A Study of Microsoft's Acquisition of Activision Blizzard in the Gaming Industry

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Abstract. This paper delves into the intricacies surrounding Microsoft's acquisition of Activision Blizzard, aiming to scrutinize the challenges, motivations, and consequential impacts of this significant merger. Utilizing extensive literature and data from sources such as Google Scholar, the study employs a sub-thesis framework to dissect the multifaceted issues at hand. Despite encountering numerous obstacles and complexities, Microsoft's acquisition of Activision Blizzard ultimately proves to be a resounding success, with profound implications for both the company itself and the broader gaming industry. Examining the acquisition through three main lenses, namely the rivalry between Microsoft and SONY, Microsoft's motivations for the acquisition and its negotiation of antitrust concerns, and the subsequent effects on various stakeholders within the industry, this paper offers analysis, speculation, and predictions regarding the future trajectory of Microsoft, Activision Blizzard, and the gaming landscape as a whole. Ultimately, the research concludes that Microsoft's strategic approach to the acquisition, coupled with its status as a global technology behemoth, has fundamentally reshaped the dynamics of the game industry, heralding a new era of innovation and competition.

Keywords: Mergers and Acquisitions; Microsoft; Activision Blizzard.

1. Introduction

In the modern financial system and economic environment, mergers and acquisitions are becoming more common. Similarly, the types of M&A were divided into many categories. Appropriate mergers and acquisitions can bring more profits and development opportunities to enterprises. The mega-mergers in the last decades have also brought about structural changes in some industries, and attracted international attention [1]. Of course, M&A also can impact the various industry. For example, the Disney acquired the Pixar Animation Studios. This is a landmark M&A deal. It has produced many benefits. It is not only promote the ability of business development and innovation ability , and also brought more economic effectiveness and excellent film works. It can be seen that choosing a suitable M&A is very meaningful. The success of M&A can be judged on the basis of merger motives and their realization in future [2].

If M&A can achieve the expected goals, and bring substantial benefits to the enterprise, then the merger and acquisition can be considered successful, Otherwise, it is considered unsuccessful. So, Microsoft was aware of this keenly, even though Microsoft went through a lot of difficulties to acquire the Activision Blizzard. This paper will discuss about the acquisition of the Microsoft & Activision Blizzard.

2. Background to the Microsoft Acquisition

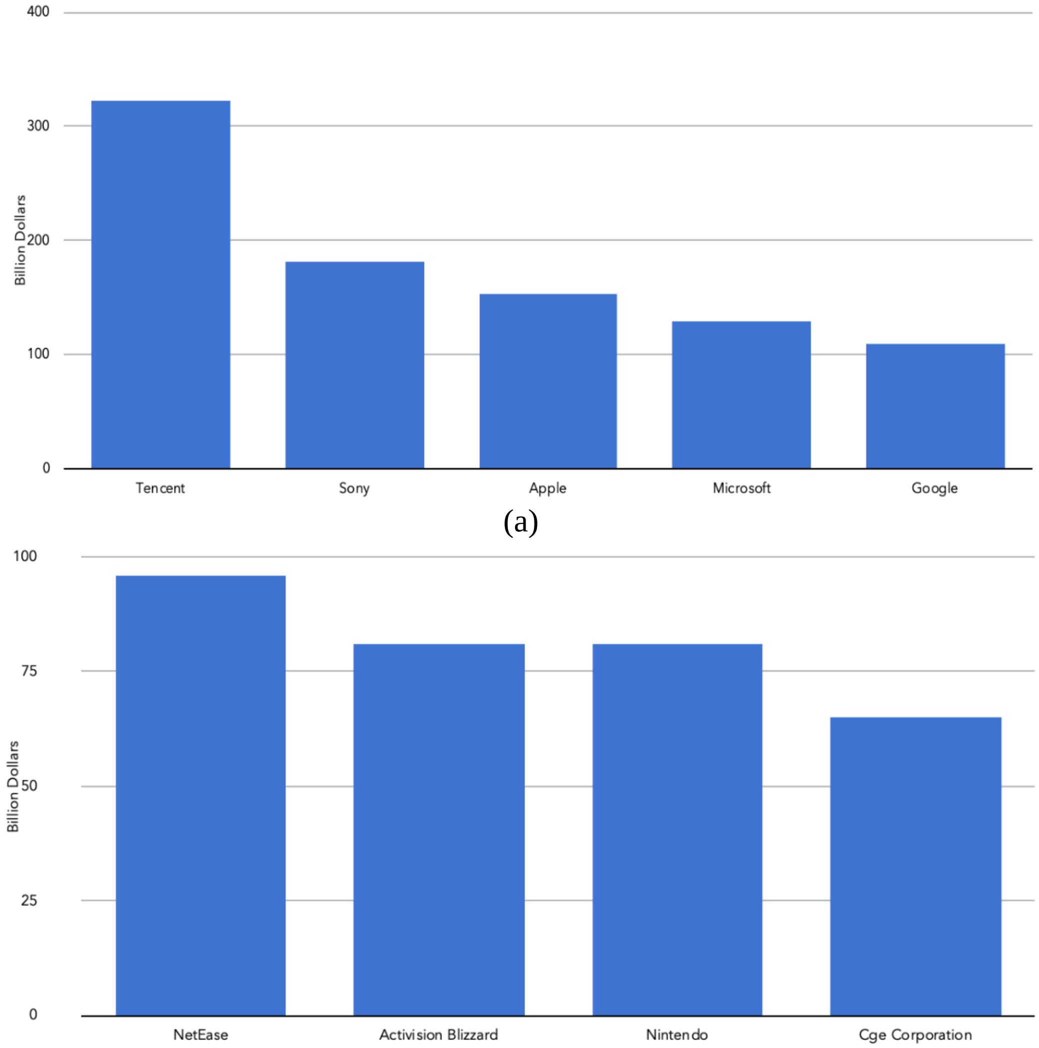
Microsoft since its foundation has acquired around 200 companies; in average 6 companies per year and has targeted different sectors of the ICT business [3]. After 20 months of tug-of-war, on October 13, 2023, Microsoft finally completed the acquisition of Activision Blizzard with $68.7 Billion. It is absolutely not means an easy task.

