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Why Microsoft decided to buy Activision Blizzard?

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ABSTRACT

The aim of this work is to define the reasons behind the decision of Microsoft to buy Activision Blizzard. This acquisition would create the third biggest company in the gaming industry, therefore it may shape the future of the sector by introducing significant changes. After having set the overview of the gaming industry and analysed using theoretical frameworks what are some of the main competitive advantages of Microsoft, I understood what could be the features that convinced Microsoft to acquire Activision Blizzard. The analysis highlights that there is no single reason behind the decision of this strategic transaction, but they are more, and they are related to market purposes, expansion of the supply chain through the development of new capabilities, and efficiency seeking goals.

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INTRODUCTION

Through this case study, I want to analyse and underline what convinced Microsoft to acquire the American video game company Activision Blizzard, a firm famous all around the world for being the owner of brands such as Call of Duty, Guitar Hero and Candy Crush. In fact, on the 18th of January 2022, Microsoft announced to the public its willingness to buy the American giant video gaming company for a pricing deal of $68.7 billion, which means a sharing price of $95. The Xbox's owner firm, through its gaming CEO, Phil Spencer, said that it plans to finalise the transaction by the 30th of June 2023, but there may be some delays due to controls done by the Federal Trade Commission (Ford, Schreier, 2022).

The aim of this project, therefore, is to explore what were the reasons behind this choice using also a theoretical point of view.

The questions that this research wants to answer are:

1. Why Microsoft decided to buy Activision Blizzard?
2. What are the possible repercussions of this acquisition transaction?

For what concerns the methodology, in particular, I am going to use the transaction cost economics theory developed by Oliver Williamson and the internalisation theory conceived by Alan Rugman to understand what were the logics that convinced Microsoft's managers to integrate an important tier of their supply chain within their group. Because these two companies are very large and it is very difficult to connect with their management teams, I am going to utilize annual reports of the two enterprises and other secondary data as a source of information. Specifically, I am going to utilize companies' reports, financial analysts' articles, industry and market reports, interviews, and Bloomberg data to evaluate the capabilities and resources' features of the two companies, to understand the strategic direction of Microsoft and what may be the possible synergies that could arise. In more details, in order to evaluate the capabilities and resource of Microsoft, I am going to apply the VRIO framework. The entire

project is designed to highlight whether this transaction aims to integrate either vertically or horizontally and what may be the repercussions in terms of external competition in the market and within the organization.

LITERATURE REVIEW

TRANSACTION COST ECONOMICS THEORY

According to Oliver Williamson, the decision between outsourcing and internalizing is not just related to relative capabilities. In the transaction cost economics (TCE) he states that the properties of the transaction influence what is the most efficient governance structure among market, hierarchy, and hybrid solutions such as alliances (Williamson, 1975). The main drivers that lead to difficulties are bounded rationality, opportunism, small numbers bargaining, and lack of information. Bounded rationality refers to the inability of the human mind to assimilate and elaborate on all the possible decisions. For what regards opportunism, instead, it refers to the decisions taken by a human with guile and out of self-interest. Small numbers of bargains concern the degree to which the buyer has an alternative source of supply. Finally, lack of information describes the situation in which there are information asymmetries between the parties.

All these issues lead to an increase in costs when transactions are subjected to asset specificity, uncertainty, and infrequency (Mclvor, 2009). Assets specificity regards the unicity of the transaction. If it is highly specific, it brings high costs that do not have value outside of it. TCE asserts that when asset specificity and uncertainty are not at a high level and transactions take place frequently, they should be managed through markets. In the opposite case, when there is a lot of uncertainty and high specificity of assets that lead to transactional difficulties, the transaction should happen through hierarchical governance. With a medium level of all these features, instead, Williamson says that the best solution is through alliances between the

organizations. According to him, asset specificity is the most critical input because having high specificity, even without high uncertainty or frequency, leads to choosing hierarchical governance since it would be too difficult and expensive to employ the specific assets for a different task (Williamson, 1981).

INTERNALISATION THEORY AND MOTIVES FOR INTERNATIONALIZATION

Firms, in order to make profits, must own some kind of ownership advantage, and they must be able to exploit these assets. It is therefore essential that to gain an advantage over other corporations in terms of costs or diversification, they have the ownership of assets that allow them to stand over competitors. Companies, so, want to internalise their activities when there is a dissemination risk, which leads them to lose their competitive advantage against their competitors. They mostly internalise firm-specific advantages (FSAs). FSAs are unique assets, capabilities, or competencies owned by a firm that determines its competitive advantage. These advantages can be technological, managerial, organisational, about knowledge, or related to the access to resources and to the ability to recombine assets. When there is a risk of externalizing these assets, firms prefer to internalise them. Using the word "internalisation" we refer to the process in which multinational enterprises (MNEs) replace the usage of external markets in proprietary knowledge and semi-processed products with internal managerial coordination (Casson, 2014).

