Depth Analysis of Microsoft's Acquisition of Activision Blizzard: Thinking Based on the Development of the Metauniverse

Zhiyuan He[1, †], Hongyu Liu[2, †, *]

[1]Metro International Secondary Academy, Ontario, L4J8A2, Toronto

[2]The Affiliated International School of Shenzhen University, Shenzhen, 518066, China

[†]These authors contributed equally.

[*]Corresponding author: 3180400109@caa.edu.cn

Abstract. In this pandemic era, more and more people pay attention to games. At this time, a news that shocked the game circle came out. It was Microsoft that announced that it would complete the acquisition of Activision Blizzard in the 2023 fiscal year. As a host game player, we decided to use SWOT Analysis and PEST Analysis to deeply analyze the impact of this acquisition from eight aspects, especially on the development of the Metauniverse. In the process of research, we found that this may be an opportunity for Microsoft to complete the third growth curve. If all goes well, we will see the birth of the game company with the third largest global revenue in 2023. For the acquisition, it is widely believed in the industry that Microsoft and Activision Blizzard will achieve a win-win situation. Therefore, we suggest that you should pay more attention to this acquisition and make reasonable investment in your spare time.

Keywords: Neural Network, Prediction Model, Big Data.

1. Introduction

Microsoft has been keen on the game industry for a long time. It can be traced back to the 1980s. The first generation of Microsoft Simulated Flight was released in 1982, three years earlier than the birth of the first generation of Windows operating system. It is worth mentioning that the Microsoft Simulation Flight series is still being developed and updated, and has become one of the longest continuously updated PC game series ever.

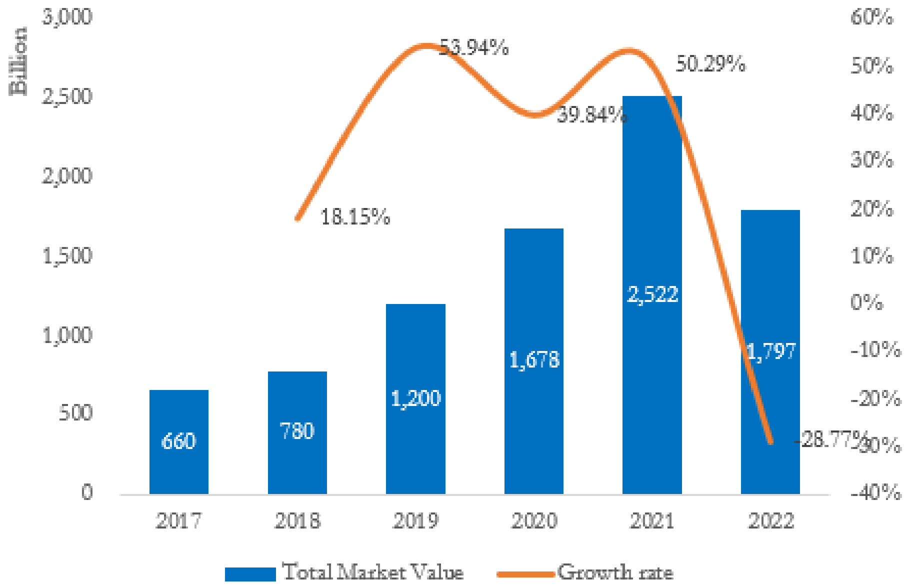

Figure 1. Total market value and growth rate of Microsoft from 2017 to 2022

Photo credit: Original

Data source: Choice [1].

In 1985, the first-generation Windows operating system was released. In order to make users familiar with the advanced GUI interface of Windows system at that time and master mouse operation, Microsoft added Black and White Chess, a simple puzzle game, which is also the first built-in game of Windows system. Since then, Minesweeper and Solitaire have replaced Black and White Chess as classic built-in games for Windows 3.0 and later versions.

Microsoft really took games as a big business in 1995. At that time, Microsoft was already a world-famous IT enterprise, and its operating system and office software had occupied an important position in the global market, but the game department was just "embellishment" for Microsoft.

In 1995, Microsoft gradually emerged in the game field. The game department welcomed a new head, Ed Frys, who was transferred from the Office development department. In the same year, Sony's PS and Nintendo's Saturn game consoles landed in the U.S. market one after another, but Microsoft's top priority was to ensure the smooth release of Windows 95. Games accounted for almost nothing in Microsoft's revenue.

