

**The  
Canadian Hernia  
Clinic**

Hernias (Ruptures) Repaired Under local  
anesthesia as by Canadian method.

**No Overnight Hospital Stay.**  
*Consultations Without Charges*

23061 St. Rd. 7  
BOCA RATON, FLA. 33433  
482-7755

Alan O'Dell added his own concerns:

How should we be marketing our services? Right now, we don't advertise directly to patients. We're even afraid to send out this new brochure we've put together, unless a potential patient specifically requests it, for fear it will generate too much demand. Our records show that just under 1% of our patients are medical doctors, a significantly high percentage. How should we capitalize on that? I'm also concerned about this talk of Saturday operations. We are already getting good utilization of this facility. And if we expand further, it will be very difficult to maintain the same kind of working relationships and attitudes. Already there are rumors floating around among the staff about it. And the staff is not pleased.

The matter of Saturday operations had been a topic of conversation among the doctors as well. Four of the older doctors were opposed to it. While most of the younger doctors were indifferent or supportive, at least two who had been at the hospital for some time were particularly concerned about the possibility that the issue would drive a wedge between the two groups. As one put it, "I'd hate to see the practice split over the issue."

## Case 6 Hong Kong Disneyland

September 12, 2006, marked the one-year anniversary of the opening of Hong Kong Disneyland (HKD). Amid the hoopla and celebrations, media experts were reflecting on the high points and low points of HKD's first year of operations, including several controversies that had generated some negative publicity.

At a press conference and interview to discuss the first year of operations, Bill Ernest, HKD's executive vice-president, acknowledged that the park had learnt a lot from its experiences and that the problems had made it stronger. Ernest also announced that HKD attendance for the year had been "well over" five million visitors. Still, this figure was short of the 5.6 million visitors that had earlier been projected by park officials. Ernest stated that the park was on sound financial footing but would not release the details.<sup>1</sup> He also announced the appointment of two non-executive directors; Payson Cha Mou-sing, managing director of HKR International, and Philip Chen Nan-lok of Cathay Pacific would be joining the board of directors in a move calculated to counter charges of a lack of transparency. The criticisms were, in part, coming from members of the Hong Kong Legislative Council as HKD was 57 percent owned by the Hong Kong Government, which had invested HK\$23 billion.<sup>2</sup>

Since plans for the high-profile HKD project were first announced, there had been criticisms of a lack of transparency from Hong Kong government officials, the Consumer Council and members of the public. The dissatisfaction was reflected in a survey conducted by Hong Kong Polytechnic University in March 2006.<sup>3</sup> Although 56 percent of the 524 respondents believed the government's HK\$13.6 billion (about US\$1.74 billion) investment to be of a "fair" value, 70 percent of respondents had a negative impression of the public investment in HKD. This response was a considerably more pessimistic result than previous surveys. It was in the interests of HKD to turn this situation around.

HKD was the third park that Disney had opened outside of the United States, following the Tokyo Disney Resort and Disneyland Resort Paris. The Tokyo Disney Resort was the most successful of all of the Disney parks worldwide, and indeed one of the most successful theme parks in the world; the Disneyland Paris Resort was much less

<sup>1</sup>Linda Choy and Dennis Eng, "5 Million Visit Disney Park, Short of Target," *South China Morning Post*, electronic edition, September 5, 2006, available at <http://scmp.com>, accessed December 3, 2006.

<sup>2</sup>In 2006, the Hong Kong dollar was pegged to the U.S. dollar at approximately US\$1 = HK\$7.80.

<sup>3</sup>May Chan, "Disneyland's Image Has Soured Since Its Opening," *South China Morning Post*, p. CITY3.

*Michael N. Young and Donald Liu wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.*

*Ivey Management Services prohibits any form of reproduction, storage or transmittal without its written permission. Reproduction of this material is not covered under authorization by any reproduction rights organization. To order copies or request permission to reproduce materials, contact Ivey Publishing, Ivey Management Services, c/o Richard Ivey School of Business, The University of Western Ontario, London, Ontario, Canada, N6A 3K7; phone (519) 661-3208; fax (519) 661-3882; e-mail [cases@ivey.uwo.ca](mailto:cases@ivey.uwo.ca).*

successful.<sup>4</sup> Pundits had begun to wonder whether the outcome of HKD would more closely resemble that of its successful Far Eastern Japanese cousin or whether it would more closely resemble that of the French park. That outcome depended in part on how well Disney would be able to translate its strategic assets, such as its products, practices and ideologies, to the Chinese context.

**COMPANY BACKGROUND**

The Walt Disney Company (Disney) was founded in 1923, and was committed to delivering quality entertainment experiences for people of all ages. As a global entertainment empire, the company leveraged its amazing heritage of creativity, fantasy and imagination established by its founder, Walt Disney. By 2006, Disney's business portfolio consisted of four major segments: Studio Entertainment, Parks and Resorts, Consumer Products and Media Networks. **Exhibit 1** summarizes the details of the company's holdings and their respective financial performance in 2005.

**Other Disney Parks and Resorts**

Disney opened the first Disneyland, Disneyland Resort, at Anaheim, California, in July 1955. The company's second theme park, Walt Disney World Resort, was opened at Lake Buena Vista, Florida, in 1971. After the establishment of these two large theme parks in the United States, Disney sought to expand internationally. Disney's international expansion strategy was straightforward, consisting of "bringing the original Disneyland model to a new territory, and then, if feasible, adding a specialty theme park."<sup>5</sup> Tokyo Disney Resort was Disney's first attempt at executing this strategy.

**Tokyo Disney Resort**

Disney opened its first non-U.S. park in Tokyo, Japan, in 1983. The scope and thematic foundation of the Tokyo park was modeled after the Disney parks in California and Florida. The US\$1.4 billion cost to develop Tokyo Disney Resort was financed solely by Oriental Land Co., a land-reclamation company formed under a joint-venture agreement between Mitsui Real Estate Development Co. and Keisei Electric Railway Co.<sup>6</sup>

<sup>4</sup>Mary Yoko Brannen, "When Mickey Loses Face: Recontextualization, Semantic Fit, and the Semiotics of Foreignness," *Academy of Management Review*, October 2004, pp. 593-616.  
<sup>5</sup>Sara Bakhshian, "The Offspring," *Amusement Business*, May 2005, pp. 20-21.  
<sup>6</sup>Eva Liu and Elyssa Wong, "Information Note: Tokyo Disneyland: Some Basic Facts," Research and Library Services Division of the Legislative Council Secretariat, Hong Kong, 1999, retrieved March 10, 2006 from

**EXHIBIT 1 Current Holdings of the Walt Disney Company**

Source: Annual Report 2005, The Walt Disney Company.

