

Analysis of Game Company Restructuring: Effectiveness Assessment and Comparative Analysis of Success/Failure

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Abstract. As a matter of fact, game industry has become booming in recent years under the occasion of the rapid development of computation techniques. As a giant company, Microsoft has its ambitious merge and acquisition planning regarding to this industry. With this in mind, this study examines the case studies of Microsoft's acquisition of Activision Blizzard in 2022 and Nintendo's internal restructuring in 2018 to demonstrate the strategy as well as performances for Microsoft in game industry. By contrastive analysis of the background, strategies, as well as outcomes of these reorganizations, this research aims to assess their effectiveness and identify success and failure factors for this M&A process. According to the analysis, the study results show that although both companies have achieved specific results after restructuring, they still face many challenges. These results also provide suggestions for corporate restructuring and the development of the game industry, as well as directions for future research.

Keywords: Game industry; game company restructuring; game market; competitive strategy.

1. Introduction

The global gaming industry has undergone significant growth and transformation in recent years, driven by rapid technological advances and evolving player preferences [1]. This has led to an explosion of competition in the market, forcing gaming companies to innovate and adapt. According to leading market research firm Newzoo, the global gaming market's revenue exceeded \$150 billion for the first time 2020 [2]. The expansion of mobile gaming, the emergence of esports as a mainstream entertainment option, and the growth of cloud gaming services have all contributed to the diversification of the industry, creating both opportunities and challenges for gaming companies. In this highly dynamic environment, gaming companies constantly evaluate new strategies to maintain a competitive edge and foster innovation. As a result, many companies are turning to corporate restructuring and strategic acquisitions to realign their business approach and take advantage of emerging market trends.

Restructuring and acquisitions are strategic tools that enable companies to adapt to changing market conditions and overcome challenges, ultimately strengthening their competitive market position by leveraging diversified businesses and resources. Therefore, an in-depth study of restructuring and acquisition cases can provide valuable insights into gaming companies' strategic adjustment and market success, revealing their operational dynamics and competitive positioning in the industry.

Through a literature review, data analysis, and case studies, this paper focuses on Microsoft's acquisition of Activision Blizzard in 2022 and Nintendo's internal restructuring in 2018, analyzing the context, process, and results, providing an assessment of effectiveness, and a comparative analysis of success and failure factors. The literature review will include analysis of academic journals, industry reports, and corporate financial reports to ensure the authority and reliability of the information. Data analytics will use financial, market share, and user rating data to evaluate the effects of restructuring and acquisitions through statistical analysis and comparison. Case studies will combine news reports, company announcements, and expert interviews to provide insight into specific restructuring and acquisition processes, providing detailed background information and analytical perspectives. In conclusion, the comprehensive research aims to shed light on the key factors and successful strategies associated with restructuring and acquisitions in the gaming industry.

Through multi-level and multifaceted analysis, this study will present essential reference points and guidance that can be used for academic exploration and practical applications both inside and outside the gaming industry.

2. Overview of Recombination Theory and Analysis Case

Restructuring refers to the significant adjustment of an enterprise's organizational structure, assets, or operating methods, including merger, acquisition, spin-off, asset divestiture, debt restructuring, etc. The motivation for restructuring includes improving operational efficiency, gaining competitive advantages, entering new markets, optimizing resource allocation, and improving financial position. Reorganization can optimize resource allocation and improve enterprises' efficiency and competitiveness. The goal is to improve the company's value, achieve strategic development goals, and improve shareholder returns [3]. The game industry is characterized by high innovation and rapid development, and the market demand is diverse and rapidly changing, requiring enterprises to have vital research and development capabilities and market response speed. Restructuring positively improves financial performance, organizational structure, and market competitiveness of game industry companies.

This case selection criterion is typical of large-influence and large-scale companies. Microsoft announced in January 2022 that it would acquire Activision Blizzard for \$68.7 billion in cash. The deal is believed to be the largest merger in the history of the games industry [4]. With the acquisition, Microsoft hopes to expand its market share in the gaming sector and strengthen the competitiveness of its gaming subscription service, Xbox Game Pass. In addition, the acquisition of Activision Blizzard's rich game resources can also enhance Microsoft's influence in the global game market [5, 6]. In 2018, Nintendo underwent an internal reorganization. This reorganization involves organizational restructuring, namely, department merger and management turnover [7]. The primary motivation for the reorganization was to adapt to the rapidly changing market environment and enhance the company's game development and marketing competitiveness. Nintendo hopes to optimize resource allocation and strengthen internal collaboration through reorganization [8].

