

Potential Benefits and Risks of Byte Dance's Acquisition of Moonton: A Case Study Based on SWOT Analysis

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Abstract. In March 2021, ByteDance successfully acquired Moonton Technology and continued to expand ByteDance's game industry. This article aims to investigate why ByteDance chose Moonton Technology among many overseas game companies, how the two parties completed the acquisition successfully, as well as the benefits that can be brought to both parties after the acquisition and the post-acquisition management model, and analyze how Moonton Technology can gain a leading edge in the competition with Tencent or what strategies and prominent games should be adopted. Based on the SWOT analysis method, this article explains the advantages, disadvantages, opportunities, and threats of Byte's acquisition of Moonton Technology, so as to make a correct analysis and future planning for this investor and manager. This article creates a new perspective for investors to understand ByteDance and Moonton Technology. This article suggests that investors should understand the background of the acquired company and whether it can produce synergies before investing, and consider long-term future planning.

Keywords: SWOT analysis, Tencent, ByteDance, Moonton Games

1. Introduction

Shanghai Moonton Technology was established in 2014. It is a world-class game company based on global game development and distribution which has the top research and development capabilities. The company is committed to integrating Chinese cultural elements into game development. The Mobile Legends: Bang Bang developed by the company is mainly aimed at users in Southeast Asia and won tenth place in the total revenue of China's top ten overseas games in 2020 [1]. However, on March 22, 2021, Moonton Technology was acquired by ByteDance. The acquisition amount reached 4 billion US dollars.

Xu Zhenhua, the founder of Moonton, was once the chief planner and operation manager of two games under Tencent. He founded Moonton Technology during his tenure at Tencent, but it was discovered by Tencent that Xu Zhenhua set up a company outside. This is a serious violation of discipline, so Xu Zhenhua was fired by Tencent and removed from all positions and powers [2]. But in 2017, the company received a legal lawsuit from Tencent because Moonton Technology violated the competition regulations and hindered Tencent's game development. In the end, Moonton Technology compensated Tencent with 19.4 million yuan. Since Moonton Technology's Mobile Legends: Bang Bang's operating area is mainly overseas, Riot Games, a wholly-owned subsidiary of Tencent, filed a lawsuit in the Central District Court of California, claiming that "Mobile Legends: Bang Bang" plagiarized "League of Legends" and pointed out that Magic The characters in Rush are similar to the characters in League of Legends, and in this way, they demanded that "Mobile Legends: Bang Bang" and "Magic Rush" be removed from the App Store and Google Play and compensated for \$150,000. Although the case was not successfully appealed in the United States, Tencent sued Moonton in China for copying the hero, map, and skin design of its Mobile Legends: Bang Bang, but no follow-up has happened so far [3]. On March 22, 2021, Moonton Technology announced that it was wholly acquired by ByteDance for US\$4 billion. The main business of Moonton Technology is mainly the research and development of games for overseas markets, and it makes profits by developing and selling games [4].

In March 2012, Zhang Yiming came to Beijing Zhichun Road and rented a private house, which can help him solve the problems of food, clothing, housing, and transportation, and solve the problem

of shortage of funds. This name-ByteDance is Zhang Yiming and his start-up team. The company is also after the English name that the Chinese name appears. In the early days of the company's establishment, ByteDance also had very high standards for recruiting conditions. If you want to recruit, recruit the best ones, and don't just worry about the cost and salary. In addition to researching computer algorithms, Zhang Yiming personally interviewed the company's candidates. Two years later, with the development of the company, Zhang Yiming's team also moved from Jinqiu Homeland to Yingdu Building.

Since the media became popular in 2014, Bytedance began to develop a recommendation engine and a creative platform, but the development was not smooth at the beginning, and later recruited algorithm engineers from Baidu and other core departments of enterprises to design the recommendation engine [5]. Byte successfully recruited high-tech talents from large companies such as Google, Facebook, and YouTube in 2015 using a high-salary recruitment algorithm salary system. In September 2016, the well-known Douyin was also officially launched in China. Subsequently, the establishment of ByteDance AI Lab in October 2013 provided a platform for many high-tech talents, such as Dr. Li Lei who is the former scientist of the Baidu Young Marshal Program, and Dr. Ma Weiyang, former vice president of Microsoft Asia Research Institute. Then in 2017, TikTok entered the overseas market for the first time. After acquiring the short video APPMusic with more than 240 million users for US\$1 billion in 2018, it officially entered the North American market and established global branches in London and Los Angeles. In June 2020, Disney's Kevin Mayer served as the global CEO of TikTok, which also brought TikTok to a higher level. ByteDance's main business scope includes education business (mainly focusing on Internet teaching and AI enlightenment courses), enterprise collaboration and management service business, enterprise technology service cloud platform business [6] (mainly providing online video communication for enterprises, cloud document operation, and other online collaboration tools to realize one-stop office collaboration for enterprises), game business, overseas business, and domestic information and service business. ByteDance mainly relies on its mobile advertising to make profits [7].