Maybe even many people who are not very familiarly play games with Activision Blizzard, but people can hear its games. World of Warcraft, Call of Duty, that sort of thing. However, Activision Blizzard’s performance in the financial is not really prominent. The revenue it made win 2021 is $8.1 billion. It is only number seven in the top nine game companies in the world, as Figure 1 shown.

The big game manufacturers in front of the Activision Blizzard basically rely on their own platform advantages to enter the game track. Only Activision Blizzard is a step by step, game by game, can be considered a game giant master. So, once Microsoft combine with the Activision Blizzard, its revenues will surpass those of Apple and SONY, two giant company will get the unprecedented improvement. While it is bitter irony that a company like Microsoft, which has repeatedly attracted antitrust concerns might sail into such a large and consequential merger, it does seem all but a certainly that it will be approved [4].

Everyone knows Blizzard has a game called Call of duty. It is not only Blizzard’s top game, and a cash cow for SONY. At 2021, SONY just only dependent on the Call of Duty and made $1.5 billion. If Microsoft acquired the Activision Blizzard, SONY cannot have “cash cow” to itself anymore. Also, if Microsoft makes Call of Duty its own exclusive, SONY will definitely lose a lot of PlayStation users. So SONY must not agree with this acquisition. At the time, Microsoft bought Activision Blizzard for $68.7 billion. The only companies in the world with that kind of cash are Microsoft and Google. Even Apple doesn't have the money to buy it. So which make SONY even less likely. And SONY can only try to make obstacles to prevent the completion of the merger.

In early 2022, Microsoft declared its ambitions to acquire the Activision Blizzard. While the Microsoft has declared it, it would be subject to antitrust review by the antitrust Bureau. In fact, Microsoft's main battleground this time is the United States, the European Union and the United Kingdom. The acquisition can be successful as long as it passes the scrutiny of the antitrust bureau. Trough the hinder again and again, Microsoft has finally won the battle for more than a year.



(b)

Fig. 1 Top nine game manufacturers turnover ranking (Photo/Picture credit: Original)

3. Causes

Why Microsoft have to acquire the Activision Blizzard? What is the motivation of Microsoft? Followings are the analysis. Due to the long-run aspect of an M&A ,it is difficult to define how long the appropriate consideration period should be [5]. Therefore, Microsoft was took a fancy to the future, not only just few games of Activision Blizzard.

3.1. Metaverse

In the future, the metaverse will gradually become the mainstream. While this acquisition undoubtedly an opportunity of Microsoft to march in the metaverse on step further.

