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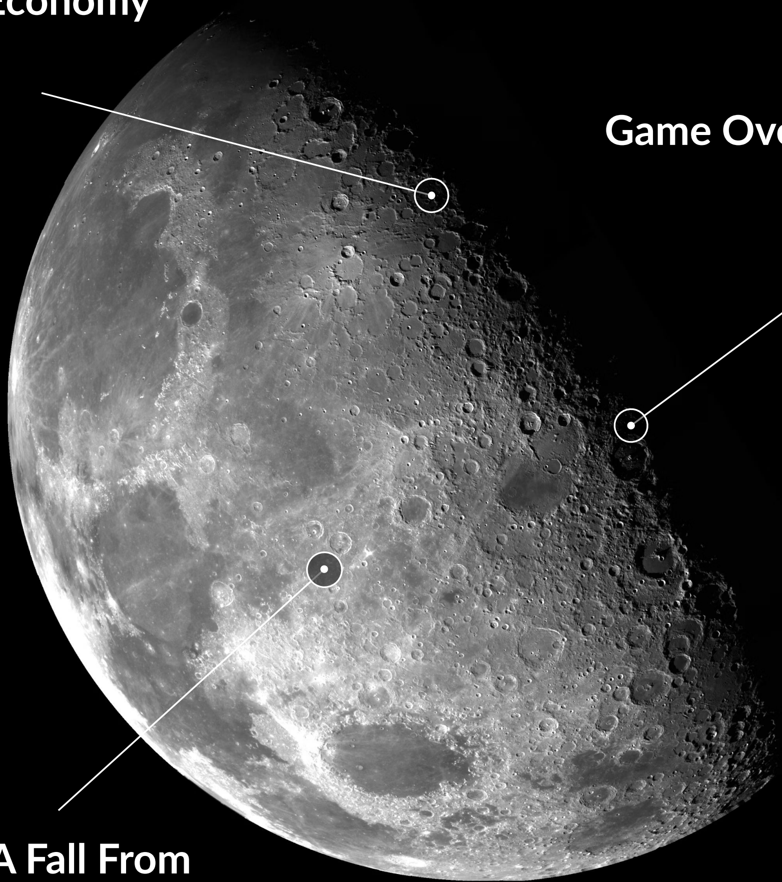

TECHNOLOGY

Attention's Price Tag: The Cost Of The Digital Economy

BUSINESS STRATEGY

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BUSINESS STRATEGY

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Volume 11

SPRING 2024 ISSUE

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Letter From the Editors

Navigating a New and Evolving Business Environment

For the last few years, the global economy has been synonymous with uncertainty and turbulence. A series of unprecedented policies relating to pandemic restrictions, followed by a race to economic recovery overturned normalcy in operating environments. The world now emerges from consequences induced by a multitude of macroeconomic pressures. Beyond the facade of recovering economic conditions, individuals and corporations continue to confront challenges in the ever-changing business environment.

The Spring 2024 issue of the Waterloo Business Review explores evolving dynamics across numerous industries. The team delves into disruptive issues hiding in plain sight, from Artificial Intelligence integrated journalism to celebrity involvement in the finance industry. Moreover, we examine established corporations and industries that now face crossroads for survival.

At the Waterloo Business Review, we seek to interpret the world around us and understand the changing landscape which we are a part of. We strive to question what we consume in the media and to build our thesis on how the world evolves through research and discussion. We aim to equip students with the tools to think critically and independently in an era defined by the availability of digital information and the potential for misinformation.

Every business today is at a crossroads: do they continue to act as they had done to great success throughout their long operating histories, or do they adapt to outcompete new entrants? Meanwhile, it seems as though the best interest of the consumer has been left out of the conversation at times. It is in times like these where it is crucial to understand industry dynamics, and to question the motives of businesses, governments, and consumers.

On behalf of the Editorial Team, we hope the publication offers new insights into today's economic environment, and provides clarity to how industries, organizations, and individuals alike adapt to global dynamics.

Sincerely,

Luka P

Luka Pavlesen
Editor-in-Chief

Vivian Guo

Vivian Guo
Editor-in-Chief

Our Team

Our dedicated and passionate team is focused on growing and establishing the Waterloo Business Review in the Waterloo and Kitchener business community.

Waterloo Business Review empowers our team through our emphasis on creative freedom, professional development of research and communication skills, and our culture of entrepreneurship and growth as we nurture members to adopt positions of greater responsibility and leadership.

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Left to right, top to bottom: Luka Pavlesen, Vivian Guo, Ali Ravjani, Sofia Suleman, Sophie Hsieh, Arnav Sheth, and Katarina Miovcic,

Research Team

Left to right, top to bottom: Kabir Bajwa, Gurpartap Thap, Leo Stetsyuk, Siddhant Kapur, Arpit Sandhu, Agraj Joshi, and Yukttha Sivaraju

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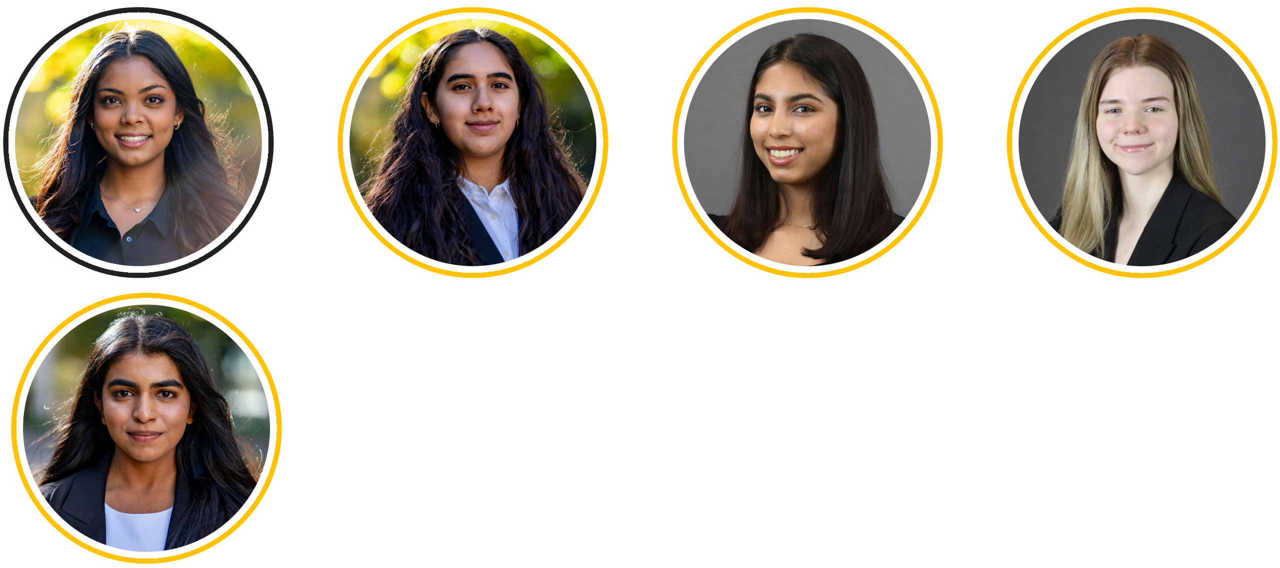


Left to right, top to bottom: Devena Mohabir, Viviana Basurto, Meher Aamir, Hailey Flood, and Yukttha Sivaraju

Technology

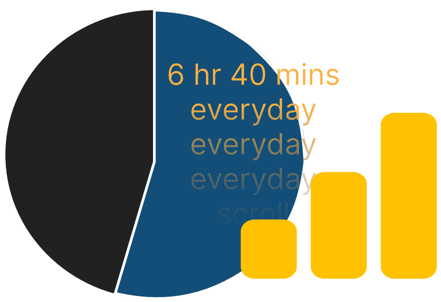
Attention's Price Tag: The Cost of the Digital Economy

Sid Kapur
Agraj Joshi
Ali Ravjani

Illustrated by
Meher Aamir

Introduction

In an age where digital connectivity is ubiquitous, the attention economy is set to thrive and expand. With over 5.35 billion internet users globally as of 2024, representing 66.2% of the world's population, the proliferation of digital devices and platforms continues to rise, driven by the widespread availability of mobile devices and affordable internet plans. The increasing reliance on digital interactions for socialising, entertainment, and information has become a hallmark of modern life, with users spending an average of 6 hours and 40 minutes online each day.

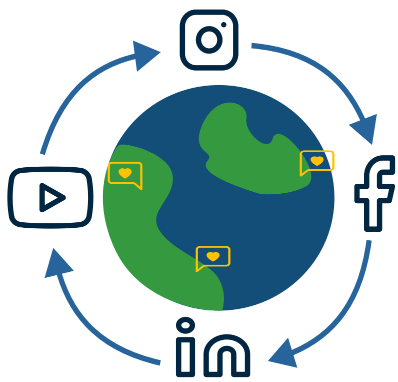


This digital dependence is further amplified by continuous advancements in technology and data analytics, enabling more personalized and targeted advertising. As tech companies leverage these tools to capture and maintain user attention, the economic incentives behind the attention economy grow stronger.

This article explores the dynamics driving the attention economy, the addictive nature of social media apps, the ethical considerations surrounding these practices, and the changes being made to remedy the impacts of our shortened attention spans.

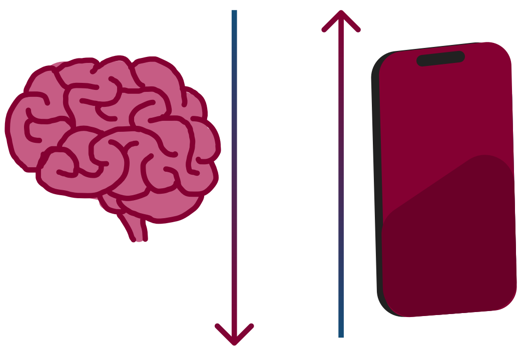
The Addictive Nature of Social Media

Social media apps such as Instagram and TikTok use infinite scroll and auto-play features to keep users engaged without a natural stopping point. They implement variable reward systems such as likes and comments that activate dopamine pathways in the brain. Moreover, personalized content algorithms serve highly engaging and captivating content to each user. While the substantial amount of time spent on social media facilitates social connections and rewarding interactions, it also fosters addictive behaviors. Research by the University of Chicago in 2019 showed that variable rewards have similar neurological mechanisms to gambling addictions.



The unpredictability of rewards creates a compulsion to keep checking social media for new notifications.

In addition, social media use diminishes the ability to focus on tasks for extended periods and increases the tendency towards multitasking, leading to shallow information processing. Constant notifications and social comparison contribute to rising anxiety and stress levels. A study by Yale Medicine highlighted the relationship between teenagers' mental health and social media, finding that overstimulation of the brain's reward center triggers addiction-like pathways associated with sleep problems. The study also identified other issues, such as muted attention spans and feelings of exclusion among adolescents, disrupting healthy behaviors and development.



