



Analysis on the Impact of Tencent's Acquisition of Riot Game

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ABSTRACT

With the continuous development of the world economy, the game industry has become the most potential industry. The development of the game industry has led to a surge in cross-border merger and acquisition activities of game companies. The purpose of this study was to explore the impact of Tencent Games' acquisition of Riot games on the company and domestic and foreign markets. This paper used the Weston Synergy Theory to explore the greater effect brought by the M&A of Tencent, and chose the SWOT model to qualitatively analyze its impact. This study concluded that this M&A activity may harm Tencent in the short term, but in the long run, it can improve Tencent's enterprise efficiency and market competitiveness. Through the acquisition of Riot's core technology, it can improve the enterprise structure and achieve economies of scale, resulting in a large number of beneficial effects. Therefore, by analyzing the positive impact of this acquisition, summing up the experience of cross-border mergers and acquisitions of game companies, it is helpful to guide other game companies to carry out cross-border mergers and acquisitions, which has a certain practical significance. However, based on the market particularity and policy support of this M & A, the guiding significance of other forms of M & A needs to be further discussed.

Keywords: Tencent, Acquisition, Synergy Theory, SWOT Model

1. INTRODUCTION

1.1 Background

Over the past three decades, the world economy has kept on advancing and interlace, and at the same time, it has brought about a noteworthy rise within the Web industry. Among them, the game industry and the e-sports industry have gotten to be the foremost potential unused strengths in the eyes of numerous individuals. For a long time to come, the scale of entertainment around the world has expanded steadily, coming to \$145.7 billion in 2019, and the worldwide diversion advertising-income come to \$159.3 billion in 2020, an increment of 9.33% year-on-year [1]. The number of game players around the world will too proceed to develop, with Newzoo anticipating that by 2023, the number of worldwide game players will surpass 3 billion [2]. Since the development of E-Sports, it has significantly changed people's living environment and living conditions, and it has not as it was gotten to be an industry, but too created into the craftsmanship. It has gradually entered into people's lives and gotten to be a crucial portion of people's lives.

Tencent Games, founded in Hong Kong in 2003, is the largest online entertainment community in China and is the world's organization that promotes the development and operation of entertainment. Tencent has ended up a veritable pioneer in Chinese gaming history this year. In the past, Tencent Games used to introduce other games as a platform and become an agent in its mainland market, to make a profit, but in recent years, Tencent has strengthened its game research and development ability, leading Tencent to a higher level in the domestic market. However, In the international market, Tencent's influence cannot keep up with the development of the world network. Tencent needs to expand the international market through a large number of mergers and acquisitions.

When it comes to Tencent Games' procurement of Riot Games, it is fundamental to specify the backbone of Riot Company - League of Legends. In 2009, a Multiplayer Online Battle Arena diversion, League of Legends, stood out from numerous diversions by taking a well-known, people-friendly fashion, and got to be the most sultry amusement in the world [3]. Two months after the game's dispatch, it come to its beginning with a

breakthrough: 100,000 players were online at the same time [3]. From the professional arena to people's daily life, it is gradually integrated into people's lives, which makes the Riot company a household name.

The development of Riot Company has not been smooth cruising. At that time, Revolt had fair been established, and it experienced numerous challenges in terms of the adaptability of the stage, conjointly experienced money-related troubles in creating the forerunner of The League of Legends. Within the ensuing advancement, the primary amusement of The Riot games was a victory, and it rapidly created into a marvel that cleared the world, but in arrange to meet the developing needs of players, the Clench hand Diversion too required to develop quickly. Riot games quickly created a miracle and won the favor of the world, but to meet the development needs of players, it also needs to develop rapidly. For its part, Tencent has established a solid foundation in China, setting its sights on Riot Games prevention companies, allowing League of Legends to escort Tencent and protect it from pressure in the development of new games [3].

"Monetary speculators frequently need to recover their costs in a shorter period. It's way better to work with a shareholder whose long-term objectives are exceedingly adjusted with our own than having different speculators" [4]. said Stamp Merrill, author of Revolt, "and in numerous ways, they (Tencent) are doing exceptionally well in China. We feel like they have a parcel of thoughts that adjust with us" [4].

1.2 Research Gap

Even though there are numerous case considers on the securing of multinational companies, Tencent, as a "rising star" within the excitement industry in later a long time, ponders its effect on the ordinary cases of the procurement of clench hand companies and summarizes the cross-border mergers and acquisitions encounter within the diversion field, which may have indelible guiding importance for cross-border mergers and acquisitions within the diversion field within the future.

Therefore, what is the far-reaching impact on Tencent's diversion after the merger? These have become the key to this study.