Nadella, the CEO of Microsoft. He has great keen on the metaverse. Before the acquisition, Nadella and Spencer already see the gaming communities that have grown around games such as Minecraft and Halo as akin to a metaverse concept. This acquisition will create the virtual world for more large and more dedicated game commune. When they think about their visions of the meta-universe, they believe that there will not be a centralized metaverse, nor should there be. They need to support many meta-universe platforms and a robust ecosystem of content, commerce and applications. So cause to the development of Microsoft metaverse, the acquisition was happened.

3.2. Attraction of Players

Activision Blizzard develops and publishes video games across multiple platforms such as consoles, handheld platforms, and PCs, which enables consumers to pay for and download the content to their consoles directly [6]. Microsoft hoped to attract more players to buy the Xbox and play games on it. The same, Nadella wants to take much of Activision Blizzard's past and future content and apply it to its cloud gaming service, Xbox Game Pass, which has been propping up its sales with steady subscription revenue. The acquisition also gives Microsoft access to a pool of players who create their own game content and worlds.

3.3. Market Expansion

Microsoft is famous as global system and the software. Although Microsoft is good at this kind of technology development, but Microsoft in the game industry is not as well-known as SONY, Rockets Star and other game companies. So Microsoft's acquisition of Activision Blizzard is an opportunity, but also a challenge, a challenge to seize the game market share. Microsoft is also looking to the future. It will develop technologies and services like metaverse and cloud computing along with gaming. As mentioned in Section 3.1, it is analyzed that the meta-universe will develop very well in the future. So it also proves that Microsoft is very likely to be a development giant in the future, an authoritative evidence of The Times.

4. Impacts

4.1. The Game Circle

This M&A is a shocking case in game industry, which is considered to be the largest acquisition if finished [7]. Undoubtedly, this acquisition of Microsoft deeply influenced the whole game industry. The game industry can roughly dived into two parts. The developer and publisher. The developer is only take part in the game making, and publisher are different platforms and channels. In fact, the producing and publishing of early games were quite separate from each other. But as the game industry grew, it began to get out of balance. On the one hand, there are many games, but few platforms; On the other hand, development costs are getting higher and higher, and many mainstream masterpieces, such as Call of Duty and Cyberpunk 2077, are often hundreds of millions of dollars in research and development expenses, plus the cost of investment time. Therefore, the entire industry chain is almost a "one-stop" model, which can also be interpreted as the game produced by oneself to sell on its own platform. Therefore, Microsoft’s Acquisition of Activision Blizzard is almost equivalent to binding the game's developer and publishers together, and then the game industry gradually moved towards a platform-based pattern, playing a similar "exclusion" effect. In this way, players will not only play some games on SONY's PlayStation, and also play the same in Xbox.

4.2. The Game Circle

Increasing competition often leads to higher efforts to persuade consumers to by the given company's product, and consequently margins are affected [8]. Nowadays, there are 3 game giant platforms on the whole game industry. There are SONY, Nintendo and Microsoft.

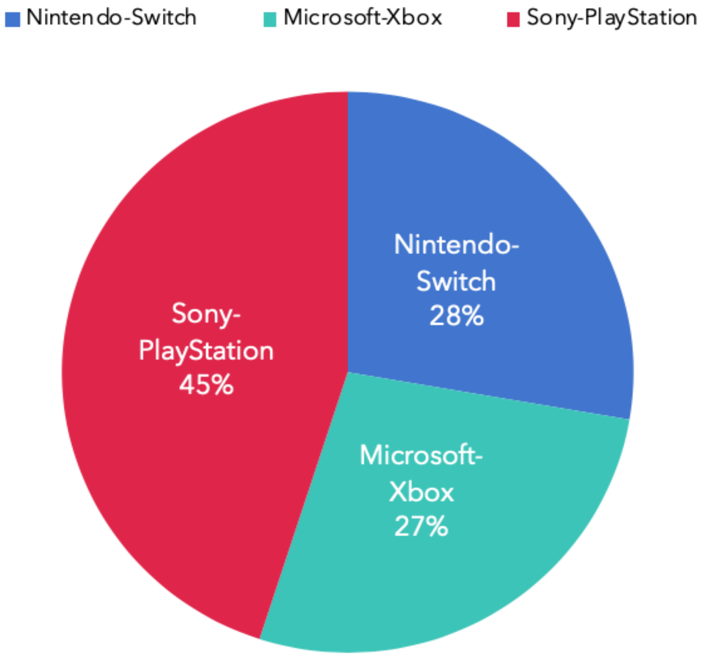


Fig. 2 Three consoles gaming market company share (Photo/Picture credit: Original)

