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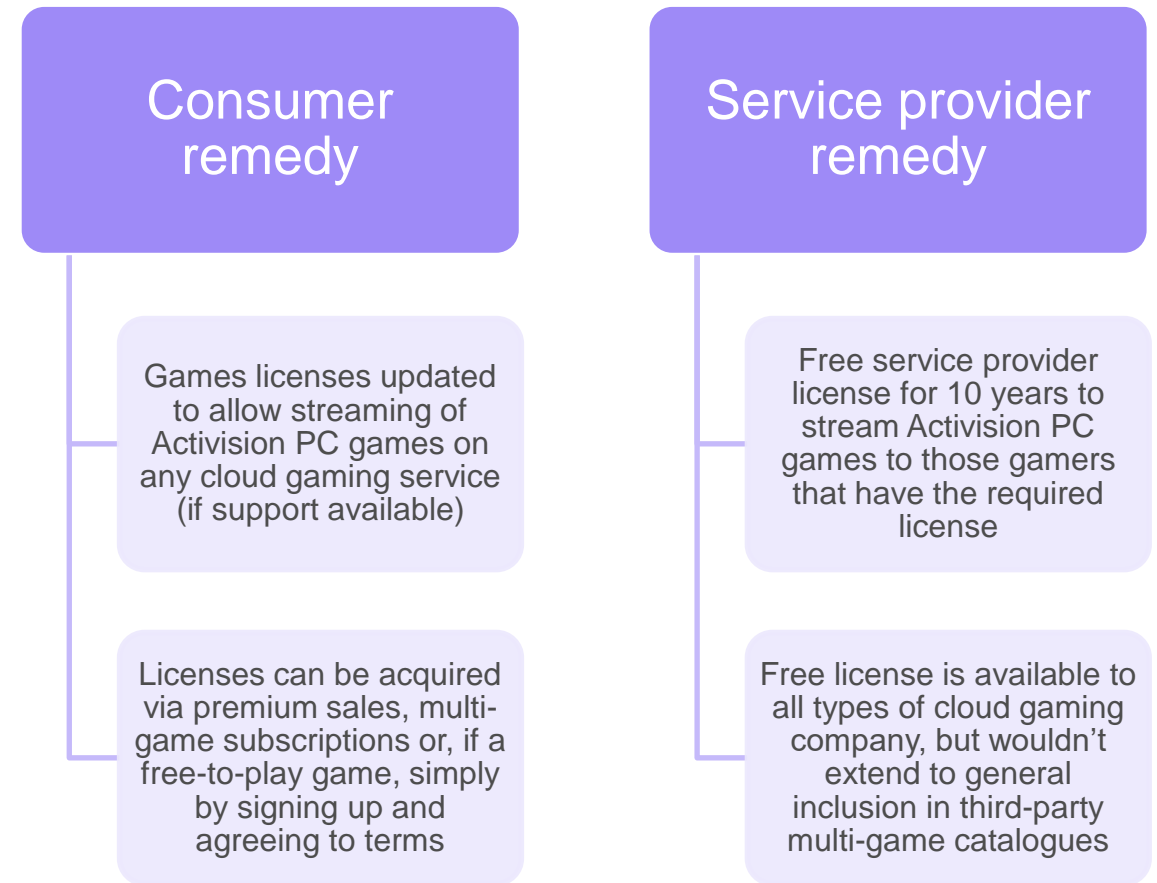
# **Microsoft's Activision acquisition: Implications for the cloud gaming market and industry**

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## Background: Microsoft has committed to a set of remedies focused on the cloud gaming business

- Microsoft announced an agreement to acquire Activision Blizzard in January 2022 for \$68.7bn. The scale of the acquisition has meant that the deal has been heavily scrutinised by competition authorities all over the world. While many authorities have approved the deal without any conditions, the Federal Trade Commission (FTC) in the US is seeking to block the deal in administrative court, highlighting harm to the console, multi-game subscription and cloud gaming markets
- Additionally, the Competition and Markets Authority (CMA) in the UK and the Directorate-General for Competition (DG Comp) in the EU both concluded that the deal would potentially harm the small, but fast growing, cloud gaming segment
- In response to this specific concern, Microsoft has committed to a set of remedies to help redress the segment balance if the acquisition were to close. Microsoft has stated that these remedies will be applied worldwide. In DG Comp's case, the remedies fully addressed the competition concern as outlined in the Commission's in-depth market investigation, and it has therefore gone on to approve the deal. In the CMA's case, the proposed remedies were not considered acceptable due to a combination of factors. These included a concern that the remedies would help Microsoft set the agenda for the cloud gaming segment to a greater extent and that they would need continual monitoring by the CMA to ensure compliance. Microsoft has appealed the CMA's decision via the Competition Appeal Tribunal (CAT)



