In-Depth Integrative Case 2.1b

Disney in Asia

After its success with Tokyo Disneyland in the 1980s, Disney began to realize the vast potential of the Asian market. The theme park industry throughout Asia has been very successful in recent years, with a range of regional and international companies all trying to enter the market. Disney has been one of the major participants, opening Hong Kong Disneyland in 2005 and Shanghai Disney Resort in 2016, and discussing future operations in other Asian cities.

Disney's Push into China

After Disney's success in Tokyo, China became a serious option for its next theme park venture in light of the country's impressive population and economic growth throughout the 1990s and 2000s. Successful sales associated with the Disney movie *The Lion King*, in 1996, also convinced Disney officials that China was a promising location. However, consumer enthusiasm for theme parks in China was at a low in the late 1990s. "Between 1993 and 1998, more than 2,000 theme parks had been opened in China," and "many projects were swamped by excessive competition, poor market projections, high costs, and relentless interference from local officials," forcing several hundred to be closed.[1] Nevertheless, Disney continued to pursue plans for two parks in China, focusing efforts on both Hong Kong and Shanghai.

Hong Kong Disneyland

Plans in Hong Kong, which culminated in the opening of Hong Kong Disneyland in September 2005, began after the 1997–1998 Asian financial crisis. Despite the poor economic condition of Hong Kong in the late 1990s, Disney was still optimistic about prospects for a theme park in the "city of life." Hong Kong, already an international tourist destination, would draw Disneyland patrons primarily from China, Taiwan, and Southeast Asia.

The official park plans were announced in November 1999 as a joint venture between the Walt Disney Company and the Hong Kong SAR Government. Unlike its experience in Tokyo, where Disney handed the reins over completely to a foreign company (the Oriental Land Company), Disney decided to take more direct control over this new park. The park was built on Lantau Island at Penny's Bay, within the six-mile stretch separating the international airport and downtown. Hong Kong Disneyland was estimated to create 18,000 jobs upon opening and ultimately 36,000 jobs. The first phase of the park was to include a 10-million-annual-visitor Disneyland-based theme park; 2,100 hotel rooms; and a 300,000-square-foot retail, dining, and entertainment complex.[2]

In order to make the park "culturally sensitive," Jay Rasulo, president of Walt Disney Parks & Resorts, announced that Hong Kong Disneyland would be trilingual with English, Cantonese, and Mandarin. The park would also include a fantasy garden for taking pictures with the Disney characters (popular among Asian tourists), as well as more covered and rainproof spaces to accommodate the "drizzly" climate.[3]

Unfortunately, Disney soon realized that its attempts at cultural sensitivity had not gone far enough. For instance, the decision to serve shark fin soup, a local favorite, greatly angered environmentalists. The park ultimately had to remove the dish from its menus. Park executives also failed to plan for the large influx of visitors around the Chinese New Year in early 2006, forcing them to turn away numerous patrons who had valid tickets. Unsurprisingly, this led to customer outrage and negative media coverage of the relatively new theme park.

Other criticisms of the park have included its small scale and slow pace of expansion. Hong Kong Disneyland opened with only 16 attractions and "one classic Disney thrill ride, Space Mountain, compared to 52 at Disneyland Resort Paris [formerly Euro Disneyland]."[4] However, the government has made plans to increase the size of the park by acquiring land adjacent to the existing facilities. Likely due to its small size and fewer attractions, Hong Kong Disneyland pulled in only 5.2 million guests during its first 12 months, less than the estimated 5.6 million.[5] In the years since, additional attractions have been added into the existing park, helping to increase attendance; however, the park is still facing financial pressure. In 2015, the park posted a US$19 million loss.[6]

Battle over Hong Kong Park Expansion

Expanding the size of the theme park in Hong Kong by about a third has always been a part of Disney's long-term plan. In 2007, Disney began the process of trying to obtain the local government's financial support for these plans. At that time, however, the park had been performing well below its projected sales number, and the government, which is 57 percent stockholder in this business, expressed serious doubts in the need to fund the further expansion. Hong Kong Disneyland attracted about 15 million visitors total in its first three and a half years, or about 4.3 million a year. That figure fell short of the original projection of more than 5 million a year.[7] Although Disney did not release financial figures to the public, Euromonitor estimated the park had an operating loss of $46 million in its first year, and lost $162 million the following year.[8]