What really made Microsoft enjoy the benefits in the game industry was the real-time strategy game "Age of Empires", which appeared in 1997. In that year, the sales of "Age of Empires" exceeded 2 million copies.

In 1998, Ed Fryce tried to persuade Microsoft executives to buy Blizzard or Westwood, but failed and was outbid by Vivendi and Electronic Arts. Second, under the leadership of Ed Frys, Microsoft acquired FASA Studio, which developed the "Robo Warrior" series.

The year 1999 was a turning point for Microsoft's game department. At that time, Microsoft Chairman Bill Gates extended an olive branch to Sony's president, hoping that Sony's PS2 under development could use Microsoft's game development tools. Outai Nobuki refused this proposal, and spent a lot of time on the PS2 conference to introduce the non game functions of the PS2, suggesting that the PS2 can replace the PC, which angered Gates.

Microsoft, with strong financial resources, immediately began to negotiate with a series of game companies for cooperation or acquisition. However, after contacting with many large companies such as Electronic Arts, Skwell, Sega and Nintendo, the final negotiation was fruitless.

In 2000, Gates decided that Microsoft, like Sony and Nintendo, should be able to develop games as well as its own game console, so the Xbox game console development plan was fully launched.

The following stories are familiar to game players. In the home game console market, after defeating a series of competitors such as Sega, Nintendo and Arida, Sony has ushered in a heavyweight competitor with more financial resources than these competitors before.

In the past 20 years, Microsoft has taken a multi-pronged approach in the game market: it has continuously introduced new Xbox game consoles, and Xbox, Xbox360, Xbox One, Xbox One S, Xbox One X, Xbox Series X, Xbox Series S, etc. have been evolving.

During this period, the Xbox Game Pass (XGP) service, which was unveiled in 2017, is a platform to truly show the "wild hope" of Microsoft's game industry.

XGP is a service for playing games through monthly payment. Users can play all the games in the Xbox Game Pass game library after paying a certain amount of monthly rent every month.

In 2019, XGP services began to support the PC platform. The significance of XGP lies in that, on the one hand, it has opened up the home game console and PC platforms, and at the same time, it allows game players to play more games at a relatively low price, reducing the trial and error cost of games.

Before the emergence of XGP, in the home game console market, game sales were basically "buyout". A 3A game masterpiece usually sold for about $60. XGP divided different membership levels, and the monthly/annual fees of the most basic membership levels were $9.99/$59.99.

Before announcing the acquisition of Activision Blizzard, Microsoft had made several major acquisitions in the game field. For example, in 2001, the company acquired Full Effect Studio, and the Halo developed by the company is the exclusive debut game masterpiece of Microsoft Xbox; In 2014, it acquired the development company of My World, Mojang, Sweden, with 2.4 billion dollars; In 2020, ZeniMax Media, the parent company of Bethesda Software, will be acquired, and the wellknown IP "Ancient Scroll" series and the "Starry Sky" under development will be included in the bag [2].

However, the largest of these acquisitions was ZeniMax, and Microsoft spent only $7.5 billion. From $7.5 billion to $68.7 billion [3], which is close to the net profit of Microsoft in a year, is Activision Blizzard so important to Microsoft?

Today's Activision Blizzard can be seen as a combination of three companies: Activision, Blizzard and King. One of the oldest is Activision, which was founded in 1979. The early development of Activision was not smooth, and it even became a database developer, which was on the verge of bankruptcy several times. It was not until 1997, when several small game studios were merged, that Activision gradually emerged from the crisis.

In 2007, after the acquisition of Blizzard, Activision, 28, has become the second largest third-party game producer and publisher in the world (second only to Electronic Arts). On December 2, 2007, Activision and Vivendi Games announced their merger and renamed it Activision Blizzard, further consolidating their market position.

In 2015, seeing the prospect of the smartphone game market and the rise of leisure games, Activision Blizzard acquired King with $5.9 billion, bringing the famous "Three Consumer Games" of Candy Legend into Activision Blizzard's "big family".

At present, Activision Blizzard has many famous IPs, such as Call of Duty, Guitar Hero, World of Warcraft, Starcraft, Diablo, Hearthstone Legend, Watch Vanguard, Candy Legend.