Ethical Dilemmas in Monetizing Attention

Companies invest heavily in digital advertising to capture fragmented attention spans, using advanced data analytics to micro-target ads. Micro-targeting involves creating highly specific audience segments based on a combination of data points such as user behavior, interests, preferences, and demographics. Majority of the information collected for micro-targeting is done without the user's knowledge, through indiscernible terms and conditions. This approach results in higher Return on Investment (ROI), compared to traditional targeting methods that rely on basic geographical constraints or broad demographic features, like gender and age.

Companies now also monetize low attention spans and the addictive nature of scrolling to covertly encourage users to purchase advertised products. One significant development in digital advertising is the integration of payment platforms into ads. Social media companies, such as Google with Google Ads, have incorporated payment systems like Google Pay into their advertising infrastructure. This integration allows users to seamlessly purchase targeted products, resulting in increased sales and commissions for Google Pay. For example, Google's targeted ads have seen improved success rates due to the streamlined purchase experience, encouraging more companies to adopt

Google Ads as their primary advertising channel.

However, the clever exploitation of consumers through embedding payment platforms is not without ethical concerns. The impact of targeted ads extends beyond simple transactions, particularly through the channel of influencer marketing.

Influencer marketing leverages the trust and credibility influencers have with their followers, making ads appear more genuine and effective. Research indicates that constant exposure to curated, idealized lifestyles promoted by influencers can exacerbate issues such as body image dissatisfaction, anxiety, and depression, particularly among younger audiences. A study published in the journal Body Image found that frequent social media use, including exposure to influencer content, is associated with increased body dissatisfaction and eating disorder symptoms among adolescents.

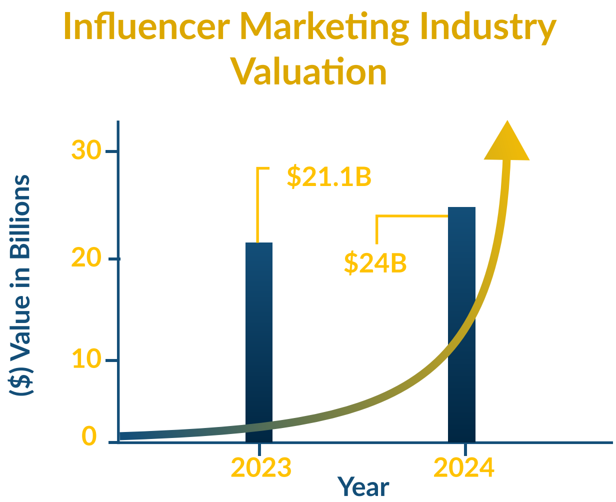
Moreover, the Federal Trade Commission (FTC) has raised concerns about the transparency of influencer marketing. Many influencers do not clearly disclose sponsored content, leading to deceptive advertising practices that can erode consumer trust.

To combat these transparency issues, the FTC has implemented guidelines requiring influencers to clearly and conspicuously disclose their material connections to brands. This includes using hashtags such as #ad or #sponsored and placing disclosures in a way that is hard to miss.

The pressure to constantly engage with and emulate influencers can also contribute to a culture of materialism and unrealistic expectations, further straining mental well-being. Furthermore, the algorithms that promote influencer content are designed to maximize engagement, often prioritizing sensational or emotionally charged posts that can spread misinformation or perpetuate harmful stereotypes.

In summary, while the integration of payment platforms and the use of influencers in digital advertising can drive significant economic benefits, they also raise ethical concerns about consumer exploitation, mental health impacts, and transparency. The influencer marketing industry was valued at approximately $21.1 billion in 2023 and is expected to grow to $24 billion by the end of 2024, demonstrating its substantial economic potential.

Additionally, incorporating payment platforms like Google Pay into ads has led to a 20% increase in conversion rates for some advertisers, further highlighting the economic advantages.



Addressing these ethical dilemmas requires a concerted effort from companies, regulators, and consumers. Companies must implement transparent disclosure practices and integrate user well-being into their business models. Regulators need to enforce guidelines that protect consumers from deceptive advertising and promote mental health awareness. Finally, consumers should be educated to recognize and critically evaluate the content they engage with. The question remains: By fostering a culture of responsible digital engagement, is it possible to reduce the exacerbated conditions of the attention economy?

The Future of "Attention" and Changed in Advertising

Future advertising strategies are focusing on integrating digital and physical experiences. The rise of the metaverse illustrates how companies are preparing for immersive digital environments that blend physical and digital interactions. Content marketing and native advertising are growing, integrating ads seamlessly into user experiences. The attention economy is likely to see continued fragmentation across multiple platforms and devices. This refers to the division of consumer attention among an increasing number of digital channels and platforms, making it challenging for advertisers to capture and retain consistent audience engagement.

In contrast, fragmentation of an individual's attention refers to the cognitive impact of frequently shifting focus between various tasks or stimuli, often exacerbated by digital device usage. This can lead to decreased concentration and productivity as individuals struggle to maintain sustained focus on a single task.

AI-driven personalization is set to deliver hyper-relevant ads, and potential regulatory changes aimed at protecting users' mental well-being will shape the future landscape of digital interactions.

Governments and regulatory bodies are increasingly recognizing the need to address issues related to digital well-being and attention. For instance, the European Union's Digital Services Act (DSA) includes provisions to increase transparency in online advertising and reduce manipulative practices. In the United States, the Children's Online Privacy Protection Act (COPPA) has been strengthened to protect children's online privacy and limit targeted advertising.

Industry self-regulation is also on the rise. Initiatives like the Conscious Advertising Network (CAN) and movements like Time Well Spent advocate for more ethical advertising practices that respect users' attention. Technological solutions such as ad blockers, digital well-being tools, and ethical design practices are becoming more prevalent, helping users take control of their digital consumption.

As digital connectivity proliferates, the attention economy will continue to expand, driven by the proliferation of digital devices, increased online interactions, and advancements in technology. Future advertising strategies should focus on integrating ethical considerations and creating meaningful user experiences to ensure a balanced and responsible digital landscape.

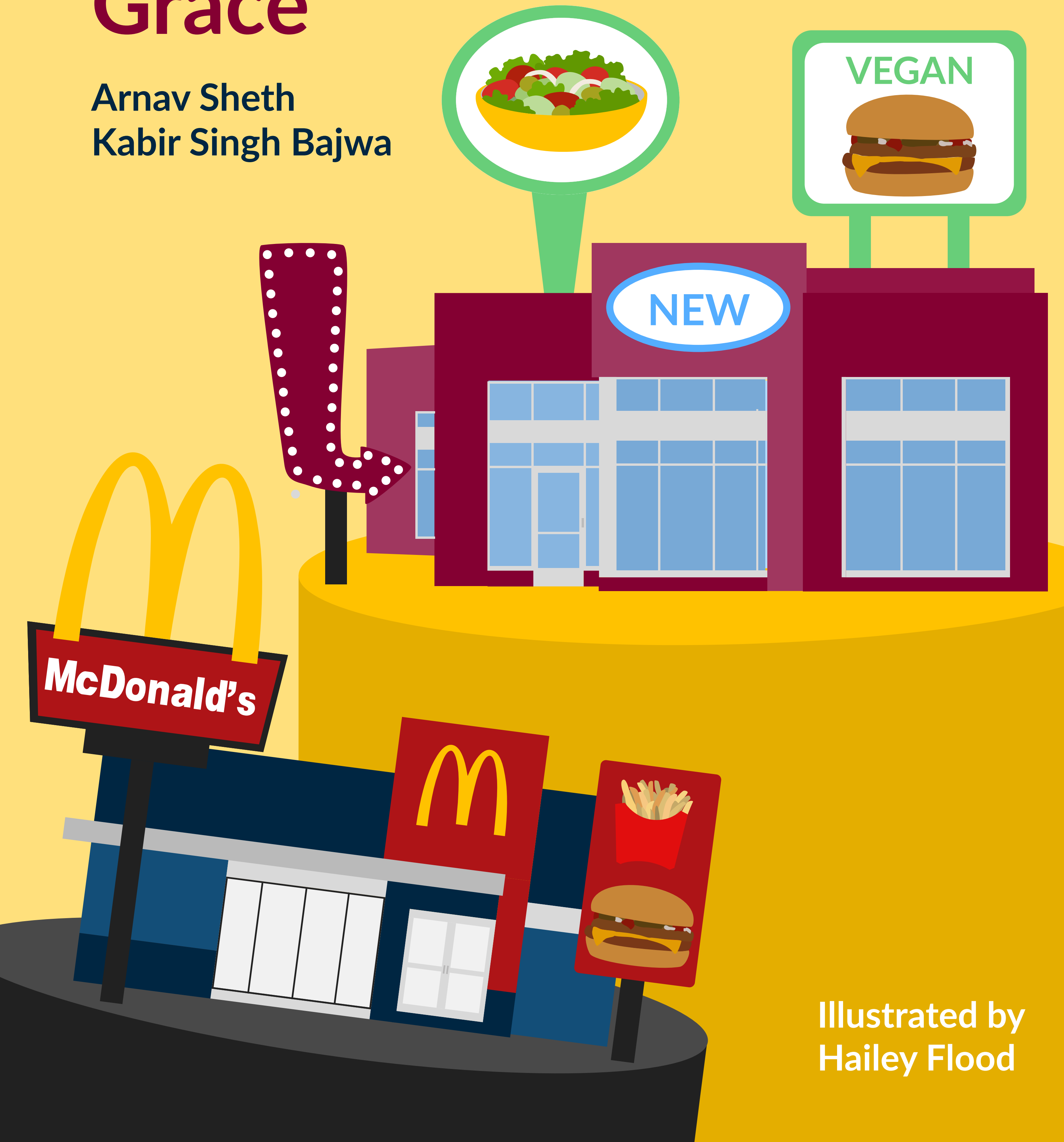
This can be achieved by developing transparent advertising practices that clearly distinguish ads from organic content, thus maintaining user trust. Additionally, implementing privacy-by-design principles in data collection and personalization processes will protect user data and promote trust. Incorporating feedback mechanisms to understand and address user concerns about ad content can also help create a more user-centric approach.

Moreover, collaborating with mental health experts to design ads that do not exploit psychological vulnerabilities but rather promote positive and healthy digital interactions can contribute to a more ethical advertising ecosystem. By prioritizing both the mental well-being of consumers and the integrity of digital engagement, the future of advertising can evolve into a more sustainable and respectful industry.