1.3 Fill the Gap

Some studies have shown that there is a synergistic effect in M & A regardless of the purpose [5]. Judging from the past experience of M & A, this event may adversely affect Tencent in the short term, but in the long run, it may improve enterprise efficiency, enhance Tencent's market competitiveness, and acquire the core technology of your acquired enterprise, improve the company structure and achieve economies of scale.

Following, In order to verify whether the above hypothesis is true, this paper is going to utilize Weston collaboration hypothesis to analyse how Tencent Recreations can accomplish a win-win circumstance in which one furthermore one is more prominent than two. Besides, after drawing the conclusion, this article will discuss and summarize the impact of acquisition.

2. LITERATURE REVIEW

2.1 Weston Synergy Theory

Synergy Effects alludes to the expanded competitiveness after the merger, coming about in net cash stream surpassing the entirety of the anticipated cash stream of the two companies, or the execution of the combined company is higher than that anticipated when the two companies exist independently [5]. Professor Weston 1950 proposed that what mergers and acquisitions ought to do was to form a cooperative energy break even with the interaction of two or more components so that the combined impact is more prominent than the whole of the person's impacts [6]. Within the 1960s, the American key administration researcher H. Igor Ansoff presented the concept of cooperative energy in the field of endeavor administration, and the hypothesis of Synergy Effects got to be the hypothetical premise and vital premise for undertakings to embrace differentiated strategies [7]. Igor Ansoff in 1965 to begin with to the supervisors of the concept of Synergy Effects procedure, he accepts that Synergy Effects is to distinguish their possess capacity and openings to effectively extend modern business, Synergy Effects strategy can just like the interface of differentiated commerce, by looking for sensible deals, operation, venture, and administration strategy arrangement can viably designate generation variables, commerce units, and environmental conditions, to attain a comparative pay expanding synergies, to form full utilize of the existing focal points, and create modern improvement space [7]. In 1971, the German physicist Hermann Haakken proposed the concept of cooperative energy, 1976 efficiently examined the hypothesis of Synergy Effects and distributed the Presentation to Synergy Effects and other works [7]. Andrew Campbell et al. in 2000 said in the book Key Cooperative energy: "Synergy Effects, for the most part talking, could be a 'free ride'. Synergies happen when assets amassed from one portion of the company can be connected to the rest of the company at the same time and without cost." He too recognizes synergistic impacts and complementary impacts from the perspective of asset frame or resource characteristics, that's, "complementary impact is realized through the utilize of obvious assets, whereas synergistic impact is realized through the utilize of covered up resources" [7]. Tim Handel in 2004 summarized the usage of Campbell and others, indicating that ventures can accomplish cooperative energy through aptitudes sharing,

substantial assets sharing, facilitated procedures, vertical integration, arrangements with providers, and joint forces [7]. In March 2022 Synies proposed by Adam Arone ponders, or potential financial benefits accomplished through corporate mergers, are frequently the driving force behind mergers [7]. Synergies, or potential financial benefits accomplished through corporate mergers, are frequently the driving force behind the merger [7]. The concept of synergies is that the combined esteem and execution of the two companies will be more prominent than the whole of the partitioned parts [5]. If two companies can combine to form higher productivity or scale, at that point the result is some of the time called a collaborative merger. The anticipated synergies accomplished through mergers can be credited to different components, such as expanded income, a combination of ability and innovation, and fetched reduction. In expansion to consolidating with another company, one company can make synergies by combining items or markets, such as when one company cross-sells another company's items to extend revenue. Companies can moreover accomplish synergies between distinctive offices by building intriguing working bunches, in which groups work together to move forward efficiency and advancement capabilities.

2.2 Important Results

Synergy Effects theory, also known as the theory that one plus one is greater than two, the combined respect and enforcement ability of the two companies will be more prominent than the two separate parts as a whole, has been applied in various fields. In the beginning, this theoretical result was mostly used in the fields of chemistry and physics. Mark Latash in 2000 analysis The organization of quick corrections within a two-joint synergy in conditions of unexpected blocking and release of a fast movement [8]. Nelson et al. in 2004 study in the synergy between Cao and Mgo during the catalytic reaction [9]. Shirin and Mark in 2022 researched in Effects of hand muscle function and dominance on intra-muscle synergies [10]. Synergy also plays an important role in the field of economics. Cheol and Richard in 1996 are used to examine the relationship between cross-border acquisitions and shareholder wealth [11]. John and Utpal in 2000 identify and evaluate the impact of synergies on contemporary M & A success [12]. Michael and Andrew in 2000 evaluate the framework of companies that audit with the operation of collaborative management methods [13]. David M. Brock in 2005 shows that the path between national culture and successfully integrated acquisitions follows an indirect process [14]. Ryeowon et al. in 2019 explores and develops the impact of enterprise innovation activities by analyzing the synergies of innovation level and industry category, research products and other factors [15]. Although synergy has a great influence on M&A in economics there is not much research on M & A.

