

# Competition in the Gaming Industry: Blizzard's Strategic Layout, Risks, and Prospect

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**Abstract.** With the growing digital economy and the impact of the Covid-19 pandemic in the past two years, video games have become the mainstream entertainment for general public. Some game companies have chosen acquisitions over the past few years to expand their market share and enhance their competitiveness, but acquisitions come with many risks. This paper analyses the strategic intentions and risks of Microsoft's acquisition of Activision Blizzard, and puts forward forward-looking suggestions based on the concept of metacomplexes. It is believed that the meta-universe is the core of the future of the game industry, and Microsoft's acquisition of Activision Blizzard helps it occupy a strategic commanding height in the meta-universe field, but it needs to pay attention to antitrust risks and cultural integration problems. To this end, it can be suggested that Microsoft should strengthen cultural management and regulatory responsibility, open platform cooperation, and strengthen meta-cosmic technology research and innovation.

## 1 Introduction

Microsoft and Activision Blizzard are two of the world's well-known technology and entertainment companies that have developed in different fields and their own evolutions.

On January 18<sup>th</sup>, 2022, Microsoft announced that they would acquire Activision Blizzard for \$95 per share in all-cash, a 45% premium over Activision Blizzard's closing price on the 14<sup>th</sup>, and a transaction value of \$68.7 billion including Activision Blizzard's net cash [1]. According to the Reuters, this transaction was the biggest ever in the gaming industry. Microsoft said that after the deal is completed, Microsoft will become the third largest gaming company in the world in terms of revenue, behind Tencent and Sony. The acquisition will accelerate the growth of Microsoft's gaming business across mobile, PC, consoles, and the cloud, and will facilitate Microsoft's building of a meta-universe.

Microsoft's number one rival Sony's share price plunged 13% the following day [2], causing an "industry earthquake". What are Microsoft's intentions with this acquisition and how will it affect Microsoft? This article will explore these questions.

Microsoft Corporation is an international computer technology company in the United States, founded in 1975 by Bill Gates and Paul Allen. Microsoft develops, manufactures, licenses and provides a wide range of computer software services and it is a company headquartered in Redmond, Washington, USA, and is best known for its development of the graphical interface operating system Microsoft Windows and Microsoft Office software in 1985. Microsoft employs more than 50,000 people worldwide and has subsidiaries

in 60 countries and territories [3]. As the world's largest software company, Microsoft has been a leader in new and innovative technologies.

Microsoft has enriched its intangible assets with several acquisitions in recent years, while people in many countries have turned to indoor gaming and entertainment because of the pandemic, which has prevented them from playing outside due to protective procedures. This has led to an increase of 8.8% in revenue for one of Microsoft's core divisions, Xbox gaming, to US\$16.28 billion. Microsoft's net profit for the fiscal year 2021 was a whopping US\$168.088 billion.

Activision Blizzard is an American video game developer, publisher, and distributor, renamed in 2008 after the merger of American video game publisher Activision, Inc. with Vivendi Games, and is currently the largest third-party game developer and publisher in the world. Activision Blizzard, Inc. follows Activision's model, with major game titles such as *the Call of Duty* series and *Guitar Hero* series being developed by Activision, and its subdivisions such as Snowmobile Entertainment and Blizzard Entertainment. The Call of Duty series has sold over 400 million copies since its launch in 2003, with an average annual sale of over 22 million copies, making it the world's best-selling game.

For the quarter ended on 31 December 2021, Activision Blizzard reported net revenues of US\$2.16 billion based on GAAP, compared to US\$2.41 billion in the fourth quarter of 2020.

On January 18, 2022, Microsoft officially announced the acquisition of Activision Blizzard in an all-cash transaction of \$95 per share, with a total price of about \$68.7 billion.

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The merger of Microsoft and Activision Blizzard has been approved in several markets around the world. These countries include the European Union, Ukraine, Saudi Arabia, Brazil, Serbia, Chile, Japan, South Africa, South Korea, and China.

As of now, the merger is currently pending in the United States due to the Federal Trade Commission's pre-emptive lawsuit to block the deal in December 2022. Meanwhile, in the UK, the Competition and Markets Authority (CMA) blocked the deal in April 2023. At present, Microsoft and Activision Blizzard have filed appeals.

The remaining parts of this paper are organized as follows: Part 2 is the motivation and reasons behind the acquisition including 2.1: The Microsoft Aims to increase competitiveness in the gaming field, 2.2: Microsoft aims to build on the wave of the Meta- Universe, 2.3: Activision Blizzard Share Price Slumped and 2.4: The Specific Strategic Implications of This Acquisition

Part 3 is the risk of acquisition which contains 3.1: Operational Management Risk, 3.2: The Risk of Anti-trust Scrutiny and 3.3: Financial Risk.

