

The Daily: Microsoft acquires Activision, how digital is political ad spending, and limiting bulk Gmails

Audio

On today's podcast episode, we discuss why regulators changed their mind on approving the Microsoft-Activision Blizzard deal, how the gaming industry will react, and what the deal means for advertisers. "In Other News," we talk about how much of political ad spending has gone digital and how Google is tightening the reins on bulk email senders. Tune in to the discussion with our analysts Daniel Konstantinovic and Gadjjo Sevilla.

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Episode Transcript:

Marcus Johnson:

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Gadjo Sevilla:

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Marcus Johnson:

Hey, gang. It's Thursday, October 19th. Daniel, Gadjo, and listeners, welcome to the Behind the Numbers Daily, an eMarketer podcast made possible by Intuit Mailchimp. I'm Marcus. Today, I'm joined by two folks. Let's meet them.

We start with one of our senior analysts covering connectivity and technology. Based in New York, it's Gadjo Sevilla.

Gadjo Sevilla:

Hi, everybody.

Marcus Johnson:

Hey, fellow. Welcome back. We're also joined by one of our analysts on the marketing and advertising briefing. Also based in New York, it's Daniel Konstantinovic.

Daniel Konstantinovic:

Hey. Thanks for having me.

Marcus Johnson:

Of course, sir. Of course. Welcome. So today's fact, there are more people in California than there are in the whole of Canada. Madness. Yes. If California was... Just in shock.

Daniel Konstantinovic:

Yeah. I'm processing.

Marcus Johnson:

If California was a country, it would be the 38th largest in the world. There's about 39 million people there, so as many or more people than [inaudible 00:02:05].

Daniel Konstantinovic:

I've never been to California actually.

Marcus Johnson:

Really?

Daniel Konstantinovic:

Yeah. Surprisingly.

Marcus Johnson:

There's enough people there. Don't bother.

Daniel Konstantinovic:

Yeah, that's what I'm getting from this.

Marcus Johnson:

So yeah, the reason that there are more people in California than there are in Canada is because despite Canada being the second largest country in the world by landmass, excuse me, behind of course Russia, Canadians only live in a few places. Nearly 90% of Canadians live within a hundred miles of the US border. So they're all along the border, which is why they don't live in other places. It's a shame. It's bloody beautiful. Gadjo, been to Canada or California?

Gadjo Sevilla:

I've been to both. I've lived in Canada for 14 years.

Marcus Johnson:

Oh.

Gadjo Sevilla:

Yeah.

Marcus Johnson:

Hello.

Daniel Konstantinovic:

Oh, wow.

Gadjo Sevilla:

So yeah.

Marcus Johnson:

See, that's why there are so few people in Canada, because they keep leaving. Gadjo.

Gadjo Sevilla:

Yes.

Daniel Konstantinovic:

It's your fault.

Marcus Johnson:

[inaudible 00:02:50].

Gadjo Sevilla:

Sorry.

Marcus Johnson:

I'll trade with you. I'll go. Anyway, today's real topic, Microsoft completes its \$70 billion takeover of Activision Blizzard. Now what?

In today's episode, first in the lead we'll cover the Microsoft-Activision deal. Then for In Other News, we'll discuss what we can expect to see from political ad spending in 2024, and Gmail

cracking down on bulk emails. We start, of course, with the lead. We're talking about Microsoft and their Activision Blizzard deal.

So Microsoft, who owns Xbox, has completed its \$69 billion takeover, around 70 give or take, of Call of Duty maker Activision. So Microsoft bought Activision Blizzard in the gaming industry's biggest ever deal, Michael Race and Zoe Kleinman of the BBC were noting. This is also the largest consumer tech acquisition since AOL bought Time Warner in January 2000. If you can't remember January 2000, Cher's Believe was top of the charts. So that's how long ago the biggest deal was up until this one, which overtook it in terms of consumer tech.

The Microsoft-Activision deal, which got announced back in January of 2022, will see Activision's bestselling franchises, so think Call of Duty, World of Warcraft and Candy Crush, strengthen Microsoft's video game business. So the deal was given green lights for the global deal after UK regulators approved it. They'd initially blocked the deal, but then said their concerns had been addressed. So basically, Microsoft's bought Activision Blizzard. It asked to buy them, or said it was going to, in January 2022. The UK blocked it and said, "No, no, no." The US also did as well. But now the deal, after about a year and a half, has been approved. Gadj, what changed?

Gadjo Sevilla:

So what changed was the competition and market authority of the UK was worried that Microsoft would have outsize control and they would be anti-competitive. So what Microsoft did was they made various multi-year concessions, so Ubisoft is distributing some of Activision Blizzard's games in the EU, and they also made long-term deals with Nintendo and Sony, which are Microsoft rivals, to support titles like Call of Duty, which is one of the biggest IPs for them, for multiple years. So I think that satisfied the worry from regulators that Microsoft would control the game streaming platform in Europe. So that helped them close the deal, I think.