2.3 Summary

Therefore, according to the above, it can clear see that the application of synergy to the field of economics means that after one company merges another company, the performance of both companies is higher than that before the merger. In the past, the research on Synergy Theory is mostly focused on physical chemistry and other scientific fields, but there are few studies on synergy in economic mergers and acquisitions. Moreover, there is little about the relationship between corporate acquisition and motivation of Synergy Theory. Then there is a gap in the study of the interaction between the two sides. The synergy effects such as higher production efficiency and scale achieved by the merger of the two companies proposed by Adam Arone may be the main motivation for most companies to choose mergers and acquisitions. This theory can be directly used in this paper. This paper will consider and expand the Synergy Theory of Adam Arone and make a feasibility study on the motivation of Tencent's acquisition of Riot Games.

3. METHODOLOGY

3.1 Research Design

This paper uses the SWOT analysis method, the so-called swot analysis is based on the situation analysis of internal strengths and weaknesses, external opportunities and threats under competitive conditions.

In previous experience, this model has been applied to analyze project feasibility in various fields. Irene and Antonis in 2022, used the swot method to evaluate existing methods of urban metabolism [16]. Kafferine et al. in 2021, made strategic formulation and systematic decision-making analysis of inclusiveness in the group decision-making environment [17]. These applications combine the internal analysis of the object with the external analysis of the industrial competitive environment, making the analysis process more concise and intuitive, thus drawing more convincing conclusions.

This paper makes an internal analysis of Tencent Games, that is, whether it has a favorable competitive situation, good corporate image, technical strength, economic scale, as well as the existence of equipment aging, management confusion, and other problems. At the same time, it also carries on the external analysis of the demand of the product market, the foreign market and whether the market is tight, whether the competitors are strong, and so on. Therefore, by using swot analysis, the paper will compare Tencent with competitors of other companies that need to acquire Riot Games, analyze Tencent's special advantages, intuitively identify which are obstacles to strategic objectives and which are advantages that Tencent can take advantage of, match these factors with each other, and analyze how Tencent makes correct decisions and plans for M & A. And get

what method Tencent will take over Riot in the future and how to formulate the corresponding development strategy, plan and countermeasures will be more beneficial to both sides.

3.2 Data Collection

Shenzhen Tencent Computer Systems Co., LTD. was founded in November 1998 and listed on the main board of the Hong Kong Stock Exchange in 2004 [18]. Pony Ma is currently chairman of the Board and CHIEF Executive Officer of the company [18]. Tencent's diversified services include social and communication services, Tencent Games, Tencent Video, etc. One of the important modules of Tencent Technology, the Interactive Entertainment Group (IEG), is mainly responsible for the development of online games, e-sports, and other interactive entertainment businesses [18]. Its purpose is to create a vertical ecological chain from planning, research, development, distribution, operation, and marketing [18].

Tencent Games is the world's leading game development and operation organization and the largest online game community in China [19]. Tencent games connect more than 800 million users around the world, and with hundreds of millions of registered game users, Tencent has become a world-renowned game development and service operator [19]. Under the open development model, Tencent games adopt the combination of independent research and development and diversified foreign cooperation [19]. In 2007, it formulated the strategy of subdividing the game market and formed a professional layout in multiple market segments of online games, creating product camps covering various categories [19]. In the process of development, Tencent Games has established in-depth cooperation with the world's top game development companies, committed to bringing the world's high-quality cutting-edge product experience to China, and Chinese games to the world. For all of 2019, Tencent's online game revenue rose to 114.7 billion yuan [19]. Among them, online game revenue in the fourth quarter was 30.286 billion yuan, and overseas game revenue more than doubled year-on-year, accounting for 23% of online game revenue [19]. Tencent is truly the leader in Chinese gaming history this year.

In reality, as early as 2008, when lol was still creating, Tencent got to be a shareholder of the Riot company with 22.34% of the offers [20]. In 2011, Tencent procured a 93% stake in Revolt Recreations for \$400 million. In 2015, Tencent completed a 100% stake in Clench hand Diversion [20].

3.3 SWOT Analysis

3.3.1 Strength

After the acquisition of Riot, Tencent did not take back its decision-making power, only focused on advertising and promotion of the game, and did not interfere with the parts related to the game. This not only does not damage the golden signboard of LOL but also leaves valuable resources, technology, and all intangible assets in Tencent without having to worry about the dividends of other shareholders.

