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Disneyland in Shanghai: A Second Try in China

By LING WOO LIU / HONG KONG Wednesday, Nov. 04, 2009

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A customer looks at products at the Disney flagship store in Shanghai on Nov. 4, 2009
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Up until now, Disney's foray into China has been anything but magical. Its Hong Kong theme park, **opened in 2005**, has had a bumpy ride due to early missteps and competition — in its first year, attendance fell 400,000 short of an initial 5.6 million target. The following year, the number of visitors dropped to 4 million. To add insult to injury, the company in 2007 discovered an amusement park near Beijing that was filled with knockoff Disney characters.

But you don't throw in the towel in a market with 1.3 billion potential customers. After more than a decade of negotiations, Disney has received clearance to build its second Disneyland in China, this one in Shanghai. The company announced on Tuesday that China's top planning agency had approved plans to build the new theme park, which will join the existing parks in Anaheim, Calif.; Orlando, Fla., Tokyo, Paris and Hong Kong.

(See a brief history of Disney teen stars.)

Disney officials wouldn't say when the park will open or how much it will cost. The company stated in a press release that the Shanghai park will include "characteristics tailored to the Shanghai region," but a spokesperson declined to elaborate on what types of rides or attractions might be on offer. The Shanghai government has already reserved an estimated 1,000 acres near Shanghai's international airport in the city's Pudong district.

Some speculate that the Chinese government's sudden announcement that Disney could go ahead may be timed to precede U.S. President Barack Obama's first visit to China Nov. 15-18, which will include a stop in Shanghai. "It's a huge investment," says Shaun Rein, managing director of China Market Research Group in Shanghai. "By allowing this now, it gives face to Obama and really shows that China and the U.S. need to work together to get out of this financial malaise."

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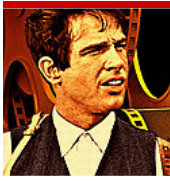
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Although theme parks made up less than a third of Disney's total revenue of \$38 billion last year, Shanghai Disneyland still figures to be a key addition to the business because it will boost the company's visibility in one of the world's fastest-growing markets. Due to government rules aimed at protecting the public from what are perceived to be unwelcome foreign cultural influences, awareness of the Disney brand in China lags that of the rest of the world. Unlike in the U.S., where Disney operates a 24-hour TV channel and radio station, the company's presence in China is limited to a dozen hours of programming a week on local stations, five Disney-branded English-language schools in Shanghai and sales of Disney merchandise. In the past two years, Disney has produced two children's films for the mainland, *The Magic Gourd* and *Trail of the Panda*. China limits the number of foreign films that are allowed to screen in theaters to 20 a year.

The approval for park construction comes amid China's ongoing efforts to develop its tourism sector, which is expected to increase 3% this year. As disposable income in the country grows, amusement parks have proliferated throughout the country — by some estimates there are as many as 2,000 — but the quality of the attractions is uneven. Earlier this year, a sex-themed park in the central Chinese city of Chongqing called Love Land was torn down before it could open to the public. Shanghai, however, could be on the verge of a tourism boom. The city will host the World Expo starting in May 2010.

Since mainland Chinese make up a third of visitors to Hong Kong Disneyland, some fear that the Shanghai park will siphon tourists away from the former British colony, which is part of China but has a semi-autonomous government (mainland tourists must obtain visas to visit Hong Kong). Since opening four years ago, Hong Kong Disneyland has underperformed due to its small size — at 300 acres, it's the smallest of any Disney park — as well as high ticket prices and competition from a nimble competitor called Ocean Park.

(Read "The Fifth Happiest Place on Earth.")

Disney has also made several market miscalculations. Analysts say the company, in trying not to make the same mistakes it did at its Paris resort by failing to tailor the Disney formula to local tastes, may have gone overboard in its efforts to adapt the Hong Kong venue to Chinese customers. For example, the park's restaurants originally planned to serve shark's fin soup, a Chinese delicacy, until environmentalists protested. But the biggest knock against Hong Kong Disneyland — of which the Hong Kong government owns 57% — is a lack of attractions. In July, Disney and the government moved to remedy that problem by announcing that three new attractions would be added over the next five years.

Disney officials dismissed concerns that a new park in Shanghai will steal Hong Kong customers. "We see that Hong Kong Disneyland and the Shanghai park as complementary," said an official in an e-mail. "We believe the Greater China market is large enough to support multiple parks."

Further expansion in Asia may be a good bet. Last year, roughly a quarter of Disney's revenue came from overseas operations. Asia contributed just 5%, but leisure-industry experts are bullish about the region's potential. Last year, eight of the world's top 20 amusement parks (by number of visitors) were in Asia, according to a report by Themed Entertainment Association, based in Burbank, Calif. The buzz in Shanghai is already tangible. "Chinese consumers have a lot of love for Disney," says Rein. "They're more excited about Disneyland than the Expo."

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