

## Dean's Executive Leadership Series - 2008-2009

### Transcript of Presentation by Ann Weiser, Chief Human Resources Officer for Activision Blizzard – Part 1

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#### Start ####

**Narrator:** The Graziadio School of Business and Management at Pepperdine University proudly presents the Dean's Executive Leadership Series. This podcast invites top business practitioners and thought leaders to share their view on the real world of business.

**Dean Linda Livingstone:** Well, good evening everyone. I hope you have had a good evening and enjoyed that beautiful Malibu weather tonight for our reception. It was fabulous, and we're so glad to have you with us as we continue our Dean's Executive Leadership Series this year. To begin our evening, I want to, once gain, recognize Farmers Insurance Group and Fay McClure, who is a member of our Board of Visitors for being very generous sponsors of this program, and also sponsors of our Education and Business Program. So, Fay, would you stand up and be recognized? Also we have a really great group from Farmers here. I want the rest of your colleagues from Farmers to stand up, so they can see what great representation we have here tonight. I want to just mention a few things that are going on in the school, prior to introducing our speaker this evening.

We have several other events coming up, even as we're sort of moving in on the holidays. November twentieth, which is Thursday evening, at the West LA campus, at six thirty we are hosting an event called "Attaining Growth Through Corporate Social Responsibility." It's featuring Jeff Hitner, who is the Corporate Social Responsibility Leader for IBM Global Business Services. And it's actually being sponsored by a couple of our student groups, the Value Center Leadership Lab and our Net Impact Chapter. It should be a really fabulous evening, looking at social responsibility issues and what a really large company is doing in regard to that. So if you can join us on Thursday night, that would be fabulous.

- 1 -

# PEPPERDINE UNIVERSITY

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And then are any of you graduating on December sixth? Do we have any- yes. We have a few of you. Congratulations. So graduation December sixth, which, of course, any of you are invited to that would like to come, whether you're graduating or not, but we are going to be honoring Wolf Hanks, who retired recently as president of World Wide Operations for Four Seasons. He's going to be receiving an honorary doctorate and talking to us about customer service, so it should be really fabulous. And then we'll also honor of our own alumni, Luis Faura, who is the president and chief operating officer of C&F Foods, will be our distinguished alum for the day. So it's just going to be a wonderful event where we get to celebrate our students, as well as celebrating an alum, an exceptional business leader.

I want to also bring to your attention one of the things we've been piloting some this fall are some webinars. We've always tried to do events to bring everyone together physically, but we also are piloting webinars, both with recruiting events and some career events, that allows people to connect with us even though they can't physically be with us. So there's a whole series of career webinars that are listed on our website. I encourage you to take full advantage of those, because you can do them from wherever you are. And we had one, I think Mike, about a week ago, and had sixty or seventy people at the last career webinar, so it's a great opportunity. Look on our website to learn more about that. And then prior to introducing tonight's guest, I do want to mention that our next Dean's Executive Leadership Series speaker will be on January twentieth. Now, I believe that will be Inauguration Day, so enjoy your celebrations of Inauguration Day, and then come to the Dean's Executive Leadership Series, where we'll feature Julia Stewart, who is the chairman and CEO of Dine Equity. Dine Equity owns IHOP and Appleby's, among other things, and so she'll be fabulous. She's a very dynamic speaker. You'll enjoy her a lot. So that will be on January twentieth.

But let's move on to our business of the evening, and I would like to introduce to you Ann Weiser, who's the Chief Human Resources Officer of Activision Blizzard, Incorporated. Activision, as you're probably aware, is the leading worldwide developer and publisher of interactive entertainment leisure products, some of which you are probably quite familiar with and have used and enjoyed. Miss Weiser became the Chief Human Resources Officer of Activision Blizzard in July, 2008, as they combined Activision and Vivendi Games, and she was the Chief Human Resources Officer of Activision Publishing from September, 2007 until the merger of those two companies. Prior to joining Activision Blizzard, she served on a number of executive level human resources positions in an international retail operator, as well as in the food services division of that company. She's been with Kraft in a number of positions over the years, so she's got a tremendous background in human resources in the retail consumer products industry, and now in the space of technology and entertainment, and is responsible for all aspects of their strategic human resources function. So it's a pleasure to have Ann with us, and let's give her a hand. We're going to watch a little video clip first, but let's go ahead and give her a hand and welcome her, and then she'll come up after the film.

