

The Microsoft/Activision Blizzard Merger

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In January 2022, Microsoft announced its intention to acquire rival gaming company Activision Blizzard for US\$68.7 billion in cash. While the merger is being reviewed for antitrust concerns in a number of countries including the U.S., Great Britain, and the EU, it is expected to pass and would complete in summer 2023 (Spangler, 2022; Warren, 2022). The acquisition would be not only the largest in the video game industry but would also be both Microsoft's largest acquisition and one of the largest in the tech industry to date (Spangler, 2022). There has been a flurry of mergers and acquisitions in the game industry of late—including Sony's purchase of Bungie and Haven Studios as well as the merger between Zynga and Take-Two, both in 2022. However, Microsoft's acquisition of Activision Blizzard warrants closer examination both for its size and for the range of issues it touches upon (Khalid, 2022; Stanton, 2022). In particular, the deal repositions Microsoft, already a giant in the video game industry, to better compete with a new set of rivals in an industry which is radically changing.

Microsoft has been a major player in the games industry since the company leveraged its size—and the dominance of its Windows operating systems—through the release of the first Xbox console in 2001 during the sixth console generation. The company now operates as a hardware manufacturer, software publisher, and game developer, giving it a strong position in all sectors of the mainstream console/PC portion of the industry (Nichols, 2014). However, despite the size and successes of the various Xbox platforms and its games, most notably the Halo franchise, Microsoft has often lagged in comparison to its chief competitors in the industry—Sony and Nintendo—especially in markets outside of the U.S. In fact, the games division, particularly the various Xbox consoles, have frequently operated at a loss (D'Angelo, 2021). Despite those losses, the continued emphasis on the Xbox consoles and the gaming division signaled Microsoft's ambition to move from dominating the workspace to dominating the living room and home entertainment space as well. The merger with Activision Blizzard can be seen as Microsoft's attempt to deliver more internal game development, increased presence in the mobile game space, and a defining presence in the metaverse. Aside from the scope of the merger, Microsoft would become the third largest company in the video game industry in terms of revenue, behind Tencent and Sony (Spangler, 2022).

Activision Blizzard has a longer history in the industry. The companies that merged to form the new entity predate Microsoft's entry into video gaming by more than a decade. Activision was formed in 1979 by former Atari employees frustrated over issues of creators' rights. The company that would become Blizzard Entertainment formed in 1991 as Silicon and Synapse. The name changed to Blizzard Entertainment in 1994. Activision and Blizzard joined in 2008, forming one of the largest game development companies in the industry. Their successes through the mid-2000s hinged on two key franchises: *Warcraft*, particularly *World of Warcraft* (commonly abbreviated to WoW) and *Call of Duty*. The first *Warcraft* game was released in 1994, and since then, the franchise has earned an estimated US\$17 billion in revenue (Planes, 2020). The *Call of Duty* franchise is estimated to have earned more than US\$27 billion between its 2003 introduction and 2020. At the end of that time frame, the franchise boasted more than 100 million active players (Shaw, 2021). But focus on those two franchises ignores the company's prominence in the mobile gaming arena where it is perhaps best known for the *Candy Crush Saga* of games as well as its major online communities. Candy Crush and its spin-offs generated roughly US\$10 billion in revenue in 2021 (Webster, 2022). In its 2020 letter to shareholders, the company boasted that it was creating a path to reach one billion players through its various online services and forums (Activision Blizzard, 2021). By contrast, Microsoft's games division is estimated to have earned US\$13.6 billion in 2022, a number which includes hardware sales, software, subscriptions, advertising, and royalties (Statista, 2022).

The merger has been treated as something of a foregone conclusion, though it still has regulatory hurdles to clear. But Microsoft has bet large, paying a premium for the company: US\$95 per share, a significant increase over Activision Blizzard's recent share prices (Spangler, 2022). Further, if the deal is not approved, the company will owe a US\$30 billion fee to Activision Blizzard (Fox, 2022). This indicates just how confident Microsoft is about the outcome. If the merger happens, it will likely take some of the attention off the various woes of both Microsoft's game division and, more crucially, the corporate culture and under performance of Activision Blizzard. Activision Blizzard has been under fire for a number of workplace conduct issues, particularly sexual misconduct, which were a factor in its shares dropping approximately 30 percent in the year prior to the merger's proposal (Spangler, 2022). In November 2021, *the Wall Street Journal* reported that Activision Blizzard CEO Bobby Kotick had been aware of the sexual misconduct for years (Grind, Fritz and Needleman, 2021). That report led to the company dismissing more than three dozen employees and issuing reprimands to many others. Kotick has stayed in his position, despite calls to have him removed, and is expected to remain CEO through the transition period after the merger completes, though his fate thereafter is less certain (Statt, 2021). Should Kotick be asked to leave, then he stands to earn a considerable amount. In 2020, he earned US\$155 million, which made him the second highest paid CEO in the U.S. Because he owns more than 4 million shares in Activision Blizzard, the most of any other individual shareholder, he is expected to make in excess of US\$380 million from the merger. In addition, he has stock options, as well as options to purchase more shares that would further inflate an already very golden parachute (Morris, 2022; Carpenter and Bloomberg, 2022).