3.3.2 Weakness

In the Internet industry all over the world, Tencent's scolding is not small, and many people do not like the service Tencent brings to them [20]. Chinese mainland players lack a certain basic understanding of Internet game companies, some people do not want to know that although the M&A, but Riot is still independent operation, once there are some changes in LOL, some people will scold Tencent for tampering with the game. In the short term, the turnover of Tencent after M & A has declined rather than increased. Long-term development is inseparable from the support of capital, LOL after the acquisition of the development and expansion, innovation promotion need a lot of financial support.

3.3.3 Opportunities

For a large company like Tencent, the acquisition of LOL is to contact the market from a global strategic perspective and maintain the competitiveness of the enterprise. Tencent's acquisition of Riot undoubtedly makes Riot see the world on the shoulders of giants. As people in the famous industry said, LOL has basically done what games did not do, not only driving the development of the e-sports industry, but also becoming a huge label of the times. Many products and derivative content on its platform helped Tencent achieve performance growth in subsequent years. In the international market, there is a strong degree of attention to IP, intellectual property rights. As long as you live IP, you can have a say. For Tencent, getting LOL represents a gold IP, which effectively improves the image recognition of overseas products.

3.3.4 Threatness

With the slowdown of China's population growth in recent years, the proportion of Tencent Games' largest customer base has gradually decreased, showing the online growth of the industry as a whole. And in the process of cross-border mergers and acquisitions, the cultural and social relations of the two countries are very different, which requires a lot of time to run-in and mutual recognition.

4. RESULT AND DISCUSSION

4.1 Result

Through the analysis, the following conclusions can be drawn. Based on the above aspects and the importance of intellectual property rights in foreign markets, Tencent acquired LOL as a gold IP through the acquisition of Riot, which effectively improved the image and identification of overseas products, and promoted and promoted the development of other products under its.

This M & A can be summarized to seek complementary advantages with the competition of the discourse right of intellectual property, the pursuit of economies of scale, the expansion of overseas markets, and the combination of power.

On the one hand, Tencent's acquisition Riot ensures domestic operation capacity, and product updates can ensure the continued attractiveness of LOL, enhance player experience, and further expand the domestic market. On the other hand, it solves the problem that Tencent is unable to adapt to the international market.

As a result, they have more strength to compete with competitors, such as large international companies. If Tencent maintains the independent operation of Riot, it will promote the smooth operation of "League of Legends" and ensure the optimization and operation of "League of Legends". "League of Legends" is the product of win-win cooperation between Tencent and fist. Tencent is a "cash cow" tool. Both Tencent and fist are booming today [21].

4.2 Discussion

First of all, the experience attach importance to mergers and acquisitions, attach importance to market effects, and find their own shortcomings, just as Tencent's weakness at that time was the overseas market, quickly entering each other's market through mergers and acquisitions to achieve synergy while expanding the market. Rely on your own strength to seize the market opportunity.

Secondly, Tencent fully realized that the object of choice could be organically combined with itself, and choosing League of Legends was in line with Tencent's initial demand, defining its own positioning, understanding its own needs, and studying and evaluating the target company. in order to choose the most suitable M & A object.

Finally, as mergers and acquisitions companies should respect each other, Riot Game's correct decision-making method has been fully supported and inherited by Tencent. Riot has chosen to adopt a popular and people-friendly style, which is also the most suitable mode of operation for the development of the company after

repeated mistakes. Tencent, like Bole Shima, gave sufficient financial support in the early stage of League of Legends's development, and still maintained the independent operation of Riot after the acquisition. Let League of Legends's optimization and operation be guaranteed, thus forming a win-win situation.

5. CONCLUSION

Under the background of the rapid development of the Internet industry, this article takes Tencent Games' acquisition of Riot as an example to study Tencent Games' M & A and explore the impact of Tencent's acquisition of Riot. Through the arrangement of Weston Synergy Theory in international M & A and SWOT analysis of Tencent Games, the following conclusions are drawn: although this M & A is recognized by the market in the short term, it is recognized in the long run. It enhances the brand value of LOL games and brings great help to Tencent to stand firm in domestic and foreign markets.

Through the analysis of the impact of this M & A on Tencent Games, this paper believes that this M & A has important practical significance.

In the era of the explosive growth of Internet-scale and in-depth exchanges between countries, cross-border mergers and acquisitions emerge one after another. Tencent boldly tried to acquire Riot, which was inconspicuous at that time, testing the waters for Chinese mergers and acquisitions, and had a guiding impact on cross-border mergers and acquisitions since then.

However, through research, there are also some limitations in this field. Tencent is mostly facing the Chinese market, and there are relevant national systems and policy support at the time of the transaction. It is necessary to investigate and verify whether there are typical examples of mergers and acquisitions of other international game companies and whether they can lead the international game and e-sports industry out of the fog.

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