The Internalisation Theory has been developed by Casson and Buckley in 1976, and at the beginning, they only referred to the internalisation of knowledge, then they expanded it to all the other factors, called factor markets, that are goods, labour, and capital markets. It, thus, focuses on imperfections in intermediate markets, distinguishing between knowledge flows that link research and development to production, and flows of components and raw materials from an upstream production facility to a downstream one. This theory argues that an MNE

can overcome external market imperfections governing the production of factor markets listed above by internalizing these externalities (Rugman, 1981). Internalisation theory was developed to explain the growth of MNEs and why there was a spread of foreign direct investments (FDIs). It has been noted that MNEs' activities are focused on highly intensive knowledge industries and industries where the quality of components is difficult to be measured and controlled (Buckley and Casson, 2009). MNEs decide to internalise markets when the benefits perceived by them overcome the costs.

Internalisation theory has been inspired by Coase's works, but he failed to underline clearly in which context his analyses perform (Casson, 2015). Firstly, he emphasised the role of prices in the decision-making, totally ignoring the role of complementarities. By doing that, Coase disregarded the impact of multistage production on theories of vertical integration. Indeed, by aggregating different stages of production, it may be possible to reduce the waste of inputs and generate outputs more efficiently. Another case not analysed by Coase is related to uncertain conditions (Wadeson, 2013). For instance, during a period of shock in the supply chain, a company that incorporates different stages of production can manage better the move of employees within the different tiers, substituting and replacing them where they are needed. So, in a context like the one just described, where imperfection in markets exists and insurance markets are required, internalisation is encouraged (Arrow, 1975).

John Dunning developed a framework that permits to understand the reasons why a company decides to internationalize (Dunning, 1993). These motives are included in four main categories, which are market seeking, resource seeking, efficiency seeking, and finally strategic resource seeking motives. Despite this model has been drawn up to describe why companies desire to become MNEs, it can be even applied to explain why MNEs decide to expand their boundaries along the supply chain.

For what concerns the first category, market seeking, as the words suggest, refers to the demand side, inasmuch as the goal of the company is to target and gain new markets in which selling their offers. The resource seeking companies are those investing in order to find new materials at a lower cost or in another country (Dunning, 1993). Looking for cheaper labour or material is an important driver for companies to maximise profits and minimize expenses. A third focus is given to efficiency purposes. By investing abroad or along the supply chain MNEs can benefit from economies of scale and scope or from diversification. They also can gain advantages from differences in factor endowments, cultures or institutional advantages (Dunning, 1993). Finally, strategic resource seeking investments are done to deal with technology and other core competencies of the firm (Dunning, 1993). By doing that, MNEs aim to perform better in the long term, for example by acquiring patents or knowledge that cannot be replicated easily by competitors.

VERTICAL AND HORIZONTAL INTEGRATION

Companies in their growth strategy can decide to internalize even other skills and capabilities or to reduce competition by expanding their boundaries in the supply chain. There are two main types of integration, and they are vertical and horizontal integration.

Horizontal integration, by definition, occurs when a firm acquires or merged its activities together with another company in the same line of business. It tries to reduce competition between firms because, by reducing the firms operating in the market, the acquiring firm can boost its market shares going toward a monopoly in the market or oligopoly. This tactic is used by firms both to gain economies of scale due to enhancing the quantity produced and expanding their sizes (Crystal Ball, 2022). Horizontal integration is most attractive when a rival company has important expertise already achieved, when economies of scale are applicable, and finally when the industry is growing, even in foreign countries.