By 2008, Disney's officials were publicly stressing the importance of park expansion for the overall viability of the project. At that time, the park occupied 126 hectares and had only four "lands"—Fantasyland, Tomorrowland, Adventureland, and Main Street USA—and two hotels. Hong Kong Disneyland Managing Director Andrew Kam emphasized that expansion would be vital to the park's success. In a September 2008 release, Kam said the park had plenty of room to grow because it was only using half of the land available: "Expansion is part of the strategy to make this park work for Hong Kong,"[9] At the time, an expansion was estimated to cost as much as 3 billion Hong Kong dollars, or US$387 million. In December 2008, the *Sing Tao Daily* newspaper in Hong Kong reported that Disney, in what was deemed an unusual concession, might give the government a greater share in the project in repayment of a cash loan of nearly $800 million that the city had extended previously to the theme park.[10]

In 2009, unable to come to agreement with the Hong Kong government, Disney put on hold its long-awaited plans to expand the park. In a statement from Disney's Burbank (Calif.) office, the company said it was laying off employees in Hong Kong after failing to reach an agreement with the Hong Kong government to fund a much-needed expansion. According to Disney, "The uncertainty of the outcome requires us to immediately suspend all creative and design work on the project." Thirty Hong Kong–based Disney "Imagineers," who helped to plan and design new parks, would be losing their jobs.[11] Business news sources at the time noted that one reason Disney might be willing to end negotiations with the Hong Kong government was the company's progress in negotiations with Shanghai officials to open a theme park there that would be much larger and an arguably more exciting China project. A Shanghai park would be easier for many Chinese families to visit. However, the possible shift of mainland Chinese visitors away from Hong Kong in favor of Shanghai could mean a drop of as much as 60 percent in visitor numbers to the Hong Kong park, according to Euromonitor's estimates.[12]

In June of 2009 Disney and Hong Kong's government finally reached a deal to modestly expand the territories of the Disneyland theme park at a cost of about $465 million. Under terms of the deal, the entertainment giant contributed all the necessary new capital for construction as well as sustaining the park's operation during the building phases. It also converted about $350 million in loans into equity to help with funding, and agreed to keep open a credit facility of about US$40 million. Hong Kong, which shouldered much of the $3.5 billion original construction cost, did not add any new capital. "Disney is making a substantial investment in this important project," Leslie Goodman, a Disney vice president, said in a statement.[13] Groundbreaking on three new "lands" for the park commenced later that year, with "Toy Story Land" opening in 2011, "Grizzly Gulch" opening in 2012, and "Mystic Point" opening in 2013. The three new lands increased the overall size of Hong Kong Disneyland by 25 percent, and there are now more than 100 attractions within the park.[14] If these expansions will be enough to bring profitability to Hong Kong Disneyland remains yet to be seen, as future expansion at the park beyond these three new lands remains uncertain.

Uncertainty in Mainland China

Shanghai, known as the "Paris of the Orient," was an attractive site for a second Chinese park to Disney officials because of its growing commercialization and industrialization and its already extant transportation access. A Disney theme park in Shanghai would be mutually beneficial for the company and the nation of China. From Disney's perspective, it would gain access to one of the world's largest potential markets (and also compete with Universal Studios' new theme park). From the perspective of Chinese government officials, Disney's mainland Shanghai park would be a long-awaited mark of international success for a communist nation.[15]

Initially planners hoped to have a Disneyland operating in Shanghai prior to the World Expo in 2010. However, a series of delays plagued the Shanghai park's progress. The Chinese government, fearing that a Shanghai park would damper the success of the newly opened Hong Kong park, intentionally delayed the park's construction in the mid 2000s.[16] Additionally, in the wake of a corruption scandal within the Communist Party in Beijing in 2005, the necessary government approvals for the project stalled to a halt. For a time, it appeared as though the plans for the Shanghai park would not come to fruition, leaving Disney to consider other options for the construction of its new park.[17]

Disney Gets Green Light for Shanghai Park

After a few years, Walt Disney Co. revisited its plans to build a park in Shanghai, China. In January 2009, Disney presented a $3.59 billion proposal to the Chinese central government, outlining plans for a jointly owned park, hotel, and shopping development.[18] The timing could not have been better for Disney to seek approval; in the wake of the global economic crisis, the prospective creation of 50,000 new jobs amid a cooling Chinese economy was especially attractive to the Chinese government.[19]

The preliminary agreement was signed in January 2009. According to the proposal, Disney would take a 43 percent equity stake in Shanghai Disneyland, with 57 percent owned by the Shanghai government, forming a joint-venture company.[20] The preliminary agreement outlined a six-year construction period for the first phase, with the projected opening of the park scheduled for 2014. Disney would pay $300 million to $600 million in capital expenses for the park in exchange for 5 percent of the ticket sales and 10 percent of the concessions.[21] According to the preliminary agreement, Shanghai Disneyland, the first park at the resort, would incorporate Chinese cultural features as well as attractions built around traditional Disney characters and themes. Additionally, the ownership structure would contain some aspects of Disney's Hong Kong joint venture agreement. According to *The Wall Street Journal*, a newly formed Shanghai company named Shendi would hold the local government's interest in the park. Shendi is owned by two business entities under district governments in Shanghai, as well as a third company owned by the municipal government's propaganda bureau.[22] After almost a year of negotiation, in November 2009, Disney finally received an approval from the Chinese government to proceed with its Shanghai park plan.[23]

