

Analysis of Tencent's Acquisition of Supercell: Competitive Strategy Perspective

Zeyang Li^{1, *, †}, Qinghua Tan^{2, †}, Yuchao Xie^{3, †}

¹College of Engineering, Northeast Agricultural University, Haerbin, China

²Business School, Qingdao Technological University, Qingdao, China

³School of Transportation and Electrical Engineering, Dalian University of Science and Technology, Dalian, China

*Corresponding author: 2016120714@jou.edu.cn

[†]These authors contributed equally.

Abstract. As one of the most successful game companies in China, Tencent has always been essential to its continuous development and growth through frequent and effective overseas mergers and acquisitions. To achieve the same excellent results in mobile games, Tencent spent \$8.6 billion in 2016 to acquire an 84.3% stake in a Finnish game developer, taking the world's most successful mobile game developer into its pocket. Therefore, the research and analysis of the representative event of Tencent's acquisition of Supercell can provide valuable suggestions and meaningful references for other game companies' overseas mergers and acquisitions. In this paper, Firstly, Supercell's enterprise model and competitive market advantage are studied in depth. The adaptability of Supercell and Tencent is discussed, Tencent's M&A behavior is evaluated, and suggestions and summaries are given.

Keywords: Supercell, Competitive Advantage, Tencent, Acquisition.

1. Introduction

Supercell is a mobile game design company founded in 2010 by Ilkka Paananen and five other founders, headquartered in Helsinki, Finland. Since its inception in 2010, Supercell has launched five main games in the market: Brawl StarS, ClaSh of ClanS, Clash Royale, Boom Beach, and Hay Day[1].

Supercell's games have over 100 million players around the world every day. According to App Annie, Three of Supercell's games (Tribal Front, Cartoon Farm, and Island Raiders) have been on the top ten best-selling mobile games list (in terms of cumulative global revenue) for at least a year[2].

The history of Supercell is even more poignant, and it is also the beginning of the world with the help of these games. From the time of its establishment, Supercell was just a simple studio built by loans in Finland, and the CEO workbench was just a simple big box. Still, Supercell has become a world-class game manufacturer with this game design concept. It is only by its five games that it has brought the reputation of 'game companies that can print money,' which represents the classic type of the game and the company's strong ability to absorb money[3].

In the summer of 2010, When Supercell was born as an ordinary game studio, the founder invested 250,000 euros and borrowed 400,000 euros from the Finnish Innovation Fund. At the time, it was the time when mobile games and social games were getting started, and in 2009, Angry Birds became a global hit after its release. In 2010, Apple released the iPhone 4 and iPad. There are plenty of opportunities on both new tracks. In the beginning, the six founders had no idea what the company would look like in the future; they just knew they wanted to make a game that players could play for many years[4].

In traditional game development, the creative process is top-down. The leader or executor has a vision of the game and drives the subordinates to achieve it. The executive team plans the allocation of funds and directs the development team to work as directed.

But Supercell has created a new type of game company - a game company composed of small teams, each small team group is called Cell, and the company's name Supercell is derived from this

concept; each game is created by a single cell, the; they are highly independent, entirely in control of their development progress. The company model is optimized only for speed and enthusiasm, not for power. This makes Supercell a competitive advantage and non-replicability in the market, which is why Tencent directly chose to acquire[5].

2. Tencent's acquisition of Supercell

Tencent Holdings and other participating consortiums released an update at around 6:00 p.m. (Beijing time) on June 21, 2016, confirming that they have agreed to acquire a majority stake in Supercell through the purchaser (a wholly-owned subsidiary of the consortium). Supercell's existing management will maintain independent operations and remain headquartered in Finland. The seller includes SoftBank, certain Supercell employee shareholders, and certain Employees of Supercell[6].

Tencent will acquire Supercell Securities, which accounts for about 84.3 percent in total, with the total purchase price to be paid in three installments, with an estimated total amount of \$8.6 billion, to be paid in cash by Tencent. Approximately \$4.1 billion in the first installment will be paid upon delivery, roughly \$200 million in the second installment will be paid three years after delivery, and \$4.3 billion in the third tranche will be delivered on the "delayed purchase price release date." Tencent is in discussion genital co-investors interested in participating in the consortium." After the "potential co-investors" join the consortium, Tencent will maintain a 50% voting interest in the consortium (not Supercell). Through "financial instruments." The consortium is wholly owned by Tencent. Still, it is possible to bring in "potential co-investors interested in participating in the consortium."

