



The Impact of Microsoft's Acquisition of Activision Blizzard

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ABSTRACT

As people's incomes and technology improve, online games and metaverse concepts have become more mainstream and accepted. The purpose of this study was to analyze the impact of Microsoft's acquisition of Activision Blizzard on Microsoft itself and discuss the changes it will bring to society. This paper used the horizontal merger theory to discuss whether the merger will bring improvement to the Game Department of Microsoft. The SWOT analysis model was selected to qualitatively analyze the influence. According to the conclusion, the benefits of the acquisition were clear—taking over Activision Blizzard's game production process and expanding into more markets on top of it, while the potential threat was based on Microsoft's management capabilities and the feasibility of the metaverse concept. Therefore, Microsoft's acquisition of Activision Blizzard will be a very valuable acquisition case analysis. To summarize the acquisition mentality of large companies, this discussion process will help to learn the company's business decisions.

Keywords: Microsoft, Activision Blizzard, Horizontal Merger Theory, SWOT Model, Metaverse

1. INTRODUCTION

1.1 Background

In recent decades, with the rapid development of the global economy, the dissemination and popularization of information technology and the internet are also increasing. Such as the coverage of 5G technology, as well as AR and VR technology releases. There is also a growing demand for virtual entertainment. Video games being one of the biggest expanding markets. According to the statistics published by DataReporal, the number of internet users increased by 7.7% in 2021 compared to 2020. Moreover, they increased by 4% to 4,950 million in January 2022 compared to January 2021, when the users totaled 4,758 million [1]. Competition in the gaming market is highly fragmented. The number of mobile game players has been growing for years due to the convenience and coverage of mobile games, and technologies like cloud gaming increased the download rate of mobile games [1]. The Asia-pacific region has a large market share in this field, and they seem to pay much attention to this market. [1]. Not only do demographic reasons contribute to this phenomenon, but culture also plays a big part as well. Such changes have made games a big part of people's lives.

On January 18, 2022, Activision Microsoft announced its acquisition of Activision Blizzard for 68.7 billion U.S. dollars [2]. This acquisition seems to have been both unexpected and predicted in most people's minds. Before exploring the impact of the acquisition, the background of the two companies in the acquisition case shall be introduced first.

Microsoft Corporation (Nasdaq: MSFT) is the world's largest software maker. Its best-known products include the Microsoft Windows operating system, Microsoft Office Suite, and hardware including the Xbox gaming series of video game consoles. They are the pioneer in Internet technology. But when compared to other console sellers, Sony and Nintendo have more market share than Microsoft. Even when compared in total game revenue, Tencent, SONY, and Nintendo also rank ahead of him.

Xbox Game Pass (XGP) is an important game business strategy for Microsoft. It is a platform that provides membership service to its customers, similar to Netflix. The emergence of this system forms different from the previous game purchase system. While most of Microsoft's gaming business is focused on the Xbox console, the company itself has little presence in the mobile gaming market [3].

Activision Blizzard, Inc. (Nasdaq: ATVI) has a different nature from Microsoft. Its main business is making and distributing games. The company can be divided into three parts: Activision is responsible for developing and publishing the games produced by its affiliated companies. Blizzard Entertainment is responsible for developing and publishing Blizzard's games, which also provides e-sports activities. King Studio is mainly focused on the increasingly expanding mobile game market. During the past few years, Activision Blizzard has become one of the world's leading gaming companies, as portrayed in Table 1 [4].

Table 1. Top 10 Public Companies by game revenues in Q4 2021

	Company	Revenues
1.	Tencent	\$7,964M
2.	Sony	\$4,823M
3.	Apple	\$4,421M
4.	Microsoft	\$3,998M
5.	Google	\$2,969M
6.	NetEase	\$2,738M
7.	Activision Blizzard	\$1,905M
8.	Nintendo	\$2,785M
9.	Electronic Arts	\$1,789M
10.	Take-Two Interactive	\$903M

Among many years of success, 2016 was Activision Blizzard's peak year. The games they published were well known around the world like *World of Warcraft*, the most popular massive multiplayer online game (MMO); and its fast-paced strategy card game, *Hearthstone: Heroes of Warcraft*. The publication of *Overwatch* in 2016 reinforced people's confidence in the quality of Blizzard games [5].