Activision Blizzard's troubles, especially their impact on stock value, was seen as an opportunity for Microsoft to further its gaming endeavors, particularly the moves towards mobile gaming, in-house development, and providing content for its Game Pass service, which was expected to earn US\$4 billion in 2022 (Gilbert, 2022; Webster, 2022). Game Pass revenue is crucial for Microsoft, as gaming revenue has fallen 7 percent year on year, leaving Game Pass as one of its chief earners (Moyse, 2022). Game Pass has grown rapidly, adding 7 million subscribers in 2021,

giving it more than 25 million monthly subscribers (Statt, 2021). Such growth is crucial, particularly given the drop in sales revenue for the most recent iteration of the Xbox. This is concerning because it occurs in the period of a console's life cycle where revenue growth would be the norm. Instead, it has seen a drop of 11 percent in the fiscal year 2022 (Moyses, 2022). After the merger, Microsoft would have approximately 30 internal studios which could focus on development for the platform. The potential for exclusivity has raised regulatory concerns, and it has been suggested that Microsoft may have to agree to require the internal studios to help develop other platforms as a concession for approval (Statt, 2021). Perhaps most significantly, though, the merger is designed specifically to help position Microsoft's place in the metaverse (Fox, 2022). Before that can happen, however, the newly formed company will face some key challenges.

The first challenge stems from the workplace controversies at Activision Blizzard. They have resulted in unionization attempts within the company, something Microsoft will have to reckon with. The Communication Workers of America (CWA) has entered into a labor neutrality agreement with Microsoft over unionization efforts at Activision Blizzard (Chalk, 2022). Like much of the high-tech industry, unionization is relatively weak in the video game sector. Culture issues, particularly the boys' club atmosphere, combined with labor exploitation, such as "crunch time," which has long been a problem in the industry, have advanced union membership (Nichols 2014; Jaffe, 2021). A survey by the Game Developers Conference in 2021 indicated that a majority of them wanted unionization (Favis and Park, 2020). The CWA houses the Game Workers Alliance, an organization formed by Quality Assurance (QA) workers at Raven Software owned by Activision Blizzard (Game Workers Alliance, 2022). Part of the significance of the move towards unionization was that the QA was a common entryway into the games industry. It also covered the less skilled positions, raising the question of whether other, more highly skilled and highly paid portions of the industry would follow suit (Ruggill et al., 2016). The agreement between the CWA and Microsoft was designed to take effect 60 days after the completed merger and would require Microsoft to take a neutral approach to anyone from Activision Blizzard who expressed union interest. Moreover, it would allow employees to speak with each other and with union representatives without interference. Any disagreement between the two groups would require expedited arbitration to resolve the issues (Chalk, 2022). In response to the Raven workers' unionization efforts, Activision Blizzard moved to convert all temporary and contingent QA workers—nearly 1,100 people—to full-time positions. The company set the minimum wage for those new positions at US\$20 per hour (Peters, 2022). Should the union form, it will only be the third in the North American video game industry (Carpenter, 2022).

While it is a bitter irony that a company like Microsoft, which has repeatedly attracted antitrust concerns might sail into such a large and consequential merger, it does seem all but a certainty that it will be approved. Yet, having to deal with one of the first unions in the industry as well as the integration of a troubled culture into its company, it is fair to ask why Microsoft would pursue this merger. The answer is that they want a defining foothold in a changing video game industry in which mobile gaming has become increasingly important amidst the emerging metaverse.

Over the last decade, the video games industry has undergone a shift, with mobile gaming having overtaken sales of traditional console and PC games. Globally, mobile gaming was expected to have earned US\$136 billion in 2022, while sales for PC, console, and handheld games combined were expected to earn US\$86 billion in the same period (Thomas, 2022). The shift to mobile has changed pay models—from direct software purchase and subscriptions to a range of freemium models. Mobile gaming has also upended the typical distribution streams, with digital distribution,

which is still in its infancy, becoming the goal for most companies. Consequently, major players, including Tencent, Apple, and Google, are all leveraging their digital distribution capabilities as a way to enter the video game market (Tang, 2019; Berger and Palmeri, 2018; CE Noticias, 2021). Adding Activision Blizzard's expertise and roster of games helps position Microsoft as a major player in the mobile sector, with the prospect of developing its own distribution network and game store (Warren, 2022).

The acquisition is also significant not just because it positions Microsoft in direct competition with Meta, but because some companies have avoided talking about the metaverse because of its poor definition (Towey, 2022). There have also been concerns about bugs and quality matters within the first metaverse apps, as well as issues of cost and demand (Heath, 2022; Thompson, 2022). Definitions of the metaverse have remained vague in terms of technology. Some place it as an extension of augmented reality technologies, while others position it as an extension of virtual reality and gaming tech—what is clear is that it requires an audience-user base whose interactions will generate monetizable data. Not surprisingly, Microsoft envisions the metaverse as a series of separate metaverses, defined by particular sets of user communities, separated from Meta's control. This would allow Microsoft to leverage the range of audience networks they and Activision Blizzard have built up without the need for immediate integration. For Microsoft, gaming is “the most dynamic and exciting category in entertainment” and, as such, is a central starting point in whatever the metaverse becomes (Microsoft, 2022). But they recognize that beyond gaming, they are investing in fan communities along with the technological capabilities and requirements of the cloud (Spangler, 2022). What is left unsaid is that this also means different metaverses designed for the profit of particular corporate owners. Gaming is not there for fun, but for monetization (Fox, 2022). Moreover, in Microsoft's metaverse vision, content is not king, though it is the draw. Instead, access across devices is the key factor as this will facilitate the transactional nature of the metaverse (Gilbert, 2022).

Whatever the metaverse becomes, and whatever Microsoft's role in it will be, will only become clear after the merger's expected completion in mid-2023. But the questions it raises about unionization in a high-tech industry, the changing nature of the global video game industry, the impacts of digital distribution, and how the metaverse will materialize are all vital political economic questions for which the answer is already being written. While many of those questions are rooted in the longstanding focus on ownership and control, as Nicholas Garnham (2011) has pointed out, they also raise crucial questions about the political economy of information.

Author bio

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