In its initial acquisition in 2016, Tencent mentioned that these different games were popular worldwide, confirming Supercell's creativity and expertise in developing mobile games. Supercell's employees are committed to maintaining the highest standards through a unique development program in which teams are responsible for developing new games.

In the acquisition, which was called "ambition" at the time, Tencent said that in the past, Tencent was still relatively successful in investing in and cooperating with entrepreneurial game studios, and Tencent provided them with financial and strategic support, including funding, expertise in releasing games in China, traffic and data-driven analysis. Leveraging Tencent's market position and strengths in China, combined with Supercell's ability to develop creative games for players worldwide, the deal created significant synergies.

Tencent also said that Supercell's existing management would maintain independent operations, and Supercell will continue to be headquartered in Finland.

In 2019, Tencent increased its stake in Supercell by buying shares in other members of the Investor Alliance and transformed Supercell into its consolidated subsidiary. As of the end of last year, Tencent's effective shareholding in Supercell was 70%. This time, if the negotiations reach an agreement, this proportion will rise further. In its 2019 annual report, Tencent disclosed that its shareholding in Supercell was 66.24%, and in its 2020 annual report, this shareholding ratio increased to 70.03%.

For the news of Tencent's increase in Supercell, industry insiders said that if It can maintain Supercell's independent operation, this is a good thing. In the case of Supercell's performance decline, if Tencent still wants to increase its holdings, it may think it still has investment value. However, some insiders mentioned that Tencent's investment is more of a defensive acquisition against competitors after weighing the purchase cost with the future price or need to pay if it is not acquired. As early as five and a half years ago, Tencent finally got a stake in Supercell from SoftBank in competition with Giant Network and Ali. At that time, Tencent announced that based on Supercell's past performance and its growth prospects, potential synergies between Supercell and Tencent's business cooperation arrangements, and other related valuation benchmarks, Tencent's consortium would acquire 84.3% of Supercell's shares for a us\$8.6 billion transaction consideration.

3. Evaluation of acquisitions

First, based on Supercell's stable revenue performance in the past four years, Supercell and its innovative product model have made Supercell. This giant cannot be ignored in the global mobile game market. It is difficult to be copied by Tencent; Tencent's acquisition of Supercell will help Tencent continue to increase its game business revenue while making up for the lack of innovative games.

Second, Supercell products are popular in the global market, unlike Tencent's game products, which are mainly in China; from the perspective of market complementarity, Tencent's acquisition of Supercell will continue to strengthen the internationalization of Tencent's game business.

Third, Supercell's potential acquisition of SoftBank shares is about \$5 billion. In comparison, Supercell's profit in 2015 was about \$1 billion, which is an excellent deal from the value of the transaction itself, which will further push up Tencent's market value. With Supercell's stable revenue performance, the financial risk after the merger is not high.

Tencent has always occupied a dominant position in the domestic PC game field, but the mobile game market only accounts for about 1/3 of Tencent's overall revenue. With the change in the market environment, the mobile game market surpassing pc can undoubtedly be predicted. From this point of view, Tencent's mobile game status is not strong enough, and Supercell, the most well-known mobile game developer now, is undoubtedly the best target for Tencent's acquisition. After Tencent and Supercell join forces, it may bring significant changes to the global game industry, and the advantages of solid and mighty forces will be further reflected.

4. Motivation analysis of Tencent's merger and acquisition

4.1 Expand business scope to make up for technical shortcomings

Tencent attaches importance to the future development strategy and advocates building a complete development mode and diversified development strategy on the existing domain architecture. First, Tencent lacked continuous innovation before the acquisition. Meredith more use of game agents, investment in game developers, and other ways of game management, game copyright can not be independent. They only develop the technology for competitive games, casual games, etc., but there is a blank space when it comes to mobile games. Secondly, Tencent's mobile game industry is not mature enough and lacks mobile game operation. Tencent makes more than half of its revenue from PC games, the primary source of its profits, which explains its weakness in other areas. With the rapid development of smartphones and mobile terminal terminals, Tencent's mobile terminal business model is becoming more and more prominent. Tencent's PC gaming revenues before the acquisition had fallen sharply, and Tencent's gaming industry was not well structured[7].

