking into the gaming industry through tech peripherals, Gucci can remain platform neutral and attract the overall gaming market, rather than focusing on a single game or console.

Spoils of War

The benefit of this strategy will be almost exclusively realized through exposing Gucci's brand to the gaming segment, ultimately increasing long term sales on account of increased awareness among younger demographics. The direct revenue impact is likely to be immaterial due to the marketing expenditure, limited quantity, and revenue-sharing with Razer. Given there are currently 380 million esports viewers, growing at a rate of 13.8 per cent year-over-year, the partnership offers Gucci access to a rapidly expanding and largely untouched market. Due to the limited nature of the release, the resale price of these products will likely be heavily inflated and contribute to the exclusivity of the product in the mind of consumers. As a result, the release would fuel demand for future collaborations. Yeezy, Kanye West's fashion label, released their Yeezy Boost 350 shoes in very limited supplies over the course of three years before there was enough stock for casual consumers to purchase a pair. Similarly, it is important for Gucci to play the long game; the first release will be limited in quantity, but as scarcity drives demand and increases publicity, it will better position Gucci for future releases.

Holding the Fort

As luxury brands branch out into foreign territory and battle for a piece of this market, Gucci must move quickly to establish itself in the eyes of gamers. Collaboration with one of the most innovative and highly respected brands in tech peripherals will mitigate the risk of a failed launch. The partnership is projected to capture market share within a growing demographic and position the brand advantageously for long-term sales growth, defending Gucci's position as the premier luxury brand for millenials.

IHG: CAPTURING THE BLEISURE MARKET

To create a more distinctive brand identify, InterContinental Hotels Group should partner with Yelp to create more curated experiences for business leisure travellers

Selina Li & Adam Miller

Illustrations by Selina Li

InterContinental Hotels Group (IHG) is a British multinational hotel company, operating over 855,000 hotel rooms across brands ranging from Holiday Inn Express to InterContinental. With operations dating back to 1777, IHG has long been a fixture in the hospitality industry.

Historically, IHG has consistently had one of the highest net income margins in the industry by differentiating itself through premium experiences and a portfolio of mostly upscale brands. However, recent external pressures have depressed IHG's historically high margins. Between 2013 and 2018, IHG's total revenue increased at a compounded annual growth rate of 15 per cent, driven by the 2015 acquisition of Kimpton Hotels, but net income attributable to equity holders decreased from $372 million to $351 million due to increased costs of goods sold and administrative expenses.

A key driver of these issues is the invention of modern hotel comparison services such as Expedia and Booking.com which have quickly commoditized the hotel industry. Whereas past stays were historically driven by brand recognition and amenities, the emergence of booking apps have led to consumers choosing hotels solely on price. Surveys conducted by Egencia, a travel management company, show that 68 per cent of travellers see little to no noticeable difference between hotel chains. Furthermore, IBM discovered that only half are willing to pay a 10-per-cent premium to stay in their favourite hotel. The advent of Airbnb has also contributed to IHG's margin compression as the start-up has achieved approximately 20-per-cent market share in the hotel industry.

AVERAGE ACSI BY HOTEL BRAND

Source: theacsi.org

To manage competition with other hotel chains and start-ups like Airbnb, IHG must find a way to differentiate itself. A low-pricing strategy is neither a unique nor sustainable form of competitive differentiation and risks commoditizing product offerings. IHG's success has been built by differentiating on premium experiences but in recent periods, the American Customer Satisfaction Index (ACSI) has consistently ranked IHG hotels lower than comparable hotels under the Marriott and Hilton umbrellas. Loyalty is in decline as consumers are switching brands more frequently than ever before.

Bleisure

As pure leisure travellers increasingly focus on price, they become more unlikely to produce attractive financial returns for IHG. Instead of targeting these travellers as they have historically, IHG should aim to pursue a differentiation strategy with customers who are more likely to value experiences and stay loyal. Business Leisure, or "bleisure", travellers offer the most viable opportunity for IHG to effectively differentiate on premium experiences, maintaining the company's competitive position and pricing strategy.

Bleisure, a growing percentage of the business travel market, encompasses the entire range of leisure activities that business travellers undertake during corporate trips. Bleisure guests are less price-sensitive than pure leisure travellers as they can take advantage of paid vacation days to extend their stay and explore their destination after they have completed their business engagement. It is a trend that is becoming increasingly popular within the hospitality industry, with approximately 2.2 million bleisure trips made in 2017.

Solution - Yelp Partnership

To effectively address the bleisure market and increase revenues, IHG must increase their focus on personalizing guest experiences. This can be done by partnering with a business directory platform that is similar to IHG, in that it has local business relationships as well as a global reach. Yelp is such a platform and would give bleisure guests in IHG hotels more reason to extend their stay, while benefiting Yelp from an increased user base.

Yelp, with 142 million unique users per month, is one of the most popular apps for reviews and recommendations on local businesses. They provide a comprehensive platform featuring a wide range of local businesses that span across various industries including accommodations, restaurants, tourist attractions, and entertainment venues. To differentiate themselves from competitors,

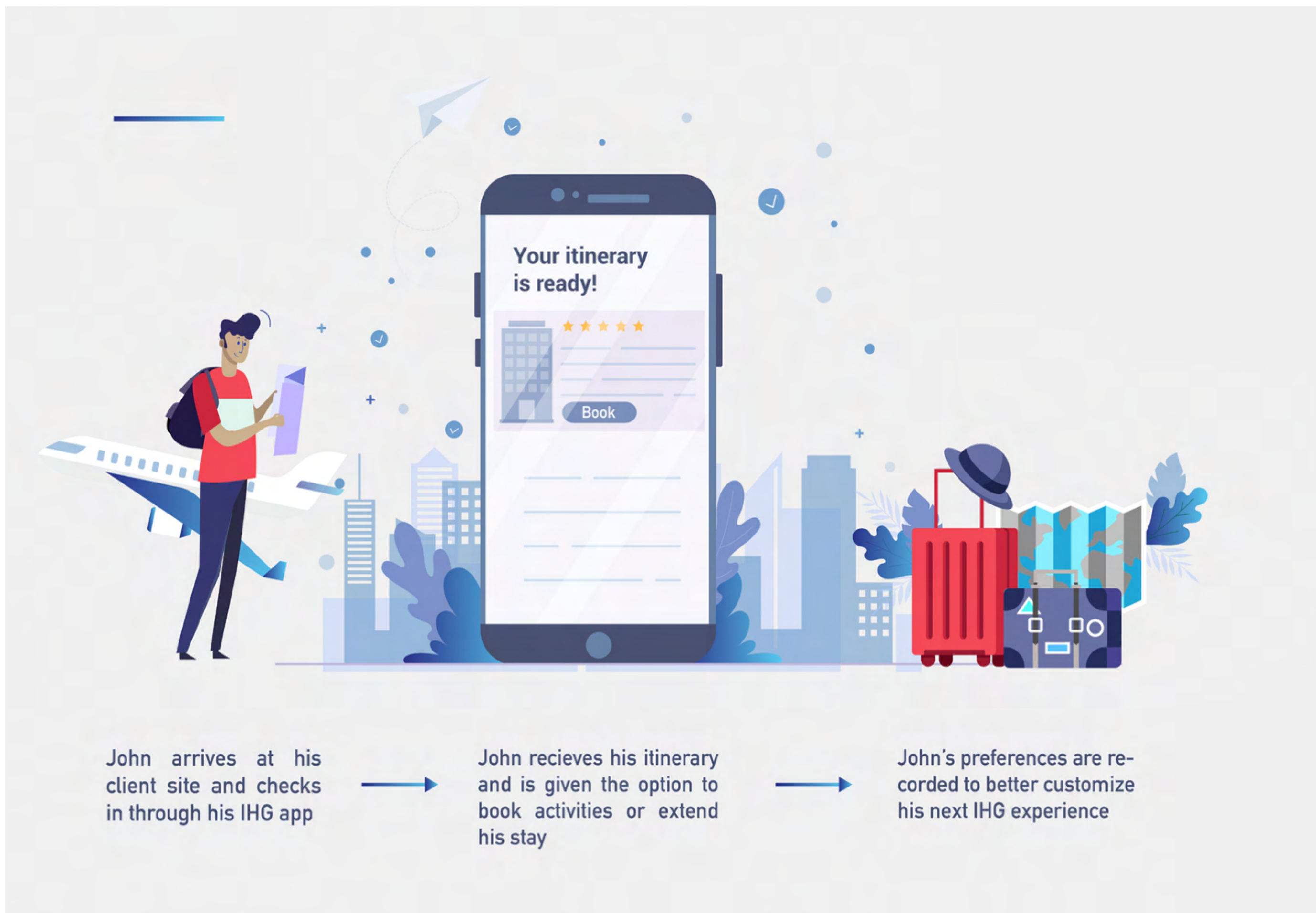
Yelp is redesigning their website to feature more curated recommendations by using advanced data analytics to offer personalized lifestyle and accessibility, dietary, and interest-based recommendations to users.

In the partnership, Yelp brings a diverse set of local attractions, reviews, price estimates, and automated reservation capabilities. On the other hand, IHG possesses information on the customer's length of stay and their demographic data. The merging of these two information sources allows Yelp and IHG to do together what they couldn't do alone—offer personalized recommendations in a bundle. This would be presented through a unified booking platform for IHG customers. Offerings would include meal reservations, tourist attractions, and other activities tailored to user preferences. Following the selection of desired experiences, users are given a price quote which they can choose to accept, after which Yelp's system will automatically make bookings.

Such a partnership would be effective in targeting corporate guests who often do not have time to research travel plans or leisure activities, and addresses the growing demand for authentic experiences. By presenting bleisure travellers with personalized travel recommendations throughout their trip, IHG can appeal to these individuals at various points of their stay, presenting more opportunities for IHG to increase customer satisfaction.

Yelp would also benefit significantly from the partnership; given IHG's upper-scale focus in the hotel industry, the users driven to their new platform would have greater disposable income to spend on local businesses partnered with Yelp. Compared to other hotel companies whose guests are more price-sensitive, IHG brings a unique, untapped customer base to Yelp. As a result, Yelp would realize increased revenues from rising ticket sales and restaurant reservations made through their platform. With demographic information provided by IHG when forming recommendations, Yelp will also be able to improve its understanding of the relative popularity of different businesses among tourist segments. Additionally, IHG serves as a particularly attractive partner because it is actively investing in predictive data analytics and has the

BLEISURE CUSTOMER JOURNEY: MEET JOHN



necessary tools to effectively derive value from the vast amounts of data both companies have to offer.

IHG will benefit financially by extending the average length of customer stays and reducing lost revenue from un-booked rooms. By making an impression on business travellers with personalized experiences, IHG can increase the likelihood that these travellers will opt to return to IHG for future travel.

Impact

IHG hotels will experience accelerated top-line growth by increasing the willingness of business travellers to extend their stays. Quantitatively, this comes in the form of improved occupancy rates and revenue per available room (REVPAR), allowing IHG to achieve growth without sacrificing its margins and premium brand image.

A recent study by Skift found 89 per cent of business travellers were moderately likely or likely to extend a work trip for pleasure. Given that there are more than 405 million business trips in America per year, this represents a $129 billion annual opportunity to IHG, assuming an average extension of two nights at the average nightly rate of $179. Conservatively estimating that five per cent of these total trips actually end up being for bleisure purposes, this would give IHG a total addressable market of $6.5 billion.

Long Term Strategy for Growth

A partnership with Yelp adds significant immediate value and also facilitates further opportunities in the future for both firms. The ability to collect data on customer behaviour both inside and outside of rooms would enable IHG to increase their customer retention rate and REVPAR through an offering of premium hotel amenities and destination attractions in package deals. Moreover, the information gained from this partnership allows IHG to improve its existing internal concierge service, offering more data-driven and accurate activity recommendations. This will position IHG to be a leader in a rapidly shifting area of the hospitality sector. Most importantly, these insights enable IHG to better understand the bleisure market, allowing them to make informed decisions regarding partnerships, expansions, and overall business strategy in the future.

However, IHG and Yelp must be aware of the long-term risks the companies assume when consolidating and tracking such granular personal user data. In the event of a data breach, which would expose a guest's travel preferences and hotel stay history, IHG could face a significant decline in brand reputation and long-run declines in revenue. These costs would be heightened by legal fees, expenses to repair corporate image, and unpredictable costs due to increased political intervention. Therefore, IHG and Yelp must invest in securing user data, with guarantees in place that collected data exclusively be used to improve guest stays with no third-party sale of information or advertising on IHG's side.

Investing in a partnership with Yelp will allow IHG to target a rapidly growing consumer market while fighting back against the growing commoditization of hotel services. If they can successfully convince bleisure travellers to extend their stays, IHG has the opportunity to significantly improve their market share and re-establish their value proposition of providing premium experiences.

INDIGO: **A NEW CHAPTER**

Partnerships with local libraries can help Indigo create a new and sustainable sales pipeline

Jennifer Li & Gloria Wu

Illustrations by Christina Chen & Steven Zhang

Once Upon a Time

Indigo Books and Music is a Canadian-based retailer of books, gifts, and toys operating through a combination of brick-and-mortar and online sales channels. Since its inception in 1996, management grew the company to be the largest book retailer in Canada, reaching a market capitalization of C$540 million in 2018. However, growth in e-commerce and associated firms like Amazon has eroded Indigo's market share and lowered future growth prospects, manifesting in an 80-per-cent share price decline since March of 2018. Therefore, a change in the strategic direction of the firm is necessary to revive growth prospects amid the intrusion of technology into the realm of retail.

