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Disney's Venture Into International Markets

Multinational companies are companies that have operations in more than several nations. This is an attractive business structure because it gives improved access to customers and markets. International expansion is accomplished through various business strategies and always comes with risk. The level and type of risk is directly associated with a firm's international business strategy, and it will determine success. A multinational company, The Walt Disney Company, began in the United States and expanded their parks and resorts operations into Japan, Paris, and Hong Kong. The Walt Disney Company aims to remain profitable in their foreign direct investment ventures, but their expansion into different nations may not permit a profitable business strategy because markets require different attitudes of management and variations of product.

A company will aim to be successful when entering the international market by implementing a certain strategy. There are several methods a company can pursue when entering the international markets. The methods are through licensing, exporting, joint ventures, totally owned facilities, strategic alliances, trading companies, countertrade, and a multinational firm.[1] Every method of entering the international market has a tradeoff between how a firm operates, perceives risk, and obtains profit.

[1] Pride, William M, et al. "Methods of Entering International Business." *Foundations of Business*, Cengage Learning Custom Publishing, 2019, pp. 70–73.

Moving into the international market with low risk resonates with a few business strategies. The three business strategies are licensing, exporting, and joint ventures.[2] First, licensing is a contractual agreement where the licenser allows the licensee to produce and market the licensed product using the licenser's brand name in return for a royalty or other compensation. Licensing is low risk because it requires virtually no investment, but a tradeoff occurs when the licensee does not maintain product standards and brand image while also not providing experience for marketing in international markets to the licenser.[3] Second, exporting is another method to reach international markets and may increase the level of involvement and knowledge a firm has in foreign markets. Firms may choose to establish and invest in its own sales offices and branches within foreign nations and act as export intermediaries themselves. Exporting may also involve communicating with an export-import agent as an intermediary. The export-import agent will sell a firm's product to foreign intermediaries for a commission or fee and may perform other marketing functions. A few risks associated with exporting has to do with logistics, managing relationships with export-import agents, paying for lost or stolen goods, not understanding consumer preferences in foreign markets, or not having a viable product to export due to weight/size ratio.[4] Third, joint ventures are a method of entering international markets by partnering with an established firm in a foreign market to achieve a specific goal or to operate together for a specific period. Advantages of partnering with an established firm in a foreign market comes from reducing risk, having access to market knowledge, and maintaining control over product attributes. However, a firm pursuing a joint venture must negotiate ownership stake and profit splitting. Other disadvantages of a joint venture are the exchange proprietary

[2] Pride, William M, et al. "Methods of Entering International Business." *Foundations of Business*, Cengage Learning Custom Publishing, 2019, pp. 70–73.
[3] Pride, William M, et al. "Methods of Entering International Business." *Foundations of Business*, Cengage Learning Custom Publishing, 2019, pp. 70–73.
[4] Pride, William M, et al. "Methods of Entering International Business." *Foundations of Business*, Cengage Learning Custom Publishing, 2019, pp. 70–73.

information, unequal involvement between partners is highly unlikely, and a clash of cultures during integration and management cooperation.[5] These strategies are considered to be a low risk, on a firm's investment, when entering international markets.

Higher risk business strategies offer more control and higher rewards when successful. The methods are totally owned facilities and strategic alliances. A totally owned facility requires the firm to take on all the risk for their investment in a foreign nation by owning, building, or buying previously managed production and marketing facilities in one or multiple foreign nations. This will give complete control over operations and allow competitive advantage to remain in house for a longer period. The risk is increased due to greater exposure to costs and a lack of knowledge of international markets. Therefore, it is important to understand the foreign consumer demand before pursuing a totally owned facility.[6] Second, strategic alliances are like joint ventures but require a higher commitment and integration between partners. It will increase the performance and maximize returns for both partners by creating a competitive advantage on a worldwide basis. It will be beneficial for firms that lack the internal resources that are required to compete on the international scale. The risks of a strategic alliance are the same as a joint venture, which are sharing trade secrets, risk of creating a competitor out of an ally, and the chance of clashing cultural or management differences.[7] Firms should use these business strategies when they can minimize the risk it is attached to.

Firms may address international markets through several other methods that have been developed. The methods are through trading companies, countertrade, and multinational firms. Trading companies are responsible for moving products efficiently under all market conditions

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[5] Pride, William M, et al. "Methods of Entering International Business." *Foundations of Business*, Cengage Learning Custom Publishing, 2019, pp. 70–73.
[6] Pride, William M, et al. "Methods of Entering International Business." *Foundations of Business*, Cengage Learning Custom Publishing, 2019, pp. 70–73.
[7] Pride, William M, et al. "Methods of Entering International Business." *Foundations of Business*, Cengage Learning Custom Publishing, 2019, pp. 70–73.

and will be responsible for all functions related to linking buyers and sellers in different countries. It will buy the product at the lowest price, in one country, and sell it in another country.[8] Countertrade represents international barter transactions and agreements for goods and services that are exchanged for different goods and services.[9] Lastly, a multinational enterprise represents the rise of the highest level of involvement in international business. The company is organized by the laws of its home country, but theoretically a "anational company" has no nationality and belongs to all countries.[10] A company must theorize and project which international business strategy will be most successful for their firm.