3. Reorganization Evaluation

3.1. Recombination Process Analysis

Microsoft has adopted an all-cash acquisition strategy and plans to integrate Activision Blizzard's resources and technology to achieve synergies. The restructuring process includes negotiation, approval, and integration phases, focusing on bringing the business and culture together. The acquisition underwent a complex antitrust review process, including reviews by the U.S. Federal Trade Commission (FTC) and the European Union Competition Commission. In the end, Microsoft won approval and closed the deal [5].

Through the reorganization, Nintendo hopes to simplify management layers, improve decision-making efficiency, and better respond to the challenges of changing market dynamics and technological innovation. Nintendo has adopted a strategy of streamlining management and reorganizing divisions to promote internal collaboration and resource sharing. The implementation of the restructuring includes the adjustment of departmental functions and management structures, emphasizing cross-departmental cooperation and innovation.

3.2. Recombination Effect Evaluation

Before the acquisition, Microsoft's gaming division was already strong, with revenue growth of 33% in fiscal 2021, outpacing overall revenue growth of 18% [3]. Before the acquisition, Activision Blizzard had an annual revenue of \$8.804 billion in fiscal 2021. Microsoft's gaming business generated \$15.8 billion in revenue in fiscal 2021. Following the acquisition, Microsoft's gaming revenue is expected to grow significantly in fiscal 2022. In October 2023, Microsoft successfully

acquired the game company Activision Blizzard. Microsoft Chairman and CEO Satya Nadella said that the company will have a series of games worth more than \$13 billion through Activision Blizzard. Microsoft Chief Financial Officer Amy Hood said that in games, the company expects revenue growth of about 40 percent, including about 35 percent from the acquisition of Activision Blizzard. "Content and Services for Xbox" revenue is expected to grow by approximately 50%, mainly due to Activision Blizzard's acquisition [3]. Microsoft's financial performance before and after the acquisition of Activision Blizzard shows significant differences. Before the acquisition, Microsoft's annual revenue growth remained stable, driven by the market performance of its Azure cloud services and Office 365 products. After the acquisition, Microsoft's revenue growth accelerated due to solid sales of Activision Blizzard's games, and the profit margin of the gaming division improved significantly [3]. Specific financial data are as follows: pre-acquisition (FY2021) as shown in Table 1: annual revenue growth of 12%, with game segment revenue accounting for 20% of total revenue [9]. For post-acquisition (FY2023), annual revenue growth increased to 16%, with gaming segment revenue accounting for 30% of total revenue [6].

Table 1. Microsoft Metrics FY22Q3.

Windows OEM revenue growth (y/y)	10%	-3%	0%	10%	25%	11%
Windows Commercial products and cloud services revenue growth (y/y)*	10%/7%	20%/14%	14%	12%/10%	13%/14%	14%/19%
Surface revenue growth (y/y)*	12%/7%	-20%/-23%	5%/5%	-17%/-19%	8%/8%	13%/18%
Xbox content and services revenue growth (y/y)*	34%/32%	-4%/-7%	2%/3%	2%/0%	10%/10%	4%/6%
Search and news advertising revenue (ex TAC) growth (y/y)*	13%/11%	48%/45%	10%	40%/39%	32%/32%	23%/25%

As shown in Fig. 1, Xbox content and services revenue grew significantly in Q3'21 but declined in Q4'21. Q1'22 increased slightly, Q2'22 and Q3'22 recovered better. Xbox content and services revenue grew better in Q1 and Q2 2022, with Q2 registering a 10% growth rate, which likely reflects the positive impact of the acquisition of Activision Blizzard. After acquiring Activision Blizzard, Microsoft may have more significant growth potential in-game content and services. Activision Blizzard's Game IP and user base can drive more users and revenue to Microsoft's Xbox platform and subscription services like Xbox Game Pass. Following Microsoft's acquisition of Activision Blizzard in 2022, gaming-related revenue showed positive growth, particularly in Xbox content and services revenue growth of 10% and 6% in the second and third quarters of 2022, respectively. Although Surface revenue fluctuated in early 2022, the gaming business showed good recovery and growth momentum. This indicates that the acquisition positively impacts revenue in the initial period and may see some integration costs and business adjustments in the short term. However, in the long term, with further integration, the addition of Activision Blizzard is expected to enhance Microsoft's competitiveness in the gaming industry [7, 8].