Tencent has adopted a strategy of expansion, mainly through mergers and acquisitions of other companies to expand its market. Tencent's game market share is primarily due to its billion-plus active players, not game ideas. Tencent has invested heavily in Asia and North America, with only one in Iceland and one in Switzerland in Europe. News reports. Before the acquisition, 85% of Tencent's gaming business came from Asia, company figures show. On the other hand, Supercell has a vast customer base in Europe and North America, with four of its products reaching 100 million daily active users and topping the top 10 in sales in both countries every month, establishing itself in the US and Europe.

4.2 Resist industry pressure to create profit growth points

Tencent's biggest rival is NetEase. NetEase posted revenue of 1.9 billion yuan in the first half of 2016, up 69 percent year-on-year. In the third quarter, 71 percent of NetEase's revenue came from gaming and 26 percent from online games. Although NetEase is not as big as Tencent in gaming revenue, it dominates AppStore's top five lists, with Tencent ranking only on Honor of Kings. Compared with Tencent and NetEase, most of NetEase's games are MMORPGs or RPGs, and these

types of RPGSRPG are constantly making money, which is why NetEase can surpass Tencent. As of 2016, the growth rate of mobile gaming activity in China has slowed to 2.1 percent. The mobile gaming market has reached a tipping point where only those games with innovative points and memorable points can make their games more attractive. In the face of this new competitive landscape, Tencent urgently needs to shift from the traditional game mode to independent research and development, holding and research and development, as well as the result of personalized game products of IP[8].

4.3 Suggestions on Tencent's adjustment after the merger

Although Tencent has many foreign game business businesses, the lack of alien game development and management work will adversely affect its strategic decisions abroad. It is suggested that Tencent should actively invest in game development after acquiring Supercell. Through in-depth communication with Supercell, it can better understand the development concepts and development methods of foreign countries' foreign countries' development concepts and techniques. Suppose the technology of Tencent and super company can be combined. In that case, their technology can be applied to their products to form a technical complementarity to Tencent's game development into new ideas and ideas. At the same time, I provide technical guidance for Tencent's game research and development, promote the in-depth integration of foreign technology and Chinese traditional culture, enhance the popularity and acceptance of games with Chinese characteristics overseas, and promote the products with Chinese features to the world to make them more in line with the international development strategy. It's not about constantly investing and not sharing technology. It's not about playing games and not doing business. The creative cooperation with the super technology company breaks through the conventional plot, picture, and level restrictions, highlights different themes and features, and emphasizes precision and depth. Based on drawing lessons from the design ideas of super science and technology, we focus on improving product quality and winning the favor of players with high-quality products and services[9].

Supercell's success or failure depends on its core technology, which ensures that its products innovate and add value; Supercell is primarily based on a mall development, and one person's departure would halt the whole development process. As the acquisition of new companies did not reach the expected value, some new employees in China encountered a conflict of business model, which will inevitably have a particular impact on their work enthusiasm, resulting in a significant brain drain. Tencent should create an inclusive, open, and integrated research and development platform. First, Tencent could give former Supercell employees a stake or share in the company's performance, giving them a kind of ownership. Conduct a closed questionnaire to the employees, and conduct corresponding management according to employees' opinions. The manager of the super company can also lead perform a performance evaluation, evaluating the employee turnover rate, etc., to encourage the management to pay more attention to and care for the employees. Secondly, Tencent can find excellent researchers through its brand and platform and let them become a member of the super company or form a small elite team for joint development. Third, communicate with the game team management, combining the characteristics of Tencent game company's development strategy and industry, from the technical innovation ability, the game industry experience, market awareness, team cooperation ability, personal development goals, selected key employees, and make a retention plan, appropriate to give the core talents of higher compensation standard and the promotion space, To reduce the resistance and psychological gap caused by mergers and acquisitions. In the end, Supercell's research and development team are relatively stable, and the company's cultural environment influences their research ideas and tendencies. When the two companies jointly develop a plan, they can focus on Supercell's development direction and development process in a short period and then combine Tencent's strategy with the development concept of Supercell's Shanghai studio to gradually balance the development strategy of the two companies, so that Supercell's employees can have more time to adapt. As far as possible, to reduce the outflow of core R& D and reduce the functional ability of employees to meet the company's actual needs after acquisition[10].