- 2 -

# PEPPERDINE UNIVERSITY

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<video>

**Ann Weiser:** That was pretty cool, wasn't it? It's one of our new commercials for "Guitar Hero" that's going to be released this holiday season. And you saw Kobe and Michael Phelps and A-Rod, and Tony Hawk, who is a long time partner of Activision. So I hope you enjoyed that, and look for it in your local stores. It's a great new product. I wanted to say thank you to Linda for introducing me, and I am Ann Weiser. I'm the head of HR for Activision Blizzard. We are the world's coolest entertainment company, at least we think so. I'm sure there's a lot of executives that derive great satisfaction from their work, places like plumbing supply companies and things of that sort. But I'm not sure that anybody really has as much at work as we do. So before I get started, I know we've got some gamers in the room, so can you identify yourselves? Gamers? Great. And where is my really hardcore gamer that I was talking to today? There he is. Yeah. Ha ha. So thank you. It's always a pleasure to talk to our consumers. I always learn about what motivates you to buy our product and keep you loyal as a customer. So thank you very much, and hopefully you'll find some of the things that we talk a little bit about today interesting from a gaming perspective.

I've got a lot of great clips to show you, and some previews of some things that we've got really seeing this holiday season. But I'm here today really to talk about the Activision Blizzard merger, the challenges that we faced in making that happen, the obstacles that we've overcome, and the lessons that we've learned. And I actually have, there's a PricewaterhouseCoopers representative here who's actually working on the Activision Blizzard business. We were commiserating a little bit about some of the integration work, and so I'll mention some of the things going on there. But I want to also give you a brief history of the company, and the current state of the gaming industry, and some perspective on the market environment that we're working in. I'd also like to convey my perspective on this recent merger, and the critical role played by our advisors and our consultants. And some of you may, in fact, actually operate in that capacity, either now, as a consultant, or maybe that's your future direction as you consider your career going forward. I hope that you'll find the stories that I'm going to share with you today interesting, and that you learn from those anecdotes that capture some of the key learnings that we will certainly use moving forward as a company and that you might find valuable in the work that you'll do someday.

However, before we get started, they always say it's important to begin with a little story, so I'm going to share one with you. Goes a little bit like this. There was a shepherd who was herding his flock in a remote pasture. While he was doing this, suddenly this brand new BMW sort of races into the area where he is and out of a cloud of dust this guy appears. And the driver's a young man dressed very nicely in a Brioni suit and Gucci shoes and Rayban sunglasses, and Leaf's Rock tie. He leans out the window and he says to the shepherd, "If I tell you exactly how many sheep are in your flock, can I have one of 'em?"

# PEPPERDINE UNIVERSITY

## Graziadio School of Business and Management

The shepherd thinks it's sort of an odd question, but he said, "Sure, why not?" So the yuppie parks his car. He whips out his HP laptop, connects it to his cell phone, starts to surf the net, finds just the right GPS satellite navigation system, scans the whole area. Pulls out his Excel spreadsheet complicated formulas, sends an email on his Blackberry, and a few minutes later gets a response.

Well, a consultant can't really do much without printing out this beautiful, perfect deck, right, a hundred and thirty pages on his miniaturized computer. And he says to the shepherd, "You have exactly one thousand, five hundred and eighty-six sheep." Shepherd said, "You know, you're absolutely correct. You may take one of my animals." So the yuppie walks over, selects one of the animals, bundles it up, puts it in his car. The shepherd says to him, "Okay. If I tell you what you do for a living, can I have my animal back?" The guy said, "You know, sure, fair enough." So the shepherd looks at him and said, "You're obviously a consultant." And the yuppie said, "Well, that's correct, but how did you know that? How did you guess?" The shepherd said, "No guessing required. You turned up here, although no one called you. You want to get paid for an answer I already know to a question I never asked. And you don't know squat about my business. Give me back my dog." So I'm sure that consultant graduated from USC, obviously not from Pepperdine.