Business Strategy:

McDonalds: A Fall From Grace

Arnav Sheth
Kabir Singh Bajwa



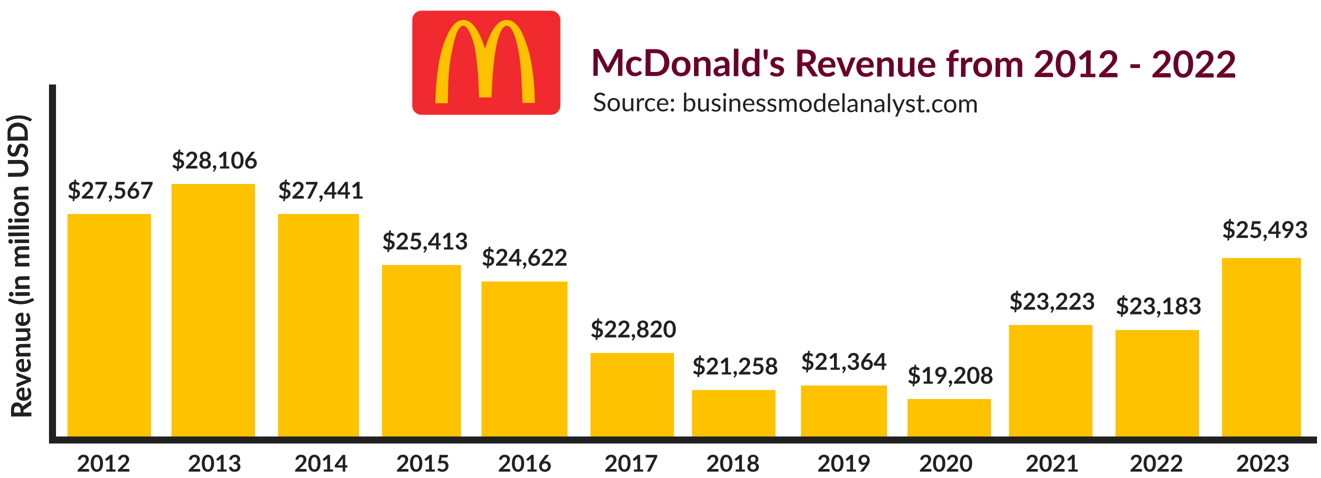
Illustrated by
Hailey Flood

Introduction

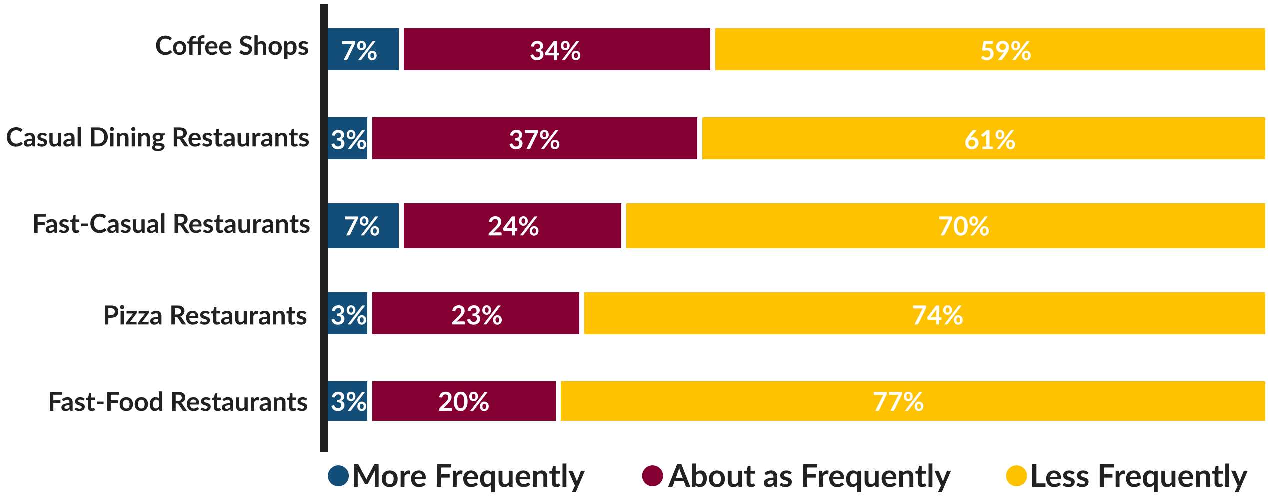
McDonald's Golden Arches once represented a family-owned chain serving high-quality products at affordable prices. Today, they represent a low-quality last resort meal. In recent year, the once-undisputed leader in the fast food industry has faced significant challenges. As consumer preferences shift towards healthier and more sustainable options, McDonald's must evolve to maintain its market position. This article will explore the reasons behind McDonald's recent struggles and propose strategies to help the company regain its competitive edge. By understanding industry trends and addressing past missteps, McDonald's can chart a course towards renewed success.

The fast food industry is undergoing profound changes, driven by new health trends, the rise of fast casual dining, and evolving consumer preferences. These shifts pose significant challenges for traditional fast food giants like McDonald's. As a consequence, McDonald's has seen steep revenue declines in the last 10 years.

A fast food industry headwind came in the form of GLP-1 agonists, a class of medications initially used to treat type 2 diabetes, which gained popularity as effective weight loss aids. These drugs suppress appetite and reduce calorie intake, leading to a decline in the consumption of high-fat and high-sugar foods. According to Morgan Stanley, the GLP-1 category is expected to exceed $100 billion by 2030, with a significant portion of the population adopting these medications. This trend has resulted in reduced foot traffic to fast food



Patients report the most significant changes to fast food and pizza restaurant trips
Source: Morgan Stanley Research



restaurants, with 77% of surveyed GLP-1 users reporting less frequent visits to such establishments. McDonald's falls as a casualty among these.

McDonalds is also being outstripped by new competition. Fast casual dining establishments, such as Chipotle and Cava, have captured the attention of younger consumers, particularly Gen Z. These restaurants offer healthier, sustainably sourced, and often customizable options, aligning with the values of health-conscious customers. From 2018 to 2022, fast casual restaurants experienced a remarkable 44.1% revenue growth, compared to a 26.5% increase for traditional fast food chains. This trend reflects a broader shift towards higher-quality, fresh ingredients and more personalized dining experiences.

The COVID-19 pandemic has accelerated the trend towards healthier eating habits. A McKinsey survey found that 70% of consumers prioritize health post-pandemic, with 50% specifically focusing on healthy eating. This shift presents a challenge for McDonald's, whose menu has traditionally been dominated by less healthy options. Media perception of fast food further exacerbates this problem, as more and more outlets prefer to cover health related issues within fast food. The consumer is pulling away from unhealthy fast food, and McDonald's is at danger of being left behind. In addition to industry headwinds, McDonald's is at fault through several strategic missteps in recent years that have hindered its ability to adapt to changing market conditions.

Topics in the fast food coverage by number of articles

During the COVID-19 pandemic, McDonald's removed salads from its menu to streamline drive-thru operations. This decision eliminated one of the few healthy options available to customers. Unlike its competitors, such as Wendy’s and Chick-Fil-A, McDonald's has not reintroduced salads or expanded its healthy menu offerings. Additionally, McDonald's has lagged in introducing plant-based options in the US and Canada, missing an opportunity to cater to the growing demand for vegetarian and vegan meals.

McDonald's also struggles with a negative brand image, often being associated with unhealthy eating. Documentaries like "Super Size Me" have ingrained this perception in the public mind, particularly among younger consumers who are now entering McDonald's target demographic. The company ranks last in customer satisfaction among fast food chains in the US, further exacerbating its image problem.

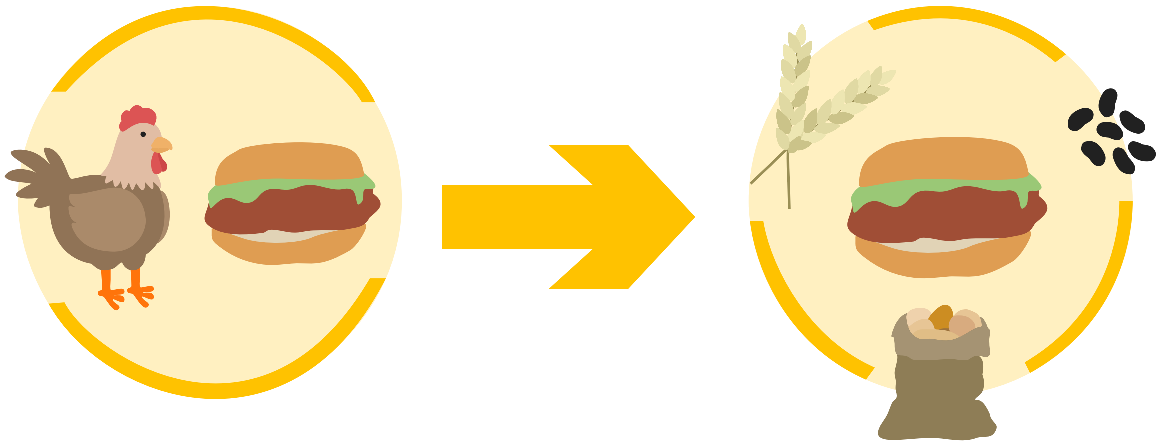
McDonald's had opportunities to diversify. In 1998, the company invested in Chipotle, giving it a cash influx and enabling rapid expansion while helping create the fast casual segment. In 2006, McDonald's divested from Chipotle to focus solely on its core business. Since then, Chipotle has grown exponentially. At the time of the divestment, Chipotle was valued at $1.85 billion. Today, the company is worth upwards of $90 billion. McDonald’s had the opportunity to break into fast casual through this investment, but missed the opportunity.

To expand its menu options, McDonald's should take a multi-faceted approach inspired by successful competitors in the fast-food industry. The company could introduce a wider range of plant-based alternatives, following Burger King's success with the Impossible Whopper, which led to a 32% increase in sales for locations offering the product. McDonald's should also develop plant-based options for burgers, chicken alternatives, and breakfast items to cater to the growing vegetarian and vegan market. Additionally, the company should reintroduce and expand its salad offerings, taking inspiration from Sweetgreen's success. Sweetgreen's revenue grew from $274.2 million in 2019 to $470.1 million in 2021, a remarkable 71% increase over two years, demonstrating the strong demand for fresh, customizable salads. By offering a variety of healthier options, including fruit cups, yogurt parfaits, and vegetable sticks as sides and snacks, McDonald's can appeal to health-conscious consumers while maintaining its core offerings for traditional customers. This diversification of the menu would allow McDonald's to capture a broader customer base and adapt to changing consumer preferences.

Recommendation

To understand opportunities for McDonald's, KFC's success in China emerges as a relevant case study. By adopting a strategy that emphasizes localization, menu diversification, and a strong focus on ownership rather than franchising, the company was able to make an explosive impact in China. One of KFC's most effective strategies was integrating Chinese characteristics into their brand, ensuring that the company was perceived as part of the local culture rather than a foreign entity. McDonald's can replicate this approach by tailoring their menu to include a wider variety of culturally relevant items that resonate with local tastes. For example, KFC China offers about 50 items compared to the 29 in the U.S., introducing around 50 new products each year.

Additionally, McDonald's can benefit from adopting KFC's approach to owning rather than franchising their outlets. In China, more than 90% of Yum! Brands' outlets are company-owned, compared to just 12% in the U.S. and 11% in other international markets. This model allows KFC to closely control every aspect of their operations, from menu and décor to customer service standards. For McDonald's, shifting towards company-owned outlets can facilitate better quality control, consistent customer experiences, and more effective implementation of new strategies. This approach also enables centralized



purchasing, which reduces costs and expands margins.

