



**Activision Blizzard, Inc. in China:  
a PEST analysis**

**Munich Business School Working Paper**  
2016-03

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**Abstract**

For a long time, video games have been a niche product, mostly played by teenagers and making up for only a small amount in the overall revenue of the media landscape. The medium has come a long way since then, even surpassing the movie industry in revenue in the last years. One specific country has played a major role in this development: China. Even surpassing the United States and Japan, China has secured itself a place at the very top of the overall revenue of the video game industry. Many companies saw this as an opportunity to grow and the next logical step was to set up shop in the Middle Kingdom. One of them was Blizzard Entertainment, probably best known for its popular Online Roleplay Game World of Warcraft.

To explore the opportunities as well as challenges Blizzard Entertainment is facing in China this paper analyses the external surroundings following the classic theoretical approach of the PEST analysis. The framework of political, economic, social and technological factors gives an extensive insight in the challenges yet to come for Blizzard, but also shows how they could be converted into opportunities. Overall it can be seen that the framework conditions for national but also international game developers in China provide a sound foundation for future growth.

**Keywords:** Video games, China, PEST analysis, macro-environment



## **1. Introduction**

82,6 billion Euros (Newzoo.com, 2016). The amount of revenue generated by the global video games industry in 2015 is enormous, and even surpasses the predictions of industry experts by a longshot (PwC predicted a revenue of 73.8 €; PwC, 2014). For the first time ever video games also outpaced the film industry which reached 79.4 billion Euros in 2015 (PwC, 2015). Studies of independent market research institutes also show, that one country has dominated the last year in terms of revenue: China. Even before the U.S. and the traditionally gaming vivid country Japan, China has succeeded to secure its first place (Newzoo.com, 2016). These numbers, but also Chinas favorable politics relating to foreign companies setting up shop, has resulted in many video gaming companies taking their IP's and launch branches in the far east. One of them is Activision Blizzard Inc., a company nowadays specialized in online games, and maybe most known for its successful product, World of Warcraft. Although Activision is already present in the market, there are still many challenges and opportunities – of external and internal nature – ahead of them. This paper will focus on the external ones by applying the PEST analysis to Activision Blizzards specific case. After a short theoretical overview the actual analysis will cover the political, economic, social and technological dimensions.<sup>1</sup>

## **2. Background**

“No knowledge without subject and no knowledge without theory.” (Meyen, Löblich, Pfaff-Rüdiger, & Riesmeyer, 2011; original: “Kein Wissen ohne Subjekt und kein Wissen ohne Theorie.“). Following this principle, the theory segment will first explore the history of Activision Blizzard (chapter 2.1) looking at both Activision and Blizzard before the merger and at the company as a whole after 2008, and second the PEST analysis will be explained in detail (chapter 2.2). For ease of reading all citations will be translated into English.

### **2.1. Company history**

Karl Mannheim claims in his 1931 classic “Wissenssoziologie” that there is no context free knowledge. To gain knowledge on a subject one has to explore the surroundings of said subject as well. Therefore, the next paragraphs will briefly discuss the history of the two companies under study before and after their merger.

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<sup>1</sup> All financial data in this paper is converted into Euros to ensure comparability. Therefore, the yearly average exchange rate of 2015 is used: 1.109729 (USForex Inc., 2016).



Activision Publishing, Inc. was founded in 1979 as the second Third-Party publisher after Electronic Arts. Traditionally videogames were only published by the console manufacturers (like Atari), but this was about to change by the end of the nineteen-seventies. While only producing for game-consoles in the beginning, Activision quickly began to focus on home computers as well – most notably the Commodore 64 – as the console market began to drop (Flemming, 2007). By the end of the 1980s management at Activision also tried to focus on application software trying to diversify their portfolio, not only relying on games. Changing their name to Mediagenic – but still continuing to publish games under the brand of Activision – the company had to declare bankruptcy in 1992. After a reorganization and a merger with The Disc Company, the name was changed back to Activision again and refocused on its core competencies: videogames. (Activision Publishing, Inc., 2016)