## 2 Motivation and Reasons Behind the Acquisition

### 2.1 The Microsoft Aims to Increase competitiveness in the Gaming Field

Microsoft is the maker of the Xbox console, while Activision Blizzard owns many of the world's best-known IP titles, including *World of Warcraft*, *Call of Duty*, *StarCraft* and *Diablo*. Microsoft is primarily in the console gaming market through the Xbox console and is in a three-way tie with Sony's PlayStation console and Nintendo's Switch console. All three are involved in gaming software. More recently, however, sales of Microsoft's Xbox hardware have not been ideal, which has led to a drop in revenue from its gaming business. Microsoft recently released financial results for the third quarter of fiscal year 2023, showing a 30 percent decline in Xbox hardware sales and a 4 percent decline in gaming revenue [4]. Revenue from Xbox content and services edged up 3 percent year-over-year. A major factor behind the decline of Microsoft's Xbox hardware has been the lack of high-value first-party games in recent years. One direct manifestation is that in the past two years, Xbox First party has not launched a large 3A game (refers to the high cost, high quality, high volume of single-player games). Separately, Google's announcement last year that it would shut down Stadia, its cloud gaming platform, in January hit industry confidence. The reason is that in addition to the second-payment model of "buy games first, then buy cloud services", another key factor is the lack of high-quality game content. And Activision Blizzard, a game maker with many world-renowned IPs, could certainly make up for Microsoft's lack of game content.

If the deal wins regulatory approval, it will make Microsoft the world's third-largest gaming company by revenue, behind Tencent and Sony. In addition to further

boosting Microsoft's position in the gaming space, the deal is also a good thing for Activision Blizzard.

Activision Blizzard CEO Bobby Kotick said: "We cannot compete in this new gaming world alone. Also, look at companies like Google and Amazon. We realized that we needed a partner to realize our dreams and ambitions [5]."

### 2.2 Microsoft Aims to Build on the Wave of the Meta- Universe

After Facebook was renamed to Meta by Zuckerberg in 2022, the future concept of metaverse is making a wave. Meta-universe, or metaverse, virtual space, etc. is a network of socially connecting 3D virtual worlds. It is a network of 3D virtual worlds focused on social connections. A metaverse is primarily a persistent and decentralized online 3D virtual environment. There is considerable potential for the metaverse in the areas of computer games, business, and education. Among them, the gaming industry is the best place to present the prototype of the metaverse concept.

In terms of application, metaverse is currently limited mainly by the technical limitations of the physical devices and sensors required to interact with real-time virtual environments. Therefore, many technology companies such as Meta, Byte-Dance, Microsoft and others are investing in metaverse technology. If Microsoft wants to hold on to the market, it will have to position itself in advance in the metaverse as a windfall.

Previously, Microsoft CEO Nadella has said that gaming is the most dynamic and exciting area of all platform entertainment today and will play a key role in the development of the metaverse platform [6]. However, Microsoft does not have the ability to publish games on its own and will be more constrained in distributing them.

Activision Blizzard is a world-renowned game production and publishing company. The latest data from *Wisdom Bud* shows that Blizzard and its affiliates have more than 1,100 patent applications in 126 countries around the world, mainly concentrated in the two affiliates of Activision Publishing and King.com. Among them, invention patents account for nearly 90%, and more than 720 invention patents have been authorized, and the patent layout is mainly focused on video games, virtual world, interactive, virtual reality and other related technology fields.

Further concentrated in the meta-universe field, the *Wisdom Bud* data shows that Blizzard now has a total of more than 560 patent applications in the patent reserve, which can be applied to the relevant meta-universe technology field and are invention patents, of which more than 420 have been authorized [7]. It is predictable that Activision Blizzard has been carefully researching fine games for many years, and the acquisition of Blizzard will directly expand Microsoft's shortcomings in product content production, both in terms of competition with Apple, Google and others in platform publishing and distribution, as well as competition with Sony and Nintendo in terms of console games.

At present, FPS games have become a beautiful landscape in esports competitions. With the popularization of 5G technology and the improvement of network speed, FPS games will pay more and more attention to real-time and interactive. At the same time, game manufacturers will also pay more attention to the player experience, through open API interfaces, support for community building and other ways to strengthen the interaction between players. Therefore, the technology of virtual metaverse will be widely used in FPS games in the future. If Microsoft uses Activision Blizzard to enter the metaverse, it will also mean that Activision Blizzard will be more competitive in game development and production. Hence the Microsoft will be able to apply its game distribution technology to a wider range of areas taking its place among the future tech giants in the competition for the metaverse.