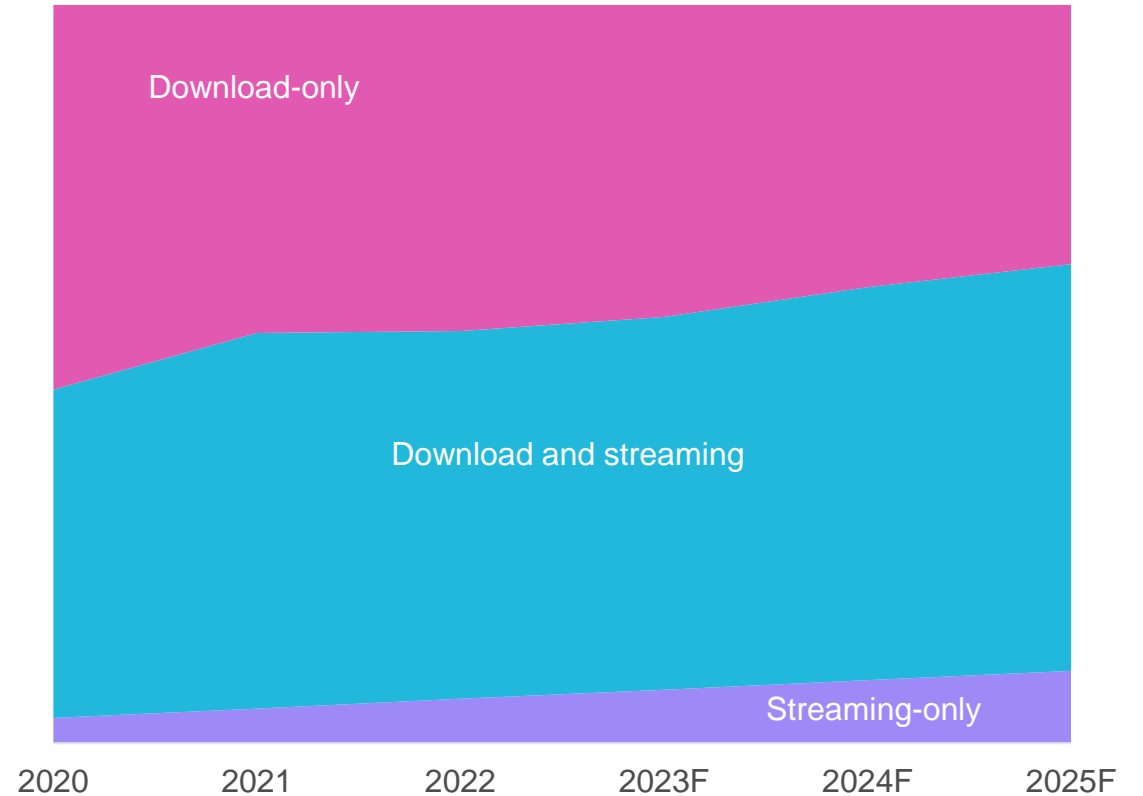
*Note: Following the release of more detailed information in relation to the remedies proposed to DG Comp, this report has been updated in June 2023*