Business Segments	Performance (2005)
Studio Entertainment	This segment had the greatest decrease of 69%, which the company attributed to the overall decline in unit sales in worldwide home entertainment and at Miramax.
Consumer Products	This division reported decrease in operating income of 3% due to lower revenue generated from the sales of Disney goods and merchandise.
Media Networks	The higher rates paid by cable operators for ESPN and the Disney Channels and higher advertising revenue at ESPN and ABC were the primary factors driving the 27% growth in revenue at the media network unit.
Parks & Resorts	The Parks and Resorts division also enjoyed a 5% increase in revenue, largely due to the higher occupancy at the resorts, theme park attendance, and guest expenditure.

Disney did not assume any ownership of Tokyo Disney Resort to minimize risks. The contract signed in 1979 spelled out Oriental Land as the owner and licensee, whereas Disney was designated as the designer and licensor. Although Disney received a US\$100 million royalty every year, this amount was less than would have been the case if Disney were the sole owner or even a co-owner of Tokyo Disney Resort. By 2006, the 23-year-old Tokyo Disney Resort, along with the addition of Tokyo DisneySea, at an additional cost of US\$3 billion in 2000<sup>7</sup> was a huge success, with a combined annual attendance of more than 25 million visitors and an operating income of ¥ 28,957 million (about US\$245.47 million) generated in 2005 alone.<sup>8</sup>

Tokyo Disney Resort was well received by the Japanese, owing in part to the Japanese interest in Western cultures and the Asian love of fantasy and costume. The secret underlying this success was to provide the visitors with "a slice of unadulterated Disney-style Americana," proclaimed Toshio Kagami, president of Oriental Land Co. Tokyo Disney Resort had attracted wide support from the local Japanese, who accounted for more than 95 percent of the annual attendance. Moreover, around 15 percent of the total visitors had visited the park 30 times or more, making Tokyo Disney Resort one of the world's most popular theme parks in terms of annual attendance.<sup>9</sup> The Tokyo Disney Resort also had the highest sales of souvenirs of all the Disney land resorts, in part, because it was the only Disney property to give special admission just for the purpose of purchasing souvenirs.

**Disneyland Resort Paris**

France was the largest consumer of Disney products outside the United States, particularly in the area of publications, such as comic books.<sup>10</sup> However, this status did not provide much help to Disneyland Resort Paris (formerly named Euro Disney), Disney's second attempt at international expansion. Disneyland Resort Paris came into operation in 1992, after two-and-a-half years of negotiations with the French Government. Disney was determined to avoid the mistake of forgoing majority ownership and profits as had been the case with Tokyo Disney Resort. Thus, Disney became one of the partners in this project. Under the initial financial arrangement, Disney had a 49 percent stake in the project. The French Government provided cash and loans of US\$770 million at interest rates below the market rates, and financed the majority of the US\$400 million infrastructure.

However, cost overruns pushed overall construction costs to US\$5 billion—five times the previous estimate of US\$1 billion. This increase was due to alterations in design and construction plans. This higher cost, coupled with the theme park's mediocre performance during its initial years of operation and other factors, caused the park severe difficulties between 1992 and 1994. The park did not report a profit until 1995, which was largely due to a reduction of interest costs from US\$265 million to US\$93 million and the rigorous financial re-engineering efforts in late 1994.<sup>11</sup>

[www.legco.gov.hk/yr990/english/sec/library/990in02.pdf](http://www.legco.gov.hk/yr990/english/sec/library/990in02.pdf).  
<sup>7</sup>ibid.  
<sup>8</sup>Oriental Land Co., *2005 Annual Report*, retrieved March 10, 2006 from [http://olc.netir-wsp.com/medias/1656486483\\_OLCAR2005final.pdf](http://olc.netir-wsp.com/medias/1656486483_OLCAR2005final.pdf).  
<sup>9</sup>James Zoltak, "Lots of Walks in the Past Parks the Past Year," *Amusement Business*, December 2004, pp. 6-7.  
<sup>10</sup>Mary Yoko Brannen, "When Mickey Loses Face: Recontextualization, Semantic Fit, and the Semiotics of Foreignness," *Academy of Management Review*, October 2004, pp. 593-616.  
<sup>11</sup>James B. Stewart, *Disney War*, Simon & Schuster, New York, 2005.

Despite poor results between 1995 and 2001, Disney added a new park, Walt Disney Studios, which brought Hollywood-themed attractions to the French park. At its opening in 2004, the second park attracted only 2.2 million visitors, 5.8 million short of its original projections. At the end of the fiscal year on September 30, 2004, Disneyland Resort Paris announced a loss of €145.2 million (about US\$190 million).<sup>12</sup>

Part of the problem with the Paris resort was the resistance by the French to what they considered American cultural imperialism. French cultural critics claimed that Disney would be a “cultural Chernobyl,” and some stated publicly a desire for the park’s failure. For example, critic Stephen Bayley wrote:

The Old World is presented with all the confident big ticket flimflam of painstaking fakery that this bizarre campaign of reverse-engineered cultural imperialism represents. I like to think that by the turn of the century Euro Disney will have become a deserted city, similar to Angkor Wat [in Cambodia].<sup>13</sup>

Disney had to assure the French government that French would be the primary language spoken within the park. Even the French president, Francois Mitterand, joined in the fray, declining to attend the opening-day ceremony, dismissing the expensive new investment with Gallic indifference as “pas ma tasse de thé” (“just not my cup of tea”).<sup>14</sup>

Robert Fitzpatrick, the first chairman of the Disneyland Resort Paris, was a French-speaking American who knew Europe quite well, in part because of his French wife. Fitzpatrick did not, however, realize that Disney could not approach France in the same way as it had approached Florida when setting up its second theme park. For example, the recruitment process and training programs for its staff were initially not well-adapted to the French business culture. The 13-page manual specifying the dress code within the theme park was apparently unacceptable to the French; the court had even ruled that imposing such a dress code was against the labour laws.