As shown in Fig. 1 net income increases yearly from 2021 to 2023 but is essentially flat from 2022 to 2023. Among other comprehensive income items, investment-related changes and translation adjustments significantly impact the overall performance. The year-over-year increase in consolidated income indicates that the company's financial health is improving despite some financial fluctuations. As depicted in Fig. 2, on April 25, 2024, Microsoft Corporation announced the following results for the quarter ended March 31, 2024, compared to the corresponding periods of the prior fiscal year. Revenue was \$61.9 billion, up 17%; Revenue was \$27.6 billion, up 23%; Net revenue was \$21.9 billion, up 20%; Diluted earnings per share were \$2.94, up 20%.

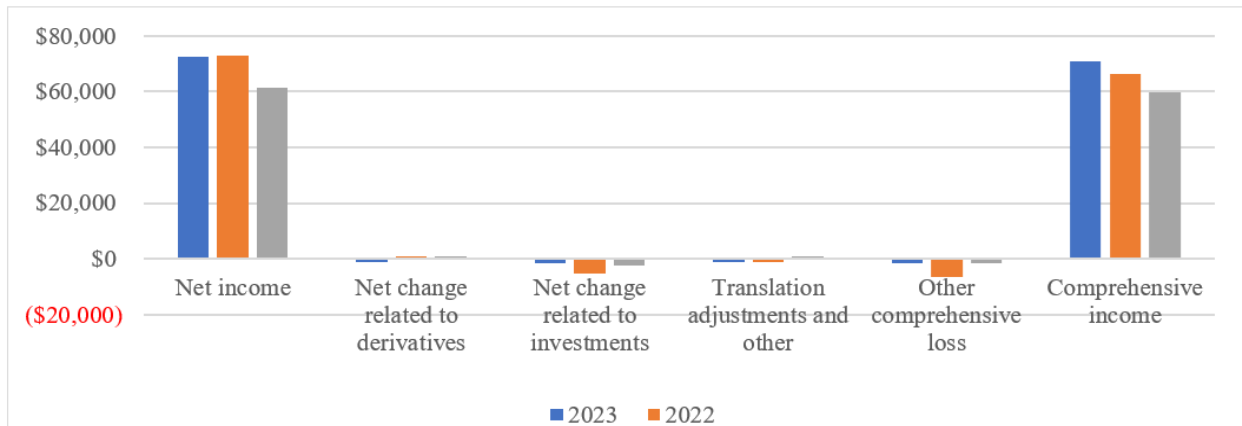


Fig 1. Microsoft Comprehensive Income Statements (In million).

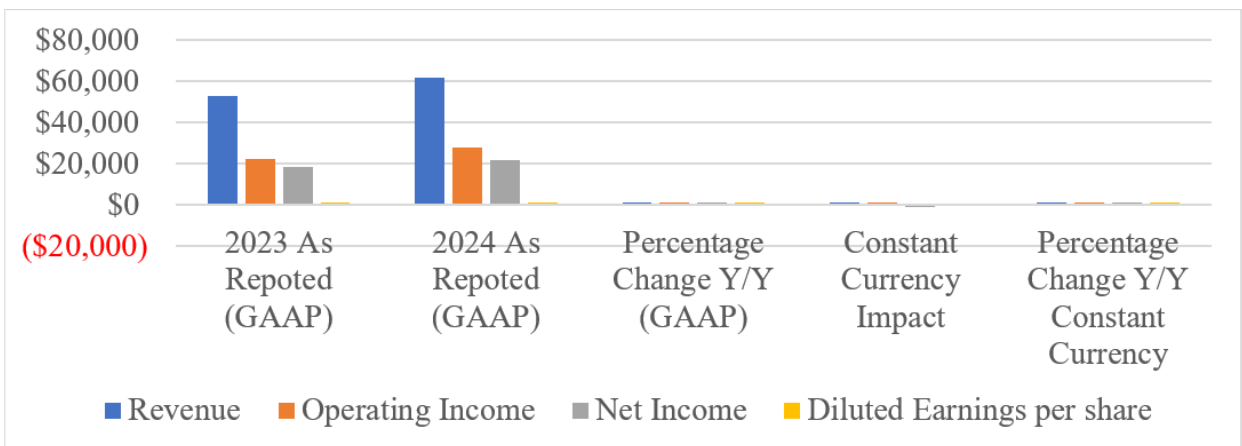


Fig 2. Microsoft Financial Performance Constant Currency Reconciliation(\$ in millions, except per share amounts).