*Source: Microsoft, Ampere Analysis*

## Context: Pure-play cloud gaming services remain a very small part of the overall games market

- Ampere's own definition of a market for cloud gaming services remains a tiny slither of the overall games market. Ampere sized the market – a combination of streaming-only multi-game subscription services, cloud gaming PC services and premium sales of streamed games – at \$446m in 2022. This represented less than 0.3% of global consumer spending on games content and services. While the technology for games streaming has been commercialised since the early 2000s, the market for services that wholly rely on streaming distribution remains comparatively small
- Where streaming distribution is being increasingly exposed to more gamers is across platforms and services that mostly offer games via download distribution, but that also support streaming distribution of games to add value to their offer. For example, Microsoft offers streaming of games through Game Pass Ultimate with one of the most popular use cases being the ability to play games right away to try them out before downloading. The company has also laid out a grander vision to reach millions of new gaming customers using streaming technology
- The commercial challenges of streaming games mean that companies that have preferential access to cloud infrastructure, deep pockets and a strong portfolio of games, are best placed to build a successful position in the cloud gaming space. Microsoft's end-to-end capability in the streaming supply chain means it is well placed when this form of distribution becomes more important to the sector

Global games content & cloud gaming subscription service market share by distribution type



Note: Download & streaming services include Xbox Game Pass Ultimate, PlayStation Now, PlayStation Plus Premium

Source: Ampere Games - Markets

# Supply chain: Consumer & service provider license combined would shake up current market

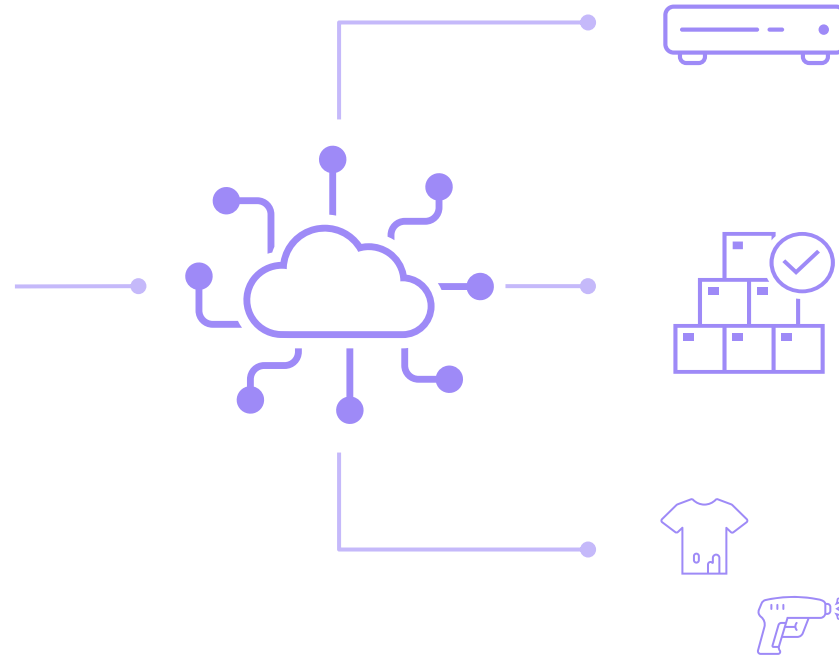
1. PC game license acquired by consumer & would include right to stream from a service of their choice

2. 10-year license with permission to stream PC games made available to services providers

Market complexities



Share of game license revenue would flow to Microsoft



3<sup>rd</sup>-party service providers would charge for access; no share to Microsoft

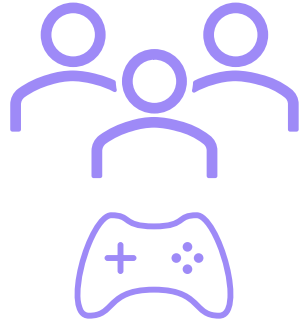
Consumer rights to streaming would expect to be tied to the platform version of a game where it was licensed. The remedies currently extend to Activision PC games - conditions for console games remain unknown

Services that offer multi-game subscription catalogues would face a more complex challenge of incorporating 'ad-hoc' Activision games that use a different licensing regime into their offerings

In-game transactions are a key revenue stream for AAA games. 'Bring-your-own-game' service providers and smaller multi-game players would support transactions via Microsoft Store or others such as Steam

Source: Ampere Analysis

# Consumers would see increased access points for Activision games and choice of service to access



## Key implications:

1. More Activision PC game streaming access points
2. More streaming service provider choice
3. Xbox Game Pass remains cheapest way for gamer to access/license Activision PC games for streaming
4. Would result in Game Pass reach being extended through third-party cloud gaming providers