Founded in 1991 Blizzard Entertainment, Inc. was called Silicon & Synapse till 1994 and for a very short while Chaos Studios till it finally was changed to its long lasting name. Having started their career with today mainly unknown games (e.g. Rock & Roll Racing and The Lost Vikings), Blizzard had its first big breakthrough by releasing the real-time strategy game Warcraft: Orcs & Humans in 1994 (Gottschall, 2012). Continuing the successful path, the company released sequels for Warcraft but also established new profitable franchises (most notably the Diablo and StarCraft series). But nothing was to top the success of the world-wide known online multiplayer game World of Warcraft, which was released at the end of 2004. At its peak it reached around twelve million subscribers (paying roughly 15 dollars a month) and thus became a phenomenon even resulting in its own movie in 2016 (Ahuja, 2015). (Blizzard Entertainment, Inc., 2016)

In 2007 it was announced that Activision was to merge with the majority shareholder of Blizzard Entertainment, Vivendi Games (a division of Vivendi S.A.), which was best known for owning Blizzard and a smaller games developer Sierra Entertainment. Therefore, the new company was named Activision Blizzard, Inc. which it still remains till today. The companies – being now one – continued to release financially successful titles, like Call of Duty, Diablo 3 and Candy Crush Saga (Kotick, 2015). In 2013 the firm Vivendi announced that it would drop their majority in shares and would remain at only 11.8% which left Activision Entertainment to be a publicly owned company with no majority shareholders (Southey, 2013).

## **2.2. PEST analysis research framework**

To explore what external influences Activision Blizzard is facing in mainland China, a basic strategic management analysis is going to be conducted: the PEST analysis. Although this macro-environmental model might be obvious for some readers, it is worthwhile revisiting its theoretical background to ensure a common knowledge base for the actual analysis in chapter 3.



The PEST analysis was first mentioned by Francis Joseph Aguilar in 1967 in his dissertation "Formulating Company Strategy: Scanning the Environment". Although back then in a different arrangement (ETPS) the four examined dimensions have stayed the same: political, economic, social and technological. The different order of the letters is a pattern seen throughout the history of the model and many forms and additional dimensions have surfaced: STEP, PESTLE or STEEPLE, to name the most established ones (Brown, 1984; Davenport, H, & Prusak, 1997). It is unknown today why the negative connotation – and not the more positive STEP – has established itself. The following description of the four dimensions will be based on Recklies (2006) as well as Vanags and Jirgena (2008) and are merely general examples of what a PEST analysis should include. The specific questions are always depending on the subject matter at hand, as will be seen in chapter 3.

The political dimensions try to look at how much the government influences a specific industry or company. In particular, it looks at the legislation process, what laws are existing and what laws might be introduced that – in one form or the other – affect the examined subject? Are laws adhered to or is there a high level of corruption? But also the overall stability of the political system is looked at: has the government been overthrown lately or even frequently in the last decades? Is the ruling political party right or left wing? The economic aspect is exploring the development of the relevant economic indicators. This might include the total amount of possible customers or the buying power of an average customer. But also in depth market analysis of the past and a forecast might be included to give a comprehensive picture of an industry. In general, the availability of relevant resources and suppliers should be established as well. The influence of society is covered in the social segment of the PEST analysis. Questions about its structure and influence on the underlying subject are answered. Last but not least, technology has big leverage of how successful a company is in the market. The technological dimension is trying to examine impacts externalities could have, what challenges and also what opportunities they could bring.

Today many other forms of the PEST analysis also exist. They are mostly developed through adding a legal and an ecological dimension. For this paper nevertheless these two aspects will not be examined as separate instances. Legal will be covered in the political part, and although the ecology has an influence on almost every company, software development might be one of the industries with the least one. Therefore, this analysis will only focus on politics, economy, society and technology.

### **3. The PEST Analysis**

Activision Blizzard's operates sales offices, development studios as well as manufacturing and distribution in mainland China in Shanghai (Activision Publishing, Inc., 2016). While the company already established a base of operation, many challenges but also opportunities might arise in the future. In the next chapters these dimension will be explored as well as the current influence factors of operat-



ing a video game company will be determined. For the sake of readability and structure, the first part will cover general influences and the second part influences specific to Activision Blizzard.