In North America and Europe, the demand for vegan and vegetarian products is higher. Accordingly, McDonalds should adapt to suit these preferences. It is unlikely that introducing these products would dramatically impact sales. In 2019, Burger King introduced the Impossible Whopper, which lead to a 32% increase in sales for stores offering the product. At present McDonald's makes the mistake of alienating customers looking for vegan and vegetarian products, a mistake it would be wise to rectify.

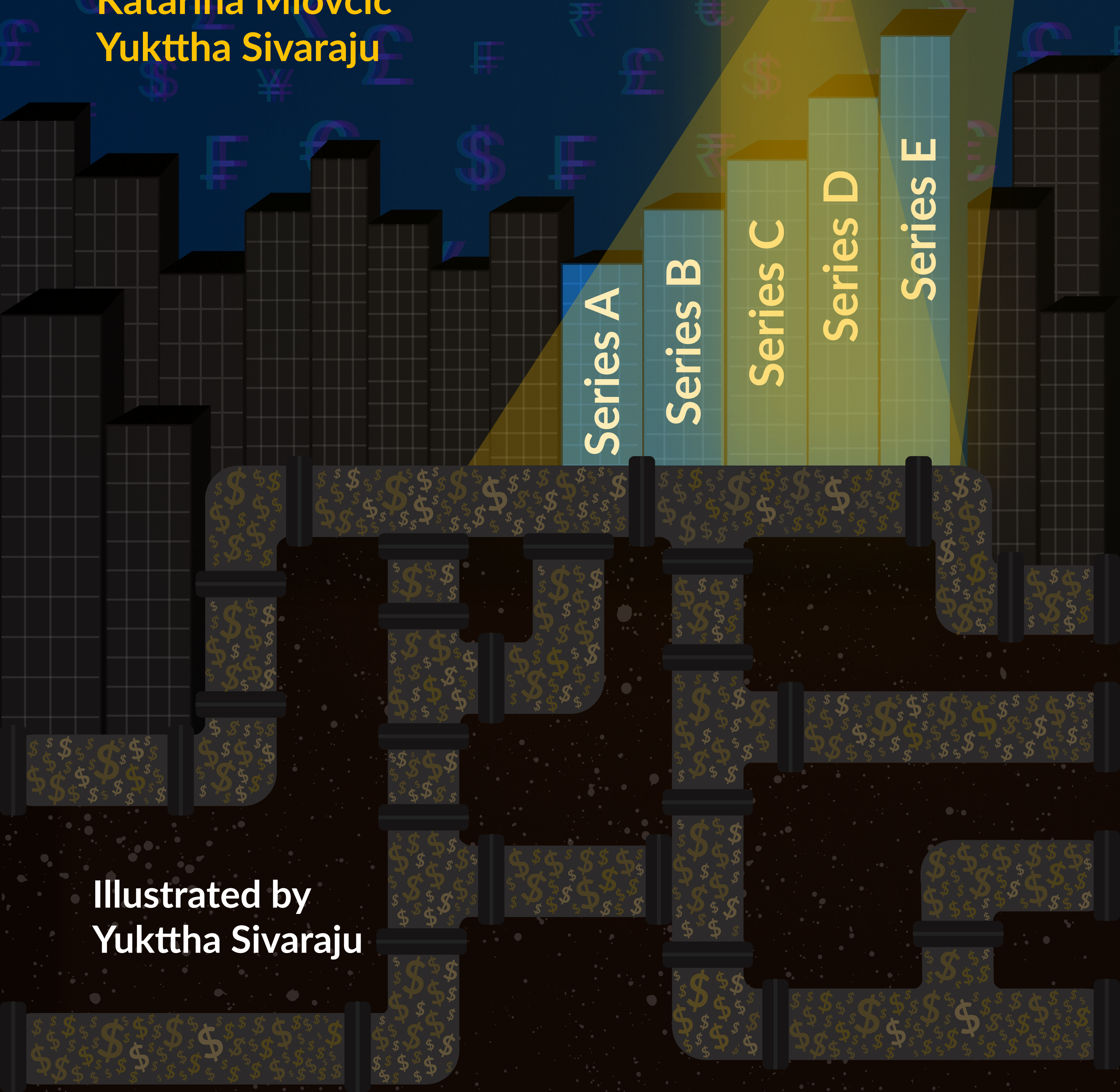
Conclusion

McDonald's struggles stem from a failure to adapt to evolving consumer preferences, a lack of menu innovation, and inadequate responses to health and sustainability trends. To regain its competitive edge, McDonald's must adapt to the times like competitors KFC in China and Burger King with vegan menu options. The company must now aim for healthy and diverse offerings, focusing on company-owned outlets for better quality control. Embracing the growing demand for vegan and vegetarian options in North America and Europe is crucial. McDonald's seems to have fallen asleep at the wheel, having taken its head start in fast food for granted. If it's going to maintain its lead, it needs to wake up.

Business Strategy:

Intelligent Investments or PR Stunts? The Celebrity-to-VC Pipeline

Katarina Miovcic
Yukttha Sivaraju



Illustrated by
Yukttha Sivaraju

Introduction

The earliest use of the term “side hustle” appeared in a 1950’s edition of the Chicago Defender to illustrate an individual who held an additional job alongside their primary economical contribution to society. Given how niche it was during this period, “side hustle” rolled into the Times and mainstream society over the next two decades.

Many may associate the term with relative poverty as this class of people regularly participate in multiple jobs to keep pace with the never ending cycle of monthly bills. Since the onset of the 21st century, this term, now a social media buzzword, is commonly used to describe the various endeavors of the wealthy and famous. As actors become musicians, musicians become titans in the beauty industry, and industry titans become politicians, we have seen the rapid expansion of affluent individuals’ resumes. Through this element of celebrity culture, the phenomenon of celebrities leveraging their platforms and networks to enter venture capital investing as a “side-hustle” has emerged. The celebrity-to-VC pipeline may seem puzzling at first, as it warrants concerns regarding how a celebrity investor could possibly outcompete industry professionals with decades of experience and prestigious education. However, as it turns out, the proof is in the pudding. There are cases of celebrity investors that built up a reputation from a range of interesting to poor investments. That said, there are a convincing number of celebrity investors that were able to identify multiple unicorns, reeling in healthy return on investments (ROIs). When put into context their success is not exactly unexpected. Celebrity endorsements for consumer-based companies have lasted the test of time and are constantly implemented as an effective marketing tool due to the positive sentiment that follows. Startups would be amiss to not consider the positive network effects that could arise from having a celebrity on their cap table. In fact, we believe that for consumer startups this could soon become a principal differentiating factor when headhunting for investors, as the network and platform they acquire through the celebrity could lead them to outperform competitors.

Defining a Celebrity-led VC Firm Versus a Traditional VC Firm

VC firms that have high-profile individuals or celebrities as their founders and/or partners are considered celebrity-led VC firms. Some examples include Ashton Kutcher's Sound Ventures, Jay Z's Marcy Venture Partners, and Serena Williams' Serena Ventures. These firms tend to leverage the personal brand and networks of their celebrity founders to access a wide range of investment opportunities that may not be available to traditional VC firms. By leveraging their network and reach, they can assist their portfolio companies in accelerating customer growth and obtaining more favorable supplier and vendor terms. Celebrity-led VC firms typically invest in industries they are closely interested in, including entertainment and media, consumer products, and consumer-facing technology. On the other hand, traditional VC firms that are not led by celebrities or high-profile individuals, rely on their track record and reputation within the industry to attract promising start-ups and secure funding. Examples of traditional VC firms include Sequoia Capital, Andreessen Horowitz, and Accel Partners. Traditional VC firms have a diversified focus, investing in wide-range of industries and some of these industries can be niche, which requires deep expertise and subject-matter experts, such as life sciences, bio-engineering, and more.

What Makes a Successful Versus an Unsuccessful Celebrity-led VC Firm?

We can look at the general principles that distinguish successful versus unsuccessful celebrity-led VC firms. A notable example of a successful celebrity-led VC firm is A-Grade Investments (2010) and Sound Ventures (2015), co-founded by Aston Kutcher. Both VC firms made over 280 investments, with their notable portfolio investments in Airbnb, Spotify, and Uber. As defined previously, celebrity-led VC firms tend to invest in the entertainment and consumer products & technology, similarly, A-Grade Investments and Sound Ventures investment focus is technology, consumer products, and digital media. Today, Sound Ventures manages more than $1 billion in assets, with a portfolio including companies such as Affirm, Airbnb, Chegg, SeatGeek, Duolingo, Nest, Pinterest, Spotify, Robinhood, and Uber. With the firm's new $240 million AI fund, Sound Ventures has already invested in OpenAI, Anthropic, Stability AI, and most recently, Hugging Face.

Multiple factors contribute to the success of Sound Ventures. The first is the team, which is backed by ten individuals. Two team members, Aston Kutcher and Guy Oseary, are both well-known in the entertainment industry. The remaining eight individuals are either investors or part of the in-house business team: Effie Epstein, Adriana Tullman, Robert Yue, Lizzie Kline, Alexandra (Lexi) Burbey, Juliette Bolea, Zach Gronfein, and Lucas Sheiner.

These eight individuals come from traditional business backgrounds, either through completing a business degree from renowned institutions and/or having earned roles in investment banking, traditional managerial roles. This brings together the unspoken balance and unity to the firm. Additionally, the firm has an established track record of making successful investments into high-growth companies. This is due to the firm having a defined investment strategy of focusing on *high risk, high reward opportunities*. This allows them to invest in startups with the potential of being a high-growth company. Although this strategy is commonly seen across traditional VCs, this contributes to the factor of why this celebrity-led VC firm is successful, as it mimics how a traditional VC would operate. The other investment strategy includes investing in competiting companies simultaneously. For instance, their recent investment was investing in competing companies: OpenAI, Anthropic, Stability AI, and Hugging Face, all operating in the artificial intelligence space. Companies that operate in the same sector usually move in the same direction because of the economic conditions, this strategy is risky and ties back to their investment strategy of *high risk*, *high rewards*. Therefore, the combination of having a balanced team of investors, track record of investments, and having defined investment strategies contribute to the success of a celebrity-led VC firm.

In contrast, an example of a failed celebrity-led firm is Project Panther Bidco. Project Panther Bidco was created for the sole purpose of investing into TIDAL. TIDAL is a music-streaming service, backed by Jay-Z. TIDAL was launched in 1998 by a Swedish public company, under the name Aspiro. TIDAL aimed to offer exclusive content, high-quality audio, and fair compensation for artists. The company experienced financial difficulties before Jay-Z bought TIDAL for $56 million through his company, Project Panther Bidco, and became the main shareholder. There were other notable celebrity shareholders, such as Alicia Keys, Beyoncé, Calvin Harris, and others. These celebrities may have been interested in investing in TIDAL for what it has to offer for them: fair compensation. Spotify, the direct competitor of TIDAL, does not pay artist royalties according to a per-play or per-stream rate; the royalty payments that artists receive might vary based on how their music is streamed or the agreements artists have with labels or distributors.