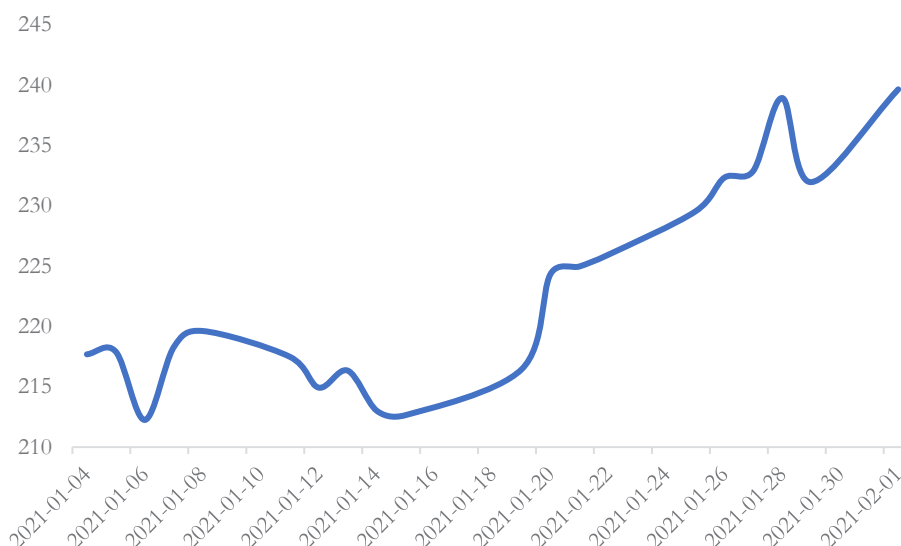
### 2.3 Activision Blizzard Share Price Slumped

In recent years, Activision Blizzard has been plagued by a steady stream of troubles. The New York Times claims that Activision Blizzard's shares have fallen 27 per cent

since the company was sued in July 2021. Activision Blizzard After the California Department of Housing and Employment Security (DFEH) accused Activision Blizzard of serious gender discrimination issues within the company in July 2021, the company has been in turmoil. Many Blizzards senior executives chose to leave the company, among whom were former World of Warcraft senior creative director Alex Afrasiabi, Blizzard Entertainment vice president J. Allen Breck and other core Blizzard Entertainment members, *Diablo 4* game director Luis Baraga and *Overwatch 2* executive producer and Blizzard vice president Chacko Sonny.

The Washington Post reported that at least 200 Activision Blizzard employees were involved in a strike in December 2021.[8] According to sources, no end date has been set for the strike, which is related to layoffs brought on by the previous gender scandal, and the massive strike has caused Activision Blizzard's products to suffer repeated breakdowns and vulnerabilities.

This series of problems has led to a growing fall in Activision Blizzard's share price. While this is the best time for Microsoft CEO Nadella to acquire Activision Blizzard at this low price.



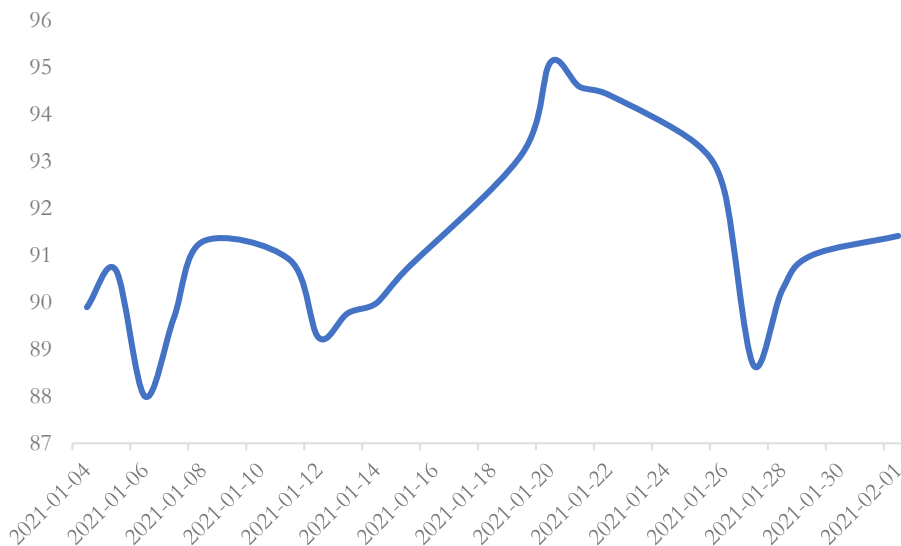
**Figure 1** The closing prices of Microsoft before and after announcement of acquisition

Data source: Investing [9]

Photo credit: Original

Figure 1 shows that Microsoft's closing price after the announcement of the acquisition of Activision

Blizzard increased from around 218 on January 4 to January 18 to 240 on February 1.