The miscalculations of cultural differences were found in other operational aspects as well. For instance, Disney’s policy of banning the serving of alcoholic beverages in its parks, including in California, Florida and Tokyo, was unsurprisingly extended to France. This restriction outraged the French for whom enjoying wine during lunch and dinner was part of their daily custom. In May 1993, Disney yielded to the external pressure, and altered its policy to permit the serving of wines and beers in the theme park. With the renaming and the retooling of the entire theme park complex to better appeal to European taste, Disneyland Resort Paris finally began to profit in 1995.

### Why Such Different Outcomes for Tokyo and Paris?

Why was Disney so successful in Tokyo but largely a failure in Paris? Professor Mary Yoko Brannen maintains that it may in part have been due to the way that Disney’s strategic assets—such as products, practices and ideologies—were translated to and interpreted in the Japanese and French contexts.<sup>15</sup> According to Brannen, the

<sup>12</sup>Jo Wrighton and Bruce Orwall, “Mutual Attractions: Despite Losses and Bailouts, France Stays Devoted to Disney,” *Wall Street Journal*, January 26, 2005, p. A1.

<sup>13</sup>James B. Stewart, *Disney War*, Simon & Schuster, New York, 2006, p. 128.

<sup>14</sup>Ibid.

<sup>15</sup>Mary Yoko Brannen, “When Mickey Loses Face: Recontextualization, Semantic Fit and the Semiotics of Foreignness,” *Academy of Management Review*, October 2004, pp. 593–616.

“Americana” represented by Disney was an asset in Japan, where a trip to Disney was seen as an exotic, foreign-like experience. However, this association with the pure form of all things American was a liability in France, where it was seen as a form of reverse cultural imperialism. The result was a “lost-in-translation” effect for many of Disney’s most valued icons and established business practices. For example, Mickey Mouse was seen as a squeaky-clean all-American boy in the United States, and he was viewed as conservative and reliable enough to sell money market accounts in Japan. However, in France, he was seen as a street-smart detective because of the popularity of a comic book series *Le Journal Mickey*.

Likewise, Disney’s service training, human resource management (HRM) practices and training required to achieve the “happiest place on earth” were quite easy to implement in Japan, where such practices represented the cultural norm. In France, however, the same training practices were perceived as invasive and totalitarian. **Exhibit 2** summarizes how other strategic assets of Disney were recontextualized to the Japanese and French environments.

In 2006, it remained to be seen how Disney’s strategic assets would translate to, and be interpreted in, the Chinese culture of Hong Kong, the topic to which we turn next.

### EXHIBIT 2 How Disney’s Assets and Practices Recontextualize to Japan and France

Source: Mary Yoko Brannen, “When Mickey Loses Face: Recontextualization, Semantic Fit and the Semiotics of Foreignness,” *Academy of Management Review*, October 2004, p. 593.

	United States	Japan	France
<b>Products</b>			
Mickey Mouse	Squeaky-clean, all-American boy representing wholesome American values	Safe and reliable (used to sell money market accounts)	Cunning, street-smart detective epitomized in <i>Le Journal Mickey</i> —squeaky clean version is boring
Cowboy	Rugged, self-reliant individualist	Quintessential team player	Carefree, somewhat dim-witted anti-establishment individual
Souvenirs	Fun, part of the experience	Legitimizing mementos that fit into the formalized system of gift giving, known as <i>sembetsu</i>	Tacky, waste of money
<b>Practices</b>			
Service Orientation	Hypernormal	Cultural norm	Abnormal
Personnel Management	Hypernormal	Cultural norm	Invasive/illegal
Training	Hypernormal	Cultural norm	Totalitarian
<b>Ideologies</b>			
Disneyland	Modernist theme—fun, clean, wholesome entertainment	Translated modernist theme—fun, clean, safe foreign vacation	Postmodernist theme—resistance to Disney’s meta narrative
Foreignness	• Fantasized European roots • Marginalized native and minority others	• Keeping the U.S. exotic • Marginalizing the Asian other	• Politicized repatriation • Schizophrenic relationship with the U.S.

### Mickey Mouse Goes to China

We know we have an addressable market just crying out for Disney products.

—Andy Bird, Walt Disney International president, discussing China's potential<sup>16</sup>

The Chinese “have heard so much about the parks around the world, and they want to experience the same thing,” said Don Robinson, the former managing director of HKD. Chinese consumers wanted to connect with the global popular culture and distance themselves from their previous collective poverty and communist dictate. Kevin Wong, a tourism economist at the Hong Kong Polytechnic University, remarked that the Chinese “want to come to Disney because it is American. The foreignness is part of the appeal.” The Chinese needed Disney, and Disney needed China. For example, Ted Parrish, co-manager of the Henssler Equity Fund, an investment fund house, said, “If Disney wants to maintain earnings growth in the high teens going forward, China will be a big source of that.”<sup>17</sup>

Because the Chinese economy was booming, Disney thought it would be a good time to set up a new theme park there. China's infrastructure was still substandard by world standards. In addition, the Chinese currency, the renminbi, was not fully convertible. These and other factors increased the attractiveness of Hong Kong—a Special Administrative Region of China since the handover of sovereignty from the United Kingdom in 1997. Hong Kong had world-class infrastructure and a reputation as an international financial center. Most importantly, Hong Kong had always been a gateway to China. These factors gave Hong Kong an edge as a location for Disney's third international theme park.

### THE HONG KONG TOURISM INDUSTRY

Hong Kong, with its unusual blend of East and West, of Chinese roots and British colonial heritage, of ultramodern sophistication and ancient traditions, is one of the most diverse and exciting cities in the world. It is an international city brimming with energy and dynamism, yet also a place where peace and tranquility are easily found.<sup>18</sup>

Tourism was one of the major pillars of the Hong Kong economy. In 2005, the total number of visitors was more than 23 million, a new record and approximately a 7.1 percent increase over 2004 (see Exhibit 3). Visitors came from all over the world, including Taiwan, America, Africa, the Middle East and Macao (see Exhibit 4). Mainland China was the biggest source of visitors, accounting for 53.7 percent of the total in 2005.<sup>19</sup> The dominance of this group was, in part, supported by the Individual Travel Scheme<sup>20</sup> introduced in 2003.

<sup>16</sup>Jeffrey Ressler and Michael Schuman, “Disney's Great Leap into China,” *Time*, July 11, 2005, pp. 52–54.

