

Analysis of Microsoft's Motivation to Acquire Activision Blizzard

Xiaotian Zhang^{1,a,*}

¹Alliance Manchester Business School, University of Manchester, Booth Street West, Manchester, M15 6PB, United Kingdom

a. xiaotian.zhang-5@student.manchester.ac.uk

*corresponding author

Abstract: The news of Microsoft spending huge amount of money doing acquisition of Activision Blizzard shocked many game players. It was questioned by people. Why did Microsoft choose to acquire Blizzard under the condition that Blizzard seemed going downhill with its management and was struggled with its employee sexual harrasement scandal? Why is Blizzard still worth so much value for Microsoft? What can Blizzard bring to Microsoft and what are the risks? Is the real purpose of such a big action by Microsoft just to expand its gaming business? Is the “metaverse” mentioned in Microsoft's announcement the real mission? This article is going to use the SWOT analysis to fully analyze Blizzard's own strengths and weaknesses, and to discover what kind of opportunities and threats it can bring to Microsoft in the industry it is in, to explore the things behind the game itself, but the key to open the door of the possibility and the success of a new area.

Keywords: Microsoft, Blizzard, SWOT, clouds, Metaverse

1. Introduction

“Gaming is the most dynamic and exciting category in entertainment across all platforms today and will play a key role in the development of metaverse platforms. We’re investing deeply in world-class content, community and the cloud to usher in a new era of gaming.”, as Satya Nadella, the CEO of Microsoft Satya Nadella said [1]. The value of game is not going to be only the game itself, but could be the key to open the new area.

On January 18 2022, the Microsoft Corporation announced to the public about its intent at the acquisition on the Activision Blizzard for 68.7 billion dollars cash [1]. Microsoft Corporation is a multinational technology company in America who has the popular products “Windows”, “Microsoft 365”, “Internet Explorer” and so on. As the largest PC software company all over the world, Microsoft also occupied in the gaming industry [2]. Activision Blizzard was founded in 2008 as a video game holding company holding popular games such as Overwatch, Call of Duty, Candy Crush Saga, with monthly 372 million active users in Quarter 1 2022 [2].

This news has shocked lots of people because this acquisition is a huge amount of money acquiring a giant company in the industry by another giant company. Many international regulators of countries were worrying about this shocking collaboration could impact the market from the competition aspects as these two companies are both extremely popular and both captured a certain degree of the market. Moreover, during the period before this announcement, Activision Blizzard was involved in

sexual harassment and discrimination scandals several times, which seriously affects Blizzard's business and reputation. The annual gaming convention Blizzcon held by Blizzard Entertainment which was originally planned at February 2022 was cancelled [3]. Even though this acquisition looks like a fairly attracting win-win collaboration, but it is also obviously to see the visible pressure Microsoft could face. Therefore, “Why would Microsoft be willing to spend that much to acquire Blizzard under so much pressure?” is an interesting question to be considered. This article is going to analyze this by looking at Blizzard itself and using SWOT analysis to envision the overall environment, to see the potential opportunities within this acquisition.

2. SWOT Analysis

SWOT analysis is a business tool invented by Albert Humphrey to analyze the strengths, weaknesses, opportunities and threats of an organization about its performance competing with the rivals [4].

2.1. Strengths

Activision Microsoft as a giant company in the gaming industry, it has a huge customer base and having a series of attractive successful video games with lots of loyal players. According to the Microsoft to Acquire Activision Blizzard Conference Call in 2022, it shows Blizzard has nearly 400 million monthly active players and around 10,000 talent employees in total [5]. From the financial aspects (Figure 1), Microsoft is at the 4th closely behind Apple, and Activision Blizzard is listed at the 7th position in the ranking list from newzoo about the 10 most revenues gaining in games business public companies ranking in 2021 before the announcement as shown in the Figure 1 [6].

