One Mouse or Two Mice?
Real Estate Tech, April 1999

By Stephen Chung BS BBldg(HKU) MS in Real Estate Development(MIT) ARICS AHKIS MAACE MHKIREA PQS RPS-QS
Zeppelin Property Consultants Limited - Phone (852) 2401 6388 / 6602 Fax (852) 2401 3084
Real Estate Development Planning, Investment Analysis, Asset Management, Joint Ventures and Marketing Strategies

Lately, there were suggestions for Disney to consider developing one theme park each for Hong Kong and Shanghai. One of the supporting reasons put forward was that since the United States with (only) 260Million people can afford two Disney parks, China with its 1.2Billion will certainly be able to accommodate the same number. While in the long term this may be viable, this reasoning ignores the following aspects :

(A) **Catchment Areas** : The Disney parks in the USA do not only attract Americans but people worldwide. Despite that Japan and Europe now have their own Disney parks, it is said quite a few still visit the ones in the USA. The same may not be true vice versa. Hence, it is likely that the one(s) being contemplated in China may attract mainly Chinese and Asians only.

(B) **Price and Affordability** : While it may be true that wages, commodities and asset prices in China (not counting Hong Kong) may be cheaper, it does not necessarily mean that the price of a Disney park ticket will be proportionally lower. First, Disney may need to keep **ticket prices worldwide within some pre-determined band** (so that the differences, if any, in prices between different Disney parks would not lead unnecessarily to cannibalism). Second, as Disney needs to maintain **a certain service and product standard**, it will have to hire some of the best people, use the best materials and equipment, and so on, which in turn will mean higher than average wages and costs. Third, Disney may wish to incorporate **a higher premium in the profit margin** to allow for taking the risks in a new/developing market. All considered, this means to the public in the lower earning power market, visiting Disney is proportionally more expensive. This is turn implies a smaller percentage of the population in the market area will be able to afford its Disney park.

(C) Emergence, Size and Proportion of the **"Middle Class" (and up)** : In the USA (Europe, and Japan), there is a well established large middle class which forms the bulk of the target patrons. Moreover, increased wealth does not necessarily mean proportionally more number of patron-visits as collectively the target patrons, after having made a certain number of visits per time period, will not want to do so again even if ticket prices go down i.e. the demand becomes inelastic. Hence, the current status and future emergence (for continued and repeat demand) of the equivalent middle class in a developing market require close examination and generally, markets with relatively more even distribution of wealth and a sizable middle class (and up) may be better for Disney given all things being equal.

1. Instead of a population pro-rata, it is more suitable to **use Gross Domestic Product (GDP) as a ballpark pro-rata tool** (though this by itself is not a comprehensive way to look at the issue). The total GDP of China including Hong Kong is around 16% of that of the USA. Another angle is that the existing Disney parks (in the USA, France and Japan) reach markets occupying around 70% of the world annual GDP. China and Hong Kong combined totals around 4%. Hence, and based simply on numbers, Disney may not afford to develop two theme parks at more or less the same time even if it wishes to.