Moonton Technology planned a share repurchase at the end of 2012, which can be regarded as a signal to sell [8]. At that time, Moonton Technology and many acquirers were entangled in price. It is said that the acquirers include Netease, Xiaomi, and other companies, but the most interested overseas acquirer is Garena, an online game operating giant in Singapore. The products of Moonton Technology are concentrated in Southeast Asian markets such as Indonesia, Singapore, and Malaysia, while Garena is a game company listed on the US stock market and has sufficient strength to acquire. In the end, Moonton Technology still chose to be acquired by ByteDance, and the transaction amount was about 4 billion US dollars. After the acquisition, Moonton Technology still maintained an independent operation mode.

Based on the SWOT analysis method, this article studies why ByteDance chooses Moonton Technology among many overseas game companies, how the two parties completed the acquisition successfully, the benefits that can be brought to both parties after the acquisition, the post-acquisition management model, and Moonton Technology How to gain a leading edge in the competition with Tencent or what competitive strategies should be adopted.

The rest of this article is arranged as follows: the second section analyzes ByteDance's fields of involvement and corporate advantages from the perspective of ByteDance's business ecosystem, and the third section uses the SWOT model to analyze the advantages, disadvantages, opportunities, and threats of ByteDance's acquisition of Moonton Technology. Section IV gives a concluding overview and some recommendations for investors and managers.

2. Business Ecosystem of ByteDance

In August 2012, Bytedance launched its first product, Toutiao, and received angel investment from SIG [9]. Then in 2014, with the attack of self-media, ByteDance, aware of the good development direction of We-Media, immediately launched Toutiao. The model of the engine + creation platform

made ByteDance ahead of Baidu and successfully won the content section. In addition to strengthening the coverage of vertical information, Byte also started to explore the short video track. In the same year, the headline video and the volcano video were launched, and Douyin, which became popular in China in September, was launched. Zhang Yiming’s public speech in April 2018 stated that Toutiao is no longer a brand representative of ByteDance. Bytedance also has many other products such as Huaxiong and Jimeng. The former is an app that provides emoticons for consumers, and the latter is an app that specializes in photo effects and beauty cameras [10]. ByteDance AI Lab was established in October 2016, which made ByteDance a large number of technical talents. The first choice for job-hopping. ByteDance involves education, information and enterprise management services, short videos, games, and other fields, and it is expected that ByteDance will also involve high-tech fields such as artificial intelligence in the future.

3. SWOT Analysis

3.1. Strengths

Mobile Legends: Bang Bang and Mobile Legends: Bang Bang under Moonton Technology were launched in June 2016 [11]. The number of monthly active users worldwide exceeds 90 million, and the monthly turnover is about 140 million yuan. The main target market of this game is Southeast Asian countries, and it is regarded as a national-level game in Southeast Asia. The global downloads have exceeded 1 billion, which is similar to the glory of kings under Tencent Games in China. The development pattern of the domestic game market has been quite stable so far. Tencent and NetEase have occupied the "big piece of cake" for a long time. In 2017, the market share of the two in the country exceeded 80%. Advantages, In contrast, Tencent and NetEase are relatively late in the layout of overseas markets.

Figure 1 depicts the average daily player count of Mobile Legends: Bang Bang from August 30, 2019, to November 30, 2022, and the average daily player count from August 30, 2019, to November 30, 2022, almost slowly increased but reached its lowest value in June 2020.