Top 10 Public Companies by Game Revenues

Comparing 2020 and 2021

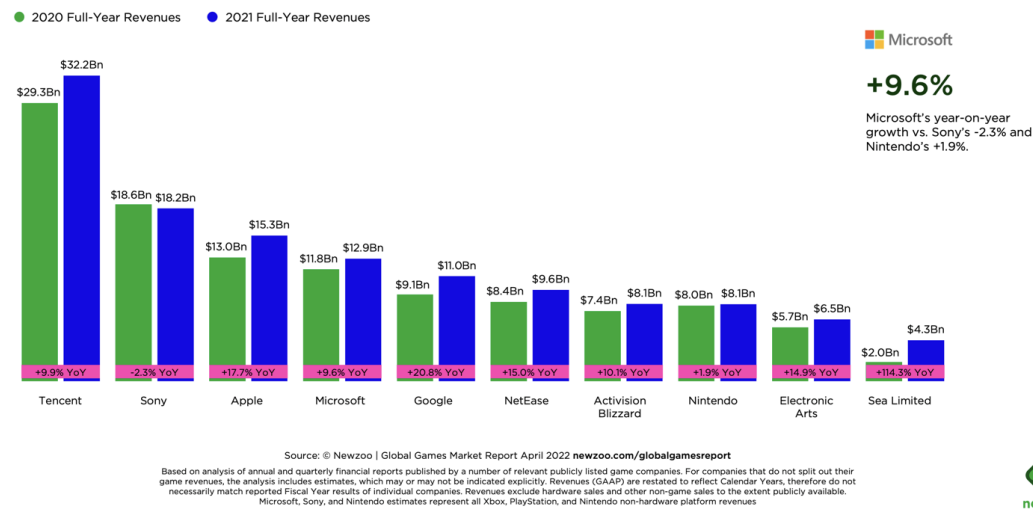


Figure 1: Top 10 Public Companies by Game Revenue [6].

The CEO of Microsoft Phil Spencer has said in the announcement that once the transaction successfully done, Microsoft will be over Tencent and Sony and become the world’s top three largest gaming company [1]. Activision Blizzard's success in the gaming industry is extremely tempting for Microsoft as it has several popular games and are fully-owned IP, especially its Blizzard Entertainment’s games that could be easily recognized by almost every PC gamer, such as the World of Warcraft released in 2004 and got 11 million players globally and Overwatch which won the Game of the Year 2016 awarded from TGA [7]. Activision Blizzard’s success is not limited to the PC games,

but also making a big splash in the mobile game industry. The mobile game Candy Crush Saga that had accumulated a loyal fanbase with 250 million players who at least plays once a month till 2021 by the subsidiary King [8]. Activision Blizzard was also developing these two playing methods together and did it well. The Hearthstone and Call of Duty are incredible examples of the success with combining PC games and Mobile games together. Activision Blizzard is definitely a company who has created brilliance in the video game industry.)

2.2. Weakness

However, it seems that Blizzard was starting to go downhill in some extent. In July 2021, the State of California sued Activision Blizzard due to its pervasive culture of sexual harassment and discrimination.

In the article written by Shannon Liao, it shows that this bad behavior has been lasted for a long time, as many employees shared their tough experience working in Blizzard, such as Cher Scarlett, who was brave to disclose that she was paid with low wages and was harassed during the year she was working there from 2015 to 2016 [9]. The former World of Warcraft quest designer Jennifer Klasing said that, almost every woman she knows at Blizzard has met sexual harassment that is either actual or literal sexual assault, or sexual discrimination that a man undermining and taking credit for the work [9]. The more horrible thing was, the seniors of Blizzard did not pay attention to this and acquiesce to these, thus even creating a “culture”. For example, the lawsuit also includes the allegations at J. Allen Brac, who is the company’s president, that he couldn’t solve any harassment instances he has known about [9].