Death of the Author

The explosive growth of Amazon has become a major battle for retailers like Indigo as they struggle to compete against the multinational e-commerce giant's large variety of products and same-day delivery service. Furthermore, according to the Wall Street Journal, Amazon controls approximately 49 per cent of all new book sales. This shifting industry dynamic makes it increasingly difficult for brick-and-mortar book retailers to remain profitable.

Despite having an established presence in the Canadian market, with 89 large-format stores and 111 small-format stores, shifting consumer trends have caused Indigo to struggle financially. In fiscal 2019, revenues fell nearly $33 million, and the company faced a higher-than-expected net loss of $36.8 million. Ultimately, growth in the book segment of their business does not seem promising given a lowered outlook on consumer spending and the rise of digital entertainment.

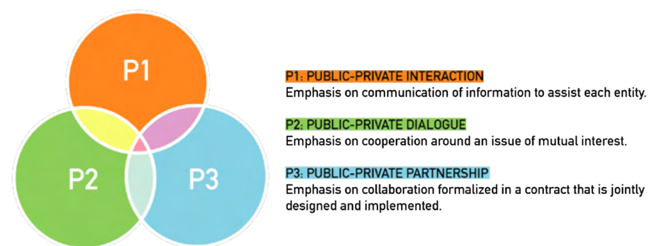
To combat unprofitability and sales decline, Indigo has been investing heavily in strategic expansion initiatives. In fiscal 2018, the company grew its online distribution centre and acquired a new facility in Western Canada to improve service levels. Indigo also hired a Chief Creative Officer, Nathan Williams, to revamp and create new product offerings to differentiate themselves from online retailers like Amazon. Based on their fiscal 2019 results, Indigo's efforts have not been enough. In a world where customers can just as easily download ebooks or wait a day for Amazon shipping, it seems that Indigo is losing its competitive edge as a convenience-oriented book supplier with an established base of customers.

Turning the Page

Between 2009 and 2015, the American Booksellers Association cited a 35-per-cent growth in the number of independent booksellers. The work of Harvard researchers suggests this growth was attributed to three factors: community, curation, and convening. Conversational and impromptu in-store recommendations at independent book retailers help build a company-customer relationship that drives repeat sales. To distinguish itself from competitors like Amazon, Indigo must secure a partnership that will offer new venues to reach customers within their communities and would be difficult to access by e-commerce competitors.

Indigo should look to public libraries as a potential partner. Public libraries have also been affected by the rise of e-commerce book retailers, with many reinventing themselves to become essential community hubs in modern urban settings. By combining bookstores and libraries, two well-loved institutions, Indigo could further reorient its value proposition by emphasizing community and experience. There are many potential synergies between the two parties, allowing bookstore visitors to explore library catalogues and giving library visitors the opportunity to immediately purchase a newer title.

TYPES OF PUBLIC-PRIVATE RELATIONSHIPS

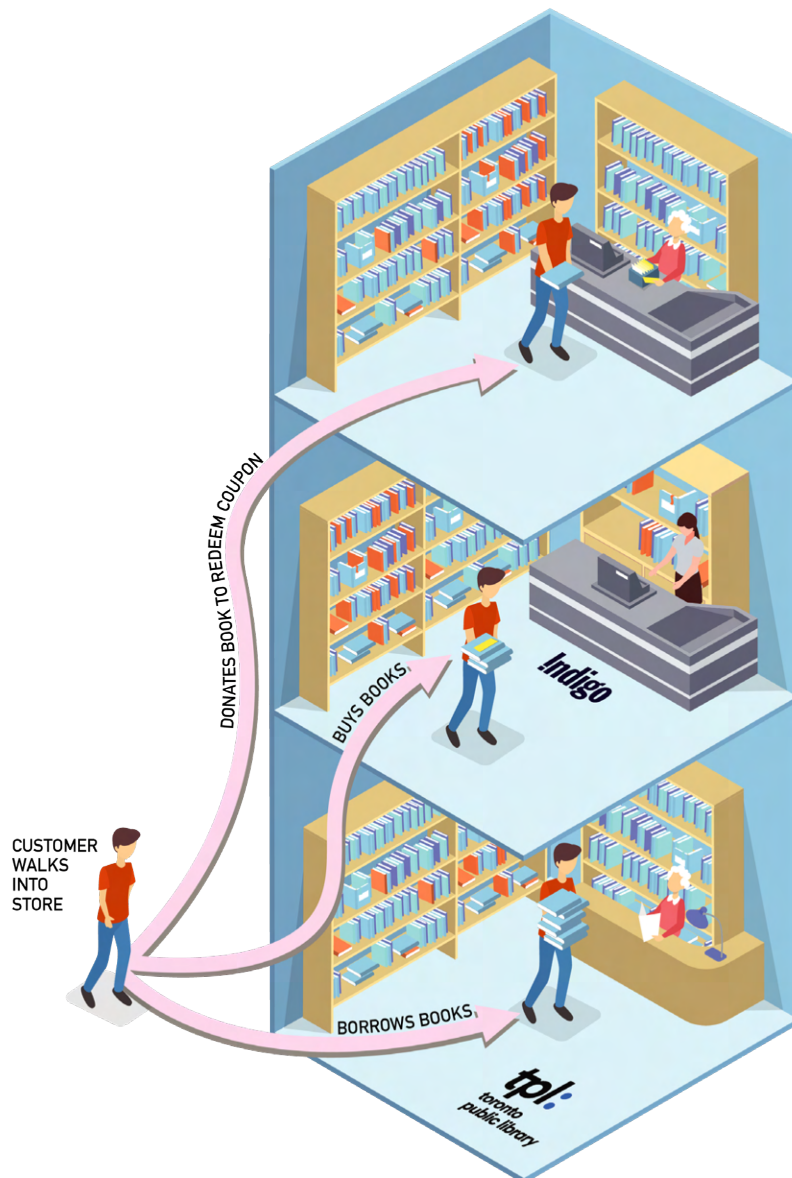


Source: Abt Associates (2011)

Giving and Receiving

As the first step of this partnership, Indigo should implement a "give-back program" for used books. When visitors bring in books to donate to the library, they will receive a five dollar Indigo gift card for use online or at Indigo locations. This incentivizes incremental book donations that can go towards building larger library catalogues, or for use in other charitable endeavours that give books to underprivileged communities. This program is relatively low cost and highly scalable, which can easily result in Indigo having a presence in libraries across many

PROPOSED CUSTOMER PROCRESS

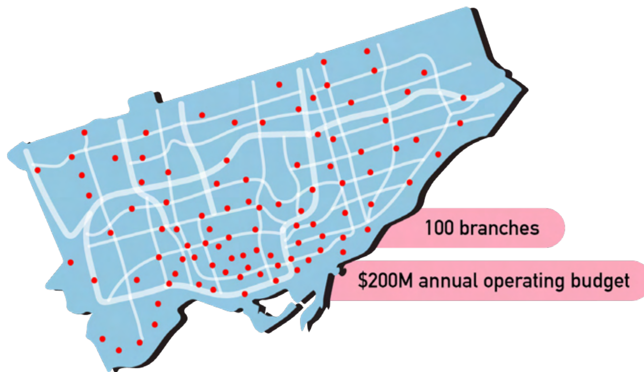


geographies, even those where Indigo does not have a physical presence.

To better capitalize on the incremental sales resulting from the give-back program, Indigo should also work with public libraries to create airport-style Indigo stores therein. These stores will be small enough to be accommodated by libraries, yet large enough for Indigo to hold significant inventories. Indigo can sell its high margin book-reading accessories, e-readers, and bestsellers. While creating physical stores is less scalable than the give-back program and requires a longer timeframe to implement, it gives Indigo the opportunity to explore new markets it would be otherwise unable to; The Toronto Public Library, for instance, has 102 branches relative to Indigo's 111 small-format stores.

This partnership also provides Indigo and public libraries with the opportunity to leverage one another's data. Each organization can provide analytics on trends they are observing in their customers' literary consumption, resulting in greater capabilities for both parties to tailor their offerings. The library could better understand which purchases they should make when expanding their collection, and Indigo can more tightly control the size of their inventory based on demand for the library's most popular items.

TORONTO PUBLIC LIBRARY BRANCHES



Source:Toronto Public Library

Overall, this strategy will help the business attract two separate but overlapping markets: consumers who buy from bookstores and consumers who borrow from libraries. It will give Indigo a larger presence throughout cities while also helping them invest in their next generation of readers through providing an experience not attainable online. Indigo can use this strategy to bring readership back to the core of its business, while leveraging their one competitive advantage over Amazon: physical space.

Case Study: H&M

To address the significant waste created by fast fashion brands, H&M created their Garment Collecting program. Upon the donation of a bag of used clothing and textiles to an H&M store, the donator receives store credit. All donations are then divided into three categories: Rewear, Reuse, and Recycle. Any item in the Rewear segment is identified as being the highest quality and is resold as second-hand goods. Items in the Reuse category are no longer suitable for wear and are repurposed into items such as cleaning cloths. The Recycle category represents articles which are unsalvageable and are broken down to be used in manufacturing products, such as damping or insulation.

H&M offers a five dollar credit to any customer who donates on their next purchase of $30 or more, effectively setting a minimum profit from any credit redemption and preventing the abuse of stacked redemptions. In 2018, H&M collected 20,649 tonnes, leading to a minimum revenue from textile reselling of $5.2 million, plus a minimum gross profit of $10.81 for every credit that is redeemed.

Like H&M, libraries receiving book donations resulting from the give-back program can classify donated books into one of three categories: Reuse, Redistribute, and Recycle. Books in good condition which the library doesn't have or wants more of can be added to its catalogue, excess books can be redistributed through library charity programs, and the remainder can be recycled.

Ensuring a Happy Ending

One of the largest concerns of introducing redeemable credit to donators is the potential that all gross profits are erased by the gift card's use. Given that Indigo's gross margin for fiscal year 2019 was 40.8 per cent, introducing a minimum spend of $15 for any purchase the credit is used on and limiting a single coupon per transaction effectively guarantees any redemption will result in positive gross profit for the business.

The nature of the in-library shop locations is such that they require a far higher capital investment than the implementation of the five dollar give-back program and are thus less scalable. Indigo should first pursue a pilot program at a high-traffic library in Toronto, with both the store and give-back program in place to evaluate the efficacy of the proposed strategy. From there, Indigo can focus in the short term on scaling the give-back program, and then slowly build in-library locations in those places where the give-back program has seen the most success.

Indigo faces a tough battle to stay alive in today's struggling book retail industry. The proposed strategy would make Indigo more relevant to consumers by providing convenient in-person locations and reinforce Indigo's commitment to its customers and the communities in which it operates.

AIRBNB: UNLOCK YOUR OWN BACKYARD

Airbnb should build loyalty by reframing the at-home tourism mentality

Alysaa Co & Dorothy Lin

Illustrations by Christina Chen & Ria Iyer

Airbnb's Growth Aspirations

Airbnb is a marketplace that connects property owners with consumers looking to book accommodations across the world. The 11-year-old company operates both online and mobile platforms and has a pre-IPO valuation of $38 billion. Airbnb has contributed to the proliferation of the sharing economy alongside Uber, TaskRabbit, and more. As a result of rising competition, Airbnb's net losses doubled during Q1 of 2019, compared to the same quarter in the previous year. The biggest contributor to this loss was Sales and Marketing costs, which increased by 58 per cent from the previous year. It is evident that the company is investing heavily in customer acquisition and retention, but further growth is coming at a much higher cost.

Turbulence Ahead

In recent years, Airbnb has faced decelerating growth in its core product, Stays, as measured by the number of rental sessions. Morgan Stanley estimates that Airbnb's bookings grew 29 per cent in 2016 but slowed to 14 per cent in 2018. Airbnb's historical growth has been driven by consumers shifting to online home rentals, but as this market saturates, it is evident that customer acquisition is slowing down dramatically. Airbnb will face challenges in increasing profits if it fails to increase customer retention or differentiate itself from other online booking competitors.

The Invincible Online Travel Agent

A cause of Airbnb's plateauing growth is competitive pressures, specifically due to the continued success of online travel agents (OTAs) like Expedia, Booking Holdings, and Trip.com. These platforms have invested in offering similar products in the vacation home rental and apartment segments, competing directly with Airbnb. As a result, the average customer can now visit two to three booking sites before making their decision, without facing any switching costs. As OTAs continue growing, Airbnb's value proposition of offering unique and authentic Stays diminishes, and the race to develop a comprehensive end-to-end tourism platform becomes much more competitive.

The popularity and growth of Airbnb over the last decade has caught the eye of many entrepreneurs, who are now entering the tourism space. Startups such as Sonder and WeLive have become popular and provide similar value propositions aimed at capturing the millennial market. These companies are backed by various venture capital firms and have attained the necessary funding to compete against Airbnb in select geographies. Airbnb was once a unique company that offered novel customer experiences, but it now exists among many substitutes.