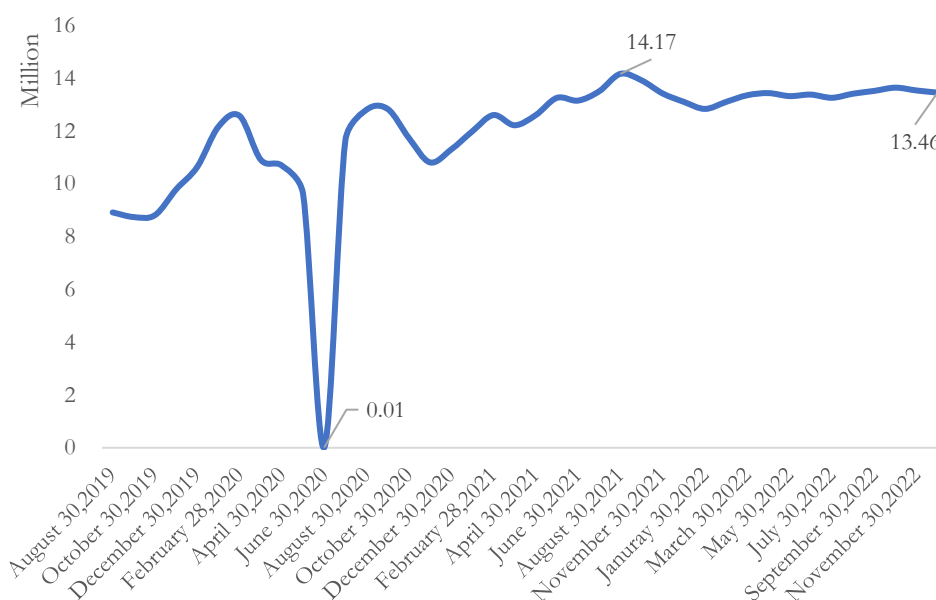


Figure 1. Average daily players

Photo credit: Original

Data source: Mobile Legends: Bang Bang Live Player Count and Statistics [12].

Figure 2 describes the continuous growth of the number of players per month from August 30, 2019, to November 30, 2022, but the growth rate is unstable from 52.46 in August 2019 to 80.76 in November 2022. The popularity of the game continues to increase.



Figure 2. Average monthly players (in Millions)

Photo credit: Original

Data source: Mobile Legends: Bang Bang Live Player Count and Statistics [13].

Figure 3 describes the Mobile legends Bang Bang global Revenue from 2016 to 2019, and the revenue continued to grow rapidly from 5.4 million in 2016 to 241.1 million in 2019. The popularity of the game continued to increase and the revenue continued to increase.

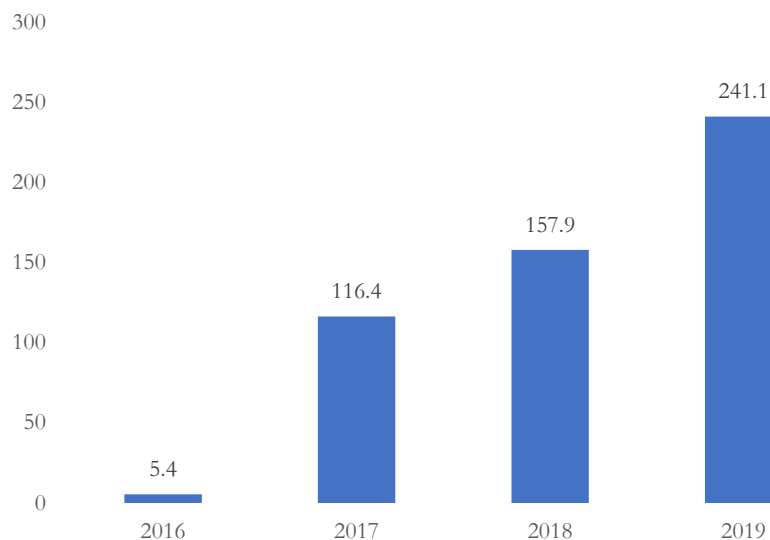


Figure 3. Mobile legends Bang Bang global Revenue (Roblox global revenue in Million USD)

Photo credit: Original

Data source: Mobile Legends: Bang Bang Live Player Count and Statistics [14].

3.2. Weaknesses

Moonton Technology Company itself has many lawsuits, which may affect ByteDance's corporate image, and may further involve debt and other disputes [15]. Xu Zhenhua, the founder of Moonton Technology, has worked at Tencent since 2009. He was once the main game planner and operation manager of two games. During his tenure at Tencent, he founded his own company, which was a very serious violation of discipline, and was subsequently fired by Tencent. However, in July 2016, Mobile Legends: Bang Bang developed by Moonton Technology began to be launched overseas. In October