Daniel Konstantinovic:

Yeah, I'll just add that it was specifically cloud gaming that the CMA took issue with in this deal, which is just basically streaming games the same way you stream shows from Netflix. Right now, you'd have to purchase games or download games, and cloud gaming is like a growing market. It's still burgeoning, but the CMA was worried that it would give Microsoft too much of an advantage in this growing market. So that was really their key concession. So

the deal with Ubisoft was they basically gave Ubisoft cloud gaming rights for all existing Activision Blizzard games and all games that they'll publish for the next 15 years, and then it'll flip back over to Microsoft.

Marcus Johnson:

Okay. All right. So let me get this straight mainly for myself, but perhaps for listeners as well. So concern here, other gaming companies concerned that Activision titles like Call of Duty, they could be Xbox exclusives over time and that this would give Microsoft too much power in the cloud gaming space. And so the solution was Microsoft handing the rights to distribute Activision's games on consoles and PCs over the cloud to Ubisoft video game publisher for the next 15 years. And that's outside the European economic area, right? So it's most places just not in Europe.

Daniel Konstantinovic:

The cloud gaming rights, I believe it's-

Gadjo Sevilla:

Eu.

Marcus Johnson:

EU

Daniel Konstantinovic:

... it's EU specific, or I wasn't sure actually. Yeah.

Marcus Johnson:

Okay, so outside of the EU. Okay, so Ubisoft can control where things like Call of Duty, other games show up in the cloud outside the EU. And you said 15 years, so that's 2038.

Gadjo Sevilla:

No, that would be in the EU, I think.

Marcus Johnson:

In the EU.

Gadjo Sevilla:

Yes, because that's the area where they didn't want a dominant player. Microsoft still has Xbox Game Pass, which they'll be using to distribute in North America and Asia as well. But for the EU, they needed to give Ubisoft that opportunity to be the streaming provider for those games.

Marcus Johnson:

Okay, so they have the rights to stream it where they want in the EU.

Gadjo Sevilla:

Right.

Marcus Johnson:

Got it. Okay.

Daniel Konstantinovic:

I just don't want to get too mired down in the specifics. There's a lot of random little pieces to the deal that are hard to wrap your head around.

Marcus Johnson:

Mm-hmm.

Daniel Konstantinovic:

So [inaudible 00:07:37] talked about cloud gaming and the CMA and how that was their chief complaint and the Ubisoft deal, but you mentioned, Marcus, Call of Duty, which was another really major thing that had the deal held up in US courts and in the UK. The concern was that Call of Duty, which is this incredibly high-selling franchise, and not just a franchise that does really well with initial sales, but has built-in transactions so it just generates a lot of revenue after sale, the concern was that Microsoft would make it exclusive to their consoles or ecosystem, which includes Game Pass, a subscription gaming service. And in order to assuage those concerns, they had to make those deals with Sony and Nintendo that Gadjo mentioned. But to just give a sense of the size of Call of Duty and... There were Sony filings with the FTC about the acquisition that revealed that there were 1 million PlayStation users who only play Call of Duty in 2022-

Marcus Johnson:

Oh, wow.

Daniel Konstantinovic:

... I believe, and that the series generated 800 million in revenues for them. So that just gives you a sense of what would have been lost for the competitors if it had been removed from their consoles.

Marcus Johnson:

Got it. Okay. That's a really interesting point. So after 15 years, what happens? Ubisoft won't have cloud gaming rights for Activision's content, but regulators think that cloud gaming rivals can become more established over that timeframe. So that's why 15 years.

The deal's got a mixed response from regulators around the world. We've seen the EU already passed the deal. America tried to block the deal, but failed to do so. The UK now has said everything's fine. So now the deal is done, what can we expect Microsoft and Activision to do?

Gadjo Sevilla:

I think for now until possibly the end of the year, it's going to be business as usual. Microsoft just absorbed 8,000 new game developers from various studios, so that will likely shake up early next year. Whether it's to consolidation or expansion, that depends. But I think for now, everyone's just been waiting to see what was going to happen. So any other deals in the gaming industry could likely proceed, and you can expect the competition to ramp up where they can.

Marcus Johnson:

Okay. Danny, what do you see from Microsoft and Activision?

Daniel Konstantinovic:

Yeah, I agree with Gadjo. Microsoft has said that they already have plans to bring Activision games like Call of Duty to its subscription service Game Pass, which is on its consoles and on Windows. And I think yeah, there's definitely a sign here that other gaming acquisitions can go through. I mean, even Sony had a major acquisition around the time that Microsoft announced

the Activision Blizzard one. They acquired a developer named Bungie, who created Halo for I believe it was like 7 billion. But I think what you'll start to see is a lot of major games publishers try and copy Game Pass, which has been a really big disruptor for the industry. Basically, you pay-

Marcus Johnson:

This is Xbox Game Pass?