On the other hand, vertical integration refers to entering activities performed by own clients or suppliers (Whittington, Regnèr, Angwin, Johnson, and Scholes, 2020). Depending on the direction, it is described either as backward integration, when the movement is toward input activities of suppliers, or forward integration when the movement is toward output activities of customers. Vertical integration often is deemed attractive by managers because it seems to capture profits generated along the supply chain by suppliers and/or clients. Despite that, there are two main drawbacks. First of all, spreading activities in other tiers of the chain requires relevant financial investments, even when those activities are less profitable than the original core business, becoming unattractive to shareholders (Whittington, Regnèr, Angwin, Johnson, Scholes, 2020). Then, expanding corporate boundaries, in addition to financial resources, also needs the capability to develop and understand new capabilities, skills, and resources that cannot be learnt immediately, resulting in initial decreasing efficiency. Therefore, when integrating vertically does not add value to the overall business value is better to leave those operations to those who are able to manage them more efficiently, replacing integration with outsourcing. Suppliers may exploit economies of scale and better technologies or employees' capabilities, leading to lower costs of production. Emphasizing the importance of capabilities, researchers have argued that firms internalize activities that they perform with greater capability than external providers (Jacobides and Winter 2005).

RESOURCE-BASED VIEW & VRIO FRAMEWORK

To decide whether an FSA can represent a source of competitive advantage it must be analysed through a resource-based view (RBV). After having understood that, managers can choose and develop the best strategy to create value. Within a company, obviously, not all the resources and capabilities have the same importance in the creation of a value chain proposition and, in order to recognize what resource can generate more competitive advantage and improve the

efficiency and/or effectiveness, the VRIO framework has been designed. First of all, it is important to determine what a sustainable competitive advantage is. A sustainable competitive advantage occurs when a value creation strategy is not and cannot be replicated by any existing or potential competitor but only by the company itself (Collinson, Narula, Rugman, 2020). The VRIO framework is a model that helps to investigate and analyse the source that permits a firm to gain and maintain an advantage over its competitors. By definition, VRIO stands for valuable (V), rare (R), imperfectly imitable or inimitable (I), and correctly organised (O) resource. In order to be valuable, a resource must add value to the organization, enabling it to leverage opportunities and/or overcome threats boosting efficiency and effectiveness. It is important to underline that the value of a resource is also linked to the surrounding environment, thus, if the external conditions change, the value of the resource may mutate as well.

For what regards the rarity of a capability, it is related to the ownership of the specific asset by other competitors, to how many other firms possess that resource or capability. To develop a sustainable competitive advantage, it is essential that there are no other companies that have the same resource, or that they exploit it in a completely different way, otherwise it will not provide a sustainable advantage for any of them. In real life, though, it is very difficult to determine whether a corporate's asset is unique or much better than the version of a competitor (Narula, 2012).

Referring, instead, to the concept of imitability, it is linked to the puzzle of whether a third firm can acquire a valuable and rare resource or capabilities without facing a cost disadvantage for obtaining it (Barney, 1995). Indeed, just the first two features do not represent the source of a sustainable competitive advantage, but only a first mover one, because the competitors can acquire or build that asset easily without occurring into difficulties. There are four main aspects that make a resource difficult to be imitated: 1) intellectual property protection; 2) the resource is socially complex, such as the reputation of the company itself; 3) the historical conditions;

and 4) when the link between the advantage and the capability is not easy to be caught, for example through a high amount of daily little decisions.

Finally, the "O" part of the VRIO framework, the organisation one, helps to answer the question "Is a firm organised to exploit the full competitive potential of its resources and capabilities?" (Barney, 1995). To develop a sustainable advantage by having just a valuable, rare and inimitable resource or capability, indeed it is not enough. It is crucial that enterprise managers organize that resource properly, in a way that permits them to exploit the benefits generated by it.

MARKET OVERVIEW

Within the technological industry, the gaming sector is one of the most important and innovative driven. In the beginning, during the '70s and '80s, nobody could imagine that what was Pac Man would have become a cultural phenomenon spread all around the globe. One cannot overstate how important it is to culture, social networking, and entertainment. The gaming market is worth more than the other two markets of the entertainment industry, the music and movie ones, added together. Indeed, in 2021, the industry of video games was worth $198,4 billion and it is forecasted to grow with a CAGR of 8.94% per year over the next 5 years, until 2027, reaching a value of $339,95 billion (Mordor Intelligence, 2021). Due to the Covid-19 pandemic and its consequent lockdowns forced by national governments, many people started to play video games, resulting in a significant increase in revenue for gaming firms and players all around the world. In addition to that, incessant technological improvements are spurring the industry by offering even better solutions to players and boosting their overall experience, pushing the limits of entertainment and technology on a daily basis. Videogaming is not just a personal entertainment anymore, it is considered as a proper sport. We have the chance to see some of the top gamers in the world play in the e-sports arena and online through streaming services like Twitch or YouTube. All sports, whether they are