**Figure 2** The closing prices of Activision Blizzard before and after announcement of acquisition

Data source: Investing [10]

Photo credit: Original

It can be seen from figure 2 that, that Blizzard's closing price rose from around 65 from January 3 to January 17 after the acquisition was announced to 80 on January 31, with a large increase on January 18 in particular.

## 2.4 The Specific Strategic Implications of this Acquisition

From a long-term perspective, gaining the support of internal employees has been a long-term ploy for Microsoft. As one of the most famous game manufacturers in Europe and the United States, in addition to the household name of Deadly Games Activision Blizzard has actively expanded from console, PC to mobile phones and other areas in recent years. 2019/2020/2021 Q3 quarter the company achieved a total revenue of US\$6.49, 8.09, 6.64 billion and achieved a net profit of US\$1.78/25.0/24.1 billion [11].

In the gaming industry, Microsoft's acquisition of Blizzard will not only bring huge profits to the two companies, but also have a profound impact on the entire gaming industry. First, from a revenue perspective, the acquisition is very profitable for both Microsoft and Blizzard. Blizzard's game IP has many loyal fans around the world, and these fans have a passion and belief in Blizzard's products, which makes Blizzard an important player in the gaming industry. The acquisition of Blizzard gives Microsoft a more complete gaming ecosystem and makes its position in the gaming industry more stable. Secondly, from Blizzard's point of view, they have attracted more players through the support and promotion of Microsoft's platform. Following the acquisition, Blizzard's game products began to be better supported and optimized for Windows, allowing more players to try Blizzard games through Microsoft. Meanwhile, Blizzard's games have received greater exposure on Windows and Xbox, which has allowed

Blizzard's player base to continue to grow. Finally, from Microsoft's point of view, they are using Blizzard's player base to expand their presence in the gaming industry. Microsoft's Xbox platform has been a leader in the gaming industry, and by acquiring Blizzard, Microsoft is also bringing Blizzard's player base and gaming products into its own ecosystem, making Microsoft's leadership position in the gaming industry more solid and broad.

Overall, Microsoft's acquisition of Blizzard is a win-win deal that allows both parties to reap huge benefits in the gaming industry. At the same time, the acquisition has had a profound impact on the entire gaming industry, bringing a more complete and complete structure to the gaming ecosystem.

## 3 The Risks of Acquisition

### 3.1 Operational Management Risk

Management risk is one of the key reasons why Microsoft will not be able to meet its original performance targets after the acquisition. Considering Activision Blizzard's previous management, this risk is of particular importance in this merger. The share price of Activision Blizzard fell as a result of workplace scandals such as CEO Bobby Kotick's sexual harassment of female employees and pay discrimination, which was exposed in 2019 and was publicly prosecuted by the relevant California authorities in 2017. The series of incidents seriously damaged the brand image and directly reflected the poor management system of Activision Blizzard. After the acquisition, Blizzard should pay attention to the coordination of the previous company's systems to achieve optimal management thus achieve the desired strategic objectives.

