

THE REVENGE OF THE NERDS

Why Microsoft is on track to own the future of entertainment.

This article was first published in Adweek.



On the 14th November 2006 Microsoft launched its ill-fated Zune digital music player. It was the most notable, and embarrassing of all Microsoft's failed attempts to combat the emerging, irresistible force that was Apple.

At the time it seemed that Microsoft's Achilles heel would always be its nerdy DNA. Sure, they could dominate the business space, because business people just didn't seem to have much taste. But it was unimaginable that they could win in an entertainment driven world of technology, because the nerds from Redmond just could never connect with the creative people who had their fingers on the pulse of popular culture.

MICROSOFT NOW HAS A VERY CREDIBLE CASE TO CLAIM THAT IT'S THE MOST EXCITING, AND PROGRESSIVE ENTERTAINMENT COMPANY IN THE WORLD

Well, with this week's acquisition of Activision / Blizzard, Microsoft now has a very credible case to claim that it's the most exciting, and progressive entertainment company in the world. Satya Nadella is quarterbacking one of the great business turnaround stories of all time. And he's winning because he has fully embraced the creative core of nerd culture, which is where the future of entertainment lies.

Microsoft launched the Xbox in 2001, and had some good success in the early years thanks to Halo and a culture of innovation that helped to transform the console gaming world. They pioneered online gaming with Xbox Live, launched the world's first digital download store, and pushed the boundaries of how we could interact with games with the Kinect. But with the launch of the Xbox One it seemed like Microsoft was yet again failing to read popular culture, and had once again lost its way. The Kinect couldn't get past feeling like a tech demo (much like a lot of VR is today), but the bigger issue was that Microsoft was trying to push the console more for its film and TV capabilities than its games. This was an epic moment of corporate tone deafness, and it opened the door for PlayStation to run away with that console generation.

COLLABORATIVE

Insight . Ideas . Inspiration



But after the initial debacle of the Xbox One launch, one of Nadella's first brilliant moves as CEO in 2014 was to elevate Phil Spencer to lead Xbox as part of the Windows and Devices division. Spencer started at Microsoft as an intern, but had deep experience in games, having risen to be general manager of Microsoft Studios, and he immediately set about focusing the company on the only thing that mattered - the immense power and creativity of the gaming community.

So whilst the other tech companies were battling each other to take hold of the worlds of music, movies and TV, Microsoft has been laser focused on gaming. This is not just a financially astute strategy (gaming is by far the most valuable entertainment vertical with revenues of \$60.4B in the US in 2021), it's also the form of entertainment where Microsoft's technical capabilities can be leveraged to the greatest advantage. A big part of gaming's future is in the cloud and Microsoft has left the competition in the dust thanks to its Azure powered xCloud platform.

WHERE DOES THIS LEAVE THE COMPETITION?

The Activision / Blizzard acquisition may be grabbing the headlines because of its eye watering price (\$68.7B), but the real story is just how far ahead of the competition Microsoft now stands. Today they have a 25 million player base on their subscription service Game Pass, and they now control the most important IP in the world of games (Call of Duty), and as the most storied, credible publisher (Blizzard). And it feels like they're only really getting started.

COLLABORATIVE

Insight . Ideas . Inspiration

Brands and marketers have underplayed and underestimated the power of games as a medium and culture for too long, in much the same way as Microsoft has been ignored as a powerhouse of entertainment and creativity. It's about time the industry woke up and had a cold hard look at where the future of entertainment is headed. The world of games is not without its problems, but with 90% of Gen Z classifying themselves as gamers it's simply not possible to credibly build a future facing brand without a clear and coherent perspective on how you are going to address the game space.

It's perhaps time to forget about the 'crazy ones', because it looks like the nerds may be having the last laugh. It's possible Apple will buy Sony to try and keep up, but that would be an odd and difficult marriage. So for now marketers would be wise to divest some of the excessive investment in social platform strategies, and begin seeing the absence of an Xbox / Microsoft strategy as a critical weakness that needs urgent attention.

COLLABORATIVE

Insight . Ideas . Inspiration

Collaborative is VCCP's insight platform, showcasing the collaborative thinking of its strategists from across the VCCP Partnership which include specialists in media, communications and experience design.

Report author: **Jonny Shaw, chief strategy officer at VCCP New York**

If you have any questions or for more information please contact
collaborative@vccp.com