As Figure 2 shown, SONY's PlayStation accounts for nearly half of the global game console market share. So, at that time, SONY can be known as the absolute boss. However, while the acquisition finished, the market company share of Microsoft's global gaming industry will predict to increase from 6.5% to 10.7%. The increase is based on forecasts from market research firm Newzoo. And about the Nintendo, its games relatively closed, and users are relatively independents this acquisition does not have much impact on Nintendo. Microsoft's Acquisition can expand the market share in the game industry, even to taking a part from SONY. When Microsoft acquired the Activision Blizzard, as its market share grew, so did its share price and the revenue. Microsoft includes Blizzard's revenue in its games division. So the revenue of game division was increase rapidly, reached to $7.11 billion. Except the game apartment, many Microsoft's apartment has gained much increasing. The revenue of Productivity and business apartment was $19.249 billion, up 13% from a year earlier. The revenue of Intelligent Cloud computing apartment was $25.80 billion, up 20%from year earlier. Have to say, Microsoft's acquisition has a big impact on its own enterprise.

4.3. Activision Blizzard and its Future

The impact of Microsoft's acquisition on its own gaming industry is undeniable. But it also has an impact on many game makers. Especially Activision Blizzard.

After Microsoft announced its intention to acquire Activision Blizzard, the stock price of Activision Blizzard also took a hit. It is should be known that Activision Blizzard is a well-known game manufacturer in the world. However, according to the Washington Post, by December 2021, in addition to the resigned executives, more than 200 employees chose to go on strike without a time limit, and this general strike also made Blizzard products prone to loopholes. In just two months, the stock price of Blizzard, which was caught in the gender discrimination scandal, fell by 27%, so

Blizzard has a very controversial impact on the international community. In the case of internal and external troubles, Microsoft's acquisition has undoubtedly become a "lifesaver" for Blizzard. But this acquisition path is not simple, behind the Microsoft, the rival company SONY, the national anti-monopoly regulator tripartite game. Looking back to July 2022, there are three major antitrust agencies in this takeover war. Microsoft also has to deal with the scrutiny of all three antitrust agencies as it battles SONY, the gaming giant.