However, TIDAL was failing due to competing with other major streaming platforms, such as Spotify and Apple Music, who overpowered the music streaming industry. The platform had high subscription fees and lacked differentiation from its competitors. TIDAL was later sold to Square in 2021 for $297 million, with an initial valuation of $600 million. TIDAL failed due to a poor differentiation strategy that could not compete in an industry with established big players, like Spotify, and a non-profitable business model. Thus, Project Panther Bidco failed from a lack of diverse investments in its portfolio and the lack of a defined investment strategy.

The Impact of the Celebrity Name and Endorsement on Consumer Sentiment

There is also a psychological impact to consider when it comes to marketing, especially how celebrity-founded brands (e.g., SKIMS, Fenty Beauty, etc.) have an impact on consumers.

Familiar Faces = Trust

Naturally, humans are hardwired to recognize faces. When a familiar face promotes a product, it makes it seem as if the product itself is familiar, which makes people more likely to buy it. Even though we have never met them, the brain regards familiar celebrities the same way it does people who are actually familiar and trustworthy to us in real life.

Follow the Leader

An article appearing in Knowledge at Wharton, explains the usefulness of celebrity endorsements by focusing on the human tendency to look to authority figures when making decisions. "Both humans and primates will follow the lead of high-status, high-prestige individuals in their group by aligning their gaze or copying their decisions."

The Halo Effect

The Halo Effect is a cognitive bias that causes positive impressions we have of one thing (a celebrity) to carry over into favorable perceptions of another thing (what they are advertising). For example, if we consider a specific celebrity beautiful and magnetic, we may associate a facial cream they are promoting with the same virtues.

These three factors can be applied to venture capital investing by celebrities. Celebrity influence is expanding at an incredible rate with the rise of social media. Consumers feel more connected to them daily and are engaged in what they do with their time. When a celebrity is willing to invest their own time and money into a company or product, it immediately adds a level of validity to it. An endorsement is an excellent way to get a brand out there and reach a vast audience. However, when said endorser is financially a part of the business, it shows their level of trust and commitment, which then trickles down to the consumer.

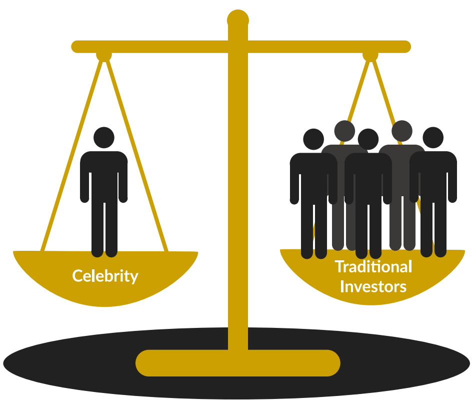
How Startups can Leverage the Celebrity Network

One of the main things that celebrities bring to the table is being a strong marketing tool—helping to increase visibility, credibility, and brand reputation. Celebrity involvement can raise the profile of the VC/PE firm they join and attract more attention from their network of high-net worth individuals and institutional investors. Celebrities also receive massive numbers of inquiries from brands, potentially leading to a larger investment pipeline. When a startup is struggling to raise funds through conventional channels, investments from celebrities help to break down the barrier they face. In the past, celebrities focused on consumer products, but there's now a shift towards apps, online platforms, and general VC-backed startups. Celebrities often invest in Seed, Series A, or Series B stages; this may be due to those start-ups being more willing to take on risks. Celebrities get the most out of their investment when the target consumer group aligns with their followers. Hence, early-stage investing is most popular, since

the audience has been established and celebrities' personal brand can elevate the startup to the next level.

Furthermore, celebrities can bring unique industry insights as investors beyond a marketing boost. Celebrities bring valuable advice where startups are working to disrupt industries, in which celebrities already have experience in. For instance, APEX Capital founded by Antonio Cacorino and is backed by celebrities, like Lando Norris (F1 driver) and Raphael Varane (professional soccer player). The VC firm invests in media, entertainment, and most importantly the future of sports. These two stars are able to bring their unique insights in the sector by being able to validate real issues faced in the industry.

Balancing Act–Celebrities Partnering with Industry Professionals



Having a single celebrity as an investor can pose risks, but celebrities partnering with industry experts helps bring that balance. Some of the risks that can arise when only having a celebrity as the investor is their over reliance on their personal brand. Celebrities may only offer marketing exposure for the startup which in itself is hard to quantify without strong data. Additionally, their lack of expertise in the VC space may not be productive for the startup as they seek business advice.

Devil's Advocate: Increased publicity by a celebrity can also prove to be a double-edged sword in cases when a celebrity is involved in a scandal. This can potentially damage the reputation of the firm and negatively impact its ability to attract investors.

However, what helps create a stronger balance is when the celebrity is an expert in the area, which helps to add value–beyond just drawing attention. Many of the celebrities typically have knowledge and experience among tech or health and wellness industries. It is typical for celeb-backed startups to have at least one conventional investor on board. A common theme is celebrities investing in business-to-consumer (B2C), to ensure that the target consumer group aligns with their followers. For example, we can look into SKKY Partners–the product of Kim

Kardashian's partnership with Jay Sammons, former partner at Carlyle Group, Inc. Although SKKY Partners is a private equity firm, we can note the balance that this partnership brings; Kim Kardashian, an established celebrity and entrepreneur, partners with an industry professional in the private equity space. The balance that comes out of this partnership is that SKKY Partners makes investments in areas of expertise, such as consumer products, hospitality, luxury, digital commerce and media. Kardashian has gained entrepreneurial success through her companies, SKIMS and KKW, largely attributed to her popularity in show business and large social media followings. Sammons is an experienced disruptive brand investor. Both individuals add value to the firm, by bringing in their expertise of knowledge on what consumers want, as a result building a 'consumer investment firm'.

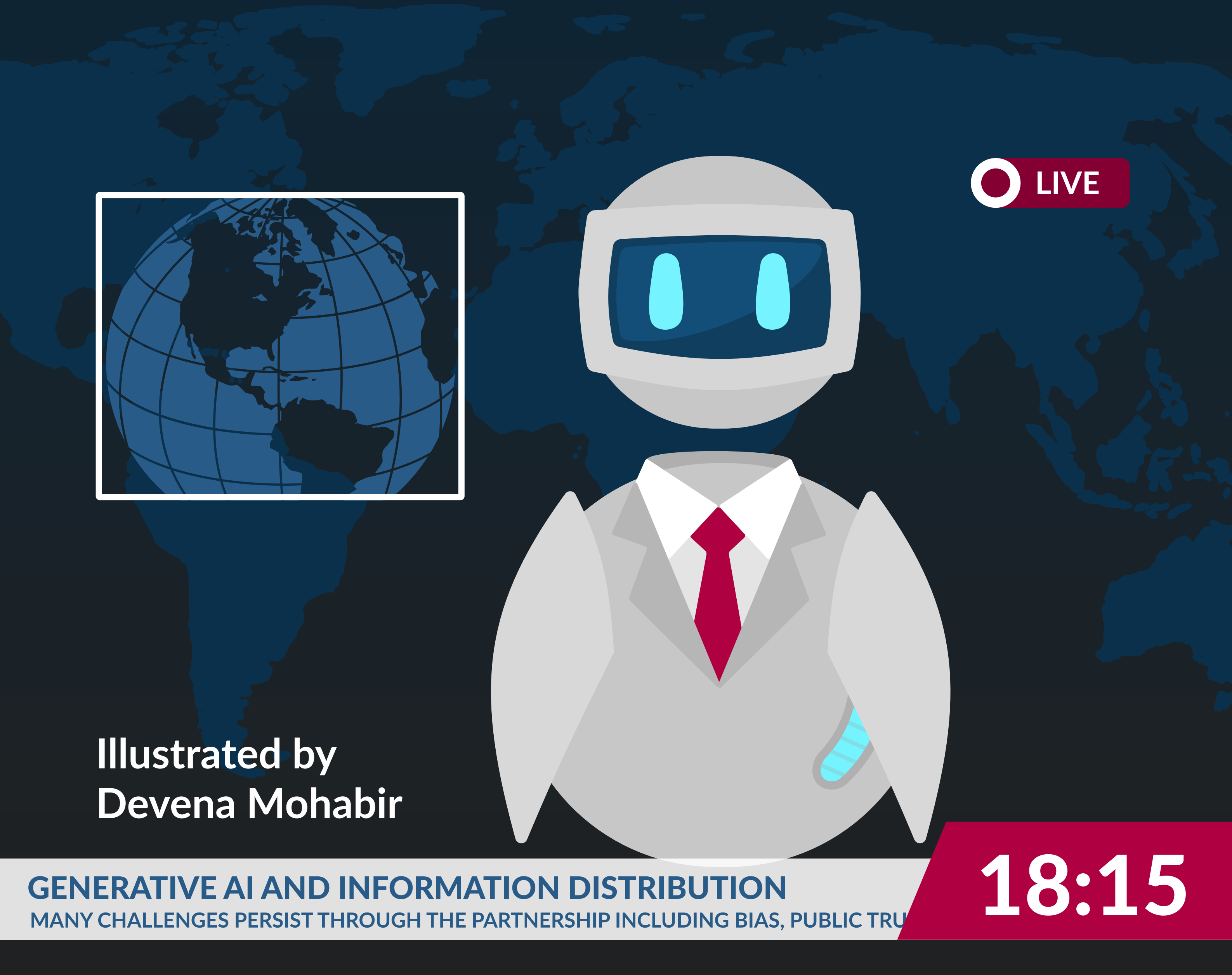
Conclusion

The VC space continues to evolve and bring in new players and strategies. From actors to professional athletes, celebrities are increasingly entering the VC arena by tapping into their entrepreneurial side and scaling their personal brand to be culturally relevant. Celebrities continue to bring elements that a traditional investor may not be able to bring: their social status and unique industry insights. Over the years, we, as consumers, have seen the rise of social media, and the impact it has on consumers when a celebrity creates endorsements and influences consumer sentiment. It is proven that celebrities partnering with experienced investors brings a symbiotic relationship in changing the landscapes of the VC space. With the nature of the VC space continuing to evolve, we may eventually see all VC firms to have some kind of celebrity endorsement, whether to bring in monetary or brand value to the firm.