So, of course, not all of you plan to be consultants, but if you do, and you ever find yourself in a situation where you need a self depreciating story, we find that is a great way to lead into this discussion. So let's begin- oh, I'm ringing. The videogame industry never sleeps. So let's begin with a little history of the company and some perspectives on the industry. Most of you, given scanning the audience here, most of you are probably too young to remember some of these games, or don't want to be embarrassed by showing your age. But does anybody remember Atari? Okay. Do you remember Pong? Okay. Well, the world's changed a lot in gaming since then, so a little history on the company. Activision was the first third-party videogame publisher, founding in 1979 by four ex Atari programmers. At its height, the company had revenues of about two hundred million, but by 1986 the market for the Atari 2600 had collapsed. So Activision turned its focus to productivity software, and they maintained a small videogame division that was Nintendo's official American licensee, and actually was the developer of the first CD-ROM game called "Manhole." But despite the early successes of the company, by 1990 the company was insolvent.

And in 1991 a young entrepreneur named Bobbie Kotick, who's now the CEO of Activision Blizzard, purchased a controlling interest in the company, and he spent the next seventeen years rebuilding Activision to become the second largest videogame publisher in the world. Now, I'm sure there are a lot data junkies around here. I know we have at least one with PWC. So here's a little something about the company's history and some of our financial results. For our fiscal year 2008, which ended March thirty-

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first, Activision delivered its sixteenth consecutive year of revenue growth, sixteen consecutive years. We're hoping, as we complete this calendar year, we can report that we've had seventeen consecutive years of revenue growth, more than two point nine billion dollars in revenue, and was the most profitable publisher in the industry. Over the last five years, no, through September, we're going to exclude this recent little hiccup in the stock market, the company's stock had accumulative average growth rate of fifty percent per year, and more than thirty percent per year in the past ten years, so a pretty phenomenal company in terms of its return to its investors. We're the number one publisher in North America, and we have the two top selling, the two best top selling games worldwide. Anyone guess what those are?

"Guitar Hero," "Call of Duty." You got it. So "Guitar Hero III—Legends of Rock," and "Call of Duty 4, Modern Warfare," were the two best selling games of 2008. We're the number one and number two movie based games worldwide, which were "Spiderman 3" and "Transformers," really impressive results by any measure when you think about what we've done. I want to show you a little trailer from our newest "Spiderman" game called "Web of Shadows." <video>

A new game coming out this holiday season. So you might think about the success of this organization and say, you know, why, on God's green earth would Activision want to merge with somebody? You know, besides making my life miserable, and employing a flotilla of consultants over the last year, why on earth would we want to do this? We started to take a look at the market, and as many of our gamers that I talked to during the reception already know, we realized that online gaming was becoming a major driver in the industry. And while Activision had had, and still has, a leadership role in console games, it had little or no presence on PCs, and no experience in the massively multiplayer online category known as MMO. We call it MMO, which is the fastest growing segment in the PC gaming market. So after looking closely at the MMO market, we realized that the barriers to entry in this business were very high, and that a company getting into the market would be taking tremendous risk with capital. So an MMO game, when you think about it, takes massive technology, development and customer service infrastructure. The category already had a very dominant player in Blizzard Entertainment, whose "World of Warcraft" game has more than eleven million subscribers. Just put out a press release on that last week. Went from ten point five to eleven million.

So to date Blizzard has invested more than two hundred million dollars in their "World of Warcraft" universe. And across the globe there are thousands of servers that support this game, and over two thousand customer service reps, or what we call game masters, who are available to support players in the game. It's a huge effort to support an MMO environment like this. So in addition to being the market leader, Blizzard has developed five of the top ten best selling PC games of all time, with more than sixty million units having been sold worldwide. They're the most profitable company in the industry, with very

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## Graziadio School of Business and Management

enviable operating margins in excess of forty percent. So you combine the two organizations together and our numbers are about twenty-five percent operating profit for the two combined companies. It's based largely on their business model of being a subscription based company, so you buy the game and then every month you pay to play. And so it's a very steady revenue stream. So additionally, Blizzard's the only western game publisher that has a large footprint in Asia, which was a very unique characteristic of their company. And they're particularly in the rapidly growing markets of Korea and China.