Daniel Konstantinovic:

Yes. Well, it used to be Xbox Game Pass. Now, they've just rebranded it to Game Pass.

Marcus Johnson:

Now it's just Game Pass. Okay.

Daniel Konstantinovic:

It's sort of the same service across computers and consoles.

Marcus Johnson:

Got it.

Daniel Konstantinovic:

So Game Pass is an interesting and complicated service to talk about because of Microsoft holds things like subscription numbers really close to the chest, and there's a lot of speculation about how much they are paying individual developers to have their games hosted on the subscription service versus how much that developer might make in sales if they weren't to just be available on the streaming service. The economics around it are muddy, but it is clearly the focus of Microsoft's acquisitions. They've acquired a lot of studios in the past couple of years in smaller deals than-

Marcus Johnson:

Yes.

Daniel Konstantinovic:

... Activision Blizzard, and the idea is that on day one when these large games that would normally cost \$60 release, all you have to do is pay 10 or a little bit more per month and you can access it day one on Game Pass. So if you're a consumer, the value proposition for buying an Xbox versus a PlayStation is I pay 400 to \$500 for an Xbox console, and then I pay a cheap monthly subscription and I get all the new games that I could possibly want from this huge umbrella of studios that Microsoft owns versus Sony, which still has a large number of subsidiary studios, but does not offer day one access to new, high profile releases on its version of Game Pass. It recently redid its own subscription service to mimic Game Pass. Just to give you a sense of how much pressure that service is putting on the other major competitors in the market.

Gadjo Sevilla:

Yeah. And beyond that, Microsoft is also looking at mobile. So they're going to be launching Android and iOS stores next year, and that's to distribute Activision titles like Candy Crush and Call of Duty Mobile. So they're looking beyond Game Pass, and I think they really want to be a player in mobile gaming because there's a lot of opportunity for advertising there, for in-game experiences and monetization for them.

Marcus Johnson:

Mm-hmm. Yeah, so in research from Newzoo, I believe one of you used it in your article, but digital gaming revenues worldwide, mobile, 50% of the pie. So this deal does conjure up images of people playing console games. But mobile responsible for half of digital gaming revenues in the world, consoles 30%, and then laptop/desktop/downloaded games 20%, pretty much the rest.

Daniel Konstantinovic:

Yeah.

Marcus Johnson:

Okay, so let's zoom out for a second. So for context, this is Microsoft's biggest deal in its nearly 50-year history, Satya Nadella, became CEO in 2014, so about 10 years ago. Since then, they have acquired LinkedIn. Microsoft's acquired LinkedIn for 26 billion, Nuance Communications for 16, some other companies as well for over 300 deals actually worth over \$170 billion, according to Dealogic. Mr. Nadella has also looked at companies like TikTok,

Pinterest, Discord to maybe, maybe, maybe buy them, but that's just the kind of scale of this deal. LinkedIn, 26 billion. Microsoft got those. This is \$70 billion. But even though it's a big deal, it's not a huge part of their business for now.

Sarah E. Needleman and Tom Dotan of the Wall Street Journal are pointing out that adding Activision would've made gaming overall about 10% of Microsoft's revenue in the latest fiscal year, up from 7% of the company actually reported. The bolstered video gaming operations would put it on par with the Windows business Microsoft was first built on and much larger than its LinkedIn and ad units. But still, gaming would be about half of its office products and cloud services category. So it's not a huge part of the business just yet. So the deal further establishes Microsoft as this video game giant. It's about the third or fourth largest in the world.

Daniel Konstantinovic:

I think they said at the outset of the deal that it would make them the third largest in revenue.

Marcus Johnson:

Okay. So Tencent, then Sony and their PlayStations. So Tencent one, Sony and their PlayStations two. Okay, so then it would make Microsoft three, Nintendo four. What does this mean for advertisers, this deal?

Daniel Konstantinovic:

Like Gadjo said, mobile advertising is also a really big part of this deal. One of the major assets Activision Blizzard owns is King, which creates games like Candy Crush which are huge drivers of revenue from in-game spending on these tiny, little purchases that add up, but also in advertising. So we have a forecast that says that King is going to make 433.1 million in advertising revenue in the US this year. And the total mobile game ad spending pool we say is 6.67 billion in the US.

And already, right before the acquisition went through, Activision was signaling that they're making a big push into mobile advertising. They launched this new suite of measurement tools for in-game ads to increase advertiser faith in them because even though it's a huge spending market, in-game ads are a little notorious for low quality things, like popping up in the middle of playing which leads you to accidentally click on it or banners coming down on the top of your screen that don't really mesh well with the game. It's not looked upon very highly despite

a lot of spending. So they're really trying to increase the trust there, and I think there's going to be a large push into mobile advertising from Microsoft.