<sup>17</sup>Paul R. La Monica, “For Disney, It's a Small World after All,” *CNNmoney.com*, September 12, 2005, retrieved March 10, 2006 from <http://money.cnn.com/2005/09/12/news/fortune500/hongkongdisney/>.

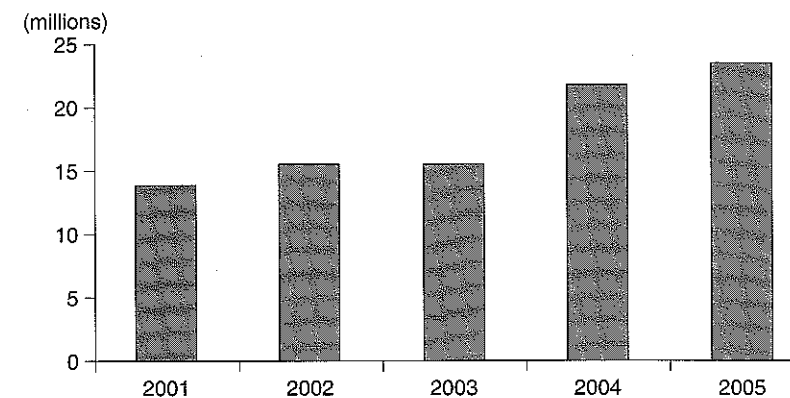
<sup>18</sup>Hong Kong Tourism Board, [www.discoverhongkong.com](http://www.discoverhongkong.com), accessed August 17, 2007.

<sup>19</sup>Hong Kong Census & Statistics Department, “Hong Kong Monthly Digest of Statistics,” Department, Hong Kong, March 2006.

<sup>20</sup>The Individual Travel Scheme was a policy that permitted urban residents from selected cities in Mainland China to apply for visas from the Public Security Department to visit Hong Kong. In 2006, the Scheme covered 38 mainland cities. Until the implementation of this policy, mainlanders could only visit Hong Kong through business or travel groups.

**EXHIBIT 3**  
Annual Visitor Arrivals in Hong Kong

Source: Hong Kong Tourism Board (2006).



### Local Attractions

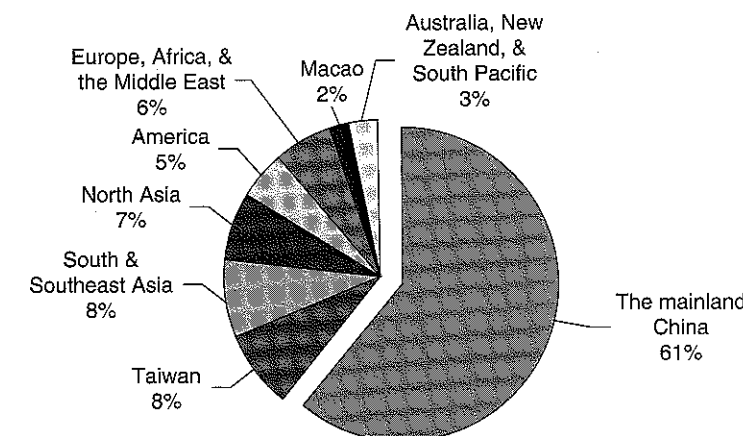
Popular tourist attractions in Hong Kong included, but were not limited to, Victoria Peak, Repulse Bay, open-air markets and Ocean Park. Hong Kong's colonial heritage provided several attractions, such as Cenotaph, Statue Square and the Government House. Traditional Chinese festivals, such as Tin Hau Festival, Cheung Chau Bun Festival and Temple Fair, added local flavor. Visitors often took part in the celebration of these annual festive events during their stay. The Hong Kong Tourism Board had designated 2006 as “Discover Hong Kong Year” to attract more travelers and encourage them to extend their stay. Furthermore, the AsiaWorld-Expo opened in early 2006, and it was expected to attract more business travelers. Other initiatives included a sky rail to the world's largest sitting Buddha statue and Hong Kong Wetland Park. In addition, the Dr. Sun Yat-sen Museum was being renovated and was scheduled to reopen in early 2007.

### Ocean Park

Ocean Park was another prime attraction in Hong Kong and was well-recognized worldwide. Prior to Disney's entry, Ocean Park occupied a quasi-monopoly position as the only local theme park. Founded in 1977, Ocean Park was located near Hong Kong's Central district, the heart of the bustling city. Ocean Park had an annual attendance of more than four million visitors and had been ranked recently as one of the

**EXHIBIT 4**  
Visitor Arrivals by Country/Territory of Residence

Source: Hong Kong Monthly Digest of Statistics (March 2006).





top 10 amusement parks in the world by *Forbes* magazine.<sup>21</sup> Ocean Park sought to blend entertainment with educational elements, thus offering the dual experience for its guests termed as “edutainment.”

For the 2004/05 fiscal year, Ocean Park’s gross revenue was HK\$684 million (US\$87.8 million), which represented a 12 percent increase over the previous year. The surplus of HK\$119.5 million (US\$15.3 million) was the best performance ever achieved at the Park.<sup>22</sup> In 2006, Ocean Park received necessary financing for a HK\$5.55 billion (about US\$0.71 billion) makeover, including a government-guaranteed portion of HK\$1.39 billion (about US\$0.18 billion).<sup>23</sup> Ocean Park’s redevelopment was expected to bring HK\$23 billion (about US\$2.95 billion) to HK\$28 billion (about US\$3.59 billion) over the first 20 years of operation, with visitors projected to increase to more than five million annually by 2011.

## HONG KONG’S VERY OWN DISNEYLAND

Hong Kong Disneyland will be the flagship for the Disney brand in this huge and growing country and play a pivotal role in helping to bring entertainment to this . . . part of the world. . . . It is our first destination opening in a market where [there] isn’t a very deep knowledge of Disney culture and stories.

—Jay Rasulo, chairman of Walt Disney Parks and Resorts<sup>24</sup>

Disney initiated a conversation with the Hong Kong Special Administrative Region (SAR) government in August 1998 about the possibility of setting up a Disney theme park. To avoid a situation like the one encountered by Disneyland Resort Paris, Disney initially planned to simply run the park on a management fee and licensing contract basis. After extended talks and negotiations, however, Disney agreed to take an ownership stake as well.