played in volleyball, basketball, or soccer, have a lot in common, including devoted followers, sold-out arenas, interesting commentators, and elite athletes. E-sports are similar to traditional sports in this regard. E-sports athletes are essentially the Michael Jordan of their field; however, rather than dunk on rivals on a basketball floor, they outsmart, outplay, and outthink them in virtual arenas using a joystick. While millions more watch online around the world, thousands of shouting fans fill the arena to support their teams as they stand on stage clicking away for a shot at a championship. Over 70 million people are expected to watch an e-sports championship by the year 2020. More people watched them than watched the NBA finals, NHL Stanley Cup finals, or World Series combined (Syracuse University, 2019).

Nowadays, users can decide to play through three main platforms, and they are consoles, computers, and mobile. These different solutions, thanks to the expansions of internet connections that today, count 5.03 billion people which means 63.1 per cent of the world population (Datareportal, 2021), permit to reach 2.5 billion gamers worldwide. For practically every person, there is a game and a means to play, making the gaming industry one of the most adored in the world.

The first and most well-known type of digital gaming is console gaming. Nintendo and Sega controlled the console market in the beginning. The two most popular consoles today are Xbox and Playstation, giving millions of gamers access to the newest gaming technologies and high performances, and then Nintendo which gives experiences more related to portable console devices.

In 2021, with more than 1.77 billion individuals utilizing computers as their preferred gaming platform, gaming PC usage has skyrocketed (DFC Intelligence, 2021). The focus of gaming PCs is efficiency. Gaming PCs contain exclusive GPUs, RAM, and cooling systems that make it easier to run games effectively in real-time. Streamers who want a stable system to manage gaming at a high level and live streaming their gameplay at the same time will find it simpler

to play graphically demanding games on these bulked-up machines, which can even handle more demanding games. Gaming has become one of the most well-liked kinds of entertainment in the world today because of titles like Fortnite and Minecraft. When it comes to gaming, quantum computing is a field to watch. Quantum computing, which is still in its infancy, has the potential to dramatically alter the game industry as we know it. Quantum computers are able to provide the most stunning visuals in real time because of their unfathomable power and information storage. Quantum computers can also affect the predictability of games. Who would want to participate in a game when they could predict the outcome? The enormous amount of algorithms that a quantum computer can store may really make games unexpected and individual for every player.

Finally, the most growing gaming market is the mobile one. Mobile Games are defined as gaming applications for smart devices such as smartphones and tablets. Leading app stores like Google's Play Store and Apple's App Store offer paid app downloads and freemium games (Statista, 2022). The revenues related to the mobile market are forecasted to reach $164 billion by the end of 2022, representing the biggest share of the entire gaming industry. Mobile gaming enables us to play anywhere and at any time without having to put on a headset or insert a disc into a console.

The industry is characterized by two main new trends, and they are the cloud system together with augmented and virtual reality. The newest video game technology making headlines is cloud gaming. Think about Netflix or Amazon Prime for gaming. You browse a collection of games, pick the one you want, and it begins playing right away. No discs, no loading delays. Play on a console, iPad, or phone. The entire gaming experience is fluid and convenient to play from anywhere at any time thanks to cloud-based gaming systems like Google Stadia. Because of the danger that cloud gaming poses to traditional console gaming, Xbox is no longer worried about rivalries with Nintendo or PlayStation, according to Microsoft's head of gaming, Phil

Spencer. Instead, they are more concerned with outdoing the lightning-fast cloud systems being developed by Google and Amazon (Schiesel, 2020). Today's video game battles are just getting hotter. Partially Microsoft with the Xbox, Sony with PlayStation, and Nintendo are engaged in a competition for console gaming, with Google joining the fray with Stadia against Microsoft, for cloud-based gaming platform. These consoles give players cutting-edge visuals, speeds, and computing capabilities, pushing the limits of technology to the furthest. Microsoft and other traditional console manufacturers will begin to compete with Stadia and Amazon's top-secret cloud gaming service to make their games accessible to anybody with a reliable internet connection.

Both augmented reality (AR) and virtual reality (VR) aim to immerse you in the action. VR places players into computer-generated settings so they feel like they are genuinely a part of the game, as opposed to playing from a third-person perspective. With virtual reality, players may enter enchanted realms and engage in activities like kicking a soccer ball around or fending off hordes of monsters. On the other side, augmented reality incorporates digital elements into the actual world. "Pokemon Go" is the archetype example of AR in-game. Pokemon hunters may locate and catch digital Pokemon in the real world while going about their daily lives by using a smartphone.