To differentiate from competitive pressures, Airbnb has looked at product expansion opportunities to replicate its core success and increase their share of users' wallets. The company introduced Experiences in 2016 and has expanded to other categories such as Airbnb Concerts, Social Dining, Restaurant Booking, Trips, Adventures, and Social Impact Experiences. These auxiliary offerings aim to provide unique experiences, but without consistent user engagement and frequent bookings, these services will not be effective in helping Airbnb keep its competitive foothold.

Experience Home

Airbnb must find innovative ways to maintain and grow market share amidst rising competition that threaten the company's current areas of differentiation. On traditional travel platforms, user purchases are sparse and high ticketed, making it difficult for Airbnb to consistently generate revenue from its customer base. As the number of bookings available in foreign destinations continue to increase, an opportunity is neglected in the local market. Airbnb has a unique opportunity to leverage its two-sided marketplace and authentic experiences to capture users embarking on explorations in their home city.

In order to encourage customer retention, Airbnb should focus efforts on increasing frequency of customer interaction. This can be achieved by leveraging existing auxiliary products such as Experiences to drive regular engagement, as they are smaller purchase items than Stays. Shifting consumer perception of the Airbnb brand to encompass lower ticketed items will encourage greater interaction and increase customers' willingness to stay loyal. Specifically, the company should launch Airbnb Local, a subscription program targeted at customers in their local neighbourhoods.

The Airbnb Local subscription provides several benefits for the company as they tackle the increasing competitive pressures and stagnating growth. A key driver to increasing customer lifetime value is improving user frequency. Average user frequency of Stays has stayed constant at approximately 3.3 times per year from 2015 to 2017, which indicates the company's investments into additional products have not been positioned well to provoke increased usage of the platform.

As a part of the subscription program, users will receive discounts on Stays, to help drive demand for Airbnb's core business. Additionally, by increasing regular platform usage and driving consumer loyalty, users are more likely to select Stays for travel bookings over competitor options. Research has shown that trust and familiarity

hesitations are barriers of adoption when considering Airbnb for bookings. Specifically, the idea of staying in another person's home raises safety concerns for users. This subscription program aims to dissolve the consumer mistrust through repetitive touchpoints with the user, building credibility.

By launching Airbnb Local, the company shifts the direction of its platform from being centered around tourism, to a more holistic experiences platform. Consumers benefit from more frequent and engaging use of the platform, and suppliers of experiences and restaurants can use the Airbnb platform to gain publicity and expand their customer base. Ultimately, the Airbnb platform will become a more rich, diverse, and captivating platform for all users.

The Finer Details

Airbnb Local should be a curation subscription which offers customers novel experiences, aligning with millennial attitudes of spontaneity. The subscription program will be built on two of Airbnb's main auxiliary products: Experiences and Restaurants. Subscribers will be charged a monthly fee to receive three tailored Experiences and Restaurants to try out each month, based on an initial survey they'll fill out. The subscription fee will go towards subsidizing the Experiences and Restaurants as well as covering the discounts that consumers will receive on Stays. The subscription package will use Airbnb's customized recommendation system to answer a growing need in the millennial customer base for

INITIAL SURVEY USED TO GENERATE TAILORED EXPERIENCES AND RESTAURANTS

Let's get to know you.

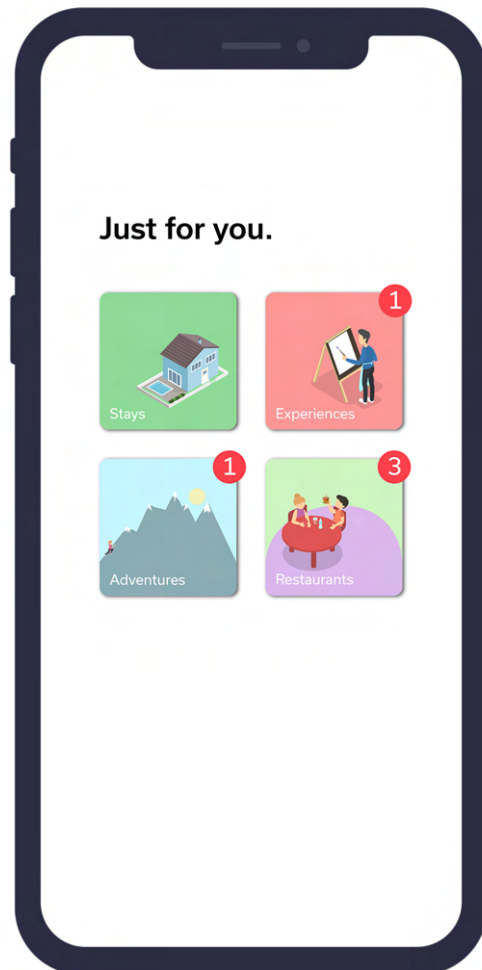
Hobbies

Cuisine Preferences

Activity Type

Outdoor

OK



personalized activities and encourage price-sensitive customers to book Stays through the platform. Capturing the millennial market will favourably position the firm when this demographic becomes the core customer base of the travel industry over the next decade.

The purpose of having Experiences in this subscription is twofold. Firstly, Experiences is one of the only products on the Airbnb platform that is highly differentiated from OTAs and hotel offerings. Highlighting this unique supply is critical in differentiating Airbnb in its consumer brand perception. Secondly, Experiences can be enjoyed both in foreign destinations and locally, due to its lower ticket prices compared to Airbnb's other offerings. Leveraging Airbnb's customer base in their local markets will increase platform engagement, potentially leading to incremental rental bookings.

The Restaurant offering will consist of partner restaurants in each major city that will curate exclusive prix fixe menus, only accessible by Airbnb Local subscribers. This menu will contain popular dishes packaged into a multi-course dining experience priced at a discount to à la carte ordering, similar to the structure of wildly successful events such as Summerlicious and Restaurant Week. The Restaurant offering will be critical in the local subscription package, as dining indulgences are among the most active experiences engaged by a consumer in both foreign and home cities.

To incentivize restaurants to take part in the subscription program, Airbnb should leverage their partnership with Resy, and subsidize the cost of offering these curated menus through the reservation platform. Additionally, restaurants can be promoted to the Airbnb Local customer base through features such as "Restaurant of the Month". Restaurants benefit from publicity on the Airbnb platform, without having to spend large amounts on marketing through traditional mediums.

Carving Success

To determine the feasibility of the program, Airbnb Local should be piloted in major cities around the world, with a full rollout conditional on the success of the pilot. Airbnb Local will incur marketing costs necessary to attract subscribers and participating restaurants, but should become less capital intensive over time, due to network effects and increasing customer buy-in. The monthly subscription should be priced close to economic break-even, to ensure that the price point is attractive to most members. Airbnb Local should be used to keep customers on the Airbnb platform, and stimulate sales of higher ticket items. The company will also have to invest in acquiring more Experience vendors catered for the local demographic.

In the long-run, smaller ticketed services on the Airbnb platform will be used more frequently by consumers, leading to a stickier platform that is front-of-mind when consumers decide to make bigger travel purchases. Airbnb Local will increase brand recognition in consumers' minds and re-establish Airbnb's unique value proposition that originally brought consumers to the platform.

BUZZFEED: **PAVING A FUTURE IN FOOD INNOVATION**

In the face of stagnating growth, BuzzFeed should capitalize on opportunities in food product development

Carol Zhai

Illustrations by Madhumitha Nathani & Tracy Wang

The Decline of BuzzFeed

With content ranging from breaking news to interactive quizzes, BuzzFeed is the world's go-to online platform for viral digital content. At the height of its success in 2016, BuzzFeed was valued at $1.7 billion by investors, with rumours of a 2018 IPO. Despite only having turned a profit once in their history, investors were optimistic that rapid growth could drive the company to profitability. However, contrary to expectations, BuzzFeed came significantly short of revenue targets in 2017 and strayed far from profitability in both 2017 and 2018. With pressure mounting from investors, CEO Jonah Perretti cut 15 per cent of BuzzFeed's total global workforce in 2019 and cited a need for a strategic shift.

BuzzFeed's lack of revenue growth can be tied back to the company outgrowing its current target demographic. During its initial years of operations, BuzzFeed's rapid annual viewership growth created an ever-expanding volume of visitors for advertisers to reach. However, BuzzFeed's monthly visits have not increased beyond 150 million since June 2016 , with unique visitors from the U.S. oscillating between 70 million and 80 million. Given that the majority of American millennials report visiting the site monthly, BuzzFeed has now reached a stage where growth prospects from their current target market are limited.

The monopolization of the digital media landscape has also contributed to BuzzFeed's revenue stagnation. With Google and Facebook increasingly dominating digital advertising revenue, publishers like BuzzFeed have struggled to maintain their piece of the pie. These two tech giants—nicknamed 'the Duopoly'—accounted for 56 per cent of the digital advertising market in 2018 and have vastly outpaced the growth of smaller tech firms and publishers. As advertisers continue to prefer spending their dollars on social media giants, BuzzFeed and other publishers are left with less to go around.

To succeed as a multifaceted digital platform, BuzzFeed can no longer rely solely on generating viral content and growing its viewership in a nearly-saturated market. Moving forward, BuzzFeed must find innovative ways to monetize viewers beyond conventional digital advertising.

A Data-Driven Competitive Advantage

Compared to other industry peers, BuzzFeed has a competitive edge through the comprehensive data generated by its rich user engagement. Given the billions of daily data points it generates through viewership numbers, comments, reactions, and time spent engaging with content, BuzzFeed currently holds a range of valuable insights on consumer behaviour.

For instance, through big data insights, employees at BuzzFeed found that videos with cheese being pulled had particularly high engagement in 2017. This led to the insight that stringy, melted cheese would be a food trend in the upcoming season. Subsequently, BuzzFeed leveraged this insight to create a series of viral videos, which each achieved upwards of five million views. In another example, BuzzFeed identified that users who engaged with posts about fidget spinners would also often engage with content about lip balms. To capitalize on this pattern, the platform created the GlamSpin, a viral lip balm spinner toy which was sold at retailers such as Saks Fifth Avenue and Dylan's Candy Bar.

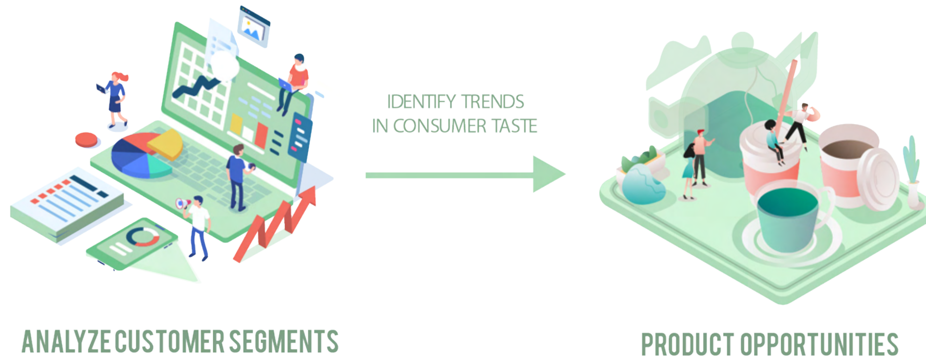
The Path Forward With Data Analytics

While leveraging data internally can provide BuzzFeed with a unique advantage in content production, the platform should capitalize on its ability to predict food trends and ingredient virality by offering predictive insights to global restaurant chains. Given these brands' constant need to develop seasonal menu items, BuzzFeed's predictive insights surrounding food trends are extremely valuable. Rather than solely monetizing user data, BuzzFeed can offer consulting services through its sub-brand Tasty to help global chains refine product hypotheses and identify trends to capture.

This partnership would play out when a brand like Starbucks is developing a fall menu or when McDonald's is deciding whether to add healthier menu snack options. For Starbucks, BuzzFeed could identify rising food trends within major customer segments such as upper-middle class teenagers and young working professionals in urban hubs. The platform could also analyze patterns in consumption to help Starbucks find unintuitive product opportunities. For example, they could check if viewers of coffee-related content had particularly high engagement with specific dessert recipes.

In the latter case, BuzzFeed could help McDonald's refine product hypotheses. If the food brand suspects that pistachios are the next big thing, it can ask BuzzFeed to validate this hypothesis through a range of relevant data. This data includes how pistachio-themed content is performing, a sentiment analysis on comments related to pistachios, scoring data about how recipes with pistachios are rated on Tasty compared to other nuts, and data on what combinations of ingredients with pistachios yield the best engagement. By leveraging its data mining capabilities, not only can BuzzFeed help McDonald's determine whether pistachios will succeed, it can also offer alternatives and help design the next big menu item. Ultimately, with its ability to predict food trends and identify soon-to-be viral ingredients, BuzzFeed has an

LEVERAGING DATA ANALYTICS FOR MENU DEVELOPMENT



unparalleled opportunity to partner with restaurant brands during menu development.

Case Study: Wattpad

As one of the world's largest fanfiction websites for hobbyist writers and readers, Wattpad originated as a platform to rival traditional publishers. Similar to BuzzFeed, the company possesses AI and data mining assets which can capture content trends and user engagement data. By leveraging these assets, Wattpad has been able to offer key insights about what kind of content will resonate with audiences.