So we were pretty impressed when we started to take a look at Blizzard and explore the opportunities with them. And we realized if we were going to have a leadership position in the MMO world that the strategy was really simple. We needed to bring these two companies together. Starting from scratch wasn't going to make sense. The price of entry was way too high, and nobody could come up against this really formidable competitor in Blizzard. So the transaction between Activision and actually Vivendi Games, which is the parent company of Blizzard, was closed on July tenth. It combines the two best performing companies in the industry, Activision and Blizzard Entertainment bringing together Activision's top selling portfolio of console and handheld games, and Blizzard's PC and online franchises. So with the merger, Activision Blizzard became the immediate leader in the highly profitable online gaming segment. It's the only publisher with a strong presence in Asia, and has a leading market share in North America and Europe. We expect to have the highest operating margins of any third party publisher. I think this year we will deliver on that. The most diversified portfolio in the industry, and we're uniquely positioned to capitalize on opportunities in the interactive entertainment space. So let's shift gears a little bit now and take a look at the overall marketplace. I told you a little bit about Activision Blizzard. Let's talk a little bit about what's happening with gaming in general.

So we think about Pong and Pac-man, which some of us grew up with, and now "James Bond" and *Wrath of the Lich King*. The shift in gaming has been dramatic. So first technology has been the real game changer in what's happened in this industry. Games are now almost cinematic in their quality. And the visual impact is stunning and beautiful. I'd like to show you a clip from Blizzard's *Wrath of the Lich King*, which was just released this past week. Before I do that, I want to tell you a quick, little story. One of the things that happens in our industry is, particularly with Blizzard style games, is they do midnight openings. What they means is when the game is ready to be released, we work with all of our retailers to open their store at midnight to sell just that game. Now across Europe over the weekend we had twenty-five hundred midnight openings. And I got an email from the guy who runs Europe over the weekend, and he said, "I'm standing on a street in London. There are three thousand people lined up in front of this single store to buy *Wrath of the Lich King*."

# PEPPERDINE UNIVERSITY

## Graziadio School of Business and Management

And I was talking to somebody earlier today who has a little bit of experience with the Blizzard constituents, they generally come in costume, and whole families will come dressed in their little clan, and it's just an amazing thing to watch. So picture that happening twenty-five hundred times across Europe over the weekend. But when you see this clip, you'll understand why it is such an experience. <video clip> It's hard to believe it's a videogame. It's like a movie. I mean, the technology is absolutely incredible, the artistry, the sound, the music. When you think about what it takes just to create that clip of that game, you think about all the talent behind that, it's just absolutely remarkable. So technology's been a real game changer for us. Secondly, the growth in hardware and the penetration of hardware, and the dramatic shifts to new platforms with more developing all the time is another game changer. Over the weekend I saw two of my nieces, and I bought them an early Christmas present of an iPod Nano. And, you know, they were playing with them and all excited to have them, and all of a sudden one of them looked at me and said, "There's games on here, too." And so I didn't realize the Nano came with games, but they do.

So games are being delivered through all kinds of means. It's no longer just a console or just a PC. But console and handheld hardware in the U.S., Europe and Japan, is expected to hit four hundred and fifty-eight million units by the year 2010. So picture that as every console represents a potential game channel of delivery for us. Console and handheld- I'm sorry. This does not include more than the two hundred and twenty-five million PCs that will be worldwide, and there are more devices than ever that are capable of playing games, such as the iPod Nano. These changes have made games more accessible, more fun, and more available to a wider variety of people.

To me, the best example of this is the Nintendo Wii, which has absolutely broken the boundaries of what traditional gamers are. It's opened a whole new world of opportunity for us and every other game publisher. How many of you know a seventy-year-old person who's played a game on the Wii? It's amazing. And you've all seen the stories of nursing homes buying Wii systems to encourage people that are confined in wheelchairs to have some movement, and the schools in West Virginia buying Wii systems as part of their physical education program. It's amazing what this whole new type of console and platform has brought to the world of interactive technology. You know, ironically these advances in technology have allowed, as we see today, groundbreaking, complicated, really sophisticated and dramatic results and effects in the games, while creating games that are actually much more accessible for us. You think about "Guitar Hero." It's easy. You pick it up, strap it on, and play. And I mean, it's not the intimidation factor of sitting down in front of "Call of Duty" for the first time, if you've never played it, and go what do I do here? So the next phase is even more exciting as we think about what's happening in gaming. Gaming continues to drive the convergence of the internet and television. Over the next few years, this trend should provide us even greater opportunities to broaden our audience and to create brand new revenue streams through subscriptions, downloadable content, and tournament and multi

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player play. Additionally, as consumers, we're all looking for new forms of entertainment, and our consumption patterns are clearly changing. According to Nielson, the number of movie tickets purchased per person has declined by six percent since 2003. Network TV viewership, as defined by the number of hours you and I watch TV per year, has declined by the same amount since 2004. Recorded music in a physical format, so going out and actually buying the CD, is down twelve percent since 2004. And revenues from motion pictures have remained virtually flat since 2004, despite the fact that tickets have become increasingly more expensive.