**Consumers would gain the right** to stream an Activision PC game when they buy a premium version of the game, when it is included in a multi-game subscription service they subscribe to or when they sign up to play a free-to-play title. It is very unlikely that new Activision releases would enter third-party multi-game subscription services as they would be license cost prohibitive

*Example storefronts & services: Steam, Microsoft Store, Game Pass (PC & Ultimate), Battle.net*

For premium games, the **cheapest license acquisition point** would generally be via Microsoft's own Game Pass subscription service, especially for the latest releases. Licenses to include the streaming use case would likely be offered via the cheaper PC version of Game Pass as well as Ultimate. The 'Play Anywhere' portability of Microsoft's game licenses could mean streaming also extends to games with PC SKUs that reside within the console version of Xbox Game Pass

Ampere expects users would need to sign into the platforms where they have acquired the Activision games to validate the entitlement before they can stream a game: for example, a Steam account for games bought on Steam, or a Microsoft account for those on Game Pass

**Consumers would gain access** to future streamed Activision games beyond the current Xbox Game Pass Ultimate service and its geographical footprint

Consumers would have to pay two access fees for premium Activision games: the game purchase cost or multi-game service subscription fee and a payment (unless ad-supported) to the cloud gaming service provider. However, free-to-play games will likely only require the service provider access fee

Source: Ampere Analysis

# Remedies would be positive for some service providers; complexities remain for direct competitors

## Cloud gaming BYOG services



- Would improve value and appeal of 'bring-your-own-game' service providers
- Service providers would have same terms making it harder to differentiate on access to Activision PC games; could result in routine adoption of streaming Activision PC games to ensure competitiveness
- May prompt change in licensing behaviour by other publishers

- Would allow Microsoft to piggy-back on third-party service provider reach based on their existing GPU-based server infrastructure
- As stated, reach would not necessarily rely on Microsoft's Azure GPU-instances for streaming PC games (note: this is distinct from the xCloud infrastructure) but may prompt wider adoption of public Azure services

### Key implications:

1. Would support existing 'bring-your-own-game' (BYOG) service providers and may prompt market entry of new competitors
2. Would extend reach of Microsoft account system, Microsoft Store and Xbox Game Pass
3. This added reach would come without further investment in cloud infrastructure
4. May prompt change in licensing behaviour from other publishers

## Cloud multi-game subscription services



- Would provide less clear route to improve value and increase appeal of cloud gaming multi-game subscription services; multi-game subscription services represent the majority of cloud gaming consumer services
- Service providers would need to carve out Activision titles licensed elsewhere or manage two levels of licensing within a single catalogue; would make the offer potentially more complex for users