Since then, however, Activision Blizzard has seen a steady decline in player reviews. No new games were produced for several years. Technically, *Overwatch* is Activision Blizzard's most recent release [4]. Most of the releases they've made over the years have been remakes or sequels of old IPs. Activision Blizzard isn't as exciting today as it was a few years ago, and many gamers believe that without the acquisition, Activision Blizzard would have been even more disorganized in the years ahead, which may be one of the reasons Activision Blizzard agreed to the acquisition.

In the acquisition, Microsoft will pay \$95.00 per share for Activision Blizzard in an all-cash deal for \$68.7 billion, including Activision Blizzard's net cash. This acquisition is expected to close in June 2023. After the deal is completed, Microsoft will acquire the iconic

franchises of Activision, Blizzard Entertainment, and King Studios [2].

Much of the previous research on Microsoft has been about the federal government's once-famous antitrust case against Microsoft. David A. Heiner (2012) published a report on the stimulation of the development of the industry in the United States after the implementation of the anti-monopoly law against Microsoft [6]. Daniel A. Crane (2014) discusses the goals of the antitrust policy depending on Robert Bork's conclusion [7].

1.2 The Main Gap

Many scholars have researched the topic of Microsoft's monopoly and the efficiency of the antitrust policy, but few have discussed the positive and negative impact of Microsoft's acquisition, upon Microsoft itself and the society in general on the motivations and reasons for Microsoft's acquisition. Studying this question can help with better understanding the rationale behind Microsoft's various acquisitions and thus its goals, even though they face the risk of being challenged as a monopoly.

1.3 Fill the Research Gap

Therefore, due to the emergence of the Gap, this research plan intends to provide a conceptual framework based on the case of the acquisition between Microsoft Corporation and Activision Blizzard, Inc.; and discuss what advantages and disadvantages will Microsoft's acquisition bring to itself and the society.

2. LITERATURE REVIEW

2.1 Definition and Development

Microsoft's president, Brad Smith, confirmed Call of Duty will not become an Xbox exclusive on the Microsoft blog. He said Microsoft will continue to make Call of Duty (COD) and other popular Activision Blizzard titles available on PlayStation through the term of any existing agreement with Activision. And they have committed to Sony that they will also make COD available on PlayStation beyond the existing agreement and into the future so that Sony fans can continue to enjoy the game they love [8]. Given Activision Blizzard's popularity, Microsoft is likely to let the new group keep using the company's name.

And according to other current information analyses, Microsoft intends to acquire Activision Blizzard horizontally, to strengthen the competitiveness of its game division in the market.

Over the past decade, most of the research in mergers and acquisitions (M&A) pays particular attention to horizontal acquisition. Mergers and acquisitions (M&A)

is a general term that describes the consolidation of companies or assets through various types of financial transactions, including mergers, acquisitions, consolidations, tender offers, purchase of assets, and management acquisitions [9].

The horizontal acquisition is when one company acquires another company in the same industry and works at the same production stage [10]. It's the opposite of vertical acquisition. This theory is often used in business transactions and is one of many acquisition categories. Two key drives of capitalism are competition and growth. Their biggest incentive is to maximize profits.

During the development of business, people differentiate between acquisitions depending on different directions. A company's supply chain is roughly divided into eight parts: planning, information, sourcing raw materials, inventory, manufacturing, location, transportation, and returns. The supply chain moves from left to right, from closer to the raw materials industry to closer to the customer. Therefore, according to the acquisition of different stages of the company or the original lack of stage, the acquisition is divided into horizontal acquisition vertical acquisition conglomerate acquisition, and market extension acquisition [11].