Wattpad's insights have proven invaluable to partners in film and TV production. In 2018, Wattpad partnered with Netflix to produce "The Kissing Booth", a film which ended up being one of Netflix's most watched movies in the U.S. Similarly, within weeks of premiering, the pilot that Wattpad helped adapt for "Cupid's March" became the second most-watched video on American network CW Seed's YouTube channel. Using Wattpad's data, companies like Netflix were able to optimize viewer engagement when producing film content, ultimately generating successful hits.

By mining billions of user data points, Wattpad is able to identify engagement trends and create invaluable decision-making data for their partners. Similarly, by analyzing viewership data and comments for trends in consumer tastes, BuzzFeed could turn their billions of daily data points into decision-making points for restaurant brands.

Zooming In On Tasty

Among BuzzFeed's various sub-brands, Tasty stands out as the ideal segment for harnessing data and applying predictive analytics. For one, the quality of data insights depends heavily on a highly-engaged viewer base. A study conducted at Elon University revealed that 90.2 per cent of Tasty viewers engage with its content at least once a week, with one of five viewers engaging multiple times a day. This exceptional engagement implies that Tasty has the necessary recurring viewership to generate up-to-date data insights. Additionally, as the go-to platform for food enthusiasts, Tasty stands out as a market leader with approximately 2.4x more views per video than its competitors.

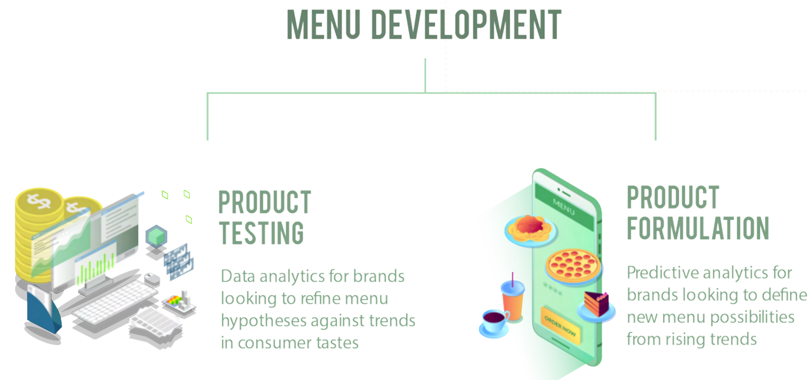
An Industry In Need of Innovation

Offering predictive analytics to restaurant brands also makes sense from the food industry's perspective. In 2018, BCG reported that restaurant brands which leverage data achieve 10 to 20 per cent greater EBITDA relative to their peers. In an industry with razor-thin profit margins, restaurants need new ways to use data in the menu development process and increase their profitability. In the past, menu development has been fixated on the ability of corporate chefs or individual franchise owners to innovate using their own experience. For instance, McDonald's iconic Snack Wrap was invented by head chef Dan Coudreaut after testing 85 ideas for an item that could appeal to drive-through customers.

In contrast to that approach, restaurant brands are increasingly recognizing the importance of using data to develop products. After a failed "millennial-friendly menu" that led to 100+ store closures in 2017, Applebee's has taken a data-driven approach to redesign their menu. By identifying key consumer trends and subsequently re-embracing comfort food, they were able to substantially increase same-store sales in 2018. Ultimately, BuzzFeed's predictive analytics can more accurately capture shifting consumer tastes to avoid costly missteps and help brands succeed in menu development.

From a financial perspective, the food research and development industry is also a lucrative one for BuzzFeed to enter. In 2018, BuzzFeed's revenues increased by a mere $10 million, amounting to annual growth of only 2.9 per cent. Given that food research and development spending

TYPES OF MENU DEVELOPMENT SERVICES



by companies in America surpassed $4.6 billion in 2016, $4 billion is a conservative projection of total future annual spending. Under this conservative scenario, capturing as little as one per cent of total expenditures would result in revenues of $40 million for BuzzFeed, without even taking into account any performance-based royalties.

Implementation

The new menu development service should be housed under BuzzFeed's emerging Partner Innovations segment, which is focused on entering the product development market. Although menu consulting does not involve the creation of a tangible product on BuzzFeed's behalf, it still capitalizes on data analytics in a comparable way to prior developments like the GlamSpin. Specifically, within menu development, BuzzFeed should establish two main types of services: product testing and product formulation. On one hand, product testing will be for brands looking to refine developed menu hypotheses. On the other hand, product formulation will more broadly target restaurants looking to define new menu possibilities from rising trends. Consistent with the pricing model used in Partner Innovations, the service will charge customers a fee with the potential for performance-based royalties. This fee will differ on a case-to-case basis depending on the size of the restaurant brand and the depth of insights demanded.

When working with each client, BuzzFeed should first gain an understanding of the chain's operational capabilities. By understanding their limitations within stores, BuzzFeed can ensure recommendations are within the scope of feasibility. Next, BuzzFeed should collaborate with the client to align key success criteria and understand the core customer segments to target. Once the criteria are clear, BuzzFeed's engineers can leverage the platform's machine learning and data tools to analyze relevant content and generate insights.

Risks and Mitigations

One risk facing BuzzFeed is the inherent uncertainty surrounding what kind of data insights would be most valuable to different restaurant brands. To mitigate this risk, before launching the service officially, BuzzFeed should conduct a pilot with a select group of brands in its network. A pilot allows for the opportunity to understand broad data needs for restaurant brands of varying sizes, product specialities, and customer bases. Another risk is that Tasty's competitors—such as Bon Appetit—could also enter the menu development market, leading to oversaturation. However, this risk is mitigated by the fact that Tasty achieves approximately 2.4x more views per video compared to competitors in the space. Hence, Tasty has a unique competitive advantage as an industry frontrunner with the highest total audience.

A 21st Century Digital Media Platform

In light of stagnating revenues and declining growth, BuzzFeed needs new strategies to leverage existing assets and monetize its audience. Looking forward, BuzzFeed should consider offering menu consulting services to global restaurant brands. By leveraging its billions of user data points, BuzzFeed can predict rising food trends and potential ingredient virality through its machine learning capabilities. Not only does this service align with the food industry's desire to become more data-driven, but it also presents an opportunity for BuzzFeed to capitalize on its existing assets in an innovative new way. In the future, this service can also pave the way for increased collaboration opportunities between food industry giants beyond menu consulting, such as public product partnerships. Ultimately, by expanding upon their existing portfolio of product development services, BuzzFeed can transform itself into a resilient 21st century media company.

LINKEDIN: **NOT JUST PROFESSIONAL GROWTH**

Offering free Premium memberships to students will allow LinkedIn to build a pipeline of active users and generate revenue from university partnerships

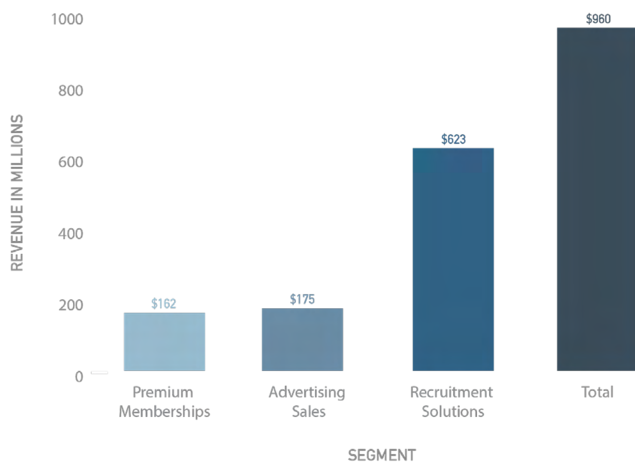
Duncan Mckillop & Jesse Zender

Illustrations by Frank Huang & Tracy Wang

The Optimal Trajectory

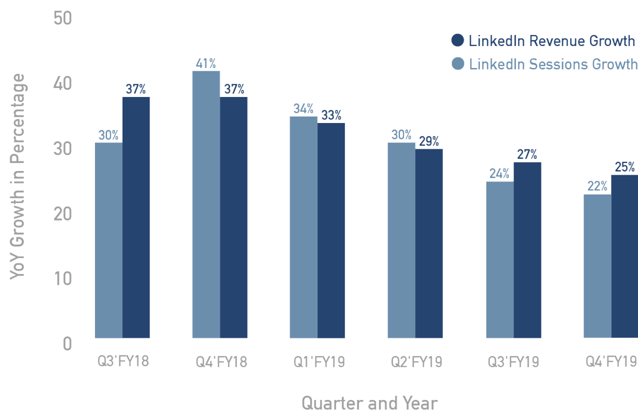
Founded in 2002, LinkedIn is a social media platform focused on increasing productivity and career success for its users. With over 645 million users on the platform, including top executives from every Fortune 500 company, it is the world's largest professional network. However, despite LinkedIn's growing importance in the development of millions of career paths, the company still has plenty of opportunity to grow.

Q3 2016 REVENUES BY SEGMENT



Source: Statista

ANNUAL REVENUE AND SESSION GROWTH



Source: Statista

As a company, LinkedIn's business model closely resembles a hybrid between typical talent acquisition companies and other social media platforms. The company's revenue streams are threefold: Premium memberships (17 per cent of 2016 revenue), advertisement sales (18 per cent of 2016 revenue), and paid job postings (65 per cent of 2016 revenue). The revenue from advertisement sales and paid job postings depends on a large and highly engaged customer base. To continue capitalizing on growth, LinkedIn should focus on a demographic that not only has a high engagement rate with LinkedIn's content, but will also serve as a foundation for long-term value.

University students are the perfect target demographic for LinkedIn to focus on. They are the newest entrants to the job market and, as a result, do not have an existing professional network to rely on. This increases their dependence on LinkedIn for seeking job opportunities. In addition, their age cohort represents one of the most active demographics on social media, and they are less likely to already have Premium subscriptions relative to older professionals with higher disposable incomes. Getting students accustomed to LinkedIn Premium features helps create a pipeline of future Premium subscribing adults who will then turn to LinkedIn for recruiting, advertisement, and mentorship as they progress through their career.

A Lifelong Engagement

To accelerate growth and maintain dominance in the professional network space, LinkedIn should pursue partnerships with post-secondary institutions, giving all enrolled students a free Premium membership. The structure of these partnerships would be similar to those held by LinkedIn Learning (previously Lynda.com), which provides free professional skill tutorials to students at a broad set of higher educational institutions. This program would establish a pipeline of students accustomed to LinkedIn's Premium offerings who will elect to purchase the full Premium subscription post-graduation and stay engaged with the platform.

The Premium subscription service for students should be given a different name and icon design to distinguish student-Premium users from full-Premium subscribers. This is because, to many, LinkedIn Premium functions as an exclusive club and a signal of professionalism. A massive influx of students with faux-Premium accounts would erode the social value of standard LinkedIn Premium subscriptions. A separate class of Premium would still leave students with all the benefits LinkedIn Premium has to offer, but not alienate current Premium subscribers. Students with prior Premium subscriptions could choose

LINKEDIN PREMIUM PACKAGES

to either switch to the free student membership or continue their full-Premium plan.

A student Premium subscription could also offer slightly different benefits relative to full-Premium, to better accommodate the unique needs of students. As an example, additional InMails above the five per month allowed in the Basic membership could have greater benefit to students starting the recruiting process, whereas salary estimates may be less relevant for entry-level positions with publicly available compensation figures.

To prove value to universities, LinkedIn should create an analytics dashboard that career management staff can access to monitor student engagement and job status in the recruiting process. This can be done with a variety of metrics including the number of new connections, InMail messages sent, job postings applied to, profile views, and job status updates. This would not only allow existing career management services to pinpoint areas of improvement for students, but also improve the granularity of job placement analytics. Even if overall full-time hiring rates remains flat, if it could be done with half the applications relative to those students not using LinkedIn Premium, that would still represent a better student recruiting experience. Since universities—and in particular, their business schools—are publicly ranked on the basis of career outcomes, the job-hunting benefits LinkedIn Premium provides could boost student full-time hiring rates and help participating universities bolster their reputation.

> *"University students are the perfect target demographic for LinkedIn to focus on. They are the newest entrants to the job market and, as a result, do not have an existing professional network."*

The Inner Workings

Premium features will be immediately available to any LinkedIn account with an associated university email upon user submission of a recent proof of enrollment. On an annual basis the Premium access will be removed, and the user will be prompted to submit updated documents. It is expected that increased capabilities on the platform will improve engagement for affected accounts, consequently boosting revenues from advertising and job postings. New graduates are also the demographic that is most prone to switching job positions, with a median tenure of 2.8 years, compared to 4.9 years for adults aged between 35 to 44.

As students become reliant upon the superior services offered by LinkedIn Premium, they will be more likely to renew their subscription when pursuing these new positions.

"Since universities–and in particular, their business schools–are publicly ranked on the basis of career outcomes, the job-hunting benefits LinkedIn premium provides could boost student full-time hiring rates and help participating universities bolster their reputation."

As the student populace becomes more dependent upon services offered through a Premium subscription, LinkedIn can leverage their employment data and job offerings into a full integration for university career management teams. Through an annual subscription fee, a given university will have access to dashboards containing data about all current students, as well as details on their alumni network. The analytics pertaining to current students will detail where each student has applied, where they have received job offers, and their full employment history, thus assisting career advisors when giving advice in one-on-one meetings. The alumni dashboard will allow the faculty and staff to search and InMail (LinkedIn's messaging service) any user who has listed the university as their alma mater. This can result in further engagement of alumni in on-campus activities with current students, potentially strengthening employer relations and increasing the likelihood of student employment. Schools with the largest base of students actively engaged in other paid offerings, such as LinkedIn Learning, should be targeted for these services first, on account of their demonstrated propensity to adopt new technologies and pre-established trust with the brand.