However, Activision Blizzard's business has not been satisfactory in the past two years, and the development of the game masterpiece has not progressed smoothly. Its share price has dropped from a peak of $103.81 in February to $57.28 in December of the same year in 2021. On the day of the announcement of the acquisition, Activision Blizzard's share price rose 25.88%, jumping from $65.39 to $82.31. In contrast, the purchase price of US $68.7 billion, converted into the share capital of Activision Blizzard, is equivalent to the share price of US $95 per share [4].

For the acquisition, it is widely believed in the industry that Microsoft and Activision Blizzard will achieve a win-win situation. The addition of a series of famous IPs has added a heavy weight to Microsoft's XGP. With the help of Microsoft, Activision Blizzard's games have a stable channel capability, the market cost can be reduced, and the development and personnel costs are expected to decline.

2. SWOT Analysis

2.1. Strengths

Microsoft has a comprehensive layout in the game industry chain, including hardware platforms, game content production platforms, industry distribution channels, and cloud platforms. It is an integrated industry chain, so it is not surprising that Microsoft has purchased Activision Blizzard to supplement the content. Take a look at the revenue data of Activision Blizzard. In 2020, Activision Blizzard will have a revenue of 8.09 billion dollars and a profit of 2.19 billion dollars; In the first three quarters of 2021, the revenue will be 9.05 billion US dollars, and the profit will be 2.64 billion US dollars, which is more than most excellent companies in the game field [5]. Therefore, from the perspective of financial indicators and enterprise strategic development, this will be a just right acquisition. In a direct sense, it will reverse the disadvantage of Microsoft Xbox console against Sony PS console due to insufficient game content, thus creating a more complete integrated game industry chain. In a fundamental sense, the concept of the meta universe is closely related to games. What is needed in the meta universe is the game industry, which really puts the user experience at the top. A good user experience will pay the bill to recharge, forming a virtuous circle. This gives Microsoft the best frontier technology testing ground.

2.2. Weaknesses

The termination of Blizzard's contract with China's agent NetEase will lose the value of IP. According to statistics, China contributes about 15% of Blizzard's game revenue [6]. Because of the limitations of China's national conditions, if Blizzard cancels the contract with Netease, Chinese players will disappear from Blizzard games in the next two to three years. In fact, this is a very serious loss of players, and will certainly affect the benefits Blizzard can bring to Microsoft.

2.3. Opportunities

In 2020 and 2021, Microsoft once surpassed Apple in market value, which is undoubtedly brought by the development of cloud services. In fact, cloud service has surpassed Windows to become Microsoft's second growth curve, which is a miracle for Microsoft that has missed the Internet era. Whether the acquisition of Activision Blizzard can promote the formation of the Metauniverse and make it the third growth curve will be the key for Microsoft to surpass Apple in market value.

2.4. Threats

With regard to the progress of Microsoft's acquisition of Activision Blizzard, most of the "big players" in the global game industry who have been accustomed to "off, on, and off" are spectators [7].

Tencent and Nintendo have never spoken publicly on this matter. Andrew Wilson, chief executive officer of EA, said at a recent event that Activision Blizzard's Call of Duty continued to become the exclusive game of Sony PS platform, which was also good news for EA's cross platform similar game Battlefield series.

The only one holding a clear and fierce opposition is Sony. The reason given by Sony is that the current exclusive game "Call of Duty: Modern War 2" will be adversely affected by the acquisition, because "Call of Duty" is the best-selling game IP in PS history, with an annual sales volume of 25 million, which can be said to be a great contributor to Sony's PS ecology.

It is precisely because the "Call of Duty" series games have such a strong influence that Sony is worried that Microsoft's acquisition of Activision Blizzard will be very harmful to itself, because Microsoft is likely to incorporate the "Call of Duty" series games into its own XGP platform, which will reduce the attractiveness of the PS platform.

Phil Spencer, the head of Microsoft's Xbox business and the "boss" of the game business, promised Sony in public that the "Call of Duty" series games would still debut on the PS, and the length of time would exceed the time specified in the existing contract between Sony and Activision Blizzard. However, it is clear that such a verbal guarantee is not very persuasive under the situation of comprehensive competition between Microsoft and Sony.

