

Analysis Microsoft's acquisition of Activision Blizzard based on SWOT

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Abstract. The acquisition between Microsoft and Activision Blizzard shocked the whole world for its huge amount and, mostly, potential huge impact on the development of some influential industries. Thus, further analysis has been done in this passage with latest statistics. An objective description on the prospect of the acquisition is also involved. The results come out as that, for both parts, entrepreneurs' personal willingness has a role to play in the decision-making process of an enterprise's developing strategy. Meanwhile, the attractiveness of the counterpart is even more powerful to influence the attitude of the decision-maker, as it is about what benefits the acquisition can bring to the company. To conclude, after careful balance, the acquisition will accelerate the promotion of the merged enterprise if the joint leader can successfully union the original two separate companies.

Keywords: Acquisition, Microsoft, Activision Blizzard.

1. Introduction

Acquisition always refers to the property right transaction which allows the acquirer to take over the control of the acquiree. It is sometimes financed by paying cash at an offer price in excess of the market price of the shares, but, more frequently for large acquisitions, by the exchange of shares or loan stock, possibly with some cash adjustment, issued by the acquiring company for the shares of the acquired company [1]. It is a widely used form of enterprise capital management for economic reasons which both benefit the acquirer and acquiree. For the acquirer, opportunity cost is often hidden and should be taken into account when making economic decisions [2]. This acquisition enlarges the scale of its original company, which further brings it the effect of economies of scales, because of which the company's cost per unit will decline with the increase in total units. Obviously, the acquirer will earn more profits after the acquisition. Also, with the rising need of raw material from the merged larger enterprise, it will have more leverage during negotiation for a more favorable price. In addition, acquisitions can bring up the market share occupied by acquirers and also their strategic status. With the improvement of productivity and overall capability of the acquirer followed the acquisition, it will gain much more powerful leadership and voice in its target industry. What's more, besides capital, acquirers may have access to advanced technologies, management experiences, expertise and business network and so on through acquisitions, which will enhance their competence in general and further help realize the development strategies. Last but not least, some acquisitions also allow acquirers enter a new industry which may have a more promising future than the old one. From this point of view, acquisitions can ensure companies' future development to some extent, too. For the acquiree, being acquired is not a totally bad thing, as it can improve its own ability and even make its original vision come true with the engagement of power of the acquirer. For some companies, it can also be seen as a way to better the unsatisfying present situation. All in all, a proper acquisition is a win-win deal for both counterparts. Therefore, acquisitions between companies are universal because company leaders always believe that they are in the position to make the right and most beneficial resolutions.

In April 2021, Microsoft acquired Nuance, whose core project was Dragon Anywhere, an engine using deep learning to recognize speech. This decision was seen as the first step for Microsoft to establish its industrial chain in metaverse. The acquisition of Activision Blizzard is the follow-up measure for it to apply metaverse in the consumer market. Even though Microsoft has invested a lot in Xbox, it's still not strong enough as its content mostly relies on the purchased finished products

which was developed by other companies. In the other hand, Activision Blizzard will have a broad world to try out its creative ideas in Microsoft and bring benefits and original games to it and, at the same time, help it form consumption worldview in return. Microsoft hoped to increase its marginal utility, which measures the additional satisfaction obtained from consuming an additional amount of a good [3]. In January 2022, Microsoft proclaimed that they would acquire Activision Blizzard at \$95 per share which adds up to \$68.7 billion. The transaction is expected to finish by 2023, which will then break the record for Microsoft of the highest price of an acquisition and also make Microsoft the third biggest game company only to Tencent and Sony. The deal is also one of the three acquisitions which exceed \$40 billion in the first half of 2022. In July, Microsoft claimed that they had responded to the requirement from Federal Trade Commission (short as FTC), whose aim is to carry out antitrust actions and laws protecting legitimate rights and interests of consumers, of sending the document for the second time to the department. FTC now has thirty days with the right to ask Microsoft to provide more detailed information. Otherwise, they will have to approve the acquisition. As a result, the deal between Microsoft and Activision Blizzard will become reality as early as August.