Github, a software development platform, pursues a similar strategy to target students. Since 2013, the company has offered their Student Developer Pack (SDP)—a bundle of development tools—at no cost to students with proof of enrolment. This pack enables students to pursue their interest in learning about software development without incurring high costs. At the same time, it exposes Github's paid features to the demographic that is most likely to require them in the future–similar to what is being proposed for LinkedIn. Github's SDP has been wildly successful, with over 1.5 million students registered and a constantly growing bundle of tools. The SDP is part of the reason Github currently holds the position as the world's largest software development platform, with over 40 million users and over 85 million code repositories.

Upwards and Onwards

The strategic decision to pursue partnerships between LinkedIn and educational institutions holds strong promise to drive further engagement and a higher quantity of users on the platform. Doing so contributes to growth in all company revenue streams and contributes to LinkedIn's network effect between recruiters and job seekers.

Future expansions to the partner program could include partnerships with professional degree institutions, like law schools and medical schools. Students pursuing both degrees have their own extensive and highly competitive recruiting processes, and the universities offering them are evaluated on future job prospects, making them a natural next step. Once these well-matched options have been exhausted, a broader implementation to general undergraduate programs can be pursued, but such a move would be contingent on the efficacy of the partnerships with institutions best suited to the program. The outlined strategy should cement LinkedIn's position as the best platform for professional development and social networking for early-career users and help thousands of students realize their full potential.

PEARSON: SETTING THE STANDARD FOR EDUCATION

To fight its slipping financial condition and address public demands, Pearson should move into the Project-Based Learning space

Maxim Verzunov

Illustrations by Shubham Bansal & Madhumitha Nathani

Pearson Education (Pearson), the dominant educational publisher in the U.S., is facing several critical pressures. First, general U.S. education levels have deteriorated over the past three decades, prompting public outcry about the need for system-wide reform. Second, Pearson is facing increasing investor scrutiny in the wake of weak textbook sales and shifting industry trends. Third, Pearson's two biggest competitors, Cengage and McGraw-Hill, announced a merger earlier this year that would displace Pearson's grip as the industry leader. In order to defend its position as the industry leader, Pearson should foray into the project-based learning space, establishing an uncontested foothold, addressing long-term profitability concerns, and revolutionizing the U.S. education system.

The U.S. Educational Publishing Industry

The U.S. educational publishing industry consists of courseware, including textbooks and other learning materials, designed primarily for students in K-12 schools and higher education institutions. Today, Pearson dominates as the largest educational publisher in the U.S. by revenues, holding a 40-per-cent share of the market. Pearson is followed by Cengage and McGraw-Hill, representing 24 per cent and 21 per cent, respectively, with smaller competitors like Wiley, Macmillan, and Oxford University Press making up the remaining 15 per cent.

Traditionally, educational publishers earned most of their courseware revenue through physical textbook sales, supplemented by additional digital offerings like video representations of textbook concepts. However, recent technological trends are shifting learners and educators away from physical textbooks and towards the "online classroom", where a greater portion of learning is done through digital exercises.

Moreover, technological advances have allowed companies to focus more on personalized services, with organizations like Khan Academy allowing individual students to study at their own pace through customized modules. These two trends—digitization and personalization—are the dominant developments in the U.S. education publishing industry today, and will continue to shape the space for the foreseeable future.

A Need for Change

For decades, the need for a wide-ranging educational reform was widely recognized across the U.S. as the nation fell from 6th in the world in education and healthcare in 1990 to 27th in 2016. The Hechinger Report, a non-profit focused on journalism related to educational inequality, claims that in 2016, "American fourth-graders, on average, had worse reading skills than they did five years earlier." Opinions of public officials clearly show declining confidence in the public school system, with root causes thought to be the decreasing affordability of textbooks, lower funding for schools, inadequate Common Core standards, and a focus on learning for exams rather than for broader applications.

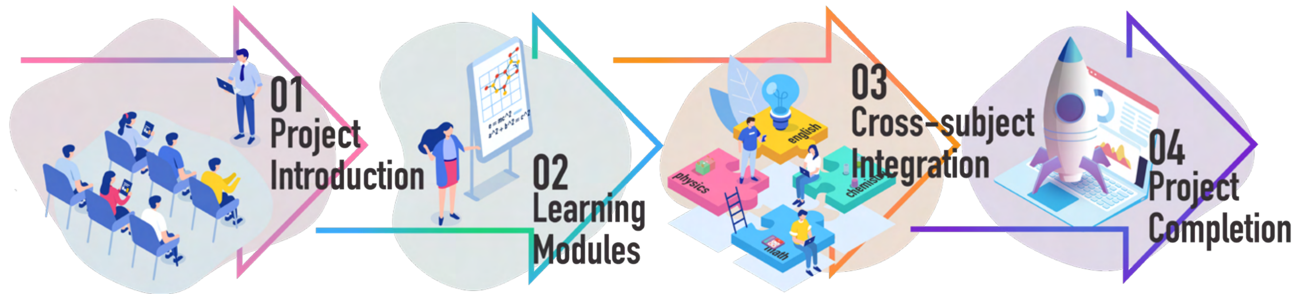
DIGITIZATION IN THE INDUSTRY

Several systems have been proposed over the last century in an attempt to reform the U.S. education system. However, none gained enough traction to become a viable replacement on a national level. One such system is the Montessori method of education. The Montessori method, an older system that re-thinks the essence of developmental learning, proposed a model based on discovery. In it, students learn concepts from working with materials, exploring their uses and understanding their interconnections. Although thought to be effective under certain conditions, the method demanded high investment costs and afforded students excessive amounts of independence in their education, which came to be scrutinized by the public. In addition, the Montessori method offered limited potential sources of income for educational publishers, and so it lacked vital support from industry leaders.

Project-Based Learning

A more feasible alternative system is Project-Based Learning (PBL). Edutopia defines PBL as "a dynamic classroom approach in which students actively explore real world problems and challenges and acquire a deeper knowledge." Instead of subjects being taught in isolation from other subjects and adhering strictly to a textbook, PBL offers an environment for students to work on projects that integrate several skills concurrently. For example, in a PBL system, one of the projects a student may be working on is building a hypothetical spaceship. The educator would guide the student to progress through the project, learning several crucial modules along the way in relevant areas. For instance, to build a spaceship, one

PBL PROCESS



would need to know mathematics, physics, and chemistry, among other subjects. Because the task revolves around a project, rather than a particular subject, students are encouraged to think holistically in approaching the problem. Framing education in this way assigns meaning to classroom activities and often builds skills directly transferable to the workforce. In a PBL dynamic, the teacher becomes less of an authority figure and more of a guide to the student, engaging in participatory teaching. Consequently, the classroom becomes more engaging and less monotonous. Indeed, PBL educators cite lower absences, better engagement, and higher test scores as a result. Studies in PBL implementation recorded numerous instances in which schools that implemented PBL outpaced general state-wide improvement scores on standardized tests by a factor of three to ten.

In today's educational environment, PBL is likely the most viable alternative to the traditional textbook-oriented education system. Trends toward digitization in the industry allow PBL to be implemented on a massive-distribution basis through online channels. In fact, some companies have already created subscription-based platforms that employ the PBL methodology. For example, Defined Learning is a company that works with K-12 teachers to offer Defined STEM, an online platform that takes learners through project-based classroom-enhancing tasks. The online nature of the platform also makes it possible to personalize projects to each student, giving them the option of pursuing various topics at a variety of paces. Other companies have established extensive networks of students and institutions that have indicated a strong interest in PBL, committing to PBL principles. For instance, High Quality Project-Based Learning (HQPBL) is an organization that promotes PBL through its educational network, which includes 3,236 committed schools and 104 partners. HQPBL developed a high-level framework for PBL learning, and the organization constantly supports research in the area.

Coupled with the prevailing digitization and personalization trends, an online PBL platform provides a cheaper alternative to physical textbooks, a revision to the Common Core process through tailored education, and a focus on learning for broader applications, rather than exams. These factors rectify major problems the U.S. education system faces today. However, PBL has not yet been picked up by leading industry players. Traditionally reliant upon physical textbook sales, incumbents would have had to cannibalize their legacy business in the pursuit of expensive alternative models. In other words, industry leaders stuck with their profitable bread and butter, having no incentive to chase a large-scale alternative like PBL.

A Dire Circumstance

With the industry environment ripe for change, Pearson needs to act; in a press release late September, Pearson announced that it was revising down its profitability guidance due to weaker projected physical textbook sales. Students and academic institutions are making the shift to digital solutions at an alarming pace, threatening Pearson's legacy business. In particular, its U.S. college courseware business, driven by textbook sales, is projected to decline 8-to-12-per-cent yearly, with sales from digital channels not growing quickly enough to cover losses from the legacy business. Pearson's stock plunged 19 per cent in morning trading following the announcement, and has yet to recover. Investors are not optimistic about Pearson given its uncertain financial future.

On top of internal concerns, on May 1, 2019, Cengage and McGraw-Hill announced their entrance into a definitive agreement to combine in an all-stock merger of equals. Cengage-McGraw-Hill (CMGH) will soon represent 45-per-cent of industry revenues, superseding Pearson's share and posing a significant competitive threat. In particular, CMGH will find efficiencies by optimizing its cost structure and increasing its supplier-negotiation power. As well, CMGH will command an extensive network of teachers,

students, and educational institutions. Without a response from Pearson, CMGH will be in a prime position to chip away at Pearson's market share and expand its circle of influence.

An Opening

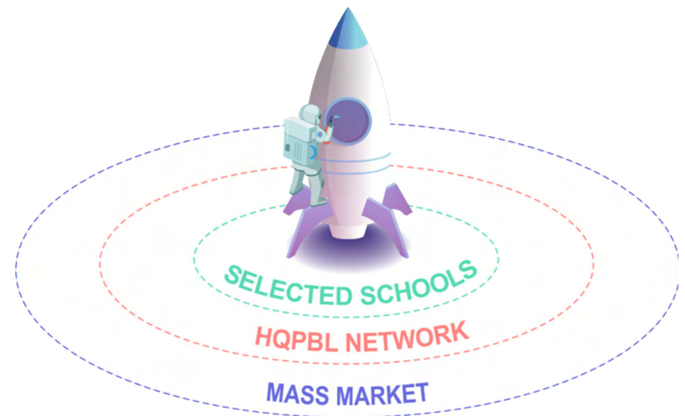
Although CMGH will wield significant market power after the merger, there is an opportunity for Pearson to take advantage of several factors. For one, CMGH will feature more than 44,000 titles in various fields of study. Compared to Pearson's 1,500, CMGH will find one of its top priorities to be the streamlining and rationalization of its SKUs – overlapping subjects, an excess of authors, and dual operational management systems will all need to be resolved. CMGH cites that it will take three years to realize the merger's full cost synergies. Furthermore, the 2013 merger worth GBP 2.4 billion between Penguin Group and Random House—two of the world's most prominent trade publishers—serves as a good proxy for CMGH's combination timeline. Penguin-Random House took 18 months to fully integrate; CMGH can be expected to take a comparable length of time given the similar nature of their publishing businesses. Therefore, CMGH will face difficulty remaining strategically nimble in the next two to three years, which presents an opportunity for Pearson to pivot to a stronger competitive position.

In an attempt to combat its declining physical textbook revenues, Pearson is investing heavily into technology as it undergoes digital transformation. In particular, Pearson is looking to develop its Global Learning Platform, which will play a central role in giving educators the flexibility to update content in real time. Even with this change, however, Pearson's strategy represents a marginal improvement to its competitive position. Considering the public demands for a reformed model of education, the internal stresses from Pearson's legacy textbook business, and the threatening merger between its two biggest competitors, Pearson must use its size, capital, and reputation to pursue a meaningful large-scale initiative.

A Revolution

To address the mounting social trends calling for educational reform, reorient its business model, and exploit CMGH's strategic paralysis, Pearson should introduce PBL as the new, more effective method to educate America's youth. In particular, Pearson should acquire Defined Learning, leverage internal resources to refine and personalize the Defined STEM platform, and rollout the new model in strategic locations across the U.S. By tackling the issue of U.S. education as a whole, Pearson will solve its own organizational difficulties.