Technology:

AI-Journalism Partnership: The Double-Edged Sword

Arpit Sandhu
Sofia Suleman



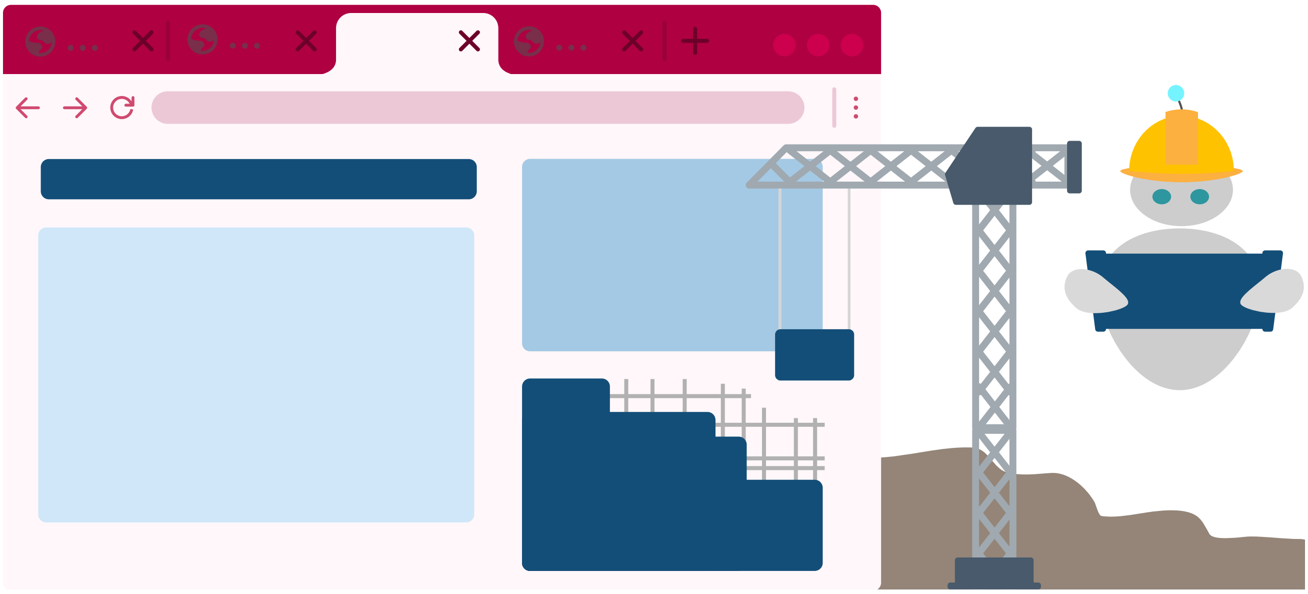
Illustrated by
Devena Mohabir

Introduction

The distribution of information is experiencing a seismic shift with the integration of artificial intelligence, fundamentally transforming how news is produced and consumed. A recent partnership between OpenAI and News Corp signifies a significant development in the intersection of these generative AI systems and journalism, allowing the industry to move faster and re-invent its age-old processes through enhanced content creation and automation of writing or ideation tasks. The potential benefits of this partnership (and those similar) are substantial: AI can streamline news production, generate articles, summaries and headlines with remarkable efficiency, and reduce operational costs for media organizations. However, this technological integration comes with the risks of intensifying the existing issues with bias, misinformation and ownership in generative AI, as well as reforming how consumers interact with information. The reform has so far been lauded as a way to make information distribution more accessible and efficient, but long term impacts of streamlining news processes with AI will negatively affect public access to knowledge.

Current State of Relying on AI for News

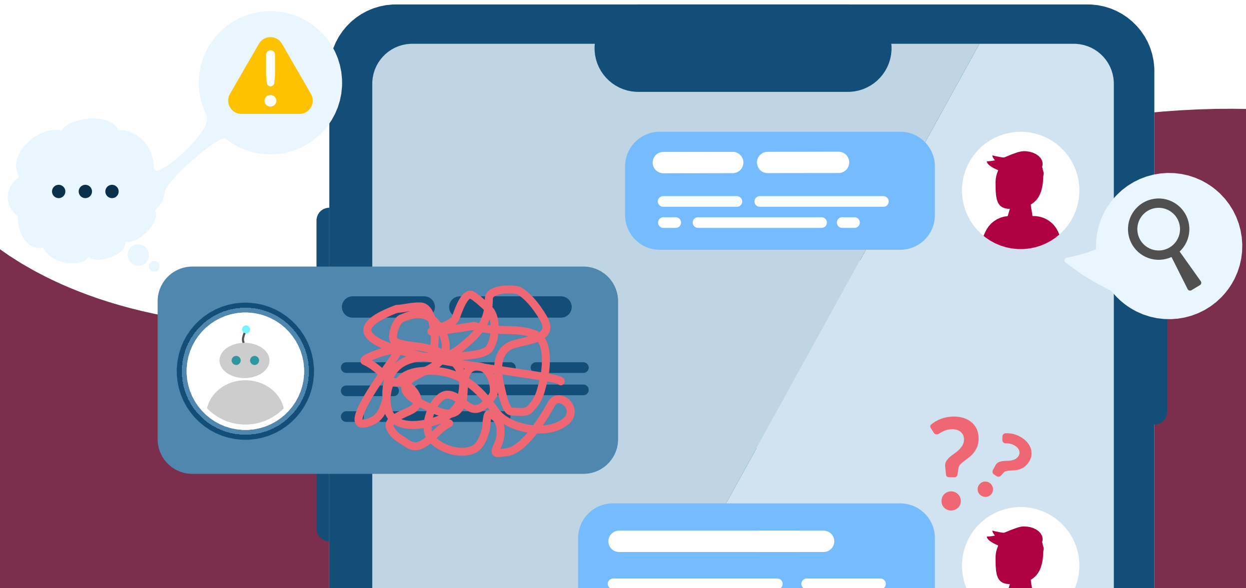
In May of 2024, OpenAI entered into a significant multi-year partnership with News Corp, allowing OpenAI's ChatGPT to utilize content from News Corp's vast array of publications. This agreement grants ChatGPT access to both current and archived content from notable News Corp outlets such as The Wall Street Journal, Barron's, and The New York Post in the U.S. The partnership is valued at approximately $350 million, aiming to supplement ChatGPT' output with high-quality, reliable journalism.. This partnership is also part of OpenAI's broader strategy to compete more effectively with other tech giants like Google by becoming a primary gateway for information and news. For media organizations like News Corp, the deal presents an opportunity to utilize AI to enhance news production processes, engage audiences more effectively, and generate new revenue streams. However,



despite these efforts, many challenges persist through the partnership including bias, public trust and credibility, and hallucination errors.

In a general sense content creation is immediately more efficient by utilizing the tools and efficiencies made possible by large language systems. Already, publications like the Associated Press and the NYT have made motions to dedicate teams for determining the best ways to use AI to supplement their practices, through both the ideation and writing stages to reported great success. In doing so, despite their reassurances that their human journalists will not be replaced, they take a step towards greater efficiency; a cheaper, faster, and arguably equally effective manner of content generation. Furthermore, the institution of intelligent algorithms has already long been touted as a competitive advantage for these sites, as they allow sites to curate specific content for their users, maximizing viewership and engagement for the site, while increasing their customer satisfaction. As technology improves, the dependance and utilization of these AI systems will also become more significant and widespread. As media organizations navigate this landscape, they must strike a balance between using AI's efficiencies and maintaining the critical role of human judgment in journalism.

While the use of AI as a tool is not problematic itself, dependence on algorithms in every stage of the information process may have wider impacts. On the content generation side, current generative systems continue to be victim to hallucination errors, presenting information as factual (even going as far as sourcing it), when the data simply does not exist. While additional training data alleviates the risk of hallucination, current state systems are unable to bring the risk low enough to be able to defend AI generated content being distributed as a tool for public information. As long as that risk is prevalent in AI tools, it poses two distinct issues: greater misinformation proliferating through society, as well as a serious threat to the integrity of news reporting and public trust in media, especially when consumers are unable to distinguish between AI-generated content and human-authored journalism (by a recent study conducted by Nexcess concluding that participants (aged 18-24) were only 61% successful in distinguishing AI content, older age groups being even less accurate). The outputs of generative systems should also be critically examined: AI systems rely heavily on the data used to train them, and if this data is incomplete, biased, or unrepresentative, the result will be skewed or inaccurate. This bias can perpetuate existing prejudices or distort coverage of sensitive topics, undermining the goal of objective and impartial news reporting - an issue exacerbated if readers assume that data-trained systems are unbiased by nature. As AI tools are capitalized on for distribution purposes as well as content generation, their incorporation contributes to an increasing echo chamber. Social sites and media organizations already take advantage of complex algorithms and user data to deliver to their customers the content that is most engaging to them based on historical preference and behaviour. Movement toward trend-following behaviour driven by AI engines may lead to a homogenous set of content as stories that are more attention-drawing are prioritized, rather than those that are less popular but more impactful. The resulting content bubble limits consumers access to diverse sources,



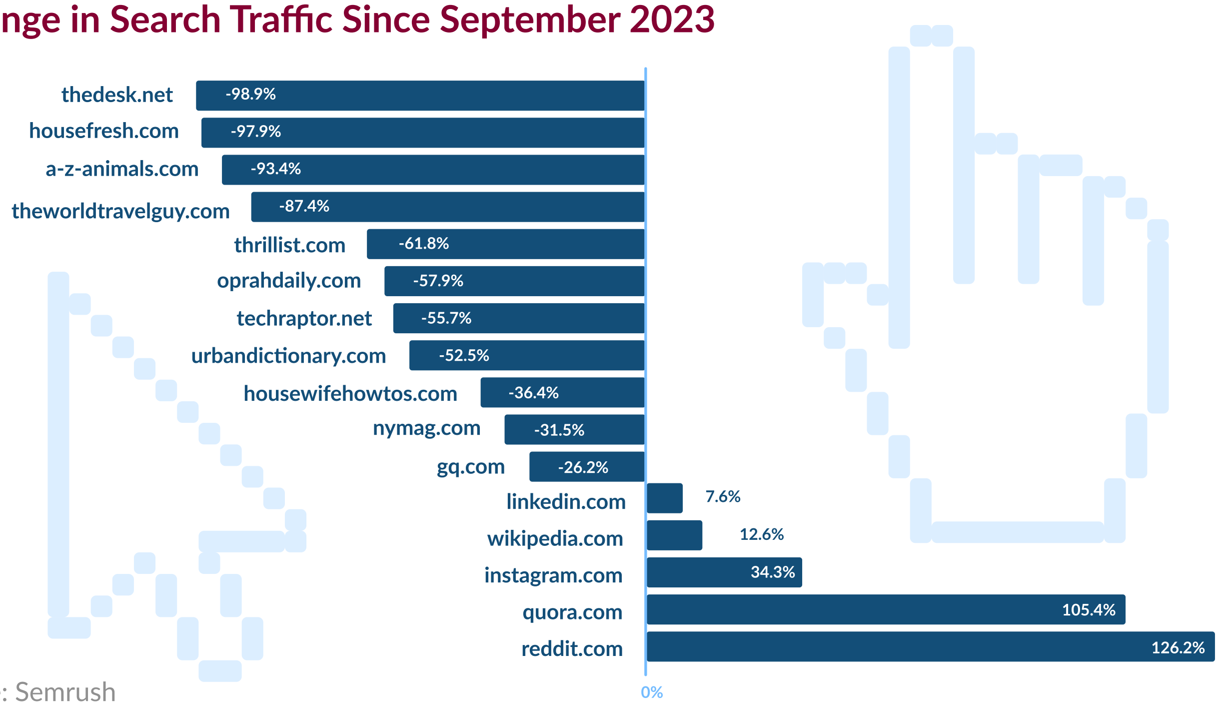
and visibility of content changes based on the data collected from users. As intelligent automation becomes more integrated in every point in the content lifecycle, echo chamber potential only grows and becomes more significant: with engagement motivated algorithms driving the creation process, engagement-driven content is the result, rather than journalistic integrity and investigatory focused pieces.