In addition, some managers are even taking part in these cases. The former Blizzard’s esports group business leader Tyler Rosen was alleged to his sexual assault in 2014 to a female employee [9]. Moreover, in most companies of gaming industry, there is no union to protect employees’ rights. Many victim employees would choose to forgo exposing these facts in order to preserve their careers. Therefore, the managers’ ignorance would improve this bad atmosphere and bring much more hurt. Starting from then, Activision Blizzard has been embroiled in an extremely confusing and ongoing accusation since that time. These unforgivable acts have thrust Blizzard into the limelight and seriously impacted the brand image. Blizzard’s leadership and management was questioned.

2.3. Threat

These impacts also affect Activision Blizzard’s operations in somehow and could be the threat for Blizzard to compete in this continuous growing industry with its competitiveness in the past.

Several games’ developments have been delayed again and again. The game Overwatch 2 was officially announced on the 2019 Blizzcon by the game director Jeff Kaplan and was planning to combine the original PVP (players versus players) mode with the additional PVE (players versus environment) mode into a new game. Blizzard has planned that the Overwatch 1 would not be impacted and could still be operating normally after the new version of Overwatch published. The beta of this new game with the PVP part first was receiving on April 2022, after almost 3 years from the announcement, and was after the announcement of the acquisition. In fact, the real period of development is far from 3 years. According to the review with the USA Today with Geoff Goodman, who is the lead hero designer, it details that the plan of Overwatch 2 development was made in long time ago but was delayed due to many reasons, mainly from the production cost [10]. Developers behind Overwatch 2 were also unhappy and annoyed with this long period. Blizzard also broke the former promise to shut down Overwatch 1’s servers permanently and cancelled the PVE part as planned before announced on PlayOverwatch’s developer livestream.

As mentioned before, the release of Overwatch 2 was launched in the period when Blizzard was facing lawsuits, which may be the reason why Blizzard has been planning Overwatch 2 for a long time but still took three years to produce a "new game" only with little difference as the old version and did not make the PVE mode as promised. Is this a hint that Blizzard did not have enough energy and money to invest in product development? During this period, the game director Jeff Kaplan was leaving Activision Blizzard in April 2021, and the lead designer Geoff Goodman also left before the debuts of Overwatch 2. Does that mean people begun to feel disappointed and mistrustful to this irresponsible company even though the Microsoft would provide support to Blizzard? Activision Blizzard might still need to face to the huge pressure in the future.

2.4. Opportunity

Even though Activision Blizzard itself has a certain degree of competitiveness, but those past issues are still a hidden problem that hinders its progress. Therefore, what is it that makes Microsoft make the decision to acquire it under these conditions that they know it is going to be risky?

This is largely probably due to the opportunities that the game Call of Duty could bring. In the data analysis from Statista about 2022 Best-selling video games in America, the Call of Duty: Modern Warfare 2 was the top one and the original version Call of Duty: Vanguard was on the 12th place [11]. The acquisition means Microsoft is going to take the control of this game, which means Microsoft could make it disappear on Sony's PlayStation platform if they want, and this is what UK CMA (Competition and Markets Authority) is worried about. Microsoft promised that they would not limit COD on other platforms for at least 10 years. It is because, compared to the most important reason, the platform monopoly on COD is not that attractive.

The final reason Microsoft want to do this acquisition, is that they want to develop the Cloud gaming and explore the Metaverse as they said in their formal announcement [1]. These years, companies started to explore a new way for gaming – cloud gaming, instead of playing with consoles, such as the Google stadia, but was shut down. Microsoft has the best chance because they were also working on this by developing the Xbox Cloud Gaming service on Xbox. The Xbox Game Pass subscription allows users to play all the games it has on either PC or consoles. The combination on COD could attract much more players spending that less cost per month to enjoy, and moreover, to support this cloud gaming business. The CEO Satya Nadella of Microsoft has mentioned in the interview about that some games are already metaverses, such as Minecraft, which allows users to create a digital world [12]. Microsoft seems include many things into the definition of "metaverse", such as the cloud gaming, the cloud services, the subscription services and even online meetings. Therefore, the acquisition of Activision Blizzard seems far away from the "metaverse" but is in fact already happening. The metaverse is the huge potential opportunities in the industry. Competitors are also recognizing it and are taking actions. Tencent has acquired the UK gaming company Sumo Group who own more than 60 games in 2022 [13]. Therefore, Microsoft has to catch this opportunity and they have the possibility and chance to change the traditional gaming methods to create the new history with the support from this acquisition.