2.2 Important Results

Professor Laurence Capron analyzed the impact of resource integration and redeployment caused by horizontal acquisitions on the company's long-term performance in 1999 [12]. He concluded both asset divestiture and resource redeployment can contribute to acquisition performance, with, however, a significant risk of damaging acquisition performance when the divested assets and redeployed resources are those of the target [12].

Bertrand and Zitouna in 2008 find the impact of the horizontal acquisition on the target firms [13]. They find that in the long run, horizontal M&A helps to improve the production efficiency of the target firm but does not increase the profit of the target firm, which may indicate that the firm redistributes the efficiency gains in the upstream or downstream production stage. The results of domestic M&A and cross-border M&A are obviously different [13].

Fathollahi et al., predict the possibility of increasing firms' market power through horizontal acquisition. They found in industries with similar products, companies are more likely to make horizontal acquisitions. And higher returns for both acquirers and competitors, but these deals hurt suppliers and customers that depend on them and the risk of facing antitrust challenges [14].

2.3 Summery

According to the above information, the theory of horizontal acquisitions is more used to study economic problems. A horizontal acquisition occurs when two companies are at the same stage of production. Horizontal mergers and acquisitions allow the newly merged entity to have higher productivity and reduce competitors in the market, and similar production stages and expanded scale also reduce the cost of new employee training to help achieve economies of scale [10]. Companies can use these characteristics to gain a higher market share than ever before. This concept applies to the analysis of the Microsoft and Activision Blizzard acquisitions, and a similar effect will occur during their merger.

3. METHOD

3.1 Research Design

This paper will use the SWOT analysis method to predict and analyze the impact of Microsoft's acquisition of Activision Blizzard from four aspects strength, weakness, opportunities, and threats based on the existing information. E.K. Valentin in 2001, used SWOT to further analyze and understand the resource-based concept of the firm in order to learn the enterprise strategy

This method of analysis has been proved feasible by many people in the past and has been used in many social research fields to help them get accurate research results [15]. Ana Bocanegra-Valle used this method to analyze the role of journals as a research tool for the global academic community and the problems faced by the Spanish humanities journals in 2019 [16]. In 2020, Shao and Sun analyzed the coastal sports tourism's long-term development by SWOT and make scientific research judgments [17]. SWOT analysis method includes the internal analysis and external analysis making the result more convincing and referenced.

From an internal perspective, this paper will analyze the possible direct improvement of Microsoft's game department after the acquisition, what new trends their products will bring, and analyze the potential risks to them from the acquisition of Activision Blizzard. From an external perspective, analyze what the acquisition of game companies by Microsoft will bring to society, or what the potential harm to society will be.

3.2 Microsoft Corporation

Microsoft Corporation (Nasdaq: MSFT) in 2021, is ranked 15th among the 500 world's largest companies in the terms of revenue [18]. A review of Microsoft's annual report in recent years shows that its overall revenue and development have shown an upward trend even after the

outbreak of COVID-19 in 2019, while the loss caused by the pandemic is not serious. Even Microsoft has room to help society, investing in more medical technology or using its own digital technology to support industries in response to the crisis [19]. As predicted in the 2020 annual report, the increasing demand as people shifted to work and learn from home benefited the Personal Computing segment, Surface, and Gaming [19,20]. During this ongoing pandemic, customers will live more digitally and pay more attention to virtual entertainment.

COVID-19 worked like a catalyst, it has accelerated social recognition of digital transformation, promoted large-scale technological and social shifts, and brought unprecedented opportunities to the global information industry.

The table compares Microsoft's operating income from games in 2020 to 2019 and 2018 and the total operating income in each year.