of the same year, Tencent's King of Glory also began to develop overseas from Hong Kong, Macao, and Taiwan. Mobile Legends: Bang Bang seriously affected the interests of Tencent Games, so Tencent initiated legal proceedings against Moonton Technology for violating the competition regulations, and Moonton Technology finally compensated Tencent with 19.4 million yuan. In July 2017, Riot Games, a wholly-owned subsidiary of Tencent, filed a lawsuit against Moonton Technology in the Central Court of California, USA, suing Moonton Technology's mobile game Mobile Legends: Bang Bang and other products for infringement. In the lawsuit, Riot Games pointed out that there is much plagiarism in Moonton Technology's games, and asked Moonton Technology to compensate 10 million yuan, but so far there has been no follow-up to the case. Mobile Legends: Bang Bang players are mainly concentrated overseas, such as Malaysia, Indonesia, the United States, and Japan [16]. Malaysia is the main battleground of Mobile Legends: Bang Bang, contributing 87.5 million US dollars to Moonton, accounting for 17% of the total revenue. Indonesia was second, contributing \$69.2 million, or 14%. The U.S. market ranked third, contributing \$64.1 million, or 12.8% of total revenue.

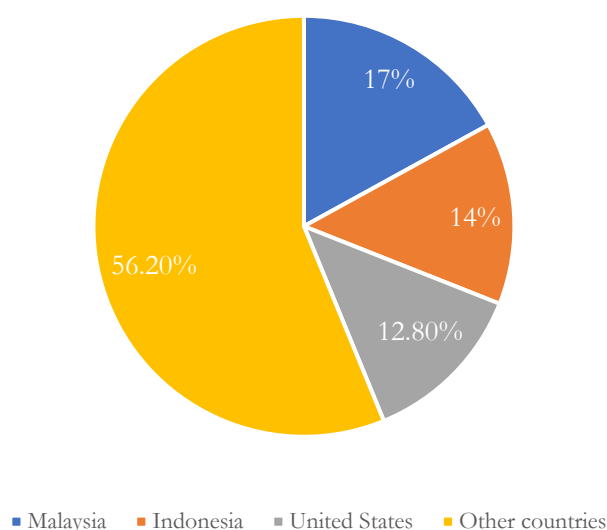


Figure 4. Annual income structure from Mobile Legends: Bang Bang

Photo credit: Original

Data source: What are the mobile games [17]

Legends: Bang Bang's game groups are mainly concentrated in foreign markets, especially Southeast Asia and other regions, and its influence in the mainland is relatively small. There is a lot of room for the development of domestic MOBA games, but Tencent's Honor of Kings monopolizes the market. Because of its operating experience in overseas markets, Moonton has a huge feasibility space in China. As long as it grasps the trend and consumption tendency, it is possible to enter the market. But Mobile Legends: Bang Bang and King of Glory are very similar games, and the hero production, skin release, and game map environment clarity of King of Glory are better than Mobile Legends: Bang Bang, so Mobile Legends: Bang Bang should be played overseas. The influence gradually expanded to mainland China. In addition, there are many games under Moonton Technology, but most of them are casual games, and most of them can only be downloaded from the Android application store. And now most of the games are gradually withdrawn due to some reasons, only Mobile Legends: Bang Bang is considered good.

3.3. Opportunities

In recent years, the market prospect of the game industry has developed rapidly, and the revenue has increased rapidly [18]. According to relevant data, the actual sales revenue of the Chinese game market in 2020 will be 278.687 billion yuan, an increase of 47.81 billion yuan over 2019, a year-on-

year increase of 20.71%, maintaining rapid growth. In 2020, the number of game users in China will maintain steady growth, reaching 665 million users, a year-on-year increase of 3.7%. In 2020, the income of China's self-developed games in overseas markets will maintain steady growth, and the actual revenue will reach 15.45 billion yuan, an increase of 3.855 billion yuan from 2019, a year-on-year increase of 33.25%.