3. The Information Behind the Acquisition

As mentioned before, the world's top three game companies after this acquisition, would be Tencent, Sony and Microsoft. It is easy to see that all of these three companies are technology giant companies. The current developing technology is highly engaged with the characteristics of gaming, such as the development of AI, VR, AR. These game-related technologies are gradually becoming popular in people's daily lives. For example, intelligent sweeping robots, AI music player, 3D movies, VR movies, etc. All the things about game is not going to be game itself anymore. These technologies

that were originally produced for games are starting to become the main potential development for technology growing. Games provide the opportunities of these. In other words, games are the key to open the door of opportunities.

The competition in gaming industry is not only among game itself, it is being the competition more like among things like technologies, internet and data. As mentioned before, Microsoft defines “metaverse” in a fairly wide definition. Cloud is an important factor in metaverse. The metaverse is driven and developed by a combination of digital technologies [14]. Nowadays, with the development of 5G, AI, Internet and other technologies, people begun to produce more and more huge amount of data, therefore put more attention on public cloud market. The global cloud market is expecting to reach to 927 billion dollars in US by 2027 [2]. The metaverse is an abstract 3D space that requires huge data as a basis to operate based on internet connecting users all around the world. We could say that cloud is the necessary basis for the construction of metaverse. The participation of users from all over the world, the construction of the overall software system, and the dissemination of information constitute such a huge amount of data that traditional hardware data storage is consumable and time-consuming to deal with. The role of the cloud is then cannot be ignored. In other words, the metaverse is interconnected to the cloud, which could be seen as a complementary investment. We could say that the development of cloud is producing the basis to support the development of metaverse.

The real value behind the game is not only about the game itself anymore, it is actually about the opportunity, about something that seems impossible currently but could be caught and success in the future.

4. Possibilities of Failure

There is the potential of failure even though Microsoft acquires Activision Blizzard. It is not always going to be happening successfully. On one hand, is that the competition in the market is fairly intense. Many companies are all starting to prepare for the development of metaverse. Even though Microsoft and Blizzard are both competitive, but there is still possibility of failure to compete with others. On the other hand, there is always uncertainty in the reality. According to the Black Swan event by Nassim Nicholas Taleb, apart from the known unknown, there is also unknown unknown existing [15]. As the known unknowns, there is the possibility that the cloud and metaverse being replaced by other new features or new technologies when Microsoft has already begun its development, the failure of the production, or the potential that rivals firstly done the innovation before Microsoft. The unknown unknowns could be something similar to the COVID-19, any economic recession or something we could not predict would be happened in the future and limit the research and development on the metaverse. All these things are affecting the success. In other words, this acquisition is full of the possibilities of failure. Just as the concept “transparency” by professor Paolo Quattrone indicated in his report in 2022, the transparency of the disclosed “chance to develop the metaverse” this acquisition could bring would make people blind and ignore the things behind [16]. Therefore, it is better for Microsoft to frequently engage pulling all divisions in the company to discuss for preparation and solution of any uncertainty that is coming up.

5. Conclusion

Anyway, Microsoft seems being ready for the acquisition, for the potential changes and the risks it could bring to the future. This acquisition ends Activision Blizzard’s turmoil of the past years and provide resources to rescue and heal itself. However, what it brings to Microsoft Corporation is not only attending new areas or to obtain huge resources on the game, but is the huge potential opportunities it brought by this 68.7 billion dollars. Even though it is not a 100-percentage future, but Microsoft is still willing to pay for this possibility. It is the beginning of development for Microsoft

and the global technology companies, the future of the technology industry. It is the push of change for all humans.

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