It's obvious that technology is bringing in an entirely new manner to participate in and enjoy video games, whether our reality is augmented or virtual.

COMPANIES OVERVIEW

ACTIVISION BLIZZARD

Activision Blizzard, Inc. is an American video game holding company based in Santa Monica, California. It was founded in July 2008 through the merger of Activision, Inc. and Vivendi Games. Activision Blizzard is actually divided into five business units, and they are Activision

Publishing, Blizzard Entertainment, King, Major League Gaming and Activision Blizzard Studios. The Californian gaming firm is famous all around the world for being the owner of videogames such as Call of Duty, Crash Bandicoot, Guitar Hero, Tony Hawk's, Spyro, World of Warcraft, Diablo, Hearthstone, and Candy Crush Saga.

Activision Blizzard is divided into four key business segments (Activision Blizzard, 2022):

1) Activision Publishing, which is accountable for the management and organization of the development, production, and distribution of video games from its subsidiary studios. It also houses the Call of Duty League, which is the championship of the homonymous saga.

2) Blizzard Entertainment, which runs the development, production, and distribution of Blizzard's games. It also houses the company's esports activities as Overwatch League.

3) King, which takes care about the development and distribution of its mobile games such as Candy Crush.

4) other businesses that do not represent reportable segments, including the Activision Blizzard Distribution business, which consists of operations in Europe that provide warehousing, logistics, and sales distribution services to third-party publishers.

MICROSOFT

Microsoft Inc. is a computer company specializing in software production founded by Bill Gates and Paul Allen in 1975 and it is based in Redmond, Washington state. Microsoft is one of the world's largest in the industry, as well as one of the world's largest software producers by revenue. Besides that, it is one of the largest companies by market capitalization, approximately $2,6 trillion in 2022 (Microsoft’s website, 2022). It currently develops, manufactures, supports, and sells, or licenses, computer software, consumer electronics, personal computers, and services; its best-known software products are the Microsoft Windows line of operating systems, the Microsoft Office personal productivity suite, and the Edge

Internet browser; in the hardware area, on the other hand, its best-known products are the Xbox family of consoles and the Microsoft Surface products.

Over the years the company has expanded its business through several major acquisitions: in June 2016 Microsoft announced the acquisition of the most important social network platform used by people to find a job and to increase their professional networks, and it bears the name LinkedIn. The social for professionals that focuses on matching job supply and demand, as well as a platform for growing one's skills, was acquired by Microsoft for a record $26.2 billion. In January 2022, instead, the American company founded by Gates and Allen formalized the acquisition of American video game company Activision Blizzard for $68.7 billion, which makes it the most expensive acquisition in the Seattle-based group's history.

MICROSOFT'S VRIO ANALYSIS: CLOUD SYSTEM AND VIDEO GAMING MULTIPLATFORM

By trying to go always beyond known technological limits, Microsoft has been able to gain significant competitive advantages and it can maintain its edge over time. By using the VRIO framework we can analyze and asses if a resource is able to generate a durable competitive advantage for the company or not. To recap quickly, according to the VRIO framework a resource and/or capability to generate a competitive advantage must be valuable, rare, non-imitable, and well organized. In this section, we are going to investigate firstly Microsoft's capability to develop its cloud platform and datacenter, Azure, and then its capability to design the gaming ecosystem in order to understand whether they enable some kind of competitive advantages over its competitors in these two specific sub-businesses.

For what regards the valuable feature of the framework, Azure for sure permits to the tech company to create value from it. In fact, thanks to massive investments related to the cloud computing ecosystem, together with the global trend characterized by the movement of

business information in the cloud, Microsoft's cloud platform contributed to an $11.2 billion increase or 27% rise in server and cloud services revenue in 2021 (Microsoft, 2022) permitting to gain 21% of the market share, that means the second place of the podium, just after AWS owned by Amazon (Statista, 2022). Given the market position as well as the wide portfolio of offers that spread from the simple migration of data, to apps that allow to take complicated decisions or to forecast different scenarios using artificial intelligence and machine learning, the cloud platform of Microsoft is rare and very difficult to be imitated. Indeed, just Amazon through its AWS offer can be a real competitor thanks to its financial resources, but Microsoft, having in addition also the biggest market share in the world of the operating system, with 76% of desktop users using Windows (Statista, 2022), can exploit the actual and perceived benefits by its clients using the same product utilized by other peers and rely on services offered by the same company that supplies their devices. Finally, for what concerns the "O" letter of the VRIO framework, Microsoft permits synergies by combining its different products together with the Azure platform, demonstrating that it is able to organize also its different capabilities into solutions altogether.