Future State

As such, these risks and benefits stem from current state technologies and applications, without consideration for the further steps being taken to advance artificial intelligence systems and incorporate them even further into the lives of consumers. In many cases, this integration magnifies the effects of the risks and harms of AI without similar emphasis of the benefits that it provides. These negative implications have the most substantial impacts in the areas of active spread of misinformation, and the limiting of opportunity for actual journalist-led news organizations.

As corporations focus on delivering information directly to consumers, from question to answer, the risk of misinformation grows. Different AI systems, such as Perplexity - a chatbot-powered search engine - aim to provide quick answers, bypassing the need for users to visit the original sources. This approach can exacerbate the problem of misinformation, as users receive information stripped of context and background. The risk of hallucination is crucial in this context. While AI systems might draw on larger data pools, they can still pull incorrect information even if it is not outright hallucinated. For instance, according to a study published in Electronic Markets, Natural Language Processing AI models assign different weights to different sources, which significantly influences the final generated content. These weights are determined based on several factors, including the source's historical accuracy, the context of the information, and the model's training data. However, an AI might extract a fact from a less reliable source without recognizing its inaccuracy, leading to the dissemination of false information. This issue underscores the importance of creators being meticulous with their databases, ensuring that AI systems draw on correct and wholesome information. Even with objectively correct information on its own, a direct-to-user approach poses its own risks relating to information integrity. Users relying on AI-generated summaries lose the context of the original web pages from which the information is

Change in Search Traffic Since September 2023



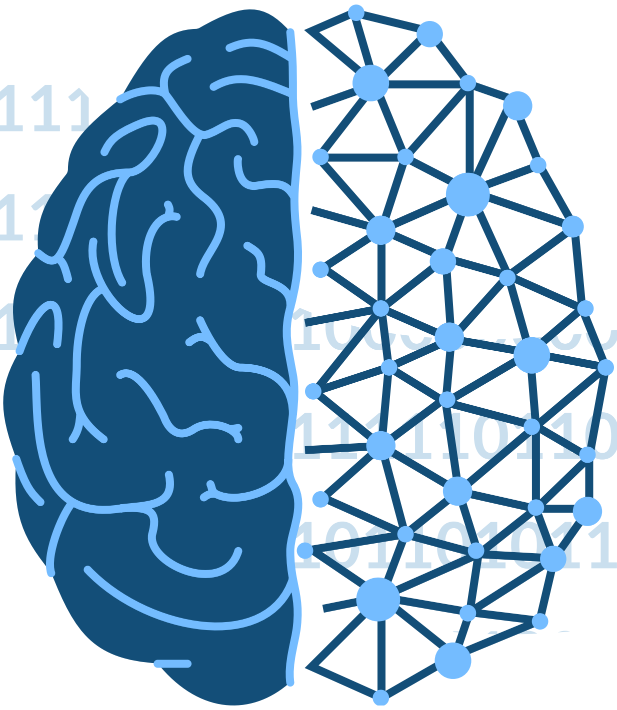
Source: Semrush

derived. Media literacy education emphasizes identifying bias, accuracy, and good sources, but AI systems are unable to gauge these context clues or convey them to users. This limitation results in two issues: AI is more likely to deliver false or incomplete information, and users are more likely to believe it. Beyond initial misinformation of the user, these false conceptions then infiltrate into human-backed publication; a New York lawyer presented and submitted an AI-written brief full of non-existent case references in 2023. The perceived accuracy of AI, combined with the lack of contextual background, reduces readers' ability to critically assess the information they have easy access to.

Impact

The biggest change comes with the retooled Google search engine that is being rolled out first in the US, and slowly to different areas. The new system provides an "AI Overview," a summary version of all of Google's results delivered to the reader. In this way, information is delivered directly to the user without prompting them to actually visit any of the related websites. As a result, from small businesses and large journalistic corporations, these website owners lose out on significant traffic. Semrush, an analytics tool that measures website traffic from Google has already identified a downturn in site visits for websites including New York Magazine (32%), GQ (26%), and Urban Dictionary. On the other hand, user-generated content sites such as Reddit, Quora, and LinkedIn saw spikes in visitor activity. This shift may be related to users placing their faith in AI engines for “fact,” while maintaining their demand for subjective opinion. In addition, the AI summary can often pull from these sites, lending credibility and visibility to misinformation. Smaller entertainment new sites also claim that the newer Google algorithm pulls from a smaller range of sources, an especially problematic phenomenon when users are looking for news updates, where diverse sources with different and competing biases are integral to gaining a holistic view of events. Alternatively, the search engine is intelligent enough to figure out what the user wants to hear and which sources they want to hear from. Many platforms, like the New York Times, have reported on how search engines and AI-driven platforms use algorithms to tailor search results to individual users. These algorithms analyze user data, including previous searches, clicks, and interactions, to deliver results that align with the user’s interests and preferences. This worsens the echo chamber concept by reducing the chance of readers recognizing that the information they are consuming does not come from an objective source. As such a dominant player in how the majority of the public receives information, AI-tooled Google search can support incorrect or harmful ideals without beginning to challenge them at any point, which leads to a less educated and misinformed society.

The transformation of the information environment surrounding consumers has significant consequences for news organizations themselves, mainly stemming from traffic diversion from traditional news journals. The business models of these sites depend heavily on clicks, visitors, and engagement to remain viable. As platforms like Google evolve into one-stop shops for consumer inquiries, traditional news sites lose their most valuable resource: their user base. This decline in traffic directly impacts revenue, compelling publications to reduce operational costs by cutting down on staff, shortening publishing times, and prioritizing the most efficient systems. This increased reliance on AI for content generation can negatively affect the human element of journalism, diminishing job opportunities and reducing the local impact of these publications. Additionally, a consistent user base provides an essential resource through visitor data, enabling news sites to optimize content, user interfaces, and operational processes, as well as leverage that data for advertising and trading purposes. Without this data, these organizations struggle to curate content effectively, weakening their ability to serve their audience's needs and lose yet another source of incoming funds. The shift toward AI-driven content curation and the subsequent loss of direct user engagement pose a threat to the quality and diversity of journalism, undermining the role of news organizations in providing informed and balanced perspectives to the public.



Conclusion

In conclusion, while the partnership between OpenAI and News Corp represents a leap forward in integrating AI in journalism, it also represents profound challenges in the revolution of information environments. The integration of AI promises enhanced efficiency and content delivery, yet issues such as misinformation, bias, and the erosion of journalistic integrity are significant. As AI tools become more embedded in news production and distribution, striking a balance between technological advancement and safeguarding the trustworthiness of information becomes paramount. The future relies on diligent adaptation, ensuring that AI augments rather than corrupting the critical role of journalism in informing and empowering societies globally.

Business Strategy:

Game Over? The Future of Esports

Sophie Hsieh, Leo Stetsyuk, Gurpartap Thap

Illustrated by
Viviana Basurto

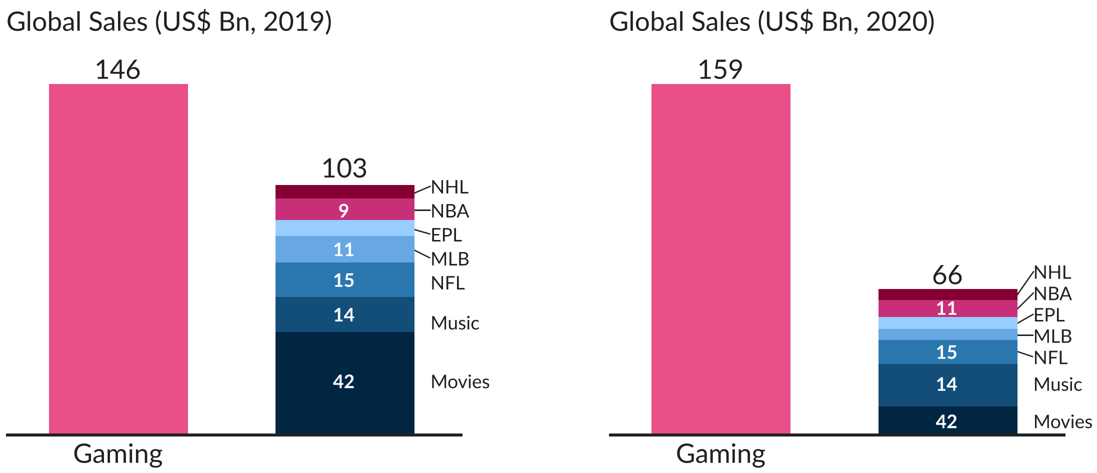
Introduction

When an unprecedented COVID-19 pandemic struck the world in 2020, the global financial system faced a severe strain on resources. Industries like sports and entertainment in particular were met with difficult economic downturns due to operational challenges, and health and safety concerns. However, despite the severe struggle, there was one industry that performed beyond expectations: esports. Electronic Sports, better known as esports, is a broad term for competitive video games, where tournaments are played between professional teams in organized leagues.

As people were forced to turn away from traditional sports and entertainment during the pandemic, the relatively new industry of esports continued to grow. In an international survey conducted by the Center for Esports Medicine, over 75% of self-identified gamers reported spending more time gaming during the pandemic, with a particular increased interest in esports tournaments. Esports match viewership grew by more than 38 million throughout 2020, driven by the industry's global audience, an active and passionate community, and generous sponsorships and investors.