HKD was expected to bring a number of economic benefits to Hong Kong. First, approximately 18,400 jobs would be created directly or indirectly at HKD’s opening, and this number was expected to increase to 35,800 in 20 years. Plus, 3.4 million visitors, mainly from Hong Kong and Mainland China, would be attracted to the park, and attendance was projected to increase to 7.3 million after 15 years. The additional spending by tourists would amount to HK\$8.3 billion (about US\$1.1 billion) in Year 1, rising to HK\$16.8 billion (about US\$2.2 billion) annually by Year 20 and beyond. There would be “soft” benefits as well, such as with the acquisition of first-class technological innovations and facilities and gaining hands-on experience with quality service training. Over a period of 40 years, it was forecast that HKD would generate an economic benefit equivalent to HK\$148 billion (about US\$19 billion). This forecast sounded promising during the 1998/99 period when negotiations were taking place, when Hong Kong was still feeling the effects of the 1997 Asian financial crisis.

<sup>21</sup>Norma Connolly, “Top 10 Accolade a Boost to Ocean Park,” *South China Morning Post*, electronic edition, June 3, 2006, <http://www.scmp.com>, accessed December 3, 2006.

<sup>22</sup>The Walt Disney Company, *Annual Report*, 2005, retrieved March 10, 2006 from [http://corporate.disney.go.com/investors/annual\\_reports/2005/index.html](http://corporate.disney.go.com/investors/annual_reports/2005/index.html).

<sup>23</sup>Charis Yau, “Ocean Park Eyes \$4.1B Loan to Finance Makeover,” *South China Morning Post*, April 13, 2006, p. B1Z1, retrieved May 3, 2006 from WiseNews Database.

<sup>24</sup>Greg Hernandez, “Mickey Gains Recognition in Hong Kong,” *Knight Ridder/Tribune Business News*, September 8, 2005, p. 1, retrieved March 10, 2006 from Lexis-Nexis Academic Universe Database.

## The Concluded Deal

This is a happy marriage between a world-class tourism attraction and a world-class tourist destination. We hope that Hong Kong Disneyland will not just bring us more tourists, but also wholesome quality entertainment for local families as well.<sup>25</sup>

After a year of negotiations, the final contract was signed in December of 1999. The theme park and hotels would cost US\$1.8 billion to construct over six years. In addition, US\$1.7 billion would be spent for land reclamation as no other suitable location was available in the densely populated territory. The park would be situated on Penny’s Bay of Lantau Island, the largest of Hong Kong’s outlying islands. The Hong Kong Government and Disney would invest US\$416 million and US\$314 million, respectively. In return, Disney held a 43 percent stake in HKD, and the government held the remaining 57 percent, which could later be increased to 73 percent by converting subordinate shares. A further US\$1.1 billion was put up in the form of government and commercial loans.

Hong Kong International Theme Park Limited (HKITP), the joint venture formed between Disney and the Hong Kong Government in December 1999, oversaw the construction and running of HKD. While the government developed the infrastructure, Disney provided master planning, real estate development, attraction and show design, engineering support, production support, project management and other development services. Disney also set up a wholly owned subsidiary, Hong Kong Disneyland Management Limited, to manage HKD on behalf of HKITP.

## A Rocky Start

There was a palpable excitement when the new Disneyland theme opened, but the skeptics and critics were not so easily impressed. Press reports described the first few months as a “rocky start.” Some locals called the park’s management policies “absurd.”<sup>26</sup>

Four weeks prior to the official opening, HKD invited 30,000 selected individuals per day to visit the park to test the rides and other attractions. During the trial period, a thick haze hovered over the whole park, a result of the air pollutants passing down from Mainland China. This problem was well-recognized by Hong Kong authorities and was particularly acute during low wind periods, which trapped all of Hong Kong in smog.<sup>27</sup> Smog virtually engulfed Sleeping Beauty’s Castle.

The first problem noticed was that the capacity limit of 30,000 visitors may have been too high. For example, on September 4, 2005, approximately 29,000 local visitors went to the park. The average queuing time was 45 minutes at the restaurants and more than two hours for the rides. The park faced pressure to lower the daily capacity limit. Instead, the park proposed other measures, such as extending the opening time by an hour and encouraging visits during weekdays by offering discounts, as opposed to reducing the actual limit.<sup>28</sup>

<sup>25</sup>Stephen Ip, Hong Kong secretary for Economic Services, press release from Hong Kong government, “Hong Kong Disneyland Final Agreement Signed,” [www.info.gov.hk/gia/general/9912/10/1210286.htm](http://www.info.gov.hk/gia/general/9912/10/1210286.htm), accessed August 17, 2007.

<sup>26</sup>“Mousekeeping,” *South China Morning Post*, December 28, 2005, features section, page 12.

<sup>27</sup>Bruce Einhorn, “Disney’s Not-so-magic New Kingdom,” *BusinessWeek Online*, September 13, 2005, retrieved March 10, 2006 from [http://www.businessweek.com/bwdaily/dnflash/sep2005/nf20050913\\_9145\\_db046.htm?chan=search](http://www.businessweek.com/bwdaily/dnflash/sep2005/nf20050913_9145_db046.htm?chan=search).

<sup>28</sup>“HK Disneyland Considers Longer Opening Hours to Beat Long Lines,” *The Associated Press*, retrieved March 10, 2006, from [http://english.sina.com/taiwan\\_hk/p/1/2005/0906/44951.html](http://english.sina.com/taiwan_hk/p/1/2005/0906/44951.html).

The park faced another problem when inspectors from the Hygiene Department were asked to remove their badges and caps prior to carrying out an official investigation of a food-poisoning case. Park officials later apologized and pledged to operate in compliance with all local regulations and customs. But problems continued. The police could not get into the park—even when deemed necessary—unless pre-arranged with the park's security unit.<sup>29</sup>

## OPERATIONS

### Product Offerings

HKD, like its counterparts in the United States, Japan and France, symbolized happiness, fantasy and dreams, and sought to offer an unparalleled experience to its visitors. The admission price was initially set at HK\$295 (US\$38) during the weekdays and HK\$350 (US\$45) on weekends and peak days, the lowest pricing among the five Disney theme parks. A day pass for a child was HK\$250 (US\$32), while it was HK\$200 (US\$27) for seniors aged 65 and above. Tickets were sold primarily via the company's website (<http://www.hongkongdisneyland.com>), which allowed three-month advance bookings. Tickets were sold through travel agencies. These two measures aimed to control the daily number of visitors and avoiding long queues at the entrance. Only a small portion of tickets were available for walk-in customers.