Disney acted quickly to gather all other necessary approvals and documents that were needed for the park construction. In April 2010, the land needed for the park was approved. In 2010, over 2,000 households and nearly 300 companies were relocated to clear the way for the first phase of construction. In an effort to keep the public informed, the head of Pudong New District, where the park is sited, announced that the first phase of the project will span four square kilometers, with the theme park itself covering a square kilometer.[24] Construction on the first phase, which includes the Shanghai Disneyland Park and two hotels, broke ground in 2011.[25] Despite the initial difficulties that Disney faced throughout the early 2000s in gaining approval for the Shanghai park, the five-year construction phase proceeded relatively smoothly.

As the 2016 opening neared, public excitement for the park grew. More than five million people flooded the park's official website following its March 2016 launch. Tickets for the park's opening two weeks sold out months in advance, and, on a single weekend in May, more than 100,000 people traveled to the still-unopened park just to peer through the gates and shop at stores on the perimeter.[26] The park officially opened to the public on June 16, 2016.

Analysts see the move as an important step forward for Disney and other Western media firms to make inroads into the vast and untapped Chinese media and entertainment market. "They've been laying the groundwork for a park for many years by exposing the population to Disney properties, film, TV and merchandising," said Christopher Marangi, senior analyst with Gabelli and Co. in New York.[27]

Disney has implemented unique approaches to ticket pricing at its Shanghai park in an effort to maximize attendance and profit. Unlike other theme parks, where the cost of entry remains the same regardless of the day, Shanghai Disneyland features "demand pricing." On days that are more crowded, such as weekends and during the summer, "peak" prices are enacted. Though ticket prices start much lower at the Shanghai park than at the Hong Kong park, the peak pricing structure results in admission price increases of over 25 percent on certain days.[28]

There are certain public concerns that the new Shanghai park, which is Disney's sixth, will inevitably affect the Hong Kong park. The main concern is that the Hong Kong park's revenue may be cannibalized, worsening the financial perspectives of the already-underperforming Hong Kong park.[29] However, Disney thinks that both parks will complement each other rather than be competitors. Disney's main points are that Shanghai is close to a number of other major cities within easy driving distance, including Nanjing, Suzhou, and Hangzhou, and that Shanghai's own population of around 19 million, combined with tens of millions more within a three-hour driving radius, would provide a more-than-ample base of local users for the park. There are analysts, like Paul Tang, chief economist at Bank of East Asia, who share this optimism, projecting that "visitors from Guangdong and southern China will still find Hong Kong more convenient, while Shanghai will attract visitors from northern and eastern China."[30] Indeed, Disney reported a 36 percent increase in profit at its Hong Kong park in early 2015.[31]

The critics of the Shanghai park, on the other hand, are convinced that this project is a bigger threat to the Hong Kong park than anybody can imagine. According to Parita Chitakasem, research manager at Euromonitor International in Singapore, who specializes in theme parks, "Disneyland Shanghai will have two big features which will make it more attractive than its Hong Kong counterpart: Although it is still early days, Disneyland in Shanghai will probably offer a much better experience for your money than Disneyland in Hong Kong—Shanghai's Disneyland is three times bigger than Hong Kong Disneyland. Also, for visitors from mainland China, it will be much easier to travel to Disneyland in Shanghai, as there are no visa/cross border concerns to take care of."[32] Though only one phase of Shanghai Disneyland has opened, its true impact on Hong Kong Disneyland will not be known for several years; stagnant growth in attendance at the Hong Kong park validates the concerns that many have expressed; in 2015, a year before Shanghai Disneyland even opened, the Hong Kong park only saw a one percent increase in attendance.[33]

Other Asian Ventures

The Walt Disney Company has also looked into building other theme parks and resorts in Asia. Based on its successful operation of two theme parks in the United States (at Anaheim and Orlando), Disney believes that it can have more than one park per region. Another strategically located park in Asia, officials agreed, would not compete with Tokyo Disneyland, Hong Kong Disneyland, or Shanghai Disneyland, but rather bring in a new set of customers.