### *3.1. Political*

The general political landscape in the People's Republic of China (PRC) is exclusively shaped by the Communist Party of China (CPC) and with having over 80 million members, it is the biggest political party in the world (BBC, 2012). Policies and laws are implemented unimpeded and are mostly driven by the party's ultimate goal of creating true communism through building a harmonious socialist society (Kuhn, 2011). Nevertheless – and seeming almost contradictory to communism – the PRC has opened up its economic politics and borders in the last decades, making it an attractive country to invest in for many companies. A steady growth in the gross domestic product as well as incentives for investors to come to China are attributable to the CPC. Key political figures include Xi Jinping the president of the PRC, who combines the role of the secretary of the CPC as well as the chairman of the Central Military Commission, as well as Li Keqiang the premier of the PRC. (MarketLine, 2013)

Activision Blizzard's presence in China is actually facing some challenges as well as opportunities related to the countries politics. Looking at the challenges video game consoles – like Microsoft's Xbox, Sony's PlayStation and Nintendo's Wii or GameCube – were banned completely in 2000. The government feared a negative impact on the development of children spending too much time in virtual worlds (Harwell, 2014). Along similar lines, realizing that not only consoles but also other forms of gaming could have such an effect, the CPC also implanted an anti-addiction system (also known as the fatigue system) in the very popular Internet cafés of China in 2005. In these cafes the youth usually gathered to play video games on PCs, as owning one is still too expensive for the vast majority. The fatigue system ensured, that anyone playing more than five hours would be locked out of the game, with the goal to prevent addiction. As the implementation proved harder and more time-consuming for the developers, the CPC postponed the final execution till 2007. The party also changed the rules to affect gamers under the age of eighteen, after public outcry of adult users (Koo, 2007). An additional legal challenge Activision Blizzard faces when operating in China is the censorship imposed on all media: In August 2007 an expansion for Activision Blizzard's best-selling game World of Warcraft was released in the West, called Wrath of the Lich King. Mainly focusing on the story line about a dead warrior coming back to live as the king of the living dead, this posed some obstacles to overcome due to the Chinese government forcing the game developers, for example not to show bones, removing all content regarding revolutions, overthrowing of authorities within the game and turning red blood green. This long process of changing such big parts of the game, resulted in an over three-year delay, as new versions of the game had to be revised every time by Chinese officials, and the expansion was finally released in fall of 2010.



The first challenge mentioned (ban of consoles) nevertheless has also become the biggest opportunity in 2015. After an extensive test period in the free-trade zone of Shanghai the CPC finally lifted the restrictions and the three major console manufacturers are now able to produce, market and sell their consoles in the PRC. Activision Blizzard, developer and distributor of many of the most successful console games on the market (with over 146,400,000 units sold the Call of Duty series is one of the most successful games worldwide [Activision Blizzard, Inc., 2015]) is now able to penetrate a market of over 360 million customers with ready to sell products (Bischoff, 2014).

### *3.2. Economic*

With an average of 10.5% of growth of the Gross Domestic Product (GDP) over the years 2004 to 2012, the People's Republic of China is – according to the OECD – the country with the highest average growth per capita, right before the Republic of Korea (7.5%) and Singapore (7%; OECD, 2016; The World Bank, 2016). Nevertheless, the PRC was not able to keep this numbers in recent years, dropping to single digits in 2011 and having reached 6.9% in the last quarter of 2015. Having a steadily increasing growth rate may have been prestigious for the government in China, but it comes not as a surprise that these numbers “could not have lasted forever” (Krejsa, 2015). Still, the PRC is under the top five countries in Asia (with Myanmar being the fastest growing country). Seen in a long-term perspective China has made a huge leap forward with Foreign Direct Investments reaching 1.13 trillion Euro at the end of 2015 (Ministry of Commerce of The People's Republic Of China, 2016). This shows that the PRC is still an extremely interesting country for foreign companies looking for new markets.