Now, during that same period, videogames have continued to rise. Calendar year 2008, the U.S. and European videogame software market is expected to grow twenty percent year over year. And in 2010, the U.S. European and Japanese software market is expected to grow to fifty-one billion dollars. You know, games are essentially becoming a household staple. So what are some of the other trends in the industry? The music genre, titles such as "Guitar Hero," "Sing Star," "Dance, Dance Revolution" have become really prominent in the world of gaming. Videogames are now driving popular culture, rather than reflecting it, so the term we like to use is unleash your inner rock star. It's become more than a tagline. It's a You Tube and a Facebook phenomena, indicative of a culture that tends towards louder and more visible public and personal expression. You know, "Guitar Hero" gatherings are to young gamers what Karaoke is to the bars in Tokyo's Ginza district. Even today I was chatting with a young woman who just joined my staff. She's twenty-four, twenty-five years old, and I said, "So, you know, what do you do for fun, Nickie, when you're, you know, you're just new to California?" She said, "We have 'Guitar Hero' games, or 'Guitar Hero' parties at my house." And it is the thing that brings people together. And she said, "You know, four women will sit around and play 'Guitar Hero' and drink wine, and that's how we have fun these days, you know." I said, "Great. Let's do more of it."

So this game has really permeated throughout entertainment. It's gone to public places. It's just not in the home anymore. You know, indeed there was a recent Wall Street Journal article that talked about "Guitar Hero" nights have hit the Karaoke bars in New York. We are the new Karaoke, and "Guitar Hero" projected onto the big screen has become a staple at birthday parties and bar mitzvahs. You know, what's next, weddings, you know, maybe the presidential inauguration. I don't know. So here's a little glimpse of how "Guitar Hero" has permeated pop culture. <video clip>

Well, you know when you've made it to South Park, you've really made it. And we didn't even have to kill Kenny or blame Canada, you know. We just made it on our own. Also, with more than twenty million units sold, "Guitar Hero" is introducing consumers to bands and songs they may not have otherwise known. It's actually become one of the biggest platforms for the music industry to reach audiences that are listening to less radio and buying fewer CDs. Amazingly on average a band whose song appears in a

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## Graziadio School of Business and Management

“Guitar Hero” game sees a spike of over two hundred percent in online pay downloads on sites like iTunes. In fact, Aerosmith made more money from “Guitar Hero’s” Aerosmith game than they did on their last few albums. Today more and more consumers want interactivity in their entertainment choices, and as the media landscape continues to change, Activision Blizzard is uniquely positioned to capitalize on these expanding market opportunities and trends. So let’s take a look at this Aerosmith game. <video clip>

Now, one of the interesting things when you see a video clip like this is when you, again, think about how the game’s actually made. There’s a concept in videogame development called “motion capture.” So a person will actually be outfitted with all kinds of little sensors all over their body and then they actually will move in the way we want the characters in the game to move, and it’s recorded on a computer, and then they can actually program around it. It’s absolutely amazing to watch. I was at a conference recently and all these different manufacturers who make these sensors had, you know, dancers and people who do acrobatics, you know, demonstrating how what we call Mocap actually works. It’s phenomenal to watch. And I actually think it’s quite comical. We have a big Mocap facility in Madison, Wisconsin, of all places, Madison, Wisconsin. And so you go there and you see these guys doing motion capture in this huge studio, and it’s absolutely amazing to watch. But it’s how you get a more realistic kind of depiction of human movement in the videogame in comparison to something more mechanized.