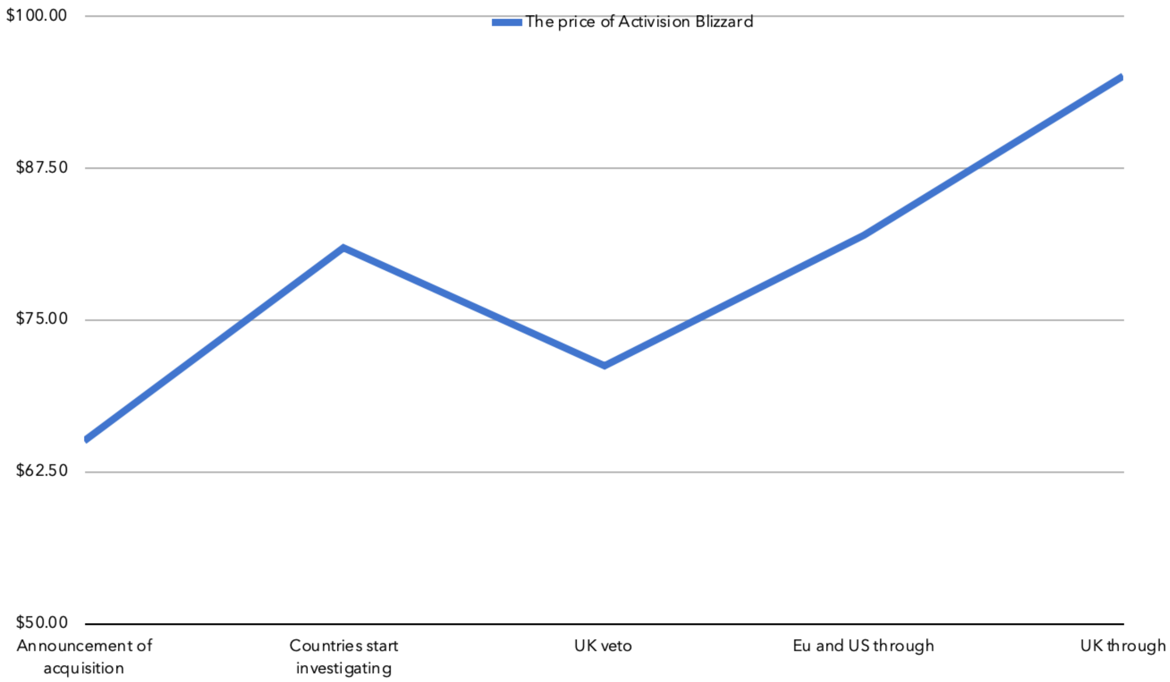


Fig. 3 The share price of Activision Blizzard (Photo/Picture credit: Original)

As Figure 3 shown, Activision Blizzard's share price rose from about $65 to $80 in the early days of the deal. Soon after, in June 2022, the UK Competition and Markets Authority (CMA) began an investigation into the acquisition. In September of the same year, the European Commission also opened an investigation. The US Federal Trade Commission (FTC) also opened an investigation in December. Between the end of 2022 and the completion of the acquisition, a lot of twists and turns took place. On April 6, 2023, the CMA opposed the acquisition, and Activision Blizzard's stock fell 12% that day. After one hearing after another, Microsoft has finally completed its acquisition of Activision Blizzard. Activision Blizzard shares have also risen to $95. The chart below simply shows this very well. From a popular point of view, Activision Blizzard is a big game maker. Given Activision Blizzard's popularity, Microsoft is likely to let the new group keep using the company's name [9].

4.4. Mobile Games

This is the fastest growing gaming sector. Blizzard owns mobile game studio King, the creator of the popular mobile game Candy Crush Saga 2. Microsoft's presence in mobile games is almost non-existent. Head of Xbox and chief executive of Microsoft's gaming business, Phil Spencer, said in an interview, People all know that the number one gaming device in the world today is the mobile phone. The current mainstream trend in games and technology is innovation. With the acquisition of Activision Blizzard, Microsoft could move quickly into mobile gaming. Today, the mobile game industry cannot grow without the technology of existing consoles. Mobile games also need the help of experienced game developers. Through in-depth interviews with game designers and participant observations of game communities, the study determines whether a less concentrated industrial structure would improve creativity and whether this high level of creativity would be sustainable [10].

Activision Blizzard's game development team will no doubt be a big help to Microsoft's push into mobile games.

4.5. Other Companies

Microsoft and Activision Blizzard are not the only two companies affected by this acquisition. Google and Nvidia, the chip company, were also involved in Microsoft's hearing with the antitrust bureau. The success of Microsoft's acquisition allowed Microsoft to avoid the review of the FTC, which made the FTC less credible. Google, Amazon and Meta have also been affected. The FTC is also conducting antitrust investigations of the three companies. In addition, when the CMA finally approved the Microsoft acquisition, it licensed all of Activision Blizzard's cloud business for the next 15 years to Ubisoft, which also promoted Ubisoft's economic development.

Microsoft's acquisition of Activision Blizzard may also trigger a wave of more mergers and partnerships in the gaming industry. Other game companies may be inspired to consider investing more in mergers and acquisitions, partnerships and technological innovation to adapt to market competition and industry trends, and promote the further development and growth of the game industry.

5. Conclusion

Mergers and acquisitions are very common now, but it is also very difficult to play a unique advantage and obtain more benefits in mergers and acquisitions. Microsoft's acquisition of Activision Blizzard is an example that will surely go down in history.

The reason Microsoft bought Activision Blizzard is to expand the virtual world market and expand its competitive advantage. Activision Blizzard owns many popular games such as World of Warcraft, Call of Duty and Hearthstone, and Microsoft's expertise in cloud technology and game development can bring new opportunities to these games, driving innovation and meeting the needs of different players.

The impact of Microsoft's acquisition of Activision Blizzard is huge. Not only for their own enterprises and Activision Blizzard to bring more opportunities and benefits, but also for some other enterprises to bring benefits while reducing the pressure of antitrust competition. To sum up, this acquisition will have a profound and positive impact on the game industry, promoting the prosperity and progress of the industry.

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