The multinational Walt Disney Company serves as an example for analysts when comparing successful and unsuccessful international business strategies. The multinational Walt Disney Company's business portfolio is comprised of four major segments. Disney's theme park business is one of four of them. It is a theme park and resort business that strives to bring wholesome entertainment to international families through physical interaction with Disney fantasy, happiness, imagination, and characters. The first one opened in Anaheim, California in July 1955. The Disney theme parks and resorts continued to expand into Orlando, Florida in 1971, Tokyo, Japan in 1983, Paris, France in 1992, and Lantau Island, Hong Kong in 2005.[11] These locations were picked strategically to satisfy the projected addressable markets for Disney's product offering.

The positioning statement for all the Disney parks and resorts is a product offering that will provide an unparalleled destination to experience and satisfy one's dreams and happiness. It was vital to fulfill this requirement because it is Disney's greatest point of differentiation from other

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[9] Pride, William M, et al. "Methods of Entering International Business." *Foundations of Business*, Cengage Learning Custom Publishing, 2019, pp. 70–73.
[10] Pride, William M, et al. "Methods of Entering International Business." *Foundations of Business*, Cengage Learning Custom Publishing, 2019, pp. 70–73.
[11] Young, Michael N., and Dong Liu. "Hong Kong Disneyland." 4 Oct. 2007, pp. 1–16.

products. This required proper and similar Human Resources management, amongst Disney parks and resorts, because “it is one of the cornerstones of its competitive advantage.”[12] The competitive advantage is illustrated through stage actors and Disney mascots being service-oriented, language capable, and having a passion for excellence and friendliness. This represents a vital element of the Disney experience because Disney workers have interactions with guests. The accentuation of the proper Disney experience will allow all of Disney’s parks and resorts to sustain a marriage between providing wholesome quality entertainment and attracting world-class tourism.

The Disney parks and resorts business is tailored with a mission to bring happiness and quality to consumers. Its influence reaches many corners of the globe, but access is limited due to the location of its parks. Therefore, it made sense to project high demand for the Disney experience in addressable markets.[13] Disney recognized the lack of access created a disparity between their profits and potential profits. Therefore, they were enthusiastic to bring their product or service to markets that were deemed most profitable with lower risk.

After the Disney parks and resorts 2nd construction in America, they entered the international market for the first time through a signed contract in 1979. Their international business entry minimized risks through a licensing agreement with Oriental Land Co. Disney did not have any ownership of Tokyo Disney Resorts and Oriental Land Co. assumed ownership and licensee. Disney was designated as the designer and licensor.[14] The aspect of little to no risk is appealing for firms that enter the international markets for the first time. Furthermore, Disney was still able to remain as the designer of the parks to ensure the Tokyo Disney Resorts was being modeled after its American relatives.

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[12] Young, Michael N., and Dong Liu. “Hong Kong Disneyland.” 4 Oct. 2007, pp. 1–16.
[13] Young, Michael N., and Dong Liu. “Hong Kong Disneyland.” 4 Oct. 2007, pp. 1–16.
[14] Young, Michael N., and Dong Liu. “Hong Kong Disneyland.” 4 Oct. 2007, pp. 1–16.

Disney's first business venture into the international markets was successful because Tokyo Disney Resorts attracted local Japanese due to its Western appeal. Local Japanese made up 95% of annual attendance, 15% visited the park 30 times or more, the business had annual attendance of more than 25 million visitors, it had an operating income of $245.47 million in 2005, and Disney received $100 million royalty every year.[15] The $100 million royalty was less than what Disney would have received if they were sole owner or co-owner, but the licensing agreement may have been the reason for success due to Japanese managers understanding the Japanese culture and how to market in their local region.

Walt Disney Company's second international business venture was pursued into Paris, France in 1992. It was a venture structured to avoid the mistake of foregoing majority ownership and profits due to what happened with Tokyo Disney Resorts. Therefore, Disney pursued a joint venture by having a 49% stake in the project while the French Government provided loans of $770 million at interest rates below market rates and financed $400 million for infrastructure. The overall construction costed $5 billion, five times more than the projected costs, due to differing design and construction plans.[16] Ownership and profit splitting were negotiated, and Disney assumed ownership and controlled the managerial functions of Disney Land Paris.