So now that you know a little bit about the videogame industry, and a little bit about Activision, I want to share a little bit about the integration process of Activision and Vivendi Games. Somebody asked me while we were at the reception, “Do you know much about it?” And I said, “Well, you know, I did actually lead the integration, so I know a fair amount about it.” So, you know, while my comments and my story are going to be specific to the merger, you know, I think the lessons that we learned through this effort are really applicable to any large change effort that you might encounter in a company. So for me it all started on September tenth, 2007. And you may remember from Linda’s comments that happened to be actually my first day of work at Activision. So I came to work, and I sat down with my new boss, Mike Griffith, who’s Activision’s CEO, and, you know, we did the typical first day thing. We talked about goals and objectives and priorities, what he expected of me over the next couple of months. And, you know, right at the end of the conversation, Mike said, “Oh, oh, there’s one other thing I wanted to talk to you about.” I said, “Yeah. What is that?” And he said, “You know, there’s been a little dialogue about a potential merger. I really don’t think it’s going anywhere, Ann, so not to worry about it.” I’m like, “You got to be kidding.”

You fast forward the tape five months later. We’re in the middle of what we call Day One planning. So how do you get the company ready to come together? So it went very quickly. I joined in September.

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## Graziadio School of Business and Management

December, I think December second we announced the merger, and we closed on July tenth of this year. So the merger and the integration process that resulted from it afforded us the opportunity to learn and grow in a lot of ways in our company, and I want to talk about a couple of them. One is the discipline of planning. The second is process improvement. And the third thing I want to talk about is how the company has grown and how we've really gone global as a result of this integration. So let's start with the discipline of planning. This is an area where the consultants really came into play for us and made a huge, huge positive contribution for us as a business. You know, the process planning and the discipline that they brought to the table was invaluable for us as an organization. We just couldn't have done it on our own without them. You know, while we have great product development processes, good project management was not something that was an inherent strength in our company. We quickly came to realize that process or project management was going to be the discipline that would make the integration successful. So not only were we able to apply the consultants' experience to the integration itself, but it made a lasting impression on the company, and now is a major component of how we actually approach business issues across the organization.

So a really terrific thing for us was we took this skill set, applied it during the integration process, and what we found is people learn new skills, and they started to apply those same disciplines of planning in other parts of their business, but it had a great residual benefit for us. The second area is process improvement. You know, one of the benefits of the integration process is we became much more conscious and conscientious about the way we did things. My PWC partner and I talked a little bit about this. You know, our mantra going into the integration was "adopt and go," which meant select one way that one of the companies did it. Select the Activision way or select the Vivendi Game way, but don't create anything new. Just adopt and go. And what we found as we got into the process and the tax entity structure for the company, although far more complicated than I could ever understand, was one of those areas where we took a look at the tax entity structure for Vivendi. We looked at the one for Activision. We said neither one of this is going to work. Neither one of these structures will work for the combined company. So we said let's use this as an opportunity to, you know, wipe the slate clean and start over. So it's kept a lot of PWC people busy and happy in our company. So we took a look around at lots of processes, like the tax entity structure and other things. And, you know, quite frankly, we didn't really like what we saw in many cases. The growth and the scale of Activision over the years has been tremendous, you know. Seven years ago this company had seven hundred and sixty-five employees and six hundred and twenty million dollars in revenue.

Today we have seven thousand employees, and we expect to do five billion dollars for the calendar year. So we went from seven hundred and sixty-five people to seven thousand. We've acquired more than a dozen studios in the past seven years. We've been chasing an expanding gaming marketplace that has demonstrated unyielding and exponential growth. And at the same time, as I talked about earlier, we've

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provided phenomenal shareholder return in this company. But when a company grows this fast and so successfully, you know, things just happen. You just make decisions on the fly. And maybe, just maybe, the business process really wasn't thought through before you implemented it. You just did what you had to do to make it happen. So when we began to contemplate this transaction, it's going to be the largest in our history, but it would also radically reshape our business and position us differently for a new and really exciting future, it became clear that we needed to significantly ratchet up how we approached running the business. So all functions took a really hard look at their processes and reflected on what could be done and what needed to be done. One of the best examples of this happened in IT. We initially thought in using the adopt and go strategy, that we would migrate everyone to the Activision instance of Oracle.

Now, I have to admit when we started the integration, I didn't know what an instance of Oracle was. I've learned a lot about what an instance of Oracle is. So we began down that planning path of implementing worldwide the Activision instance of Oracle. However, a few months into the process, we started to take a look at the pros and cons of what Activision had done, and what Vivendi had done. We came to realize that the Vivendi instance of Oracle was going to serve the company long term much more effectively. So six months into the planning process, the IT planning team made a sharp left hand turn and made the decision that they would not install the Activision instance of Oracle, but rather would go with the Vivendi instance of Oracle. So six months of planning sort of down the tubes. But as we took a look at it, as they socialized these ideas, we all realized that at the end of the day it was a much better solution, painful, but a much better solution. But this is one of the examples of how, as you get into process improvement, you know, picking one of the other just didn't always work. Sometimes you had to, you know, really rethink the way you were going to manage the business. So these kinds of activities pave the way for efficient, effective process management moving forward, and for us serve as a reference for tackling business issues in this transformed company.