### 3.2 The Risk of Anti-trust Scrutiny

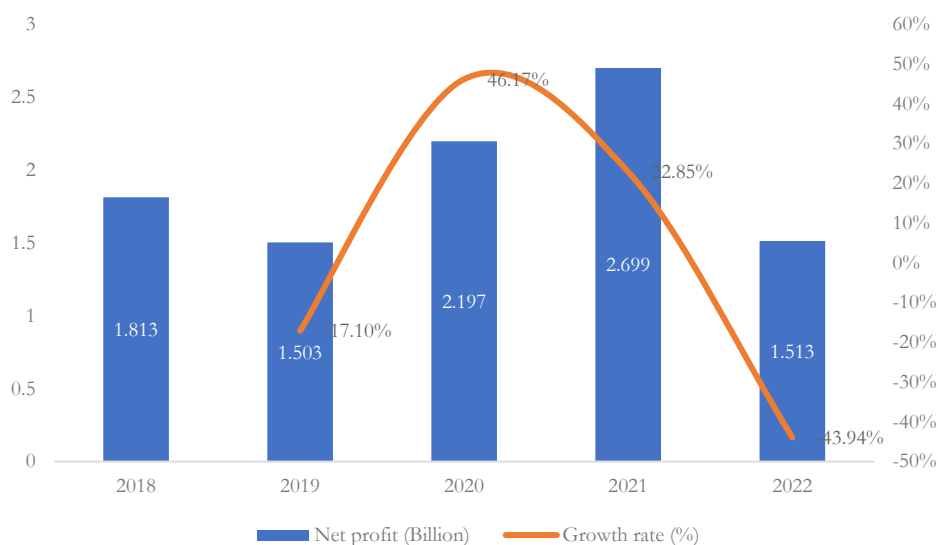
In America, cross-sectional mergers in various businesses are the focus of antitrust scrutiny. However, the relationship between Microsoft and Activision Blizzard is not one of superior and subordinate, but instead there is a lot of crossovers between the two companies. If Microsoft were to acquire Activision Blizzard, the acquisition would give the company an absolute economic advantage in terms of size, which could undermine the fairness of competition between Microsoft and other companies and undermine market dynamics. As a result, antitrust review of the acquisition will be rigorous and lengthy for consumer protection purposes.

On June 15, 2023, Microsoft's planned \$69 billion acquisition of Activision Blizzard, maker of games such as Call of Duty, was hit by a legal challenge from the US Federal Trade Commission (FTC). The FTC argued that the deal would give Microsoft's Xbox console exclusive access to Activision Blizzard's games, unfairly affecting competitors such as Nintendo and Sony. Microsoft and Activision Blizzard objected to the FTC's lawsuit and filed an expedited request with the court. According to their agreement, the deal must be completed by July 18, or Microsoft will have to pay \$3 billion. They argued

that the FTC was moving too slowly to reach a decision within the deadline, and that if the court issued a temporary injunction, it would amount to killing the deal. The federal court in the Northern District of California has scheduled an evidentiary hearing for June 22-23 and has temporarily barred the parties from closing the deal. The hearing, before a different judge, will determine whether to grant the FTC a temporary injunction. Microsoft's acquisition of Activision Blizzard has been approved by the European Union, but the British competition regulator raised objections to the deal in April.

### 3.3 Financial Risk

Microsoft is acquiring Activision Blizzard for \$68.7 billion, which is a figure that implies a valuation risk. As a game developer and publisher, the value of Activision Blizzard lies more in its intangible assets, which are more difficult to define than its tangible assets, especially as most of Activision Blizzard's intangible assets are concentrated in intellectual property and trademarks, which are patented assets with a higher degree of uncertainty about their earning power (please see Figure 3).



**Figure 3** The annual net profits of Activision Blizzard from 2018 to 2022

Data Source: Activision Blizzard [12]

Photo credit: Original

## 4 Conclusion

The gaming industry has experienced tremendous growth in recent years, fueled by increased accessibility and affordability of gaming devices, as well as the rise of mobile gaming. In addition, the gaming industry has evolved to include new forms of gaming technology such as virtual reality and augmented reality, which have

enabled gamers to immerse themselves in more realistic and immersive experiences.

Microsoft has been a major player in the gaming industry for years, with its Xbox console being one of the most popular gaming platforms. However, the company faces stiff competition from other gaming console manufacturers such as Sony's PlayStation and some PC mobile games. In order to maintain its position as a leading player in the industry, Microsoft has sought

to expand its presence in the gaming space through acquisitions. Microsoft's recent acquisition of Activision Blizzard has garnered much attention in the gaming industry and beyond.

This paper analyzes Microsoft's acquisition of Activision Blizzard, the motivations behind the acquisition, and the risks involved in the acquisition process. The acquisition is motivated by Microsoft's desire to increase its competitiveness in the gaming industry and to expand its presence in the development of the metaverse. The acquisition is also driven by Activision Blizzard's falling share price and the specific strategic implications of the acquisition for Microsoft. The risks involved in the acquisition include operational management risks, antitrust scrutiny, and financial risks. In light of the risks, the paper recommends that Microsoft pay close attention to the coordination of the two companies' systems, engage in rigorous antitrust review, and carefully evaluate the intangible assets and the true value of Activision Blizzard. In conclusion, this paper suggests that Microsoft needs to take a strategic approach to acquisitions, focusing on long-term goals and maximizing value for both parties. This will help ensure that the acquisition of Activision Blizzard is a successful one, with mutual benefits for both companies and their stakeholders.

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