PBL PLATFORM ADOPTION LEVELS



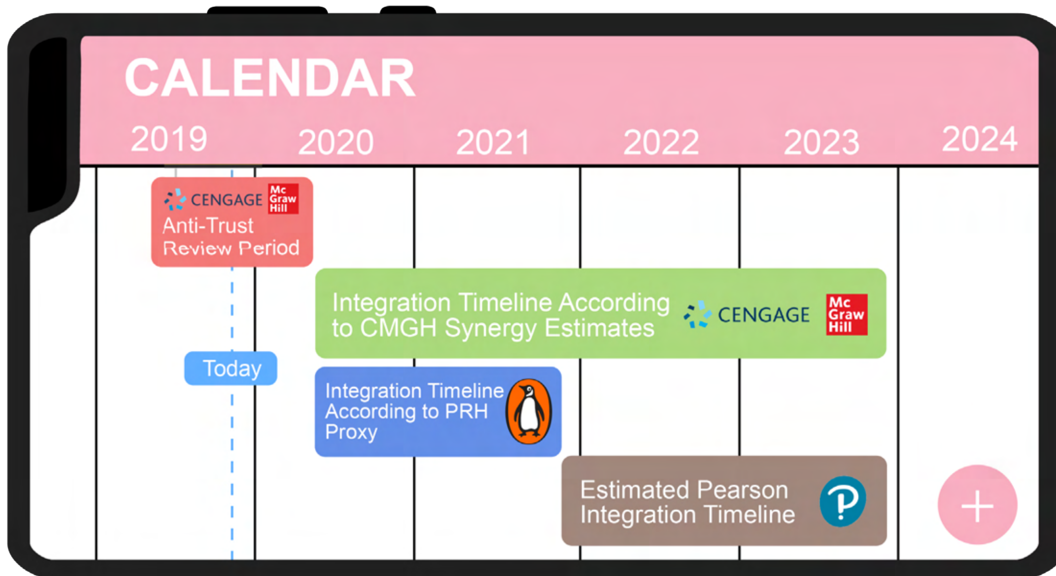
Acquiring Defined Learning will give Pearson the jump start it needs to venture into the PBL space. The Defined STEM digital platform leverages the PBL method, giving students performance tasks to build literacy among various disciplines in pursuit of a project goal. Buying a ready platform would allow Pearson to avoid the otherwise-necessary monetary and temporal investment into understanding and digitally implementing the PBL method. Instead, Pearson can leverage its increasing competency in technology to make marginal enhancements to Defined STEM and elevate it to a massively commercial level. Pearson would also draw from its vast array of published materials to improve both the quantity and quality of projects on the platform, integrating its legacy competencies with its new digital Pearson PBL platform.

Implementation

Pearson should begin its platform rollout by targeting carefully selected underperforming private schools. By focusing on private schools, Pearson would most accurately be able to measure the effect of its PBL platform on underlying education efficacy. Because private schools tend to be situated in socioeconomically secure areas, factors outside of Pearson's control—such as crime and corruption—are minimized, allowing the platform to be assessed on its merits rather than situational influences. In addition, working with private schools will allow for easier platform adoption, as Pearson would not only avoid the tedious process of going through a school board, but also work with schools that have control over capital allocation. Given the incentive for private schools to chase better educational performance, underperforming private schools would be keen to implement a new model in pursuit of positive results. These schools would become the early adopters of the Pearson PBL platform.

By working with the early adopters, Pearson will be able to actively monitor the performance in each school and

INTEGRATION TIMELINE



fine-tune their PBL platform. Once enough evidence of the system's efficacy has been collected, Pearson would then target new participants from the HQPBL network of students and educators. Their indicated interest in PBL suggests that the learning curve for employing a PBL platform would be flatter, giving Pearson the next natural target for the continued rollout of the Pearson PBL platform.

Finally, with an increasing dataset of successful Pearson PBL platform implementations and rising classroom scores, Pearson could turn to mass market rollout. With enough interest, which studies on change adoption estimate to be 10 per cent of the population, a critical mass of students and educators would be reached. At that point, Pearson's PBL platform would begin to displace the traditional textbook method on a nation-wide level, building a monopoly in the space.

Acquisition Risk

If the acquisition is voted down by Defined Learning's shareholders, Pearson has two paths forward. First, Pearson can force a hostile takeover, leveraging its size to absorb Defined Learning for its systems and platform. Alternatively, Pearson has the capital and technical competency to develop a similar system in-house. Admittedly, in-house development will take a longer time, since the PBL system would need to be studied and optimized into a commercial online platform through copious amounts of testing and iteration. Still, Pearson has the network reach and technological capability needed to exceed the hurdle and develop an independent platform.

Playing Catch Up

Considering the CMGH merger timeline, Pearson will have two to three years of breathing room to establish a meaningful first mover advantage in the PBL space. Having no competitors of a comparable size in the space, Pearson will have the capacity and freedom to target the most promising educational districts, capitalizing on the publicity that would arise from successful implementation. Establishing a grip in numerous educational districts, as well as making a loud splash in the news, will provide Pearson with a significant head start over its competition. By the time CMGH becomes nimble enough to join Pearson in the PBL space, Pearson will be securing long-term agreements with districts across the U.S.

The Future

After PBL is rolled out on a national level, Pearson could introduce the system worldwide, leveraging its global presence to challenge its competitors on an international level. By taking the initiative while CMGH is still integrating, Pearson will establish itself as the premier PBL provider. This will create a competitive moat that will shield profits and build long-term shareholder value. The Pearson PBL platform will have the potential of igniting a new generation of learning around the globe, bringing with it a brighter future of engagement and collaboration.

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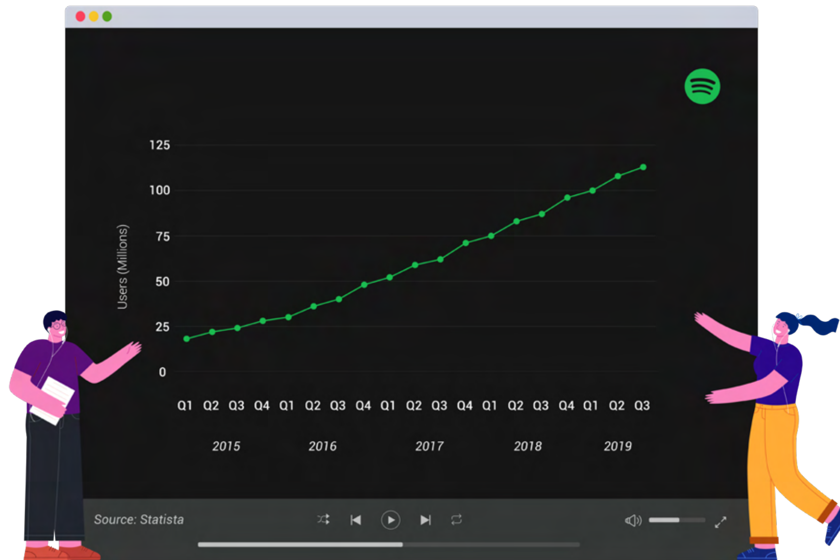
CHARTMETRIC: STRIKING A NEW CHORD

Chartmetric should establish a consulting arm aimed at capturing and growing independent music labels

Noah Fluxgold & Max Starkman

Illustrations by Frank Huang & Kevin Jing

SPOTIFY PREMIUM SUBSCRIBERS SINCE Q1 2015



Source: Statista

Record Breaking DSPs

Music is becoming increasingly accessible, with the rise of digital streaming platforms (DSPs) providing easy and immediate access to a large variety of content, eliminating the need for physical distribution. As a result, streaming has become the most popular method of music consumption, commanding an 80-per-cent market share of total music industry revenues. Many popular young artists, such as Billie Eilish and Lil Nas X, have relied on DSPs early on in their careers to build up fan bases prior to the support of traditional record labels. Leading DSPs like Spotify, Apple Music, Deezer, and Pandora have driven this global industry shift, making music more democratic than ever; the power is now in the hands of the consumers and the artists.

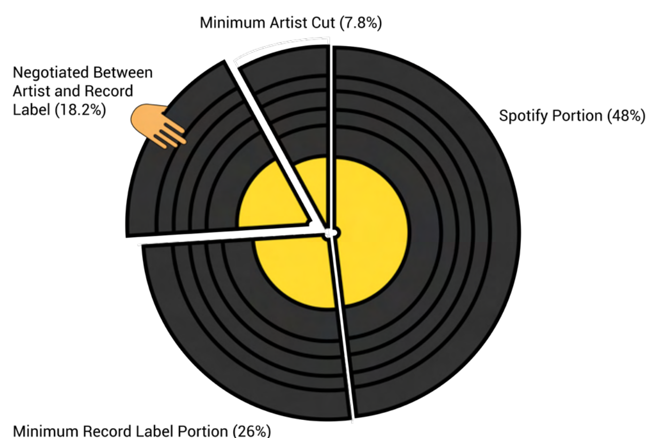
Signing the Deal

The three major record labels—Universal Music Group, Sony Music Entertainment, and Warner Music Group—provide value to artists in the form of comprehensive marketing management, extensive funding, industry expertise, and their distribution relationships. In exchange for their services they receive hefty royalty payments and, in some cases, ownership of the rights to all content produced by the artist. Major record labels therefore control a disproportionate share of industry revenues, comprising 70 per cent of 2018 market share.

Before the advent of DSPs, signing with record labels was the only way to effectively gain traction in the music industry, consequently shifting bargaining power away from artists. For example, Spotify typically pays a record label around 52 per cent of the revenue generated by each stream of a given song. The label, in turn, pays the artist a measly royalty of 15 to 50 per cent of its cut. As a result, musicians collectively only made 12 per cent of the $43 billion generated by the music industry last year due to high royalty payments.

Due to the decreased barriers of entry attributed to the advent of DSPs, the need for record labels has drastically decreased. Artists without record labels grew nearly four times as fast as the total music industry, generating $0.6 billion in revenue in 2018. This has resulted in increased competition between major and independent record labels as they race to discover and retain talent. Consequently,

SPOTIFY STREAMS REVENUE DISTRIBUTION



Source: Business of Apps

industry players are looking to develop competitive advantages by shifting towards data-centric decision making. For example, Apple recently acquired Platoon, a company that uses data analytics to produce, distribute, and market for artists. Similarly, Spotify acquired Seed Scientific, a data science consulting firm in 2015. Additionally, Universal Music recently acquired Ingrooves Music Group, a global distribution, technology, and marketing company that provides data driven solutions for strategic growth of independent artists and labels. The use of data analytics to drive strategic decisions in the music industry is crucial for these players to make the most efficient use of their resources and generate maximum return.

"Leading DSPs like Spotify, Apple Music, Deezer, and Pandora have driven this global industry shift, making music more democratic than ever; the power is now in the hands of the consumers and the artists."

A Major Opportunity

This industry shift has left a large segment of the market, namely independent record labels, in a difficult situation. Compared to major record labels, independents have limited resources, meaning that every dollar needs to be strategically spent. Without the resources to acquire analytics companies like their major competitors, they must look for other ways to make data-driven strategic decisions. The market opportunity lies in providing an affordable way for independents to make effective, data-driven decisions on how to acquire and position artists to compete with the majors.

Chartmetric

Founded in 2015, Chartmetric has raised $1 million in funding and has grown to 20 employees. For a subscription fee, Chartmetric aggregates data on artists, songs, and playlists across all major social media, streaming, and music-oriented websites. Subscribers can use the platform to filter and visualize this data, making the service valuable to a wide range of stakeholders within the industry, such as major record labels, independents, digital distributors, and branding agencies. Competitive advantages stem from the customization inherent to Chartmetric's platform, where the data can be filtered according to user-set parameters to accomplish different objectives.

However, as it stands, the large quantities of data derived by Chartmetric's algorithms can be difficult to interpret, especially for independent labels without dedicated data science departments. For example, Chartmetric's Artist Playlists function shows a comprehensive view of all playlists a song has been added to across all DSPs. This data can appear convoluted and be difficult to make an actionable decision from. The user is left with questions such as whether or not they should cater their next album towards a certain genre or tour with certain artists. A solution is needed to help users navigate and better make sense of the extensive data provided.

Composing a New Solution

Chartmetric should establish an internal consulting arm targeted at the independent sector, specifically small-scale independent record labels. This will allow them to focus on creating value through combining industry expertise and data capabilities. Chartmetric should recruit experienced music consultants who will collaborate with data scientists to navigate through copious amounts of data in order to make meaningful recommendations, allowing them to emulate the benefits of major record label management for independent clients. These professionals should be assigned a roster of clients to consult and build working relationships. As the number of consulting clients grow, Chartmetric should expand their consulting arm accordingly.

This new consulting arm will allow Chartmetric to differentiate itself among competitors by leveraging the expertise of music consultants and their extensive data capabilities. This premium service will generate additional revenues for Chartmetric as well as increase platform retention, as lasting consultant-client relationships are developed. Chartmetric can upsell their subscription services by offering hourly consulting packages to clients based on their individual needs, with no long-term contracts to ensure financial flexibility. Value will

"The market opportunity lies in providing an affordable way for independents to make effective, data-driven decisions on how to acquire and position artists to compete with the majors."

be created through release Artists and Repertoire (A&R) support, optimization, and marketing.

A&R

Independent record labels lack the search and tracking capabilities of major record labels, many of whom have established specific departments solely focused on talent acquisition. Music analytics companies including Chartmetric already provide an A&R service to filter through large amounts of data to identify "up-and-comers" based on set user parameters. However, at this point, this simply serves as an aid to A&R managers based on fan engagement without specific actionable items. Chartmetric consultants can provide more definitive value by providing recommendations on the lifetime value of artists based on target audience demographics and engagement to predict the financial viability of signing the artist. This can help determine the most effective way to spend investment dollars. Furthermore, this information and analysis can be used to predict when an artist is at risk of facing a downturn in popularity so that independent record labels can better strategize to maximize an artist's lifetime value.