So let's talk a little bit about growth and going global, you know. I want to go back to my first conversation with my boss, Mike Griffith, who said, "You know, Ann, when you think about this, your work really needs to be about scalability, because this company's going to grow." I think he said this to me before he told me about the potential merger. So many of the things that we looked at during the integration was really focused against this criteria of does this decision allow us to scale? And actually was, at the end of the day, the reason we made the decision to go with the Vivendi instance of Oracle. It really was a much more scalable approach, you know. And as evidence of that, since the merger we've purchased three studios. Two of them are in the UK, and one is in, all places, Iowa City, Iowa. And these acquisitions for us are really about building capacity and having scalability for new products. You know, the guys in Iowa are happening to be very good at note tracking for "Guitar Hero," and that's a really big growth area for us. So, you know, despite the fact it was in Iowa, we made the decision to go with them. So our vision

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and the strategic moves that we've made, were in anticipation of really significant future growth, and we're starting to feel the impact of that growth already.

Since the integration, we've doubled our revenues. We've doubled our operating income, and we've more than doubled our number of employees. We've gone from a pretty modest footprint outside the U.S. to having almost fifty percent of our employees outside the U.S. It's really a huge and significant change for our company. You know, in under a year, I think back when I first joined the company, we went from having brand managers in Santa Monica, who could not understand why you could not sell Tony Hawk's skateboarding game in Italy. It's the cobblestones, dummies. You can't do it. Today we have dedicated brand managers for "Guitar Hero" in every country in Europe. That's the kind of change and the velocity of change we've had in even a short year. These changes have been immediate and significant, and we've all had to adjust. Linda asked me earlier what's the biggest difference in my experience from other industries to this, is that the rate of change in this industry is far faster than anything I've ever seen. The velocity is just incredible. But today, I think we are a much better and better run company as a result of the integration, and I think the integration's really prepared us and poised us for much bigger opportunities. You know, I worry when I look at the stock market and see the stock price of some of these smaller publishers, thinking, oh, no, is there another one on the horizon? It's very possible that there will be.

But, well, I wanted to close with a few comments and learnings about the people. I do lead HR, and that is kind of the filter and perspective I have when I think about things like integration, so one key learning that we had was to get really clear on the future state. You know, I would encourage anyone who's about to engage in a significant change effort to spend as much time up front talking about the go forward business strategy. Get really clear on where you're trying to head. You know, we made some early decisions about the planning process, assuming that we would be fully integrating Vivendi into Activision. What really ended up happening is that a few of Vivendi's games, and a few of their studios, came over to Activision. And Blizzard is essentially an intact business unit that was not changed or disrupted or integrated at all. So as a consequence, we put a lot of time and effort into planning parts of the integration that really weren't necessary. And so in hindsight we spent a lot of effort doing some things that we actually didn't put into play. So I think it's really essential in any kind of change effort to force your leaders to discuss and be honest about what the going forward strategy is, and make sure you confine your planning efforts to those areas of the business. Don't disrupt or mess with things that don't need to be disrupted.

Not every merger acquisition has a cookie cutter or identical approach to making the change. Another key learning for us and for me was to remember the human element. It's important in any major change

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## Graziadio School of Business and Management

initiative that we bring emotional intelligence to the table. At the end of the day it's actually easier on everybody. So on the consulting side, you know, when you hire consultants, particularly the caliber of folks that have worked with us, you know, there's no question you're going to get people who are whip smart. That's, you know, consulting firms are really capable of recruiting and developing some really terrific and talented people. You know, I counsel, however, that what makes teams really successful in these kinds of environments, is when they also bring their emotional intelligence to the table. So if you take the IQ of what you know you're going to get with the consultants, and ask the consultants to bring the people with the EQ, too, you've got a great combination.