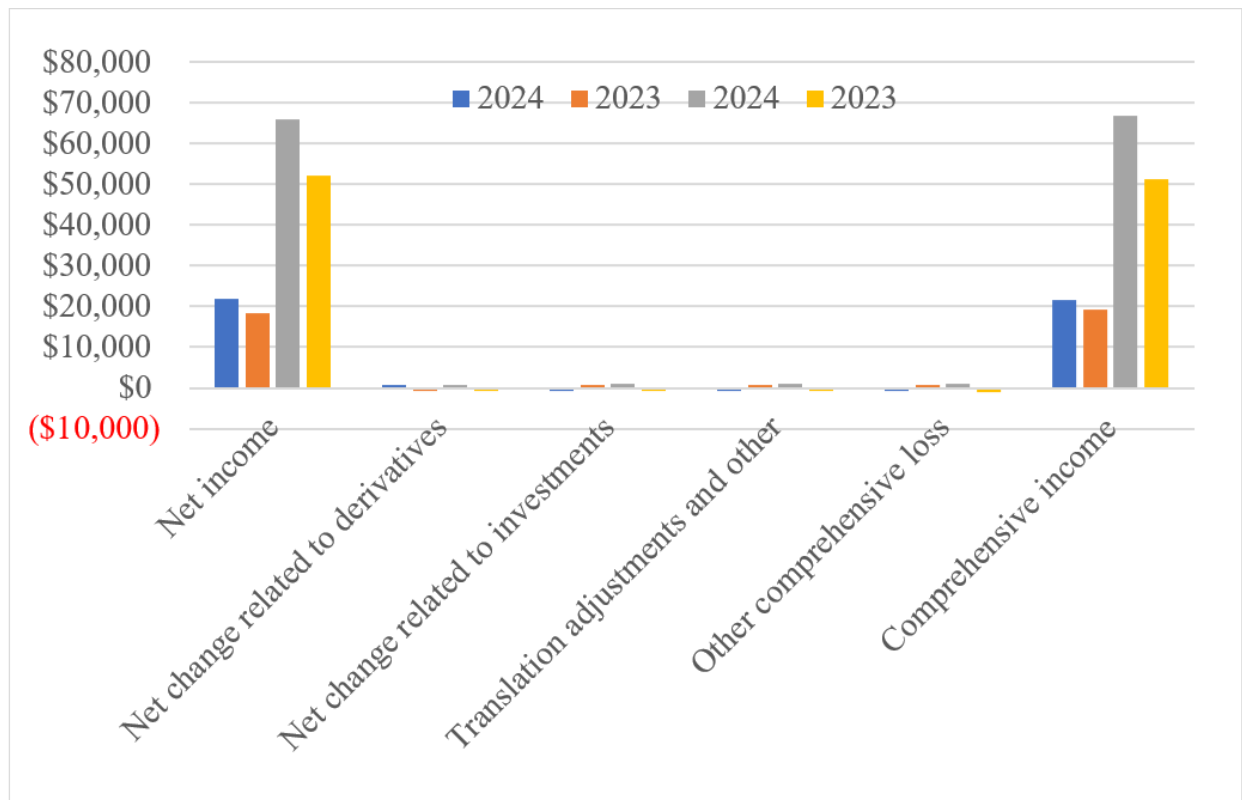


Fig 3. Microsoft Comprehensive Income Statements(In million).

As shown in Fig. 3, after the cooperation with Activision Blizzard gradually stabilized in 2024, the comprehensive revenue also increased significantly compared with 2023. In the gaming sector, as mentioned in Microsoft's 2024 annual report, Starfield was released this fall after completing its acquisition with Activision Blizzard to great acclaim, with more than 10 million players signing up in the first month after release alone [9, 10].