HKD, like other Disney theme parks, was divided into four parts, including Main Street, U.S.A.; Fantasyland; Adventureland and Tomorrowland. Disney's classic attractions, such as Space Mountain, Mad Hatter Tea Cups and Dumbo, were included in the park. In Main Street, U.S.A., guests could ride a steam train to tour the park. A large part of Fantasyland was the Sleeping Beauty Castle, which included Dumbo and Winnie the Pooh. Guests could find Mickey, Minnie and other popular Disney characters available for photos in the Fantasy Garden, which was unique to HKD. Adventureland was home to Tarzan's tree house, the jungle river cruise and the Festival of the Lion King show. Tomorrowland featured science fiction and space adventures.

To cater to the time-pressed Hong Kong residents, HKD offered a Fastpass ticketing system, which provided a one-hour window to bypass queues for favored rides. Guests preferring an extended stay could check in to one of the two hotels, HKD Hotel and Disney's Hollywood Hotel, which offered on-site lodging services.

### Marketing

HKD collaborated with the Hong Kong Government to jointly promote the theme park. It was estimated that one-third of the visitors would come from Hong Kong, one-third would come from Mainland China and the remaining third would come from Southeast Asian countries.<sup>30</sup> The free-to-air TV program, *The Magical World of Disneyland*, was broadcast in Hong Kong, and could be received in various regions across Southern China. In each episode, famous pop stars from the region (for example, Jacky Cheung, who was also the official ambassador of HKD) would introduce some behind-the-scene stories about HKD, such as interviews with rides designers. Disney believed that the widespread popularity of Jacky Cheung would connect well with the audience

<sup>29</sup>Jonathan Hill and Richard Welford, "A Case Study of Disney in Hong Kong," *Corporate Social Responsibility Asia Weekly*, November 16, 2005, retrieved March 10, 2006 from <http://www.csr-asia.com/index.php?p=5318>.

<sup>30</sup>Suchat Sritama, "HK Disneyland to Boost Thai Visitor Numbers," *The Nation*, September 13, 2005, retrieved March 10, 2006 from [http://www.nationmultimedia.com/2005/09/13/business/index.php?news=business\\_18587589.html](http://www.nationmultimedia.com/2005/09/13/business/index.php?news=business_18587589.html).

in Asia. HKD also launched a special TV channel on local cable TV. This channel included background stories on founder Walt Disney, information about The Walt Disney Company and its evolution, interesting facts about the company's state-of-the-art animated films, and regular updates on the construction progress of the park.

The theme park also introduced a line of Disney-themed apparel at Giordano, a Hong Kong-based clothing retailer with more than 1,500 outlets in Asia, Australia and the Middle East.<sup>31</sup> Giordano featured low-price fashionable clothes similar to The Gap in the United States. The Disney line featured adult and children's T-shirts and sweat-shirts with popular Disney cartoon characters, such as Mickey Mouse and Nemo. The T-shirts were about HK\$80 (US\$10) at Giordano, much less expensive than comparable items at HKD for HK\$380 (US\$49).

HKD outsourced part of its marketing effort to *Colour Life*, a Guangzhou-based magazine. In September 2005, 100,000 extra copies were printed, featuring the grand opening of HKD that month. It was hoped the extra publicity would increase awareness of the theme park among the residents of Guangzhou, the major metropolitan area of southern China, just north of Hong Kong. The company also donated 200 HKD umbrellas to key newsstands in Guangzhou to provide even more publicity. In addition, HKD partnered with the Communist Youth League of China to run special events for children, such as Mickey Mouse drawing contests.

### Human Resource Management

The magical experience of a HKD visit depended upon the quality of service. HKD treated human resource management (HRM) as one of the cornerstones of its competitive advantage. To fill the remaining positions at the park, in April 2005, HKD launched one of the city's largest recruitment events ever. The park screened job candidates according to qualities such as service orientation, language capabilities, passion for excellence and friendliness. Employees were referred to as cast members because "they are always on stage when interacting with guests, and therefore represent a very important element of the show," said Greg Wann, vice-president for HRM at HKD.<sup>32</sup>

In January 2005, HKD sent the first cohort of 500 cultural representatives to Walt Disney World in Orlando for a six-month training program. The cast members would learn about the magical Disney culture and would have a platform to share their Chinese cultural experience with other cast members at Walt Disney World. During their stay at Orlando, the Hong Kong crew was trained according to standards set by The Walt Disney Company worldwide. They also had the opportunity to work in other divisions, including merchandising, food and beverage operations, park operations, custodial services and hotel operations. In addition to training, HKD provided handbooks to each cast member, which literally detailed the regulations from head to toe. For example, male cast members could not have goatees or beards, and female cast members were not allowed to have fingernails longer than six centimetres.

### Local Cultural Responsiveness

Given the cultural *faux pas* that occurred with Disneyland Resort Paris, Disney paid special attention to cultural issues pertaining to HKD. Because the prime target

<sup>31</sup>"Hong Kong Disneyland Rolls out Fashions: Hong Kong Disneyland Takes Publicity Blitz to Masses with Fashion Line," *The Associated Press*, retrieved March 10, 2006 from <http://abcnews.go.com/Business/wireStory?id=963083&CMP=OTC-RSSFeeds0312>, archived at <http://news.ewoss.com/articles/D8BFNL100.aspx>.