The growth can also be seen in the growing number of Chinese citizens spending their money in recreational activities, like playing online games. Out of the 632 million internet users in the PRC roughly 368 million are playing video games online on a regular basis (including mobile platforms like Android or iOS; Bischoff, 2014). Being a big customer base to begin with there is still a big untapped market potential that Activision Blizzard could seek out to exhaust, as predictions show they will generate a revenue of over 18 billion Euro, which already includes the new opened up console market.

Not included in this numbers though is the mobile market which is constantly growing. With a revenue of 2.9 billion in 2014 and 4.9 billion in 2015 it is expected to grow to 9.9 billion Euro in 2019 (Hanson, 2016). Seeing that Activision Blizzard has an already strong mobile portfolio in the West – with Hearthstone and Candy Crush Saga being the most popular games – efforts to bring its titles to the PRC should be at a minimum. Predictions for 2016 show that the Google Play store will enter the Chinese market which will boost mobile gaming even further. Unfortunately, these predictions also show that the cost to acquire new users will rise with it, as gamers get increasingly sophisticated in their demands.



Another up and coming market worldwide – and with China being an early adopter – is the eSports market. eSports tries to combine the traditional approach of team sports with virtual games. Massive tournaments are broadcasted live over the internet, and sometimes even on television (Khor, 2013). The recently launched AliSports World Electronic Sports Games is an eSports event sponsored by the Chinese tech company Alibaba. With prize money of over 4.9 million Euro and over 4,200 tournaments planned, it is the biggest event in its category worldwide (Gnyp, 2016). With Activision Blizzard having a wide variety of titles played in official eSports leagues it is well positioned to benefit from this trend, as it results in free publicity.

### *3.3. Social*

China's social landscape has long been, and still is, influenced by its one-child policy, which has become a two-child policy since the beginning of January 2016. For decades families mostly consisted of seven members (child, parents and four grandparents), resulting in small but very strong social groups (Shenjing, Yuting, Fulong, & Webster, 2010). This strong social bonds manifest themselves also in non-family interaction with friends being a central part of Chinese lifestyle. The group mentality might be a reason why Chinese seek out group focused video games, to maintain their traditional cultural principles, in a more fractured modern world (Hurwitz, 2014). This can also be seen in the common usage of internet-cafes – or wang ba – for gaming. These cafes are a meeting place for teenagers and adult gamers alike, and are an easy way for entertainment companies to reach their customers, issuing marketing touchpoints right where the usage of their products occur. Urban migration – being another influential social trend in China – might additionally boost the usage of Internet cafés, which are hardly found in rural areas, but are readily available in the cities.

The above mentioned one-child policy could however prove to be a challenge for video gaming companies, and in that extent Activision Blizzard, as well. The policy resulted in an (aimed for) decrease in population growth; combined with a longer life expectancy (which has grown from 32 years in 1950 to 75 years in 2013 [Li & Lin, 2016]) though, China now faces an aging population (Li & Lin, 2016). Seniors nowadays are not the core target group of video games, nevertheless “silver gamers” are proving to be a resourceful customer base in the West. Interested in more serious game topics, elderly users might not be playing a first-person shooter, but more story driven games, which right now cannot be found in Activision Blizzard’s portfolio. This poses a strong opportunity to grow.

Another opportunity is the general gender imbalance found in the PRC. Although being a serious problem for a society’s future, resulting mainly from selective abortions, the video gaming industry is (still) mainly powered by male customers. While a change process is on its way – with more female friendly games and women already competing in E-sport events – this gender distribution provides simply more users for Activision Blizzard’s products.