In addition to Sony, anti-monopoly agencies in various countries are also what Microsoft and Activision Blizzard need to persuade.

The latest news said that some FTC reviewers of the Federal Trade Commission in charge of the acquisition were worried that the deal would let Microsoft undermine the "fairness of competition" in the game market.

In addition to FTC, regulators in Europe and the United Kingdom also launched an in-depth investigation. The Competition and Market Administration (CMA) of the United Kingdom also released the debate document between Microsoft and Sony on Microsoft's acquisition of Activision Blizzard at the end of October.

In the document, Microsoft revealed several interesting views and evidence. Sony has more exclusive games than Xbox: in 2021, there will be more than 280 exclusive first party and third party games on the PS platform; The first party and exclusive games developed by Sony itself are "better in quality": in 2021, the average score of Sony's top 20 exclusive games will be 87/100, while Xbox will be 80/100; The sales volume of Sony's PS game console was twice that of Microsoft's Xbox in the same period.

But not all anti-monopoly agencies have "Say No" against Microsoft and Activision Blizzard.

National regulators in Saudi Arabia and Brazil have approved the transaction. Saudi Arabia, which recently used state-owned capital to invest heavily in the global game market, is the first country to approve this acquisition.

Brazil is the second country to acquire Activision Blizzard through Microsoft [8]. In October, the Brazilian Administrative Committee for Economic Defense (CADE) approved the merger "without restriction". CADE responded to Sony's concern that Sony's loss of the exclusive right of Call of Duty would aggravate the games on Microsoft's game platform. CADE believes that Call of Duty did not appear on Steam and Switch, but these two game platforms have developed rapidly in recent years. Therefore, CADE believes that no matter how much the transaction between Microsoft and Activision Blizzard will threaten Sony's position, it is only a risk to one company, not a threat to the entire Brazilian game market.

According to the plan, this acquisition will be completed before July 2023. If it is not successful, Microsoft will also pay $3 billion to Activision Blizzard. So now this acquisition case is "halfway", and the best is still to come.

3. PEST Analysis

3.1. Politics

If Activision Blizzard is included in Microsoft, whether the Call of Duty series developed by Activision Blizzard will continue to appear on Sony's platform has become a major concern of regulators. Microsoft's acquisition may monopolize the Call of Duty series, thus affecting the fair competition between host platforms.

3.2. Economy

Three top leading enterprises in the metaverse: Microsoft, Meta and Tencent. As of June 28, Meta's share price was $160.680 per share and its market value was $434.9 billion. Tencent's share price is HK $363.800, with a market value of HK $3.50 trillion (equivalent to RMB 445.9 billion) [9]. Obviously, from the market value alone, neither Meta nor Tencent can compare with Microsoft. This means that Microsoft will have more capital to innovate in the technology market at the critical time of technological transition. This also makes Microsoft's march into the metaverse more demonstrative.

3.3. Society

Activision Blizzard has been deeply involved in the sexual harassment scandal since last year. At present, it has fired several employees involved in sexual harassment or other misconduct. Some news even described Activision Blizzard as "a hotbed of discrimination and harassment against women".

3.4. Technology

The meta universe outlines the map of future technology, and the key to open this map is hidden in the infrastructure of cloud computing. Or, to go further, the data explosion of the meta universe leads to a surge in computing power demand. It is unrealistic to rely on ordinary computer equipment to run the huge code of the meta universe, while cloud computing is a good solution. As more and more enterprises migrate to the virtual world, the cloud computing industry will give full play to its potential through the meta universe, which is also the goal strategy of Nadella and Microsoft. It is driven by demand that Microsoft's meta universe technology landscape is constantly supplemented and new "puzzles" are introduced. For example, considering that voice is one of the core interaction methods in the mixed reality industry, in April 2021, Microsoft announced that it would purchase Nuance for 19.7 billion dollars. The core product of Nuance is the language recognition engine Dragon Anywhere, which uses deep learning to recognize voice, thus consolidating its technical foundation in the voice field.

Microsoft already has its own Xbox, but it is relatively weak in the entire consumer level metaverse market, because most of its games are developed or acquired by other companies. This also highlights the value of its acquisition of Activision Blizzard, which will greatly enhance Microsoft's ability to create and create content.