The capability of designing Microsoft's video gaming ecosystem developed and available for multiple platforms that are Xbox, smartphones, tablets, smart TVs, and computers, can be assessed in order to understand if it is able to generate a sustainable competitive advantage as well. Microsoft aims to create a video gaming ecosystem that permits players to have fun with many different games without the need of buying them wherever they want. In fact, thanks to the portal called Xbox Game Pass, users can select which game they prefer to play from a library of more than 100 high level titles by only paying a monthly subscription. They can also select on which device they want to enjoy the service among the ones on the list (Xbox website, 2022). The first letter of the VRIO framework is very solid: final consumers are appreciating

the offer of Microsoft, allowing it to grow quickly. Indeed, Xbox hardware & services as well as Xbox content drove a $3.8 billion or 33 per cent gain in gaming income. Revenue from Xbox content and services climbed by $2.3 billion, or 23%, thanks to a surge in first-party games, Xbox Game Pass subscriptions, and third-party games. Due to the debut of the Xbox Series X and Xbox Series S, the price of consoles sold rose, driving a 92 per cent rise in Xbox hardware income (Microsoft, 2022). The value is not just perceived by final consumers, also developers can benefit from this solution. Indeed, they do not need anymore to design titles for each different hardware, they can now create videogames that can be enjoyed using many different platforms, permitting them to reduce expenses related to the differentiations of devices. The gaming offer of the company placed in the Washington State is the only one that gather a console, gaming studios, cloud games, and permits to use them on different platforms demonstrating that is rare for companies being able to exploit their resources in order to develop such complex ecosystems. Through the Xbox Game Pass, you can start playing your favorite game on the Xbox and then continue the same match on your iPad increasing dramatically the freedom of choice of players. The imitability feature of the gaming system of Microsoft is defended by its inhouse gaming developer studios. On the Microsoft platforms, you cannot just play with many famous titles, you can have the exclusivity of playing with games developed by them that are not available for any other console such as PlayStation or Nintendo. In addition to that, the market share that Microsoft has together with the other above mentioned firms makes it very hard to be imitated because of the network externalities. To conclude the VRIO analysis, this ecosystem does reflect also the organizational characteristic. There are a ton of connections between what Microsoft does in the cloud and what they do in gaming, even if it may not appear that way to an outsider. Because they have integrated the Xbox Series X and S into Azure, what they have truly accomplished with Xbox Cloud Gaming is the ability to play

a game entirely rendered from Azure that can be played on any device, regardless of its local computing (McKinsey, 2022).

MICROSOFT'S MAIN BUSINESS STRATEGIES

Microsoft does operate in an industry that needs massive investments since it constantly changes shape driven by many different trends. Two of these trends are the cloud service systems and the metaverse, and because Microsoft wants to be considered a cutting edge firm, it invested heavily in them. For example, in 2021 it increased its expenses in R&D by 8%, which means $1.8 billion, mostly in the cloud engineering area. Azure revenue increased by 50% as a result of the expansion of their consumption-based services, reflecting the increasing market (Microsoft, 2022). On the other hand, for what concerns the metaverse segment, Microsoft wants to become a pioneer player both in the business to business (B2B) and business to consumer (B2C) focuses. The technology company placed in Seattle is a unique take on the investment topic since it has made investments in both the business and consumer metaverses. By making investments in the metaverse, Microsoft is establishing the foundation for future success. Investors and most business media have focused on the B2C market, while businesses are using VR and AR technologies in a variety of ways in the B2B sector, which may be where they will gain the most momentum and become more profitable. Indeed, during the earnings call for the second quarter of 2022, Satya Nadella, CEO of Microsoft, said that genuine business metaverse usage is being observed as the digital and physical worlds merge. They assist businesses in using Azure IoT, Digital Twins, and Mesh to digitize people, places, and things in order to visualize, simulate, and evaluate any business process, from smart factories to smart buildings to smart cities (Nadella, 2022). On the other side, for what concerns instead the consumer side of the metaverse world, the American tech firm is investing through its video gaming business, trying to reach as many consumers as possible. Again, the CEO of the

company born in Albuquerque stated that video gaming is the most dynamic and exciting category of entertainment on all platforms today and will play a key role in the development of metaverse platforms (Nadella, 2022).