<sup>32</sup>Based on: Steven Knipp, "The Magic Kingdom Comes to the Middle Kingdom: What It Took for Hong Kong Disneyland to Finally Open in 2005," *Fun World*, February 2005, retrieved March 10, 2006 from [http://www.funworldmagazine.com/2005/february05/features/magic\\_kingdom/magickingdom.html](http://www.funworldmagazine.com/2005/february05/features/magic_kingdom/magickingdom.html).

customer segment was the growing group of affluent Mainland Chinese tourists, *feng shui*<sup>33</sup> masters were consulted for advice on the park layout and design. New constructions often began with a traditional good-luck ceremony featuring a carved suckling pig.<sup>34</sup> One of the main ballrooms was constructed to be 888 square meters since eight was an auspicious number in Chinese culture, signifying good fortune. The hotels deliberately skipped the fourth floor because the Chinese associated four with bad luck. Other finer details were incorporated throughout the park to better fit the local culture. For example, the theme park sold mooncakes during the Chinese Mid-Autumn Festival. Phyllis Wong, the merchandising director, stated that green hats were not sold at the park because they were a symbol of a wife's infidelity in Chinese culture.<sup>35</sup>

Cast members at HKD were expected to converse proficiently in English, Cantonese and Mandarin, and signs in the park were written in both Chinese and English. Another local adaptation was the squat toilets, which were popular throughout China. "These toilets benefit those Mainland Chinese who prefer squatting and those who don't want to see muddy footprints on toilet seats," commented a Hong Kong visitor.<sup>36</sup>

Restaurants offered a wide variety of food, ranging from American-style burgers and French fries to Chinese dim sum and sweet and sour pork. Although some animal activists groups initially protested, shark fin soup was on the menu as "it is what the locals see as appropriate," said Esther Wong, a spokeswoman of HKD.<sup>37</sup>

## NEGATIVE PUBLICITY

### The Lunar New Year Holiday Fiasco

The park faced several public relations problems during its first year of operations, none bigger than that which occurred during the popular Chinese Lunar New Year holiday period. HKD had introduced a new, discounted, one-day ticket that could be used at any time during a given six-month period. These tickets could not be used on "special days" when the park anticipated an influx of visitors. The first period of special days was the Lunar New Year holidays.<sup>38</sup> In Hong Kong, the 2006 Lunar New Year period started on January 28 (Saturday) and ended on January 31 (Tuesday). However, HKD failed to take into account that the following two days (i.e. February 1 and 2) were still public holidays in Mainland China. Mainland tour agencies had purchased large batches of the discounted tickets and escorted large groups of Mainland tourists to HKD during those two days.

This influx created a major problem for HKD as thousands of mainland tourists clinching their tickets swarmed the front gates of the park. The park could not

<sup>33</sup>Feng shui is the Chinese art and practice of positioning objects in accordance to the patterns of yin and yang, and in flow with chi, the energy source that resides in all matter.

<sup>34</sup>Jeffrey Ressler and Michael Schuman, "Disney's Great Leap into China," *Time*, July 11, 2005, pp. 52-54.

<sup>35</sup>"Disney Uses Feng Shui to Build Mickey's New Kingdom in Hong Kong," *The Associated Press*, retrieved March 10, 2006 from [http://english.sina.com/taiwan\\_hk/1/2005/0907/45097.html](http://english.sina.com/taiwan_hk/1/2005/0907/45097.html).

<sup>36</sup>"Disneyland with Chinese Characteristics," *Letters from China: China and Independent Travel*, July 22, 2005, retrieved March 10, 2006 from [http://voyage.typepad.com/china/2005/07/disneyland\\_with.html](http://voyage.typepad.com/china/2005/07/disneyland_with.html).

<sup>37</sup>"HK Disneyland Draws Fire over Soup," *Chinadaily.com.cn* May 24, 2005, retrieved March 10, 2006 from [http://www.chinadaily.com.cn/english/doc/2005-05/24/content\\_445139.htm](http://www.chinadaily.com.cn/english/doc/2005-05/24/content_445139.htm).

<sup>38</sup>The Lunar New Year Holiday, or Chinese New Year, was one of the most important traditional Chinese festivals. A series of celebrations usually took place during the period, starting from the first day of the first month on the Chinese calendar.

accommodate the additional guests, and the steel gates were locked shut. Many of these Mainland Chinese tourists had saved all year for this trip and had accompanied their extended families to Hong Kong to experience the Disney magic. Needless to say, they were understandably upset. The crowd turned into an angry mob, and, brandishing their tickets, started shouting profanities and hurling objects at the police and security guards. Some tourists even tried to climb over the gates, which were topped with sharp spikes. The front page of the local paper the next morning showed a Mainland tourist throwing a young child over the closed gates to his parents who had managed to get inside the park. As one disgruntled customer commented from that fateful day, "I won't come again, even if I am paid to."<sup>39</sup>

To China observers, the behavior was not entirely surprising, given that Mainland Chinese consumers can be very vocal when they are dissatisfied with a product or service. For example, in 2001, the dissatisfied owner of a Mercedes Benz SLK230 had his car towed to the center of town by a pair of oxen, where workers with sledgehammers demolished the car in front of media crews, creating a publicity nightmare for DaimlerChrysler.<sup>40</sup>

There was plenty of finger-pointing for the fiasco. Fengtan Peiling, the commissioner of the Hong Kong Consumer Council, claimed that Disney had failed to learn about the cultural traditions and consumption habits of Chinese people. Wang Shuxin, from the Shenzhen Tourism Tour Group Centre, blamed HKD of falsely accusing the travel agents for the predicament. His center, which oversaw Mainland tourists traveling to Hong Kong, had more than 300 claims for compensation through travel agencies. Some agencies wanted to sue HKD for a possible breach of contractual terms.<sup>41</sup> Soon afterwards, the Hong Kong government released a statement requesting the park to improve its ticketing and guest-entry procedures. Bill Ernest, HKD's executive vice-president, later apologized, stating "every market has unique dynamics that must be taken into consideration and must be learned over time," and that Disney was still learning.<sup>42</sup>

### Customer Complaints

Customers also complained that the park was too small and that it had too few Hong Kong-themed attractions. HKD had only 22 attractions, 18 fewer than the other Disney theme parks. Other guests claimed that they were mistreated during their stay at the park. Some guests even planned to take legal action against HKD. For example, a park visitor from Singapore alleged negligence and discrimination of Disney's staff because they refused to call an ambulance for her mother who later died of heart failure at an HKD hotel. A spokesperson for HKD denied the allegations, saying that the staff handled the case in the "most appropriate" manner.<sup>43</sup> In another case, a guest and his daughter were in a bakery shop on Main Street, U.S.A. when they were hit by falling debris. The guest stated "the park does not seem to regard customers' safety as

<sup>39</sup>Helen Wu, "Queues Take the Magic out of a Crowded Kingdom," *South China Morning Post*, February 4, 2006, p. CITY1.

<sup>40</sup>"Luxury Car Under Hammer," *Herald Sun*, December 28, 2001, retrieved May 3, 2006 from Lexis-Nexis Academic Universe Database.

<sup>41</sup>Meng Chu, "Disneyland Suffers Crowd Problems in Hong Kong," *Voice*, February 10, 2006, retrieved March 10, 2006 from <http://bjtoday.yinet.com/article.jsp?oid=7653476>.