Despite this, the post-pandemic world reveals a different story regarding the future of esports. Although viewership continues to grow, organizations are not generating the same profits as they once did, and funds from sponsorships and investors are drying up. The aspects that initially allowed esports' business model to

Comparison of Gaming vs. Other Media



Source: Boston Consulting Group

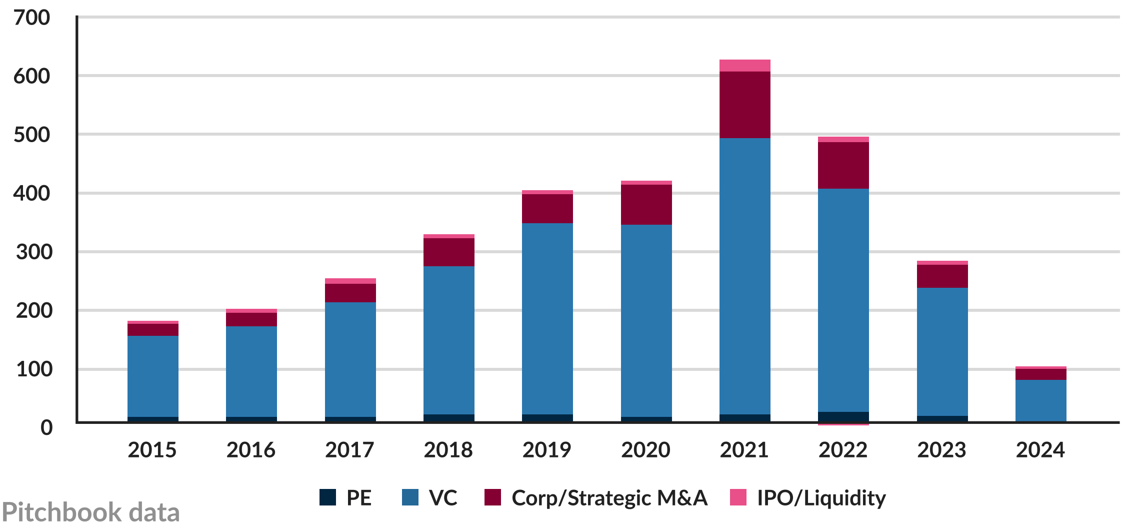
succeed - such as the restriction of in-person events, which led to increased streaming revenue and the number of non-traditional sponsors capitalizing on the marketing opportunity - have now become the hurdles that the industry must overcome for its long-term success. This article will examine the necessary changes in the esports industry’s unsustainable business model, focusing on leveraging international funding and integrating with sports betting platforms as potential avenues to secure a sustainable revenue stream in an evolving market.

An Overvaluation of the Industry

Driven by grand expectations and rapid market growth of the gaming industry during the pandemic, the esports industry mainly attracted investment from venture capital firms. The industry generated approximately $1.1 billion in revenue in 2021 from sources such as advertising, merchandising, franchise fees, ticket sales and media rights. Additionally, deal activity and funding for the esports industry peaked in 2021, with 823 deals made in the year. However, the recent economically-contracting environment forced a harsh reevaluation of the industry’s growth prospects. While deal activity has continued into 2024, total fund levels have fallen to pre-pandemic levels, signaling a potential shift in investor sentiment.

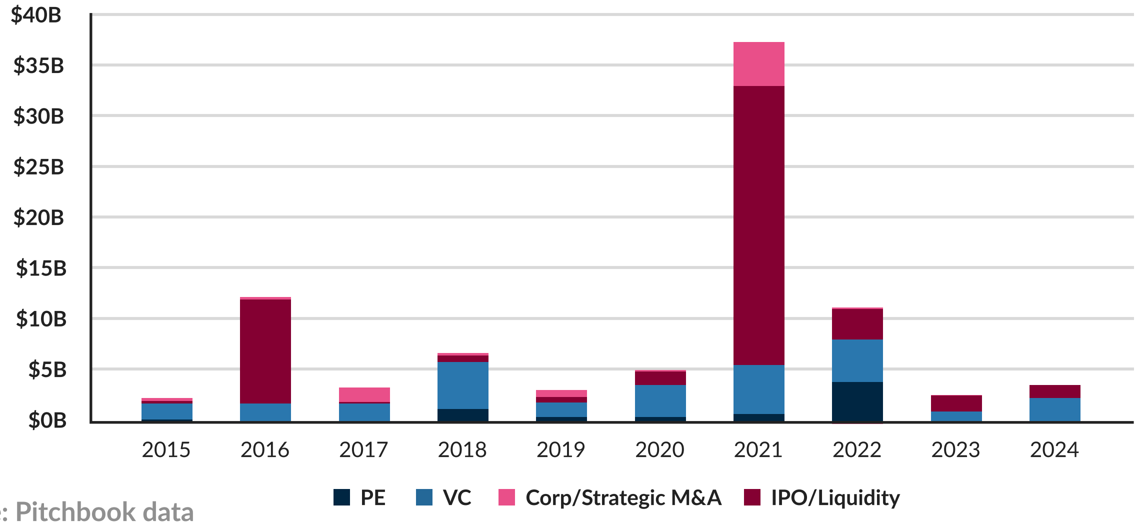
Another investor with growing interest in the industry is the Saudi Arabian Public Investment Fund (PIF). This interest mainly stems from wanting to improve the country’s image, and aid Saudi Arabia's

Esports Deals by Deal Count



Source: Pitchbook data

Esports Deals by Funds Raised



Source: Pitchbook data

broader Vision 2030 initiative, which seeks to reduce the kingdom's dependence on oil revenues and cultivate a more diverse and dynamic economy. In recent years, Saudi Arabia has actively invested in traditional sports like Formula 1, Golf, and Soccer. These sports tend to have many longtime sponsors and never have a shortage of funding, therefore it's difficult for Saudi Arabia to exercise significant control of these sports with their investments. However, looking at esports, the country is focused on becoming a dominant force in the field, with the PIF investing $1 billion in 2020 to own 2% of Reliance Industries, a company that owns one of India's largest esports organizations, Reliance Games. Moreover in 2022, the PIF created the Savvy Gaming Group (SGG) to invest 1.5 billion into owning various gaming platforms (ESL, FaceIt) and invest in gaming companies like Electronic Arts, Activision Blizzard, and Nintendo.

Unsustainable Financial Practices

While venture capital funding surged, with record highs in deals and funds raised, the industry struggled to convert this investment into consistent and reliable revenue streams, exposing financial issues. This is characterized by unreliable sponsorship deals, the average viewer's limited spending power, and unsustainable spending on player salaries and tournament costs. Over the years there have been creative methods to source new streams of revenue, however, it's clear that none have proven successful in the long term.

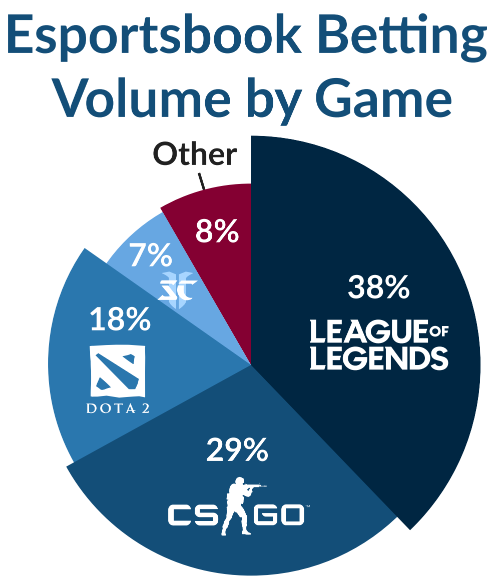
Embracing Saudi Arabian Funding

Embracing funding from Saudi Arabia represents a pivotal opportunity for the esports industry amidst its current economic challenges and need for stability. The Esports World Cup (EWC), backed by substantial Saudi investment, exemplifies this potential with its record-breaking prize pool exceeding $60 million and global participation from top esports organizations. While concerns about Saudi Arabia's human rights record and motives for investing in esports persist, the financial infusion from entities like the Public Investment Fund could significantly bolster the industry's resilience and expansion. By forging partnerships and hosting large-scale events like the EWC, Saudi Arabia aims to position itself as a leading hub for esports, attracting international attention and fostering economic diversification. While ethical considerations are paramount and require careful navigation, the strategic benefits of embracing Saudi Arabian funding include enhanced global exposure, increased participation from top-tier teams, and the establishment of sustainable revenue streams necessary for the industry's long-term viability and growth.

Integrating Sports Betting

According to Statista, the largest market segment in the esports market is Esports Betting, with a market volume of US$2.5bn in 2024. Full integration of sports betting into esports represents a strategic move to diversify revenue streams and capitalize on the growing popularity of competitive gaming.

Riot Games, for example, has shown interest in potentially allowing betting brands to partner with teams within its Valorant esports ecosystem, despite current restrictions outlined in its competitive rulebook.



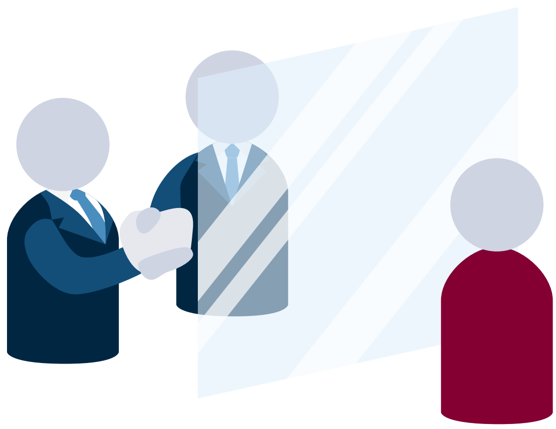
Source: Narus Advisors / Eilers & Krejcik Gaming, 2021

Esports Technologies, an online gambling platform, wants to bring esports gambling to a wider audience. The company filed a comprehensive patent provision on June 23, 2021, that will allow betting on gaming competitions and live-streaming sports entertainment events.

This shift could unlock significant financial opportunities for esports teams, who are facing financial pressures from a tightening venture capital market and profitability challenges. Sports betting platforms offer a new avenue for fans to engage with esports beyond traditional viewership, fostering deeper connections and increasing viewership through heightened interest in match outcomes. By embracing responsible and regulated betting practices, esports can not only enhance fan engagement but also bolster financial stability, mirroring the successful integration of sports betting in traditional sports, which has driven substantial increases in viewership and revenue. As esports continues to evolve, leveraging sports betting could prove pivotal in sustaining growth and expanding its global footprint.

Ethical Considerations

In looking at these two business strategies, ethical concerns will inevitably arise. Firstly, in leveraging international funding from Saudi Arabia, and relying on their funding for the industry's growth, there is an unavoidable issue of sportswashing, where investments in sports are used to divert attention from controversial actions or policies. Many fans of the industry argue that by associating events with the country, Saudi Arabia may be seeking to wash its image internationally while deflecting scrutiny. On the other hand, it is difficult to stop a country from doing this, as well as stop organizations that are in dire need of funding from partnering with the country. However, giving these ethical conundrums considerable thought is necessary. For sectors that require funding, financial collaborations with these kinds of organizations might seem inevitable, but it's crucial to be vigilant and respect moral principles. Industries can reduce the possibility of unintentionally supporting actions that go against their beliefs or the interests of their stakeholders by



Transparency about partnerships

withholding full transparency about these partnerships. This proactive strategy not only protects against unethical behaviour but also encourages integrity and accountability.

Secondly, rules and regulations will need to be put in place for betting sites. With the majority of viewership coming from the youth, there is a heightened responsibility to ensure that betting practices are conducted ethically and responsibly. These regulations should encompass age restrictions, strict monitoring of gambling advertisements during esports broadcasts, and transparency in odds and payouts.

Rules and regulations for betting websites

Conclusion

As the esports industry matures, addressing profitability challenges becomes essential for its sustainable growth. By navigating issues of overvaluation, financial sustainability, and evolving market dynamics with strategic solutions—such as leveraging international funding, emulating traditional sports standards, and exploring betting integration—esports can pave the way toward a prosperous and resilient future. With a revamped strategy, esports stands to solidify its position as a leading force in the global sports and entertainment landscape.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