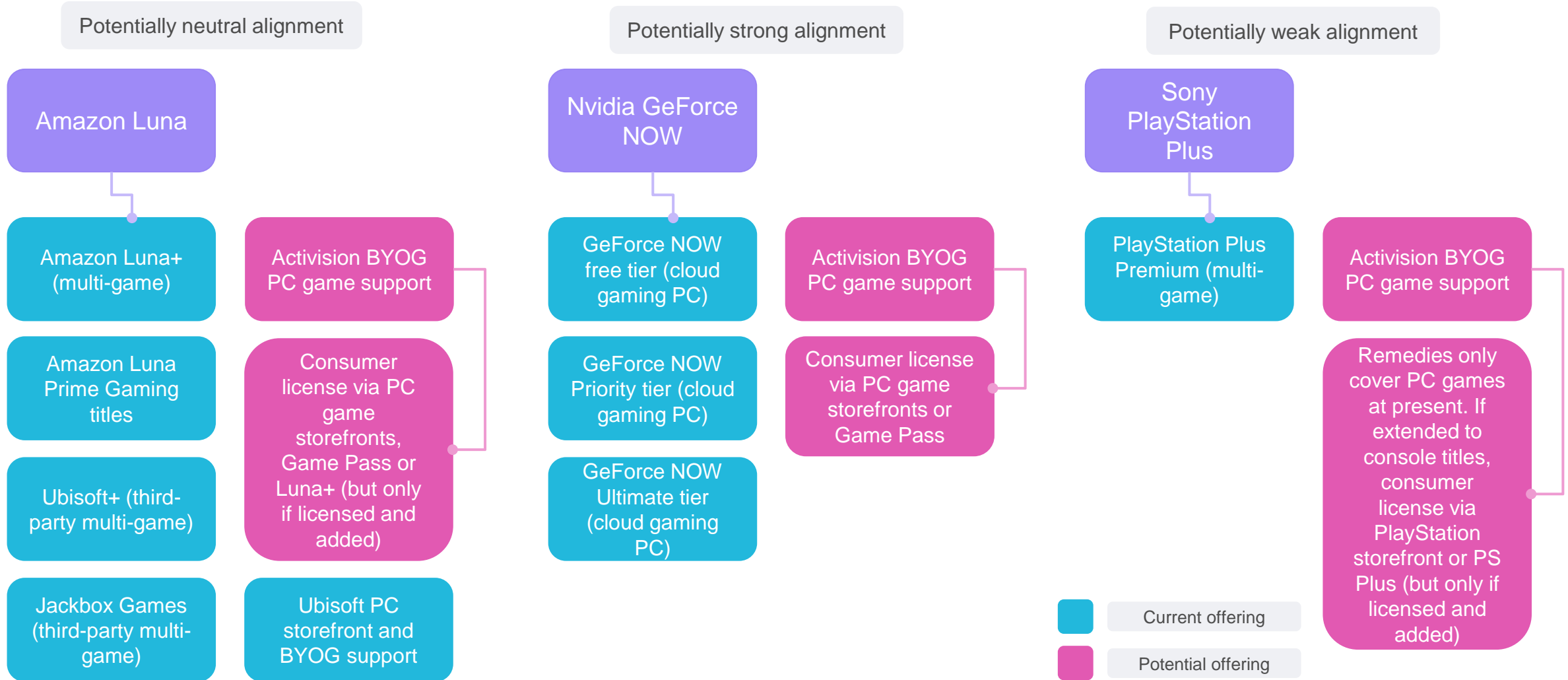
- Adding Activision games to multi-game subscription catalogues would require separate license agreement with Microsoft; more relevant to older games rather than new releases
- Remedies cover PC games at present, so no agreed commitment to Sony or Nintendo in relation to streaming PlayStation or Switch versions of games

### Key implications:

1. The benefits to multi-game subscription service providers would be less defined
2. Activision content would need to be managed differently from the existing catalogue of games unless licensed separately into that catalogue
3. Ampere believes this would prompt some multi-game subscription service providers to support a 'bring-your-own-game-model'

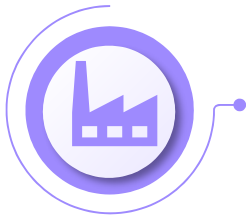
Source: Ampere Analysis

# Varied cloud gaming service provider landscape means product alignment would differ significantly



Source: Ampere Games

## Summary: Benefit to consumers and some service providers, while Microsoft extends its influence



Microsoft's cloud gaming-related remedies, proposed as a re-balancing of the market post its intended Activision merger, would significantly impact and alter the cloud gaming market and industry



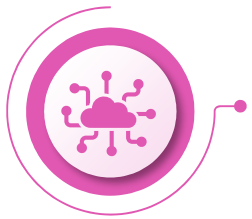
The remedies would be less clearly positive for cloud-based multi-game subscription service operators. This may prompt some companies to support more business models beyond multi-game subscriptions



The remedies would enable more consumer access points to stream Activision PC games and give consumers more choice over which services they can use to stream the games



Under the 10-year free license, streaming of Activision PC games would become increasingly pervasive from BYOG service providers; companies may feel compelled to offer these games to remain competitive



The commitments would support third-party cloud gaming companies that offer 'bring-your-own-game' services and, as such, promote streaming distribution to a wider audience



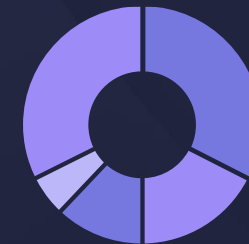
Ampere expects the cheapest license acquisition point for Activision games to be through Xbox Game Pass. These remedies should help Microsoft extend the reach of Game Pass to new audiences and territories

Source: Ampere Games - Markets



# Any questions?

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