<sup>42</sup>"HK Disneyland Underestimates Lunar New Year Holiday Potential," *Asia Pulse*, February 6, 2006, retrieved March 10, 2006 from Lexis-Nexis Academic Universe Database.

<sup>43</sup>Patsy Moy and Ravina Shamdasani, "Call for Inquest into Disney Visitor's Death," *South China Morning Post*, February 20, 2006, p. CITY1.

its priority” and threatened to take legal action against HKD, adding that they tried to placate him with a Winnie the Pooh for his daughter.<sup>44</sup>

### Working Conditions

The character performers at HKD complained that they were overworked and underpaid. The spokesperson of the staff union stated that workdays of more than 12 hours and inadequate rest breaks had overwhelmed many workers, causing work-related injuries, such as joint and muscle strain. In response, Lauren Jordan, the theme park’s vice-president of entertainment, claimed that “there are a few cast members who have found this work to be less rewarding than others and perhaps more physically challenging than they anticipated.”

In addition the character performers, who performed in the daily parade and met visitors, were petitioning for the same salaries as stage performers. The entry salaries for parade performers averaged about HK\$9,000 per month (US\$1,153) per month compared to about HK\$11,000 (US\$1,409) for stage performers.<sup>45</sup> In response to the staff’s concerns, management announced extended breaks of 40 minutes for every 20-minute session with guests during the hot and humid summer season. Cooling vests, designed for the character performers, were also being tested.

Complaints were not limited to the line staff; there was also turnover among the executive staff. As one disgruntled executive complained:

The Americans make all the key decisions and often the wrong ones. Finance is also king here, and when things go wrong, they look for local scapegoats. The mood and morale is very low here. I know a lot of us are actively looking for jobs [and many of us] are totally disillusioned.<sup>46</sup>

### HKD’S RESPONSE

To combat problems highlighted through the media, such as low park attendance, limited attractions, long queues, disgruntled employees and guests’ accounts of rude treatment, HKD implemented several recovery strategies.

#### New Promotion

To boost attendance, HKD adjusted its pricing strategy. In November 2005, the park offered ticket discounts in which the price for local residents was reduced by HK\$50 (US\$6.41). Moreover, HKD promoted a ticket express package: guests could purchase a one-day rail pass for an extra HK\$6.4 over the admission price. This pass gave unlimited rides to and from the park plus a souvenir showcase of the popular Disney characters. Many believed that these new policies were intended to boost attendance but park spokespersons dismissed such a claim.

In mid-2006, 50,000 taxi drivers were invited to HKD free of charge. Every taxi driver who took up the offer was given free admission to the park between May 15 and June 11, 2006. In addition, a 50 percent discount was provided to up to three family members or friends who accompanied each driver. The aim of this promotion was to give taxi drivers a personal experience of the park that they could share with others.

<sup>44</sup>May Chan, “Disney’s Pooh Unable to Mollifyirate Father,” *South China Morning Post*, December 8, 2005, p. CITY4.

<sup>45</sup>Dennis Eng, “Mickey and Friends Call for a Better Work Environment,” *South China Morning Post*, April 10, 2006, p. CITY3.

<sup>46</sup>Dennis Eng, “Two More Executives Quit Disney Park,” *South China Morning Post*, p. CITY1.

The Urban Taxi Drivers Association Joint Committee welcomed this scheme but it was not clear whether it was successful.

HKD also introduced a “one-day trip guide” in Chinese during November of 2005.<sup>47</sup> This initiative was intended to explain HKD to local travel guides. Furthermore, special VIP treatment was extended to local celebrities in the form of a Dining with Disney program. Local TV commercials also featured testimonials of previous guests and enticing scenes from inside HKD.

### External Liaison with Mainland Travel Agents

Since Mainland visitors were a primary target of HKD, more proactive and collaborative moves were made with Chinese travel agencies, some of which were reluctant to sell HKD tickets in view of their slim profitability and extensive hassles: “when there are problems, [travel agencies] have to eat the cost and other troubles.” To overcome this resistance, HKD offered Chinese travel agents a 50 percent discount on visits to the park and hotels. Incentives of approximately US\$2.50 per adult ticket were also given to tour operators who incorporated an HKD visit into their package tours. HKD also changed the sales packages to open-ended tickets, from just fixed-date tickets, which offered greater flexibility for visitors and minimized the number of returned tickets.<sup>48</sup>

### SETTING THE COURSE FOR EVENTUAL SUCCESS

The performance of HKD during its first year of operation had not turned out as good as had been hoped with some potentially devastating mistakes. Tour operators further complained that HKD was not big enough to keep the guests occupied for a whole day. Worse still, HKD had faced much negative publicity: from overcrowding, to customer lawsuits, to chaotic incidents during the Chinese Lunar New Year that were front page news in Hong Kong. Further, a survey of current visitors to HKD revealed that 30 percent of guests opted not to revisit the park, which did not bode well for HKD’s future.<sup>49</sup>

Disney had experience in operating parks internationally in both good and bad conditions. Inevitably comparisons had begun being made between HKD and Disneyland Resort Paris in France, which attracted a mere 1.5 million visitors by the end of its second month of operation and nowhere could it match Disney management’s original projection of 15 million in the first year. However, some academics believed that it might take another five years to determine whether HKD could be judged as an economic success or failure.

Although maintaining an optimistic public face, the management team at HKD was facing pressures to turn things around. How could HKD steer through the cultural minefield to ensure Hong Kong Disneyland’s success? How well had Disney achieved its goal of translating its strategic assets to the Chinese cultural context? What could HKD do to ensure a successful outcome along the lines of Tokyo Disney and avoid the type of embarrassment experienced with Disneyland Paris? What could the company do to rescue the park from the onslaught of continuing negative publicity? The park’s management certainly had its challenges cut out for it.

<sup>47</sup>Geoffrey A. Fowler and Merissa Marr, “Hong Kong Disneyland Gets Lost in Translation,” *The Wall Street Journal Asia*, February 9, 2006, p. 26.

<sup>48</sup>Ibid.

<sup>49</sup>“Feature: Concerns Growing over HK Disneyland’s Future,” *Knight Ridder/Tribune Business News*, October 20, 2005, p. 1. retrieved March 10, 2006 from Lexis-Nexis Academic Universe Database.