Table 2. Microsoft's operating income from games in 2020 to 2019 and 2018 [20]

Year Ended June 30	2020	2019	2018
Gaming	\$ 11,575	11,386	10,353
Total	143,015	125,843	110,360

Table 3. Xbox Revenue Constant Currency Reconciliation [20]

	Percentage change Y/Y (GAAP)	Constant Currency Impact	Percentage Change
Xbox content and service	65%	3%	68%

Microsoft reported revenue of \$38.033 billion in the fourth fiscal quarter of 2020, up 13% from a year earlier. Net profit was \$11.202 billion, down 15 % from a year earlier. And Microsoft's overall gaming revenue rose to \$1.3 billion, with a 64% increase [21]. Xbox's hardware revenue grew 49% year over year [21]. The overall strength of the games business bodes well for the future success of such projects. That may be part of Microsoft's motivation for buying Activision Blizzard.

3.3 SWOT Analysis

3.3.1 Strength

The immediate benefit for Microsoft is that they have access to all of Activision Blizzard's well-known IPs, which will appeal to both the people who already love Activision Blizzard and those who will soon be attracted to these games as the potential consumers.

Judging by past rankings, in terms of console sales, Microsoft's Xbox has struggled to stand out from Sony's PlayStation and Nintendo switch. It looks like the availability of PlayStation 5 and Xbox series consoles is going to improve slowly over 2022. But Nintendo is expected to remain the top-selling console company, and their new Switch OLED will once again boost console sales.

After the acquisition, Microsoft is expected to surpass Sony and Nintendo. This is where XGP's business strategy comes in. Their XGP members can play all the games owned by Microsoft on this platform, they

don't need to buy a whole game. In this way, the cost of playing a game is greatly reduced. Players do not need to worry about whether they will waste their newly bought games because they think they do not like them. Moreover, the cost reduction will attract a group of new customers to enter the market.

And for those game creators, having a well-known game company like Activision Blizzard on the platform with them will reduce the cost of publishing their game. As gamers browse through well-known games, they have the opportunity to find new game creators, helping to drive their popularity and revenue. This also gives creators an incentive to create and release on XGP, as the lower costs drive the quality of new games. In this ideal world, Xbox's array of services would be reinvigorated, and people would gradually shift away from paying a lot of money to play one game at a time to pay for more games on a subscription basis, just as Netflix did when it replaced offline CD rentals.

Microsoft will also gain access to Activision Blizzard's years of experience creating games, which will help Microsoft launch its own games.

3.3.2 Weakness

Activision Blizzard's reputation has been declining over the years and based on player feedback, many gamers who are addicted to Activision Blizzard's games have expressed disappointment that Activision Blizzard has not released quality games in recent years. This could

lead customers to question the quality of future games released by Microsoft and Activision Blizzard.

At the same time, according to Activision Blizzard's game production method, they will invest a lot of money and time to produce one game, but if the game does not meet their expectations, the whole project may be terminated, which is one reason why Activision Blizzard has not produced a game for a long time. Although Microsoft could provide plenty of resources and funds for Activision Blizzard's game productions, many are worried that Microsoft will use that power to interfere with Activision Blizzard's freedom and creativity. This concern rises from Activision Blizzard's history of slow production and long-term projects, and this trait might not meet Microsoft's expectations in terms of output and revenue from new releases.

3.3.3 Opportunities

With the growth of technology, more and more devices can carry a higher quantity and quality of data for games. With the release of VR and AR technologies, the 'virtual world', which is often mentioned in the game circle, has been discussed once again in the past few days.

Before Microsoft announced its acquisition of Activision Blizzard, the term metaverse was once again being reintroduced by Zuckerberg. The curiosity about the term, a lack of information, and the number of companies that have expressed interest in the concept has stirred up a heated discussion among people.

Metaverse means combining aspects of the digital and physical worlds [22]. In this virtual environment, everyone can participate in economic transactions, and the company providing the metaverse platform is merely the platform, not the management role. This is one of the main features of the metaverse, de-neutralization. In this space, people can shop, build houses, and so on, just like reality.

In the news of Microsoft's acquisition of Activision Blizzard, they also made it clear that gaming will be an important part of their metaverse platform.