Microsoft Xbox has 25 million users, mainly in the TV end, while the mobile end market is relatively weak. This acquisition of Activision Blizzard will obtain more than 400 million users [10]. From this perspective, Microsoft's acquisition of Activision Blizzard is in a very important position. Microsoft can deeply integrate the PC, TV and mobile terminals. " It will reverse the disadvantage of Microsoft's Xbox console against Sony's PS console due to insufficient game content, thus creating a more complete integrated game industry chain.

4. Conclusion

According to the prediction of Gartner, a market research organization, by 2026, 25% of people will spend at least one hour a day working, shopping, education, social networking or entertainment in the virtual world. According to the analysis of Bloomberg Intelligence, it is estimated that by 2024, the global meta universe market will reach 800 billion dollars. This is a foreseeable future, and the game market is the outpost of the meta universe. There is no doubt that this acquisition will further Microsoft's development in the Metauniverse. At the same time, despite resistance from all aspects, we are always optimistic that the acquisition will bring more benefits than disadvantages to players and Microsoft. Public opinion and anti-monopoly are both difficulties that can be encountered. We believe that Microsoft has the ability to solve them, because this is related to their third growth curve. In fact, if Microsoft succeeds in the acquisition, it can be predicted that its market value will surpass Apple again, becoming the listed company with the highest market value in the world and the leader in the layout of the meta universe. Therefore, the possible rational investment will bring predictable and valuable benefits, whether to Activision Blizzard or Microsoft.

References

[1] Choice data [EB/OL]. [2022-12-25]. https://choice.eastmoney.com

[2] Fifth the person. Microsoft’s business model: How Microsoft makes money [EB/OL]. (2020-09-03) [2022-12-31]. https://fifthperson.com/microsoft-business-model/#:~:text=It%20consists%20of%20products%20and%20services%20mainly%20catered,%E2%80%93%20Microsoft%E2%80%99s%20search%20engine%2C%20Bing%2C%20generates%20advertising%20revenue.

[3] Microsoft’s business model: How Microsoft makes money [EB/OL]. [2023-01-04]. https://www.microsoft.com/en-us/Investor/acquisition-history.aspx

[4] In depth interpretation: Is it worthwhile for Microsoft to invest 68.7 billion dollars to acquire Activision Blizzard? [EB/OL]. (2022-01-19) [2023-01-04]. https://baijiahao.baidu.com/s?id=1722393300491418892&wfr=spider&for=pc

[5] Matthew Johnston. The Activision segment is the biggest revenue and income generator [EB/OL]. (2022-03-17) [2023-01-04]. https://www.investopedia.com/how-activision-blizzard-makes-money-4799286#citation-50

[6] Rob Dolen. Pros and Cons of Microsoft's Acquisition of Activision-Blizzard [EB/OL]. (2022-01-19) [2023-01-04]. https://gamerant.com/microsoft-activision-blizzard-acquisition-xbox-workplace-culture-bobby-kotick/

[7] Microsoft News Center. Microsoft to acquire Activision Blizzard to bring the joy and community of gaming to everyone, across every device [EB/OL]. (2022-01-18) [2023-01-04]. https://news.microsoft.com/2022/01/18/microsoft-to-acquire-activision-blizzard-to-bring-the-joy-and-community-of-gaming-to-everyone-across-every-device/

[8] Joshua Wolens.Brazil approves Microsoft's Activision Blizzard purchase, says it won't defend 'particular interests of specific competitors' [EB/OL]. (2022-10-07) [2023-01-04]. https://www.pcgamer.com/brazil-

approves-microsofts-activision-blizzard-purchase-says-it-wont-defend-particular-interests-of-specific-competitors/#:~:text=Brazil%20has%20become%20the%20second%20country%20after%20Saudi,way%20for%20the%20deal%20to%20proceed%20in%20Brazil.

[9] CBS News. Meta's value has plunged by $700 billion. Wall Street calls it a "trainwreck." [EB/OL] (2022-10-28) [2023-01-04]. https://www.cbsnews.com/news/meta-stock-down-earnings-700-billion-in-lost-value/

[10] China Business News. Why did Microsoft buy Activision Blizzard? [EB/OL] (2022-07-16) [2023-01-04]. https://baijiahao.baidu.com/s?id=1738459422562602950&wfr=spider&for=pc