After the acquisition, Microsoft significantly enhanced its competitiveness in the global gaming market. Activision Blizzard's product line of games enriches Microsoft's Game library and enhances the appeal of Xbox Game Pass. In addition, Activision Blizzard's international market share has also helped Microsoft expand its influence in the global market [5]. According to a study, Microsoft's market share in North America and Europe has increased significantly after the acquisition [11]. However, the issue of sexual harassment and discrimination within Activision Blizzard also created management challenges for Microsoft [12].

Nintendo's financial performance before and after its internal restructuring also showed significant differences. Before the restructuring, Nintendo's annual revenue growth slowed, mainly due to weak 3DS and Wii U sales. After the reorganization, with the successful launch of the Switch console, Nintendo's revenues and profits increased significantly [8]. Specific financial data are as follows:

- Pre-restructuring (FY17): Annual revenue growth of 5%, lack of significant product sales (Freire, 2019).
- Post-restructuring (FY2019): Annual revenue growth increased to 15% with solid Switch sales [8].

Nintendo has optimized its product development and marketing strategies through internal restructuring. The successful launch of the Switch not only boosted Nintendo's market share, it also boosted its brand image. After the reorganization, Nintendo focused more on innovation and user experience, further consolidating its position in the global gaming market [7]. According to one data, the cumulative sales of Switch in the world have exceeded 100 million units, significantly improving Nintendo's market competitiveness [7]. The reorganized Nintendo has achieved significant results in the promotion and market share of the Switch console. However, the restructuring process faced the challenge of employees adapting to the new structure [8].

3.3. Success and Failure Factors

Microsoft's restructuring success is based on its strong financial backing. Microsoft has sufficient financial resources to support this massive acquisition and handle post-acquisition integration and development [9]. Another is the strategic fit of the acquisition. Activision Blizzard's Game offerings fit nicely with Microsoft's existing product lines and services, such as Xbox Game Pass [6]. However, Microsoft still faces the challenge of integrating its culture. Activision Blizzard's internal management problems and corporate culture are quite different from Microsoft's [12]. Nintendo's success lies in the company's ability to innovate. After the reorganization, Nintendo paid more attention to innovation and successfully launched Switch's revolutionary product [8]. Another point is the optimization of organizational structure. Through department consolidation and management adjustment, Nintendo has improved operational efficiency and market response speed [7].

However, Nintendo still faces challenges, starting with employee fitness. Some employees had difficulty adapting to the new structure and workflow during the restructuring process, resulting in internal friction [8]. Another is the pressure of market competition. Despite the Switch's success, Nintendo still faced intense pressure from competitors such as SONY and Microsoft [11].

4. Conclusion

To sum up, the Microsoft and Nintendo case study shows that corporate restructuring plays an essential role in achieving strategic goals and enhancing competitiveness. Microsoft has achieved significant financial and market competitiveness results through acquiring Activision Blizzard, but it

still faces cultural integration and regulatory challenges. Nintendo successfully launched the Switch by optimizing its product development and marketing strategies through internal restructuring, but it also faced employee adaptation and competitive market pressures.

One must first grasp the success factors and clarify the strategic objectives for the company's reorganization. Before making an acquisition or restructuring, it is necessary to clarify the strategic objectives and expected results. Second, one should strengthen financial support. Ensure adequate financial resources support integration and development after restructuring or acquisition. Focus on cultural integration. In addition, it is essential to integrate corporate culture in the process of acquisition or restructuring to reduce internal friction and conflict. Third, one should pay attention to the market review. Prepare plans to deal with market regulatory and antitrust reviews in advance to ensure the transaction goes smoothly. Finally, measures should be taken to enhance the adaptability of employees. Assist employees in adapting to the new organizational structure and workflow through training and communication.

For the development of the game industry, the future needs to pay more attention to innovation. In the future, the game industry will pay more attention to innovation and maintain market competitiveness through technological progress and product innovation. In addition, attention should be paid to globalization. With the globalization of the market, game companies need to enhance the competitiveness of the international market and expand the global market share. Finally, businesses need to step up their digital transformation. Digitalization and online services will become an important development direction for the gaming industry, providing a richer and more personalized user experience. Subsequent studies can delve into cultural integration and discuss the best practices in the process of corporate acquisition or reorganization to reduce the negative impact of cultural conflict on the company. In addition, evaluate the long-term financial impact, further study the long-term impact of restructuring or acquisition on the company's financial performance, and analyze its sustainability.

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