One such strategic location is the state of Johor in Malaysia. Malaysian officials wanted to develop Johor in order to rival its neighbor, Singapore, as a tourist attraction. (Two large casinos were built in Singapore in 2006.) However, Disney claimed to have no existing plans or discussions for building a park in Malaysia. Alannah Goss, a spokeswoman for Disney's Asian operations based in Hong Kong, said, "We are constantly evaluating strategic markets in the world to grow our park and resort business and the Disney brand. We continue to evaluate markets but at this time, we have no plans to announce regarding a park in Malaysia."[34]

Singapore, in its effort to expand its tourism industry, had also expressed interest in being host to the next Disneyland theme park. Although rumors of a Singapore Disneyland were quickly dismissed, some reports suggested there were exploratory discussions of locations at either Marina East or Seletar. Residents of Singapore expressed concern that the park would not be competitive, even against the smaller-scale Hong Kong Disneyland. Their primary fears included limited attractions (based on size and local regulations), hot weather, and high ticket prices.

Disney's Future in Asia

Although Disney is wise to enter the Asian market with its new theme parks, it still faces many obstacles. One is finding the right location. Lee Hoon, professor of tourism management at Yanyang University in Seoul, noted, "Often, more important than content is whether a venue is located in a metropolis, whether it's easily accessible by public transportation." Often tied to issues of location is the additional threat of competition, both from local attractions and from those of other international corporations. It seems that Asian travelers are loyal to their local attractions, evidenced by the success of South Korea's Everland theme park and Hong Kong's own Ocean Park (which brought in more visitors than Hong Kong Disneyland in 2006).[35] The stiff competition of the theme park industry in Asia will center on not only which park can create a surge of interest in its first year but also which can build a loyal base of repeat customers.

Despite its already large size, the Asian theme park industry is still developing. Disney officials will need to be innovative and strategic in order to maintain sales. Existing theme parks in the region have proven that a carefully crafted strategy can lead to increased sales; after a 20 percent drop in attendance in the early 2000s, Universal Studios in Japan was able to rebound to record growth in 2015 by introducing new innovative attractions, including a Harry Potter-themed area within the park and a multiple-month-long Anime event.[36]

In spite of underperformance of some theme parks, Asia is still viewed by many as the most attractive region for the entertainment industry. Attendance may be stagnating in some parts of the world, but a growing middle class with disposable incomes to match is making the Asia-Pacific region a prime target for investors and theme park owners. "China will lead the way," said Kelven Tan, Southeast Asia's representative for the International Association of Amusement Parks and Attractions, an industry group. "The critical mass really came about with the resurgence of China. You need a good source of people; you also need labor and you need cheap land."[37]

That's what the people behind the Universal Studios in Singapore are betting. Developers aim to tap the wallets of Singapore's 4.6 million residents and 9.7 million tourists a year and its proximity to populous areas of Indonesia and southern Malaysia. Opening in spring of 2010, it became the island nation's first bona fide amusement park. Outside this and other foreign brands like Legoland, which opened parks in Johor, Malaysia, in 2012 and in Dubai, UAE, in 2016, home-grown companies like Genting in Malaysia and OTC Enterprise Corp. in China are aggressively looking to take advantage of the burgeoning market in their backyards.[38]

Overall spending on entertainment and media in Asia Pacific is set to increase to over US$700 billion by 2019, doubling the amount spent just ten years earlier, according to a 2015 report by McKinsey. By 2019, Asia Pacific will account for over 40 percent of global spending on entertainment and media.[39] "It's an up-and-coming market, and growing quite fast," said Christian Aaen, Hong Kong–based regional director for AECOM Economics, a consulting firm that specializes in the entertainment and leisure industries. MGM Studios and Paramount, too, are scouting around Asia for future projects.

In light of these optimistic projections, it is reasonable to assume that Disney may consider expansion to other Asian countries such as Malaysia, South Korea, or Singapore, where Disney appeared to have seriously considered a park. Given that the Hong Kong and Shanghai park future expansions are on track, Disney now has the experience and motivation to further penetrate the Asian region. In this regard, Disney has opened English language learning centers across China.[40] This could constitute a broader push by Disney to establish a strong Asian presence across its businesses and brands, a move that would undoubtedly involve the theme park operations as a central component.

Questions for Review

1. What cultural challenges are posed by Disney's expansion into Asia? How are these different from those in Europe?
2. How do cultural variables influence the location choice of theme parks around the world?
3. Why was Disney's Shanghai theme park so controversial? What are the risks and benefits of this project? What do you think is the likelihood that it will "cannibalize" the Hong Kong park?
4. What location would you recommend for Disney's next theme park in Asia? Why?

Source: This case was prepared by Courtney Asher under the supervision of Professor Jonathan Doh of Villanova University as the basis for class discussion. Additional research assistance was provided by Benjamin Littell. It is not intended to illustrate either effective or ineffective managerial capability or administrative responsibility.

ENDNOTES

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