5. Conclusions

First, judging from the solid performance of Supercell, Supercell and its innovative product model have made it a giant that Tencent cannot imitate. Tencent's acquisition can help it continuously improve its game field revenue. To fill in the gaps in creative games.

Second, Supercell's products are popular worldwide, and Tencent's game products are mainly in China. From the perspective of complementarity in the market, Tencent's merger and acquisition of Supercell will make Tencent's game industry further go international.

Founded in 2010 by its six founders, Supercell has only released four mobile games worldwide. Toon Farm, Clash of Clans, Boom Beach and Clash Royale are all downloadable games. But the small team's balance of mobile monetization and player experience has helped the company generate more than \$2 billion in annual revenue.

From this point, it can be seen that the profits of PC and mobile terminals will change after Tencent's acquisition of Supercell. Judging from the development speed of Supercell, Supercell will occupy 50% of the market share in the future, so there should be no problem.

As Tencent fights for a bigger market, a more significant foothold in mobile games, and more profits, it has given Supercell \$4 billion in funding to complete its ambitious plans.

Tencent should also pay attention to the risks and hidden dangers in the later stage of merger and acquisition. In the performance evaluation, it is also found that the financial dimension after the merger has unstable profitability and growth ability, the market dimension has fluctuated, and decreased market share of Chinese games, and the learning and growth dimension has staff turnover of the R&D team. Tencent needs to further improve its monetization methods, accumulate experience in overseas game research and development, and integrate research and development teams.

This paper analyzes the background content and significance of Supercell's research as well as the case description, its M&A process, competitive advantages, and Tencent's increasing holdings. Still, these six analyses do not reach a more comprehensive and more profound understanding and research. In particular, we don't have enough evidence to convince many people why Tencent is ramping up acquisitions when Supercell's revenues are falling. All these are worthy of our deep thinking, and we hope to make a more in-depth, comprehensive, and detailed analysis of the data related to M&A in future research.

References

- [1] Lehtonen M J, Harviainen J T. Mobile games and player communities: Designing for and with clans[J]. Design Management Review, 2016, 27(3): 20-26.
- [2] Santasärkkä S. The Digital Games Industry and its Direct and Indirect Impact on the Economy. Case study: Supercell and Finland[J].2017.
- [3] Tseng Y H. Players' Motivations to Participate in the Mobile Game Design with the Game Creator[J]. 2018.
- [4] Mohan V, Ramakrishnan C. Exploring the dynamic of gameplay in f2p mmogs: A study of clash of clans[C]//2017 International Conference on Advances in Computing, Communications and Informatics (ICACCI). IEEE, 2017: 2375-238.
- [5] Christian Lohse P. Social interactions in the virtual economy of "Clash of Clans" from 1st January 2017 to 31st May 2020[C]//2020 The 4th International Conference on Software and e-Business. 2020: 45-48.
- [6] Zhang Linruo, Yao Zhenghai. Research on Synergies of Overseas mergers and Acquisitions based on Balanced Scorecard: A case study of Internet enterprise Tencent[J]. Business and management, 2022 (8) :37-43.
- [7] Huang Jianan, Deng Junrong. Financial Risk Avoidance of Chinese Enterprises' Overseas M&A: A Case study of Tencent's Acquisition of Supercell[J]. Modernization, 2021 (17) : 150-152.
- [8] CAI Yansong, Tai Jingyi. Analysis of M&A Performance from the perspective of Balanced Scorecard: A Case study of Tencent's acquisition of Supercell[J]. North China Economic and Trade,2021(02):101-103.

- [9] Wei Xin, Yang Mingyue. Research on the financial risk of Internet enterprises' overseas mergers and acquisitions-A Case study of Tencent[J]. China Economic and Trade Guide (Middle),2020(11):148-149.
- [10] Nan Ye, Ling Hu. Tencent, transnational m&a performance analysis based on event study[J]. Journal of financial theory research, 2020(01): 61-68.