Risk analysis seems quite important. Many factors should be in consideration, including market risks, technology risks, political risks and the whole economic environment [4]. Experts believe that game industry is the pioneer of metaverse because there are lots of things that the constructor of metaverse can learn from games. The iteration of games contribute to the fast-developing technology, also the improvement of hardware and software. In addition, games promote their technologies and ideas to other industries. The virtual scenes built in games play an important role in metaverse, too. For companies like Microsoft which have a vision to own a integrated game industry chain, there is no doubt that buying Activision Blizzard will benefit them a lot in general. It is also a rational choice for Activision Blizzard as Microsoft will provide them with a broad platform for further development in game industry and more chances to explore the metaverse which is a promising field agreed by almost everyone. For what has been discussed above, this essay is going to analyze the acquisition happened between Microsoft and Activision Blizzard.

2. Data and Method

Microsoft is currently pioneer and the biggest supplier for personal computer software around the world and is also renowned globally for its Office and Windows system. It was originally founded in 1975 by Bill Gates with Paul Gardner Allen after he dropped out from Harvard University. The mission of Microsoft, according to its official website, is to empower every person and every organization on the planet to achieve more, which had shaped its development strategy and all the small decisions made by its leaders. It is also dedicated to human and organizational achievement. Microsoft has a strong sense of social responsibility. It claims that it will be carbon negative by 2030 and also try other ways to make contributions to the process of environment protection. Besides, Microsoft believes that technology is a powerful medium to ensure a sustainable future and make it accessible to everyone that the benefits and opportunities created by technology. The three main departments of Microsoft are Intelligent Cloud, More Personal Computing and Productivity and Business Processes. The proportion of these three departments of the total revenue is nearly equal. The Intelligent Cloud is relatively a bit higher than the other two. According to its annual report of 2021, its total revenue was \$168,1 billion, nearly five times higher than Oracle, the company with the second largest revenue, in the field of Packaged Software with the year on year growth of 17.69%. It can be concluded that Microsoft has already recovered from the downturn of previous years.

Microsoft has understand this field with its deep business investigation, including field development, market sale pattern, the relationship between employee and employer, financial reports, R&D plan, law issues and so on [5]. Activision Blizzard was founded in 1979, close to the founding of Microsoft. It mainly focuses on producing a wide variety of games and equipment players needed, including personal computers, consoles, handhelds and mobile interactive entertainment products. It has four major segments, which are Activision Publishing, Blizzard Entertainment, King Digital

Entertainment and Others and Adjustments. According to its annual report of 2021, the total revenue was \$8.803 billion, in which Activision Publishing accounted for the most and, except Others and Adjustments, the proportion of Blizzard Entertainment was the lowest. Its total revenue in 2021 was only about \$0.1 billion less than the most profitable company, Polaris in the field of Recreational Products. According to the official introduction, the Activision Publishing segment delivers content through both premium and free-to-play offerings and generates revenue from full-game and in-game sales, as well as by licensing software to third-party or related-party companies that distribute Activision products. The Blizzard Entertainment segment is engaged in delivering content through both premium and free-to-play offerings and generates revenue from full-game and in-game sales, subscriptions, and by licensing software to third-party or related-party companies that distribute Blizzard products. The King Digital Entertainment segment is focusing on delivering content through free-to-play offerings and generates revenue from in-game sales and in-game advertising on the mobile platform. Activision Blizzard also has some independent studios, some of which has owned a lot of fans. It claims that its products help build community and create social platforms that bring people together. Its main goal is to make every day more fun with games. It also has some advanced technologies in the production of games.

3. Results and Discussion

The acquisition between Microsoft and Activision Blizzard, whose extremely high purchase price not only shocks the world but also arouses people's desire for having a deeper insight of it, is mainly discussed. Microsoft evaluates its cash flow impact for this deal, especially the additional cash flow generated from this deal [6]. Microsoft didn't hide its ambition in metaverse, the general trend of future, and also in restructuring the game industry with its XGP service. It is not odd for Activision Blizzard to be acquired as it had already done the similar thing for several times. Also, if only from its current disappointing operating conditions and the constantly going down reputation, the company is looking urgently for a new competent leader or company to have a fresh start. Otherwise these downhill performances can all be interpreted as the prelude made by Mike Ybarra to make preparations for the acquisition by Microsoft.