And in the long, long term, quietly in the background Microsoft is also working on in-game ad tech for games that it streams for cloud gaming essentially. So this was a leak in 2022 that said Microsoft was working on this. And there was a similar story about Sony. So it's clear that they're trying to figure out a way to get free-to-play games to get ads in those, which would normally be played on consoles or computers.

Marcus Johnson:

Mm-hmm. Very good. Well, that's all we've got time for, for the lead. We're going to skip the halftime report and go straight to the second half of the show today, In Other News. What to pay attention to with political ad spending in 2024 and Google tightening the reins on bulk email.

Story one. Danny, you just wrote that political ad spending will reach \$11 billion in 2024, according to a Vivvix analysis. You point out that the 2022 midterms saw nearly \$9 billion in spending, [inaudible 00:16:52] 2020's presidential election numbers and smashing the 2018 midterm figures. But what jumps out to you about political ad spending in 2024?

Daniel Konstantinovic:

I think what's really interesting about political ad spending for this election cycle is we're seeing a lot of expected things, like money going to network TV, that has been shifting elsewhere and other trends. So it'll be a big year for legacy media that is slowly fading. But even in political ad spending, that shift over to digital is starting to happen. So a lot of money is being spent on connected TV advertising in politics this year. It's growth from the last election cycle outpaces linear TV. So I think in the future, even political advertising, which goes to network TV because it can get much more local, local political ad spending is really big, I think even there in this holdout for legacy media, it's going to go over to digital faster than we think.

Marcus Johnson:

Yeah, I thought it was fascinating. Political ad spending still old school. Most of ad spending still broadcast TV, 5 billion, then cable, and then spending on Google and Facebook about 1.6 billion of the 11. \$11 billion in context. I believe you're pointing this out. Total political ad

spending and growth exceeds the travel industry, which will give over \$7 billion to US digital ads in 2024 according to our forecast.

And then finally, it's political ad spending, but it's not all presidential spend. Lindsay Rittenhouse of Adage notes that political ad spend is projected to hit a record 12 billion during the 2024 US election cycle according to Stawgell Media agency Assembly, but just 3 billion is expected to be spent on the presidential race. The other nine is for down-ballot races.

Story two. Google tightens the reins on bulk email senders in a significant update to Gmail, writes our analyst on the connectivity and tech briefing with Gadjo, Jacob Bourne. He explains that Google, the world's largest email service provider, is cracking down on those who send over 5,000 bulk emails daily to Gmail users. Senders will have to authenticate their email accounts, their recipients opt out of future emails with a one-click unsubscribe option, and only send emails recipients want to receive. If a sender gets reported as spam enough times, they will get blocked by Google, writes Jacob. But Gadjo, what's the takeaway for marketers here when it comes to Google tightening the reins on bulk email senders?

Gadjo Sevilla:

So once more, marketers are subject to Google's algorithms. And now, they have to find possibly creative ways to adjust. Gmail already does a great job in categorizing the mail in your inbox even before you read it, and so they're getting better at sniffing out the intent of these emails. So the challenge for marketers relying on email campaigns to attract or retain customers would be figuring out how to get that visibility that they could lose. This could affect everything from inaccurate open rates as well as fighting for those emails to remain visible as they are lumped further into categories in the inbox that make them difficult to find.

So how can they solve this? In the special campaigns where they can get maybe their subscribers to opt in further to put a higher profile to those subscriptions, that could help. But for now, it's just going to be adjusting around this technology which will affect everybody, I think.

Marcus Johnson:

Gmail, a huge deal. The second most visited smartphone app in America in terms of unique visitors, according to Comscore. Google actually owns the top four spots. Google-owned

YouTube is number one, Gmail, and then Google Search and Google Maps are third and fourth each with over 125 million unique visitors.

That's all we've got time for, for today's episode. Thank you so much to my guests. Thank you to Gadj.

Gadjo Sevilla:

Thank you.

Marcus Johnson:

Thank you to Danny.

Daniel Konstantinovic:

Yeah, thanks as always. Fun to be here.

Marcus Johnson:

Yes, sir. And thank you to Victoria, James, and Stuart who helped make this podcast happen. Thanks to everyone for listening in. We are still taking answers for our free water bottle contest. Oh, ho, ho. Hello. All you have to do is tell us what the Hollywood sign used to read when it was initially put up. Send the correct answer and a review of this podcast, it can be an old one if you want, into podcast@emarketer.com or to our Instagram at [insiderintelligence](https://www.instagram.com/insiderintelligence). We hope to see you tomorrow for the Behind the Numbers Weekly Listen, an eMarketer podcast made possible by Intuit Mailchimp.