Release Optimization

Chartmetric's consultants should make data-driven recommendations about optimal content release strategies, such as timing, geographical targets, and even genre of music. For example, Chartmetric's Cities tool provides artists with insights into consumption habits in specific regions around the world. As it stands, this offers value for labels to better understand artists' consumer geographic but lacks recommendations on how to act on this information. Using this data, consultants can help to optimize tour routes and publicity events to accommodate artist schedules based on fan engagement.

Marketing

One of the main value-adds from major record labels is extensive strategic marketing and brand management. Independents strive to provide the same support with less resources. Chartmetric consultants can use aggregated data and their own industry expertise to tailor marketing strategies to specific labels. For example, recommendations can be made on what merchandise an independent should sell based on social media interactions. Independents can leverage this expertise to optimize their marketing dollars. This will provide significant value for Chartmetric given the constant marketing needs of independent record labels and should lead to long-term contractual engagements.

Risk and Mitigation

A large volume of clients is needed to make a material difference in growth and profitability. With each client contributing a small portion of revenues, it is crucial for Chartmetric to maintain positive working relationships with independents to retain a group of loyal customers. Chartmetric should focus on providing tangible value by tracking the return on investment for each of their recommendations to prove their material benefit to clients.

Closing Note

The use of data-driven decision making is crucial in the increasingly competitive music industry. The ability to combine data and industry expertise could be the difference between a viral superstar and a starving artist. With the rise of the independent segment, Chartmetric's internal consulting arm can help position the company as the go-to resource for efficient, effective recommendations.

WARNERMEDIA: **THE ENEMY OF MY ENEMY IS MY FRIEND**

To stake its territory in the upcoming streaming wars, WarnerMedia should partner with Cinemark to jointly distribute new HBO Max releases at home and on the silver screen

Nicholas Tommasini & Edward Wang

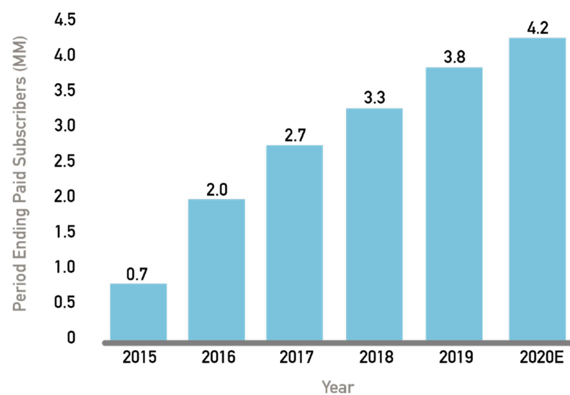
Illustrations by Raj Brahmbhatt & Kevin Jing

A New Era of Media

Formed in 1990 from the titanic merger of Time Inc. and Warner Communications, WarnerMedia is a leading global media and entertainment conglomerate in film, television, and publishing. Sub-divided into three primary divisions, the company operates leading news & sports channels including CNN and Bleacher Report, premium Direct-to-Consumer (D2C) entertainment networks like HBO and Cinemax, and "Big Five" entertainment production and distribution giant Warner Bros. Entertainment.

The most fascinating prospect for WarnerMedia's continued expansion is now its Home Entertainment brand's prize asset: HBO. Founded in 1972, HBO is the oldest pay television service in the U.S. and a leading premium network, with 34 million domestic subscribers. Available through Over-the-Top (OTT) consumer services and its proprietary HBO Now streaming service, which boasts eight million subscribers, HBO enjoys a reputation for quality programming, represented by its persistent success at the Emmys since the 1980s. HBO also proved capable of spawning major cultural events, including The Sopranos, with 302 award nominations and 118 wins, and most recently Game of Thrones, whose viewership skyrocketed from 2.2 million for its pilot to 13.6 million by the finale's airing.

HBO NOW SUBSCRIBER GROWTH



Source: Morgan Stanley Research

What Is HBO Max, And Why Is It Unique?

AT&T's purchase of Time Warner in 2018 for $109 billion was the first major vertical takeover by a telecommunications giant. In 2019, Disney closed its acquisition of 20th Century Fox, reducing the number of film majors to just five as it prepared to enter the streaming business. The unique climate of the media space has created both unique opportunities and new obstacles. The affordability and convenience of OTT platforms has accelerated cord-cutting, as pay-TV penetration is down from 77 per cent in 2016 to 67 per cent in 2019. Meanwhile, Netflix usage has surpassed cable and satellite usage (67 per cent) for the first time. While the streaming market may not be a zero-sum game, the sheer size and experience of competitors highlights the challenge AT&T's management faces in launching their own OTT platform. Facing rivals that are either well capitalized (Apple has $205.9 billion of cash in hand), incumbent market leaders (Netflix possesses 158 million subscribers), or dominant media giants (Disney assets have contributed over 36 per cent of 2019 North American box office sales), AT&T and WarnerMedia will need to carefully maneuver through the market to distinguish their offering.

In response to the forthcoming "streaming wars," AT&T and WarnerMedia have announced their own offering: HBO Max, debuting in May of 2020. AT&T has grand plans for the streaming service, intended to become the company's single OTT consumer platform. By 2025, the company intends to gather 75 to 90 million HBO Max subscribers internationally, including 50 million in the U.S. This represents a 47-per-cent uptick on the current 34 million domestic subscribers HBO currently counts among its user base. As media rivals crowd the arena with streaming offerings of their own, the consumer will find themselves in an environment similar to the one streaming initially disrupted—cable TV. Potential subscribers will shop streaming services with the intention of picking one or two that offer the best bang for their buck.

At launch, HBO Max will have 10,000 hours of content, including sitcom hits Friends and The Big Bang Theory, as well as premium content from HBO and Cinemax. HBO Max will also include new original series and films, recently signing a $250 million exclusivity deal with the director of the most recent Star Wars film, J.J. Abrams. Above all else, HBO Max should be able to differentiate itself through its flagship business and rich content library.

Future planned additions include an ad-supported version launching in 2021, with the eventual launch of live sports and news programming as well. In year one, 31 original series will be aired, with 50 new releases in 2021. To achieve these targets, AT&T intends to launch HBO Max in Latin America. There, consumers have a choice of free streaming from existing mobile and pay TV operators, local offerings such as Claro Video, and the usual North American competition. Furthermore, internet speeds in Latin America are only barely sufficient for streaming, meaning that a large portion of the market is simply inaccessible to streaming companies until infrastructure improves. This contributes to the low penetration of streaming in Latin America: although Latin America has

a population of over 600 million, Netflix, the largest paid streaming service, captured a mere 20 million subscribers in the geography. HBO Now's current count is only a fraction of that.

A Differentiating Partnership

Given the fall of pay-TV platforms, HBO Max's success is extremely important. WarnerMedia and AT&T should seek to capitalize on HBO's premium brand image, rather than attempt to match Netflix through sheer volume of content—an unsustainable strategy which Netflix has so far upheld through junk bond raises. The most natural partner for such a strategy may come from an industry once thought to be most victimized by the streaming market's success: movie theatre chains.

AT&T and WarnerMedia should enter into an agreement with Cinemark Holdings, Inc. to license and distribute the launch of major shows in both North American and Latin American multiplexes. Under this agreement, pilot episodes and season premieres of all new major HBO and HBO Max originals would be released on Cinemark screens for a 72-hour period. Showings would be available to the general public at $6.99 per showing and to HBO Max subscribers at $3.99 per showing. These prices would be adjusted to match the ticket prices of the Latin American market.

With Disney, the leading incumbent, charging movie theatres as high as 65 per cent of revenues, HBO could afford to net a significantly smaller fee given the significant promotional and marketing benefits it will bring for HBO Max as a result. Consequently, HBO should charge 35 per cent of screening revenues and aim to launch major releases at times when there are no major releases from other Big Five studios. HBO will not be reliant on the box office as the primary source of revenue for their content and can therefore charge lower licensing fees. This will ultimately result in lower, more affordable ticket prices for end consumers.

The partnership is strategically significant for HBO as it provides a major differentiator, uniting the cinema and home viewing experiences. Prior partnerships, such as IMAX screening Marvel's superhero series "Inhumans" and Cineplex screening the Game of Thrones Season Finale , indicate that there is value in providing a cinematic viewing experience for TV content. The advantageous timing, with oncoming launches of Game of Thrones spinoff House of the Dragon, Westworld Season 3, and His Dark Materials Season 2, provides a wealth of popular, cinematic television events to drive interest. Further, the additional revenue generated from these licensing fees can be used to drive further reinvestment and improve offerings through continued budget expansion for successful series. These showings provide a unique benefit to consumers who have stopped visiting theatres due to the growing availability of streaming alternatives and increasingly unaffordable movie tickets. HBO has an extensive content library boasting numerous awards, a factor that competitors will find difficult to replicate and movie theatres will look to leverage. This would not only increase the adoption rate of HBO Max within the North American market, but also lay the foundation for entry in Latin America.

A distinguishing feature of Cinemark is its considerable market share in Latin America (with a 30 per cent market share in Brazil). The partnership would enable HBO Max to capture significant consumer interest as AT&T prepares to fully launch the service in 2021. Though Latin America is a large and growing economy, streaming has not taken off like it has in North America or Europe, with less than 4.5 per cent of the population subscribing to a paid Subscription Video on Demand service like Netflix. In fact, Brazil was the biggest illegal downloader of Game of Thrones Season Seven episodes, showcasing the potential existing demand for HBO's quality content in the region. With improving internet speeds, superior OTT platforms can reach an increasingly large Latin American audience. HBO's partnership with Cinemark would develop an awareness of its flagship shows before the rollout of HBO Max in the region. In this sense, HBO will be able to cultivate its brand image and enter the Latin America market as a leading and differentiated service.

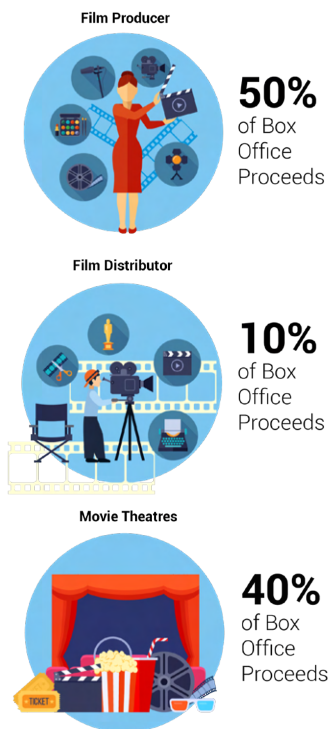
Cinemark's Side of the Equation

The HBO partnership will be beneficial to Cinemark as well, especially in comparison to blockbuster films. Traditionally, content is held ransom by distributors and producers, with consequently high licensing fees reducing movie theatres' profits. Film distributors wield a disproportionate amount of power, especially in the case of must-see blockbusters like Star Wars. Alongside huge 65-per-cent revenue shares, Disney is known to impose strict marketing rules and a minimum screening duration of four weeks on theatres; for Star Wars, any violation of the contract would result in the revenue share being upped to 70 per cent. As a result, most theatres view the movie itself as a loss-leader—the costs of showing a two-hour long movie usually outweigh the theatre's share of box office revenues, which is made up by concessions and other add-ons.

In contrast, a partnership with HBO is a far lower commitment. Cinemark will find HBO's ask of 35 per cent of revenues to be reasonable compared to the minimum

of 50 per cent other film producers charge. Big budget movies also typically run for over two hours, as compared to about an hour for a typical HBO episode. This is easier to slot into Cinemark's screening schedules and is unlikely to hurt concession revenue—patrons are likely to buy their choice of snacks and drinks regardless of the length of the movie or show they are seeing. The partnership gives Cinemark a low-risk platform to increase concession revenue while adding a compelling and high-quality content brand to its portfolio.

TYPICAL FILM INDUSTRY REVENUE SHARES



Source: *The Week*

Quantifying the Launch

HBO will gain direct revenues from the Cinemark partnership, as well as additional marketing benefits that will reinforce the company's differentiating factor as a service providing cinematic features. Assuming the average user uses the offering only once in a given year, HBO can expect to earn an additional $119 million in direct profits. Cinemark, meanwhile, can achieve an additional $519 million in revenues from its portion of the proceeds and concession sales, resulting in a 16-per-cent gain to Cinemark's total revenue over the last twelve months .