3.1 Reasons for willingness to acquire

3.1.1 Enterprise strategy reform orientation

Founded in 1975, Microsoft was once the leading company in the world out of the Windows system and Office software under the leadership of Bill Gates. At the turn of the century, Microsoft was also at the peak with the highest market value, which had skyrocketed to about \$600 billion, in the whole world at that time. However, with the sudden arrival of Mobile Internet Era, Apple revived while Microsoft only had disabled smart phone business which could hardly survive in the fierce competition. The similar situation happened again in the field of meta calculation dominated by Amazon. It can be said that business of Microsoft was limited in Windows and Office. It also seemed that the leader of Microsoft didn't have the ability and vision to save it from the valley. Thus, its value began to decline gradually but ultimately led to an surprising consequence. At the beginning of 2013, its market value was only about \$300 billion, less than half of the highest.

Satya Nadella became the third CEO of Microsoft in 2014, which is a breaking point for Microsoft. After Nadella taking over the CEO, he was ambitious and confident about that he could reverse the situation, thus he took determined measures for a thorough reform. He highlighted cooperation and openness, both of which laid a solid foundation for the spiritual identity of employees and other deeper changes which would be made in the orientation of enterprise development strategy. Up to then, Nadella opened a new era for Microsoft. It also began to reorganize its technical map. He adjusted the five departments to three, Productivity and Business Services, Intelligent Cloud and More Personal Computing. Nadella has places high values on the Intelligent Cloud department, which focuses on cloud services. It was proved that he was right. The Intelligent Cloud has already become

the business segment with the highest income and fastest growth rate. Also because of the rapid development, the market value of Microsoft was back to the highest level of \$600 billion and continued to rise. Till 2020, it exceeded Apple and became the listed company which had the highest market capitalization. The revival of Microsoft can be seen as the successful application of the second curve theory, which implies that if a company wants to survive in the constantly changing market, it has to start the second curve before the first one reaches its limit point. Microsoft's forecasts are based on the future demands such as the potential demand, market penetration and potential supply [7]. It's also believed that the second curve always has a brighter future, as its exponential growth, than the first one. In spite of the above, Microsoft still has a lot to do to ensure its future development prospects.

3.1.2 Entrepreneurial willingness orientation

Personally for Nadella, he was inspired by Snow Cash, which later gave birth to the concept of metaverse, to enter the technology industry. Besides that, as what many experts and strategists believe, metaverse is part of digital network, the new generation of network different from communication network and information network. But the basis for it is cloud calculation, which has been the most important part of Microsoft since Nadella came to power and also is the greatest contributor to Microsoft's rejuvenation, because calculation based on ordinary computers can't stand the huge amount of codes that construct the metaverse. From this perspective, it's clear that Microsoft has great ambitions in the field of metaverse, which can be briefly understood as a virtual world, and is willing to be the pioneer. Strategies for many other advanced companies are also focusing on the metaverse, which further proves that metaverse has great potential to be the platform where most of the innovation in the future will take place.

3.1.3 Product demand orientation

Beyond the metaverse, Microsoft also has the ambition to restructure the game industry. Microsoft has been keen on game industry for a long time, even though it has already changed three CEOs, but it still seems tough for Xbox which was founded by Microsoft to win the competition with Sony. When Xbox was first released, its sales were only one sixth of Sony. But they didn't give up, so they didn't stop losing the race. If it succeeds in the reconstitution of game industry, it will certainly defeat Sony. Their strategy is to promote XGP, short of Xbox Game Pass, a subscription based service. After buying XGP, users can play all games on the platform. This will significantly reduce the decision-making cost for players. For game companies and also individual developers, this will reduce their development cost and publicity cost, which is terribly high nowadays. What's more, as the only criteria for the entrance of the XGP platform is the quality of the game, players will have access to more high-quality games. For the platform, it will also benefit in the purchasing process. So from this point of view, XGP is a win-win option.

But the development of XGP is not available for all the companies, and Microsoft just meets the requirements. Microsoft now owns not only two important game platforms, PC and Xbox, but also many outstanding first party game studios and lots of household and easy-playing IP in EA Play, also adding the future Activision Blizzard, all of which are enough for Microsoft itself to form an extremely huge and varied game library to attract players to substitute the XGP. Obviously that not many game companies have the similar backing. Furthermore, a macro environment permitting subscription service is also essential. Otherwise, the likelihood is that Tencent Games and Netease Games will also focus their business on this profiting area. But as the majority of games made in China are working in the model of being free to play but charging for some functions, game skins or game equipment, they don't fit the base for game subscription system which is buyout system, the basic consensus agreed by manufactures and players in European and American markets. As a result, it is much easier to implement subscription system in those markets. There is no doubt that if XGP functions well, many consumers are willing to pay for it for its affordability and convenience.