The last ongoing social trend is a decline in the overall regional inequality in the PRC between urban and rural areas. A study of the OECD shows that the Gini coefficient is on a steady decrease since 2008 – although compared to other countries still high. This could mean that the over 600 million internet users (out of a total population of 1.36 billion) could still become more than double, as digital technology – and in that extent video game technology – becomes available in rural areas as well, leaving Activision Blizzard with an ever growing target group. (OECD, 2012)

### *3.4. Technological*

The People's Republic of China owns one of the largest amount of state-owned Research and Development institutions around the world. With about 5,500 of them China tries to stay competitive in looking for innovations in the future which is achieved by an R&D growth of about 18% over the last years. The one-child policy mentioned in chapter 3.3. helped the government to reach its goal to slow down population growth, but also is going to result in a sharp decline in labor force. With China traditionally offering cheap labor for foreign companies, the country has to pivot its core competencies. Projections of major consulting companies see China developing from an “innovation sponge” to a global “innovation leader” (Roth, Seong, & Jonathan, 2015). This can also be seen in China's “3,400 research institutions affiliated with universities” and about “13,750 institutions affiliated with medium and large industrial enterprises”. (MarketLine, 2013)

A generally innovative spirit also becomes visible examining the number of patents issued in mainland China. With 825,136 patents filed with the State Intellectual Property Office in 2013, the PRC is leading the benchmark of applications (followed by the US with 571,612 applications). This is a 26% increase from 2012, with numbers for 2014 and 2015 still pending. (Sneddon, 2015)

Studies about China's high-tech output over the last 15 years also show a major increase: from a worldwide share of 8% in 2003, the PRC produced 24% in 2012. With the US at only three percentage points above that, it is clear that the country has a lot to offer. (National Center for Science and Engineering Statistics, 2014)

Although general innovations do not necessarily mean innovation in the video game market as well, a country that is constantly trying to come up with new things provides a fertile ground for Activision Blizzard, producing digital products and therefore being dependent on novelties. Popular games in the West, like FarmVille, actually were copied from Chinese social media websites (HappyFarm). While the newest trend in gaming – virtual reality – did not come from the PRC, the next big thing might be just around the corner.



#### **4. Conclusion**

This analysis has shown that China is an ever-changing and growing landscape with new challenges for businesses to face on a seemingly daily basis. Activision Blizzard has faced many of them until today, but as described above many more are going to come. Most of these challenges can be converted (or are converted by an external party) in opportunities, though, as seen in the restrictions in the political dimension: The console market has opened up once again leaving Activision Blizzard in the race with other local and global companies competing for players. Nevertheless, there are some downsides to be overcome as well: governmental regulations stretch from the fatigue system to the censorship of media in general. These are obstacles that are not likely to vanish soon.

Nonetheless Chinese are avid gamers, as shown in the economic segment. Over 360 million people in mainland China are already playing online, and there is still a big group of people being online, who wait to be won as customers. This is not limited to the PC as mobile gaming is an aspiring part of the gaming industry. In a society that is becoming more mobile (e.g. commuting to work every day), playing on a smart device is the logical next step. The rapid growth of this market segment has confirmed this assumption. Another growing aspect of the gaming market in China is E-Sport. As described in the analysis this provides the industry with a free way of marketing their products and has the potential to become China's national sport.

Traditionally, not having a big budget for video games, gaming for Chinese largely takes place in Internet cafés. Seen as meeting places, this also satisfies a social need, and leaves Activision Blizzard with an excellent location for tailored advertisement without the scattering loss occurring outside. Although the gender imbalance in China poses some serious concern for society as a whole, it could transpire to be beneficial for gaming companies, as their customers are still largely male. Emerging challenges in the social chapter include an ageing society (which leaves room to develop products, especially tailored for this target group) and regional inequality. The latter can only be overcome if the government improves the infrastructure into rural areas of the country as well.

Last but not least the technological aspects illustrate that China is on its way to become an innovation leader which is going to extend into the video games market as well. The country has already shown great promise in inventing new types of games (e.g. Social Media Games) and with its growing number of patents and startups it could become one of the front-runner for revolutionary gaming.

Seen as a whole this PEST analysis has shown that Activision Blizzard faces many future crossroads that need the right decision when the time comes. However, looking at the company's past it seems likely that it will be able to overcome the hurdles and take advantage of the opportunities in China as described in this paper.



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