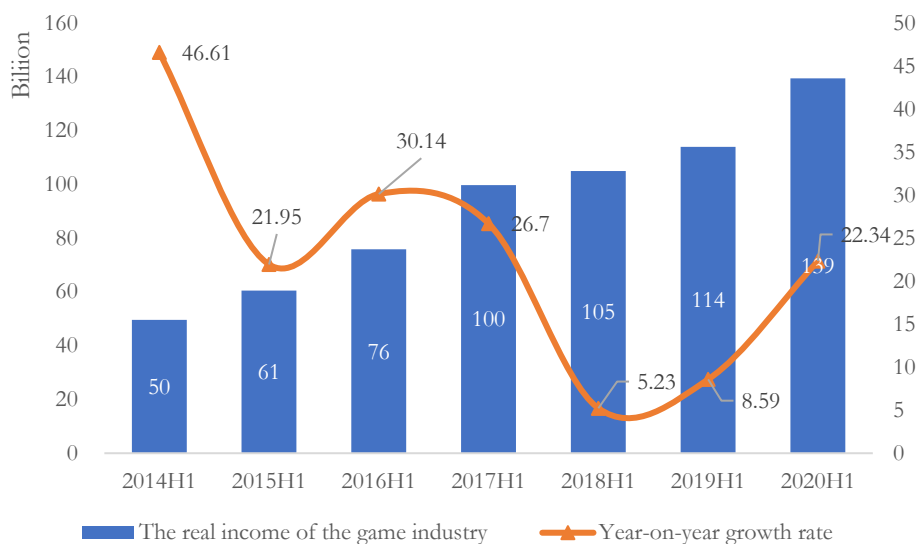


Figure 5. The actual revenue and growth rate (%) of the game market from 2014 to the first half of 2020

Photo credit: Original

Data source: Organized by the Game Working Committee (GPC) of the China Music and Digital Association and the Prospective Industry Research Institute of the China Game Industry Research Institute [19].

It can be seen from the figure that the actual income of my country's game industry has been growing from 2014 to 2020, but the year-on-year growth has been slowing down from 2016 to 2018. COVID-19 has led to serious unemployment problems. It is more common for unemployed people to use games to relieve stress, and the year-on-year growth in 2020 will rebound rapidly. In recent years, the e-sports industry has been included in the Asian Games. In the 2018 Jakarta Asian Games, the League of Legends Chinese team won the gold medal in the Asian Games, which promoted the development of the game industry. In the past, the game industry has always been considered by parents as an unhealthy entertainment project, but in recent years, the game industry has developed rapidly and has been officially incorporated into competitive events. This article predicts that China's game industry will become better and better in the future, and more types of a good game.

3.4. Threats

Tencent Games and Netease Games have been stationed in the game industry for many years, with excellent and professional R&D teams and loyal customers. Taking Tencent as an example, its mobile games such as Glory of Kings and Peace Elite have dominated the app stores of Apple and Android all year round. The total number of downloads of Glory of Kings is 3.71052 billion, and the total number of downloads of Peace Elite is 2.11353 billion. Tencent owns many well-known live-streaming platforms in China, such as Huya and Douyu. Their traffic and publicity are much higher than other game companies.

In terms of client games, Tencent has acquired many large game companies in recent years, such as Riot Games in the US and Sumo Group in the UK [20]. Currently, Sumo Group is the world's largest independent third-party game studio, and its founder, Ian Livingstone, is also known as the "Father of British Games". Tencent's acquisition of this company shows that Tencent pays attention to its development in the game industry. The development of 3A games which consist of high-cost,

high-quality, and high-volume games can prove that Tencent's games will be more excellent and better meet people's high-end needs. The League of Legends client game under Riot Games is also popular all over the world. As of October 2021, a total of 180 million people have played League of Legends, and its servers cover the United States, Japan, South Korea, China, Thailand, Europe, Taiwan Province, and Australia. Therefore, if ByteDance and Moonton Technology want to compete with Tencent, they must improve their game quality and publicity, and insist on maintaining the game copyright and avoiding plagiarism, otherwise, they will inevitably be sanctioned by Tencent Games, its game platform, or other plagiarism, etc. Grounds for Prosecution and Impact.

4. Conclusion

This article describes the successful acquisition of Moonton Technology by ByteDance in 2021. The main research purpose of this article is first why ByteDance chose Moonton Technology, which has more disputes among many game companies, and how the two parties completed the acquisition case, as well as the advantages and disadvantages that can be brought to both parties after the acquisition and the post-acquisition management model. ByteDance entered the game field through the acquisition of Moonton Technology and how can it surpass Tencent in one aspect of the game field. The research purpose of this article is to analyze the advantages, disadvantages, opportunities, and threats of Byte's acquisition of Moonton Technology based on SWOT, so as to make a correct analysis and future planning for this case. This article finds out ByteDance's ecological circle planning and the future trend of preparing to develop into the game industry and understands the advantages, disadvantages, opportunities, and threats of ByteDance's acquisition of Moonton Technology. After the acquisition of Moonton Technology, relying on ByteDance's resources and sufficient funds, it can obtain more financial support for itself and ByteDance's advantages in media marketing, which has improved its company's popularity and market scope. ByteDance Entering the game field through Moonton Technology has expanded its ecological circle and strategic direction of the game territory following the trend and can compete with companies such as Tencent.

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