Microsoft only needs to act as a platform controller, because if they create in this space, people can trade and make money from what they create, naturally, there will be a lot of people willing to create on their platform. At the same time, swapping resources doesn't even cost much. All one needs to do is to copy another's code, and their work would be easily stolen.

Microsoft has plenty of potential to complete the construction of the metaverse. They have a strong capital reserve, streaming media, social services, chip manufacturing capacity, and years of system, software, and hardware production capacity.

Ideally, it would be a huge gain for Microsoft if it could complete the metaverse.

3.3.4 Threats

As people became more aware of the concept, problems with it became apparent. For example, the current technological capabilities are simply not capable of completing the construction of the metaverse, and it will be almost impossible to do so in a few years. Therefore, the debate about the metaverse is that many companies now mention the concept and then tie their projects to it as a kind of propaganda that can't be done.

And how to regulate creators, how to ensure that their work will not be stolen, because all work is a string of code that can be easily copied, or how to ensure that this kind of high-tech project is not directly monopolized by the big companies so that the creators' work is not taken for free by the platform companies.

All of these problems suggest that there will be a lot of regulation and control in this area, and it may not even be possible to implement this project. So the fact that Microsoft is now talking about the metaverse and trying to get people to participate in the creation of the concept is likely to raise a lot of objections as people start to realize that many companies are just trying to make money with concepts that don't work.

Another problem long tied to Microsoft is a monopoly. Over the years, Microsoft has been buying well-known game companies, even Activision Blizzard. The risk for Microsoft is that it will have to guard against federal monopolistic charges.

4. RESULT AND DISCUSSION

4.1 Result

To sum up the whole acquisition, the following conclusions can be drawn. For Microsoft itself, the acquisition of Activision Blizzard has enhanced its competitiveness in the gaming market and boosted XGP's customer base, and the improvement of its gaming sector has helped Microsoft to accumulate the strength to achieve its future goals. From an external point of view, Microsoft's XGP has changed the idea that many people must buy a whole game to play games, reduced the cost of playing games, and expanded the scale of the entire game market. In this respect, the transaction has brought some benefits to companies in the whole industry.

Microsoft will have the gaming power to surpass SONY and Nintendo and will soon have the ability to expand into new markets.

4.2 Discussion

Based on known information, Activision Blizzard has a lot of benefits for Microsoft. With Microsoft's strong economic advantages and years of acquisition experience, Microsoft's acquisition of Activision Blizzard will certainly be a successful acquisition case.

For many gamers, the acquisition of Activision Blizzard is also good news. Activision Blizzard is facing a serious lack of management and production problems. If Microsoft can provide the right conditions for creation, players will again wait for games like *Overwatch* to come out.

5. CONCLUSION

In such an era of rapid development of the Internet and information technology, the Internet industry and VR technology may one day replace a lot of content in people's lives. Big companies like Microsoft will seize the opportunity to create new social trends. This study discussed the reasons and possible results of Microsoft's acquisition of Activision Blizzard. The conclusion is drawn by the theory of horizontal mergers and the SWOT analysis method. There is no doubt that the future development of the game industry and the Internet industry are closely linked. What can be observed in the short term is that Activision Blizzard will provide Microsoft with more competitive value in games, and in the long term, Microsoft will be able to take advantage of the technology foundation they have built to explore newer and larger markets.

However, the way to make Activision Blizzard's production mode more consistent with Microsoft's business model after the merge is also very important. As for the IP exclusivity issue, Microsoft's management scope of Activision Blizzard's game production is confirmed as soon as possible, which is also the concern of many people.

In addition, as previously analyzed, if the metaverse is truly part of Microsoft's development goals, the risks and feasibility of the concept need to be judged based on the development and progress that will take place at the end. How should Microsoft avoid the problem of decentralization in the metaverse, aside from the present situation where vital technology for the project isn't developed yet? The social problems that will result from the lack of management within the metaverse are obvious. Solving these issues may make it more likely for the metaverse to be approved, or even supported by the governments around the world.

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