Activision Blizzard is certainly a satisfying object to acquire to enrich the game library as it is an old game company for its goodwill, which may arise from the good reputation of the business or the fact that it is making profits above the average due to some particular advantage of location [8]. It has

not only high-quality and absorbing game products in general, but many loyal fans who are always willing to pay for games produced by it. Many of the most popular games and IP are belong to it which have already covered a lot of game categories. In addition, it owns many great game engineers which establishes a great advantage and assurance for its game quality. It is also younger and more energetic than Microsoft, so it may have a larger audience of young people.

What's more, Microsoft's mission is to empower every person and every organization on the planet to achieve more. This deal will push M to develop in this direction because people will be accessible to more games through XGP and then have greater sense of achievement during exploring their favourite games and playing.

To conclude, Microsoft actively cater to the general trend of the times, metaverse, by preparing necessary techniques to build it which is supported by the game industry to a huge extent. On the other hand, equipped with Activision Blizzard, Microsoft will have a much more attractive game library for its XGP game subscription system, a promising service which may help it restructure the game industry.

3.2 Reasons for willingness to be acquired

3.2.1 Enterprise's own reasons

Activision Blizzard is a combination of three companies, Activision, Blizzard and King. It has become the benchmark for the quality of game industry after accumulating a great number of loyal users. But the quality of games, for who know why, and the moral reputation of the company both declined sharply. The later was because of the endless scandals which further led to marches taken by employees fighting for their legal rights. Thus, many old fans of Activision Blizzard have been really down and doubtful about the prospect of this once prosperous company. But some guesses about what suddenly led it to the downhill path are widely spread across the Internet. Some say that as Mike Ybarra, the current CEO of Activision Blizzard, was once the Vice President of Microsoft, when he became the leader of Activision Blizzard, he tried his best to make the company behave badly and therefore lower its price of stock to make the price favorable for Microsoft. This statement makes sense at some extent. For instance, as soon as Microsoft announced that it would acquire Activision Blizzard, the later became much more active, even the update of Mike's twitter became more frequent. The amount of new game dynamics announced in the recent months has already exceeded the sum of past four years. It even tried to explore new types of games. So it is clear that the acquisition has began to fuel Activision Blizzard to reverse the decline and better itself.

3.2.2 Microsoft's powerful capital flow

In addition, Microsoft, as the biggest software provider in the world, has sufficient funds, which will stimulate further promotion in relatively less competent and developing companies like Activision Blizzard. The time value of capital should be considered when evaluating the profit and loss of the deal [9]. Besides, it has been in a vital position in the market for such a long time out of its advanced technologies and services, which helps it accumulate a good reputation, become an attractive partner and also have a solid and stable foundation of loyal clients. All of those will help Activision Blizzard broaden its user groups, which will also benefit Microsoft in turn.

4. Conclusion

There is obviously some uncertainty, the state in which the number of possible outcomes exceeds the number of actual outcomes and when no probabilities can be attached to each possible outcome [10], during acquisition. Many entirely unsuccessful acquisition has been witness by the whole word. The main reason for their failure is that they failed to merge in each other in order to become a whole but were still two separate companies. Thus the merged company was worth even less than each of them. However, if they succeeded in doing so, they would be more powerful than the simple sum of the two. To overcome the universal difficulty, Microsoft and Activision Blizzard have a long way to

go as they have different corporate cultures, ways of management and views on other core issues. They are both leading companies in their own industries, so the fusion may be much more difficult but valuable. Hope leaders of them can come up with inspirations to make such a promising deal a turning point for the world.

In conclusion, according to the above case analysis including data analysis and classical models, this big deal is suitable for both Microsoft and Activision Blizzard's vision and development strategy. At the same time, how will the senior leadership respond to the challenge of truly merging the two companies is also an essential factor that will shape the result of the acquisition.

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