Disney Land Paris experienced a disconnect between American management and European consumer culture. There were numerous managerial implementations that accentuated a disconnect between American culture and European culture. Firstly, The French considered Disney Land Paris "as American cultural imperialism" or a "bizarre campaign of reverse-engineered cultural imperialism."[17] Secondly, the training programs and dress code went against French culture and French labor laws. Thirdly, the French have a lackadaisical attitude

[15] Young, Michael N., and Dong Liu. "Hong Kong Disneyland." 4 Oct. 2007, pp. 1–16.
[16] Young, Michael N., and Dong Liu. "Hong Kong Disneyland." 4 Oct. 2007, pp. 1–16.
[17] Young, Michael N., and Dong Liu. "Hong Kong Disneyland." 4 Oct. 2007, pp. 1–16.

towards alcoholic beverages, but Disney Land Paris banned the park from serving alcohol. Fourthly, even Mickey Mouse was translated as a street-smart detective, by the French, and not a squeaky-clean American boy. The list of their failures, regarding adapting to the European culture, can continue.[18] Disney land failed to have a successful start in the European market because they assumed majority ownership of the park. Disney Land Paris did not have intermediaries that were of French origin. In conclusion, there is no doubt that the rationale of targeting a strong addressable market was present. Additionally, the rationale of assuming majority ownership was proven through Tokyo. However, Disney failed to realize the European market was much more of a challenge than their previous success in Tokyo.

Total addressable markets were not only seen in Europe because a rising interest in Hong Kong began to display itself. Hong Kong is a hub for world-class tourism and was projected to be "an addressable market just crying out for Disney products."[19] The opportunity could not be missed because the Chinese economy was booming, and Chinese consumers were becoming aware of Western culture. They wanted to distance themselves from their communist dictate and connect with the global popular culture.[20] Therefore, Disney compared their product to the benchmark amusement park of Hong Kong, which was Ocean Park. Disney dictated they had a viable consumer base to serve after assessing projections and expanded into Lantau Island, Hong Kong in 2005 through a joint venture.[21]

The joint venture was formed between Disney and the Hong Kong Government in 1999. Disney agreed to take an ownership stake and managed the variables that gave their parks a competitive advantage, such as real estate development, attraction, and show design, production support, and other development services. Disney remained confident in the desire and need for

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[18] Young, Michael N., and Dong Liu. "Hong Kong Disneyland." 4 Oct. 2007, pp. 1–16.
[19] Young, Michael N., and Dong Liu. "Hong Kong Disneyland." 4 Oct. 2007, pp. 1–16.
[20] Young, Michael N., and Dong Liu. "Hong Kong Disneyland." 4 Oct. 2007, pp. 1–16.
[21] Young, Michael N., and Dong Liu. "Hong Kong Disneyland." 4 Oct. 2007, pp. 1–16.

their product and took on the management process. The rationale of their ownership stake came from trying to manage the park and profit through a strong addressable market. Hong Kong's Government remained developing the infrastructure for the project. However, Disney's ownership stake and lack of cultural awareness led Hong Kong Disney's Park to meet resistance from the Chinese consumer base.[22]

Alike the counterparts of Disney parks, Hong Kong Disney offered the same product positioning statement. It symbolized itself, in the mind of consumers, as a place for happiness, fantasy, dreams, and unparalleled customer experience. Disney assimilated their product offering with the Chinese culture through selling mooncakes, not selling green hats, constructing buildings in dimensions of Chinese favorable numbers, and more fine details of implementation to avoid what happened in Paris.[23] This was in favor of public relations, but Disney's American management failed to upkeep their positive public relations appearance. The Hong Kong Disney executive staff stated, "The Americans make all the key decisions and often the wrong ones."[24] The wrong decision was not understanding the excellence Chinese consumers expect from their products. Additionally, how vocal the Chinese can be when displeased. This caused a huge setback in profits for Hong Kong Disney, which led to the implementation of a stronger marketing strategy to create a larger loyal customer base.[25]

Disney chose different ways of entering international markets after assessing the risk associated with each addressable market. They investigated consumer demand, competitors, their own skills, their product offering, and much more. Disney quickly learned the challenges of conducting international business after trial and error and continued product improvement.

[22] Young, Michael N., and Dong Liu. "Hong Kong Disneyland." 4 Oct. 2007, pp. 1–16.
[23] Young, Michael N., and Dong Liu. "Hong Kong Disneyland." 4 Oct. 2007, pp. 1–16.
[24] Young, Michael N., and Dong Liu. "Hong Kong Disneyland." 4 Oct. 2007, pp. 1–16.
[25] Young, Michael N., and Dong Liu. "Hong Kong Disneyland." 4 Oct. 2007, pp. 1–16.

Overall, the most challenging form of resistance came from the lack of cultural awareness from the American Disney executives. The desirable ownership stake may lead to greater profits, but the risk and costs associated with it are great. It leads to questioning if the markets and governments will be able to trust Disney's ability to expand without licensing or taking a minority stake in the foreign expansion. Will the announcement of a new Disney theme park and resort, that is majority-owned and controlled by Disney, put negative or positive pressure on its stock? Will governments be willing to give subsidies to a foreign expansion that is majority-owned and controlled by Disney? My assessment is that Disney has not proven itself after having two failed attempts at having majority ownership and control. One of the projects costed $5 billion and surpassed the projected costs by 5 times while failing to do business for a couple of years. In this economic climate, I think it will be very difficult for Disney to expand to different international markets and prove itself as an incoming new economic asset rather than a liability without taking a minority stake. The Disney Company has lost a lot of its leverage in negotiations.

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