WHY ACTIVISION BLIZZARD?

Microsoft is acquiring Activision Blizzard for $68.7 billion in cash, joining two of the most powerful players in the video gaming industry. It is the software company's largest transaction to date, about three times the size of LinkedIn's acquisition in 2016. Activision Blizzard, which generated more than $8 billion in sales last year, is the second-largest video game studio worldwide (Activision Blizzard, 2022), while Microsoft generated almost $16 billion from gaming in comparison (Microsoft, 2022). However, Activision does offer popular games like Candy Crush, World of Warcraft, and Call of Duty. Given that Call of Duty has a user base of 400 million players from 190 countries and that Candy Crush is a top seller on mobile devices, Microsoft has a lot of opportunities to capitalize on this.

In this section of the project, I am going to explain what the strategic reasons behind the decision of Microsoft are to buy Activision Blizzard, and, by doing that, I will be able to state what type of integration Microsoft is looking for. Analyzing interviews of the company's directors, transcripts of earning calls, financial statements, and analysts' research I understood that the goal of the American technology company is not just one, but they can be divided into the willingness of increasing the market size of the sector in which it already performs, enlarging its services into a new segment, that is the mobile one, avoid the commissions of app store such as the Apple and Google's stores, and finally to increase the possibility of action in its metaverse environment.

The first reason why for this acquisition relies on the willingness of Microsoft to grow its gaming department by exploiting the brands, the titles, and more than 5,000 game developers

employed by Activision, therefore it is a strategic resource seeking investment. From this point of view, the acquisition is a horizontal integration because the acquiring firm wants to gain the market share of the acquired one using its resources. If the deal is approved by the necessary authorities, it will elevate Microsoft to third place globally in the gaming industry, only after Sony and China's Tencent, respectively a competing game system and the publisher of League of Legends (O'Brien, 2022). The combined revenues would be less than 14% of all worldwide video game sales, making them significantly less likely to have an impact on the market, hence the market is not very concerned that antitrust officials won't allow this transaction (Agarwal, 2022).

Nearly 95% of all gamers worldwide enjoy games on mobile devices, making the mobile gaming market for Microsoft the largest and fastest-growing sector in the business. Microsoft does not have a consistent mobile gaming offer for its customers, but one of the main flagship of Activision is the mobile game maker King, which designed Candy Crush, one of the most well-known mobile games ever, recording about $1 billion in operating profit in the last year (Activision, 2022). Players will be able to experience the most immersive and already existing franchises, like "Halo" and "Warcraft," almost anywhere they choose thanks to amazing people and outstanding technology from Microsoft and Activision Blizzard (Microsoft News Center, 2022). For this motive, this acquisition aims also to expand the boundaries of the solutions offered by the company captained by Nadella in other markets (market seeking investments), the one of smartphones, integrating and merging titles and developers' capabilities (strategic resource seeking investments) of the Microsoft organization together with the ones of Activision Blizzard that have much more experience on the mobile market. Through this solution, as it is explained by Casson and Buckley in the Internalization Theory, Microsoft could exploit its titles and complement them with the capabilities of Activision Blizzard, developing products more efficiently.

In addition to these reasons, Microsoft through the acquisition of Activision Blizzard tries to become even more efficient in the gaming industry (efficiency seeking investments) bypassing intermediates for the distribution of its games. Nadella wants his gaming solutions to be big and strong enough that gamers will come to it directly, bypassing and avoiding the fees of online stores. Today, they face strong global competition from companies that generate more revenue from game distribution than they do from their share of game sales and subscriptions. Microsoft has been at war with Apple, and Alphabet's Google, over the fees the app stores charge for games (Nadella, 2022). And, in 2020, Activision Blizzard's largest customer was Sony, followed by Apple and Google (Activision Blizzard, 2022). Adding all these possible clients to the Xbox Game Pass could permit Microsoft to enlarge its customer base eluding the fees paid to the distributors and "stealing" their part of the cake. "We need more innovation and investment in content creation and fewer constraints on distribution" Spencer, CEO of Microsoft Gaming, said when talking about mobile phone gaming (Spencer, 2022). In order to profit from a larger percentage of the market, Microsoft wants its own "unrestricted" power to distribute games and materials. This strategy is similar to the one used in the film industry, where content providers distribute their own films. According to Spencer, the real new competitors of the Xbox ecosystem are not Nintendo or Sony anymore, but they are Amazon and Google, corporations that are focusing on how to get gaming to everyone worldwide, largely because neither of those Nipponese companies own its own cloud infrastructure comparable to Microsoft's Azure platform (Spencer, 2022). From this perspective, the investment appears as a vertical integration because the final goal of Microsoft is integrating in its own supply chain a service provided by other companies, to enhance the efficiency and boost the benefits perceived by the clients.