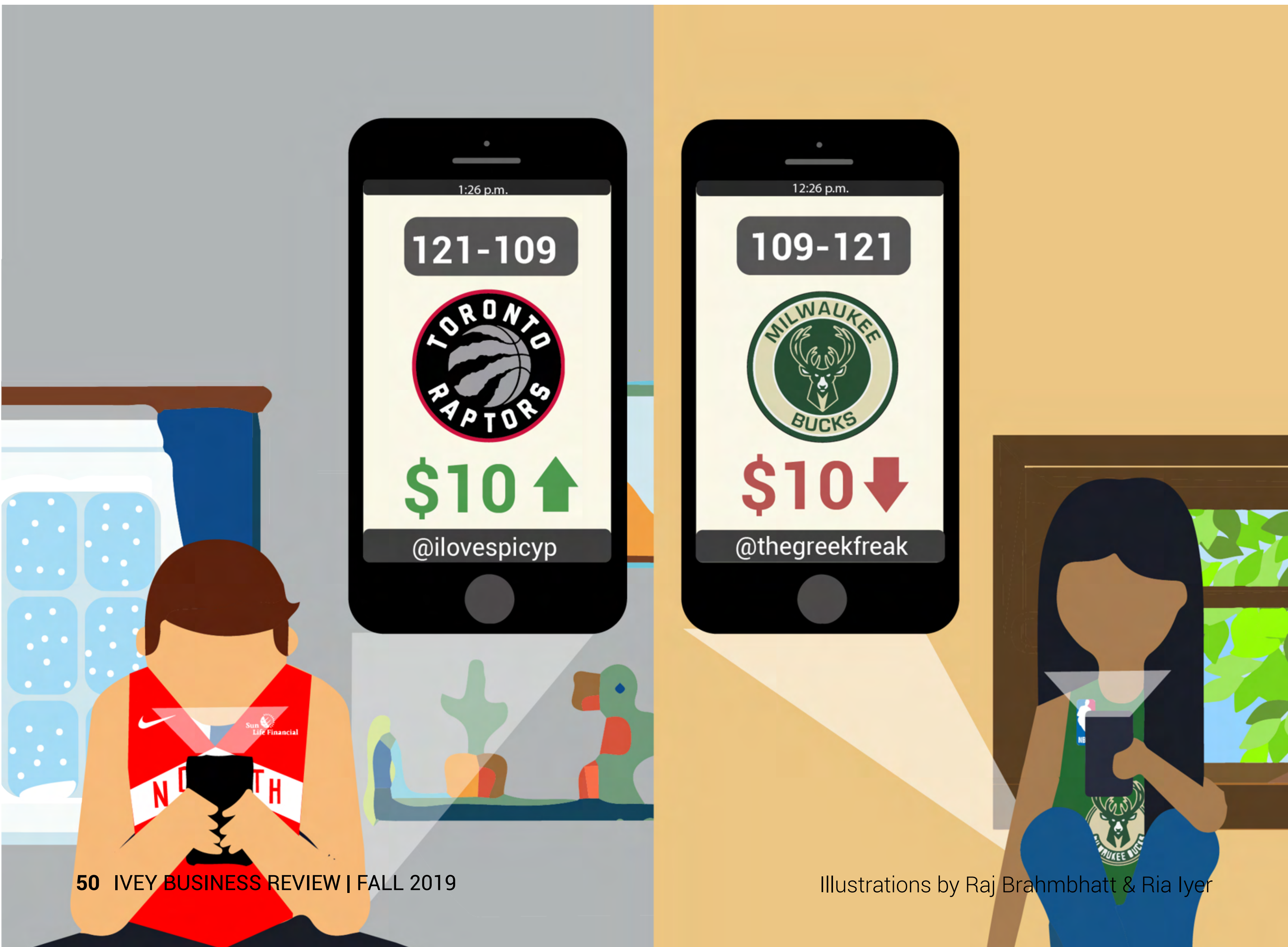
A Transformed Model

While WarnerMedia is indeed a collection of valuable entertainment assets, AT&T's late release of streaming platform HBO Max into an already-saturated market threatens the viability of the nascent service. In Cinemark, HBO would find a partner to reinforce the central brand image of the HBO name, building a unique, profitable, and self-sustaining marketing model. Collectively, these two industry giants have an opportunity to pair premium content and a legacy of entertainment excellence with a vast network of theatres both domestically and in the rapidly-growing Latin American market. In the cutthroat streaming wars, strategic alliances will be necessary, and an AT&T-Cinemark partnership is a stellar opening salvo.

NBA: A BETTING EXCHANGE

In order to increase customer engagement and create more avenues for fan interactivity outside of the arena, the NBA should undertake a strategic partnership with a betting exchange

Theo Christakis & Xavier Naraine



Illustrations by Raj Brahmbhatt & Ria Iyer

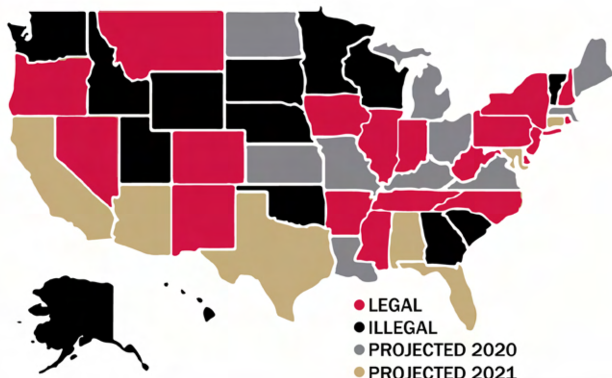
Primer on the NBA

The National Basketball Association (NBA) is the fourth largest sports league by revenue in the world, garnering hundreds of millions of views across the globe every year. With 29 of the league's 30 teams based in the United States and over 50 per cent of television revenue coming from domestic viewers, it is evident that the NBA's main cohort of fans reside in the U.S. However, with only one per cent of all NBA fans ever stepping into an arena, the league is looking for ways to improve the fan experience outside of the physical venue in order to boost fan interest and engagement. In the age of technology, engaging fans for an entire two-and-a-half hour game is becoming increasingly difficult with many other forms of media taking away viewers' attention. Efforts currently underway to increase avenues for fan engagement include the introduction of a virtual reality (VR) platform and a live fantasy game called InPlay. The combination of declining ticket sales for certain teams and the resulting proportional decline in merchandising and concession sales mean that the NBA should look even further for opportunities to engage new and existing fans.

Going Forward

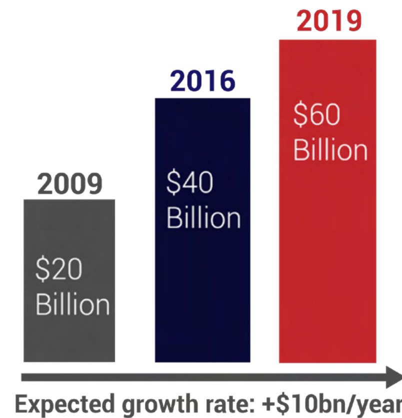
One particular area that the league has indicated it looks to involve itself in is sports betting. The Commissioner of the NBA, Adam Silver, has commented on the league's pro-gambling stance, citing that complete legalization across the United States would bring an increased level of security and legitimacy to the industry. The NBA is currently lobbying to have sports betting uniformly legalized and regulated across all 50 states, as dealing with varying legislation and governing bodies increases costs and prevents the league from delivering a cohesive product offering.

SPORTS BETTING LEGALIZATION BY STATE



Source: Action Network

NBA'S U.S. MARKET GROWTH (2009-2019)



Source: Sports Betting Dime

The State of Sports Gambling in the U.S.

Currently 13 states have regulated sports betting industries, with another 29 states actively pursuing new legislation and just eight not yet in the legalization process. The NBA has attempted to capitalize on this opportunity by partnering with four different sportsbook operators to date, the most recent partnership formed with the U.K.-based sportsbook William Hill. These partnership agreements allow the sportsbooks to use the NBA's official data and marks across the various platforms and books it operates. On the other side of the arrangement, the NBA will promote the sportsbooks across its multitude of digital outlets, including the league's official website, mobile app, and social media platforms. While this is a reasonable first step for the NBA to enter the sports betting sphere, they have the ability to capitalize on another area that could captivate fans even more: betting exchanges.

Betting Exchanges

In addition to traditional sportsbooks, a betting exchange is an alternative betting platform that allows fans to place peer-to-peer bets. Whereas a traditional sportsbook allows you to choose from odds set by the sportsbook, a betting exchange differs in that the market is made on both sides by individuals looking to make bets. Essentially, a certain bet that someone wants to make needs to be taken on the other side by somebody else in order for the bet to exist. By partnering with an existing sports betting exchange, the NBA could allow fans the opportunity to bet on a greater number of outcomes, be more engaged in games via live betting, and have the league gain access to a new subset of data. Additionally, having partnerships with both traditional sportsbook operators as well as betting exchanges gives fans the option of a league-sponsored platform for either method.

MECHANICS OF THE PARTNERSHIP

THE NBA

Partnering with an exchange gives the NBA access to new types of betting data.

The NBA can combine exchange betting with other supplemental interactive efforts such as InPlay or Virtual Reality.

THE BETTOR

Exchanges support more betting types.

Bets are created and played by bettors without oddsmakers or bookies.

THE PLATFORM

Exchanges would benefit from the volume of bettors (in the hundreds of millions) the NBA could provide.

The number of bettors on an exchange is directly correlated with the exchange's revenues.

Exchange betting, also known as peer-to-peer betting, takes place between members who are either offering or taking bets from other exchange members. The biggest advantage with an exchange when compared to more traditional platforms is the reduced fee required to make your bet. Traditional sportsbook profits are generated on the basis of a vigorish, also known as a vig. A vig is the cut or amount charged by a sportsbook or bookie for taking a bet from the customer. This is done by bookmakers to guarantee turning a profit regardless of the outcome of the bet. On the other hand, fees at betting exchanges may range from zero per cent to five per cent and are only taken on winning bets. Overall, exchanges take the edge away from the house allowing users a much more level playing field. The main hindrances facing betting exchanges include legislation and competition. The market for exchange betting is massive, with one of the larger exchanges (Smarkets) having processed over $15 billion in bets.

How a Betting Exchange Partnership Benefits the League

One of the main goals that the NBA is attempting to achieve is increased fan engagement. An average NBA fan watches 48 minutes of a two-and-a-half-hour game; the massive array of content accessible to consumers makes it extremely hard to win over a fan's interest for the entire duration of a game. Partnering with a betting exchange offers increased engagement as it lets fans interact with each other when setting bets, creates markets for niche bets unavailable elsewhere, and drives increased interest in the games they bet on. A Deloitte study indicated that fans across multiple demographics are far more likely to watch a game that they have placed a bet on; the study also concluded that even the smallest bets of $10 garnered as much interest in watching the game as large bets such as $50. In this manner, having more fans bet on games and bet specifically on what they're interested in will only increase engagement .

Betting exchanges can also help the NBA monetize the portion of its viewers that illegally pirate and stream games. These streams are growing in popularity and are predominantly viewed by younger adults that lack the interest in subscribing to cable television, or the discretionary income to afford ticket prices. Since 54 per cent of current NBA bettors are between the ages of 18 and 34 and sports betting is a lower monetary commitment, a betting exchange allows the NBA to engage more of these fans in a legitimate manner.

In terms of monetary benefits, the NBA holds a significant amount of leverage in this relationship and should be able to collect a portion of the commissions paid to the exchange. This creates an additional revenue stream and incentivizes both parties to grow membership on the platform.

What the NBA Can Offer Exchanges

The benefits in the partnership are not limited to the NBA, as the partnering exchange is likely to benefit in a few key areas also. Firstly, exchanges rely heavily on volume

in order to be successful, given their commission-based revenue model. Becoming the first exchange to officially partner with the NBA will likely be one of the most effective ways an exchange can increase publicity and traffic to their site.

A partnership with the NBA can also help betting exchanges overcome the difficulty of deciding which types of bets to offer. The majority of exchanges predominantly offer three types of bets for NBA games: Moneyline, Spread, and Over/Under. With the vast amount of data the NBA possesses combined with the influx of users the league could bring to the platform, the market liquidity of niche bets would be drastically increased. More users would be drawn to the platform because there is a higher likelihood someone will take the other side of their unique bets.

The Road to Implementation

The work necessary to achieve a successful partnership between the NBA and a betting exchange is no small task. The NBA can start by seeking out potential partners and assessing them based on market reach, stability of revenues, and cultural fit with the NBA brand. Once a suitable exchange is partnered with, the league should continue lobbying efforts for states that have yet to fully legalize sports betting and also begin marketing the new platform effectively. Marketing strategies can include ticket giveaways for a random bettor every night for an introductory period, social media recognition for the most niche bet to succeed, and having various fan prizes up for grabs when the platform reaches a certain threshold of users. In addition to these methods, the NBA should also focus on laying out the specifics of the platform through some form of video demonstration to its fan base—many of whom may be unfamiliar with exchange betting. Simply informing unknowing fans about how the platform works and the many types of bets that can be made will be especially key in driving adoption.

Promoting the interactivity of the exchange with the NBA's recent initiatives, InPlay and a VR platform, can help the league encourage early adoption. NBA InPlay lets fans choose a live game to draft players from, similar to fantasy sports, and win prizes based on how well those players perform each quarter. If a fan's selected player is doing extremely well, the InPlay app should offer a link to the betting exchange app with an option to make a proposition bet on that player in real-time. The VR platform allows fans with VR headsets to experience the game as if they were sitting courtside. Going forward, combining the exchange app functionality within the VR experience can allow fans watching with their headsets to select individual players, shots, or stats in real-time "on the court" to make bets on. This may be forward-looking and contingent on the various platforms being compatible with each other, but the main point remains that having a betting exchange potentially integrate with the league's existing interactive features can offer fans a more seamless and unique betting experience. Furthermore, the NBA should create a formalized pipeline for the collection and analysis of data received from the platform in order to successfully make implications about fan betting interests.

A Gamble Worth Making

With increased legalization across the United States, betting exchanges could become a widespread means to place wagers on topics such as politics, current events, and other major sports. As a first mover, the NBA would have an advantage over other sports leagues' future attempts to enter the industry, securing its share of the American consumer's appetite for betting.