And I think, really, when I think about Pepperdine, this is a place where I think you have a great advantage since you have a real values based approach to business, and recognizing it's not just about the plans, but it's about solving problems, recognizing where you're going to have potential conflicts between people, getting a feel for the client and really tailoring the planning process to the culture and the personality of the company, and really being flexible. You know, the planning part and, you know, the templates and all that's pretty easy. But it's when you got two people who disagree on an approach, and that's where the EQ comes into play, is how do you identify that issue and how do you bring it to resolution in a way that helps everybody win, 'cause change efforts are hard on people and on companies. You can't take anything at face value. I think one more key learning, I call it manage the grace base. And that's get beyond the templates and recognize that everything really needs to be customized to fit the culture, and the organization, and the people. You know, it's also important to realize that change is a process. It's not an event. And that, you know, I think back on what we've gone through and, you know, some of our people got it right away. Others took a little more time. I'd say, you know, some never got it at all. And, you know, the challenge in business is to work with all kinds of people and to help migrate them through the process of change as efficiently and effectively as possible. You know, an important element to consider is that companies are not merely physical entities. You know, in essence they exist only in the passion and the effort and the actions and expressions of the people who work there.

So any major change effort has an impact on employees, and we all know that employees process things from the perspective of what does it mean to me, and how is it going to affect my life? And it's the job of all of us who are leading change initiatives to recognize this personal element. You know, we all have to be people persons, you know, even the accountants. So, you know, now that we've completed the merger, and we're on our way to being a fully integrated company, you know, what's next for us? What will this next year look like? Well, you know, hopefully we'll be done with all the heavy lifting. You know, the systems integrations will be done. The tax entity structure will be put in place. Product training will be done for all the sales forces, and we'll have a new benefits plan in place for our employees. We hope that the destination will definitely be worth the journey. You know, the pain of getting to know new

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## Graziadio School of Business and Management

people, and new businesses, and new products, that'll be old history. Organizational angst, which is evident in every merger I've ever worked in, dissipates over time. And we're going to find more places where we can work in harmony than we see today. You know, the brand of Activision Blizzard will continue to gain momentum and recognition and value in the marketplace for retailers, prospective employees, and investors.

While there wasn't a lot of skepticism when we announced the merger, we will have proven that this was a brilliant combination. And the future promise of Activision Blizzard I think can be summed up in three statements. One is compelling brands. The second is great talent. And the third is the future of entertainment. These three themes actually served as the underlying messages that we communicated to all of our employees, customers, consumers, and Wall Street on day one. This was our story about why it made sense to bring these two companies together. The most compelling and promising brands in our industry speaks to our strong presence in most key and emerging categories in the interactive entertainment industry, with an enviable portfolio of product that includes Activision's bestselling videogames, such as "Guitar Hero," "Call of Duty," and "Tony Hawk." Vivendi's game portfolios I know many of you will recognize and appreciated "Crash Bandicoot" and "Spyro," two games that have been around a long time. And Blizzard Entertainment's "Starcraft," "Diablo," and the world's number one MMO franchise, "World of Warcraft." The great talent to deliver on our promise is not arrogance on our part.

I really think it's legitimate confidence that's been built on a collective history of success that's brought Activision Blizzard to its current status as the world's most profitable, pure play, videogame publisher in the world. To listen and to work with our top executives is to realize that this leadership team, supported by the strongest bench in the industry, has a track record of innovation, integration and strong financial results to support our confidence. So the combination of our leading market position across most key and emerging categories, a global, diverse and interactive portfolio, the highest expected operating margins of a major third party videogame publisher, and the highest standards for quality, reputation and profitability, will enable us to realize the full value of Activision Blizzard, and to confirm our role as a driving force in shaping the future of entertainment.

You know, there was an article in The Wall Street Journal recently about our major competitor, which is Electronic Arts. You know, the closing paragraph was talking about the company's long term strategy and how they were exploring ways to deliver gaming online, which happens to be the Blizzard model. You know, what a mix of envy and jealousy they must have now that Activision beat everybody to the punch in acquiring Blizzard. You know, we literally have leapfrogged over other videogame companies. And the brilliance in this strategy will be realized based on our execution and our performance. You know, I can't wait to see how we're doing in a year. I'd like to close with a little sizzle reel that we've used

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recently with our investors. It gives you a little glimpse of all the games that are going to be coming out for this holiday season and next. <video clip>

#### End ####