To conclude, the last opportunity that convinced Microsoft to buy the Call of Duty gaming company is concerned to the new trend of the metaverse. Microsoft is looking for an expansion

of its metaverse market (market seeking investment) in order to make it even more realistic and enlarge its availability to even more people. One of Microsoft's two major metaverse efforts, along with its office products, is gaming. The gaming communities that have developed around games like Halo and Minecraft are already seen by Nadella and Spencer as being analogous to the idea of the metaverse. The acquisition will offer even more massive and devoted game communities to create their own metaverses. According to several experts, players are the first to adopt the metaverse, and if you combine these new possible 400 million gamers arising from the acquisition with the Azure's cloud infrastructure, Teams' team collaboration software and Xbox Game Pass' subscription service, Microsoft has all the necessary building blocks in place to dominate the cloud gaming and metaverse arenas. They feel there won't be and shouldn't be a single centrally located metaverse when they consider their idealized view of what their metaverse can be, according to Nadella. They must support a large number of metaverse platforms in addition to a thriving ecology of content, commerce, and apps (Nadella, 2022). According to Nadella “Today, I play a game, but I’m not in the game. Now, we can start dreaming [that] through these metaverses: I can literally be in the game, just like I can be in a conference room with you in a meeting. That metaphor and the technology [...] will manifest itself in different contexts” (Nadella, 2022). Some of the titles in Activision's portfolio such as Call of Duty, World of Warcraft, Hearthstone, Starcraft, and Overwatch are connected platforms, with environments reproduced via 2D screens rather than VR: the unquestionable advantage for gamers would be to move easily between VR versions of these games within a Microsoft metaverse. To understand the financial opportunities associated with these titles, one need only to consider the title "World of Warcraft" where the user has his or her own avatar than be tuned spending money or cryptocurrencies, a daily to-do list, and can mine resources to produce in-game items to sell for real gold that can be converted into a traditional currency.

In other words, there is already the possibility to live a different, more technological, second life in which the financial sources can become limitless in the future.

Because M&A is not always a straight process, but it is often impacted by many different issues, the management of Microsoft and Activision Blizzard decided that the second mentioned will still continue to be run by the same CEO, Bobby Kotick, even though he will report to the CEO Microsoft Gaming Phil Spencer (Microsoft News Center, 2022). By doing that it may be easier to manage the transaction in the long run, reducing the cultural gap and avoiding a big shock to its employees.

CONCLUSIONS

In conclusion, the goal of this business and management project was to understand what pushed Microsoft toward the decision of buying the video gaming company, Activision Blizzard. Utilizing several sources of information, I tried to link the thoughts of Microsoft's managers together with different theories, in order to have a better understanding of what the strategy of the company could be. The results I got suggested to me that the intent of the operation cannot be enclosed in a single willingness. Indeed, through this acquisition is plausible that Microsoft does not want to only increase its market share in the video gaming industry, but the plan is also to spread its competencies along the supply chain. The object, therefore, should be the integration both in the horizontal and vertical directions. For example, it is interesting how it targets to be able to offer its gaming solutions without the help of other big multinationals, such as Apple or Google, that as Microsoft, have the ambition of becoming pioneers in the gaming industry. Microsoft's goal is to generate an even more competitive advantage over its opponents by mixing its already owned capabilities together with Activision Blizzard's ones. For instance, it believes that the knowledge developed with the Azure infrastructure can help

to implement better the titles designed by the acquired company in the Xbox Game Pass, gaining even more trust from players all around the globe. Finally, Microsoft deems very important, in the developing of the metaverse, the huge number of customers that it may gather from the Call of Duty saga because it seems that video gaming players have specific intentions in discovering this new technology.

It is, though, important to remember that the closure of the merger, despite it has been already approved the agreement by the board of directors of both two firms, has not happened yet, and it is expected to be completed by the close of the fiscal year in 2023, therefore it is not sure that we could prove and verify that my assertions are correct. Furthermore, the results of an M&A operation are difficult to be measured and assessed in the short term, so in the case of a positive closure of the operation, it may require years before having fair and proper information to give appropriate feedback.

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