Euro Disney S.C.A

Individual Term Paper
International Marketing

Dan Snyder
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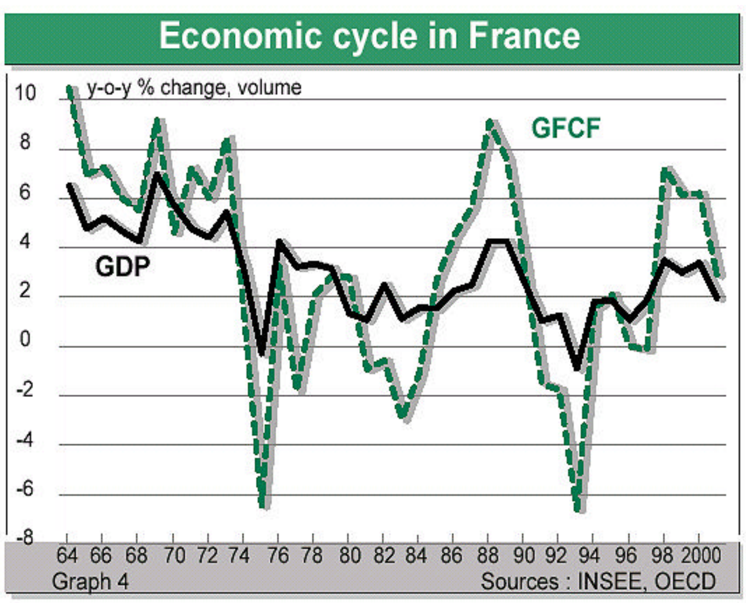
Michael Eisner, CEO of the Walt Disney World Company, once said, "Fantasy is very hard work." Eisner was referring to the intensive labor that goes on behind-the-scenes within the Disney Company to create the magic and fantasy which have become synonymous with the Disney brand. From the founder's humble beginnings (Walter Elias Disney) creating animated cartoons in the 1920's, to the multi-facetted corporation Disney has developed into, hard work has always been the key ingredient to the success of this entertainment empire. However, hard work does not always lead to success, especially when international expansion occurs.

On April 12, 1992, Disney officially opened Euro Disney, a $4 billion USD, 4,400 acre resort located in Marne-la-Vallée France. Despite over 7 years of planning and countless hours of research, Euro Disney quickly developed in one of the most costly mistakes in company history. In the first 2 years of operation, Euro Disney lost close to $1.03 billion USD and was forecasted to lose approximately $1 million USD a day for the foreseeable future (Burgoyne).

The main reasons for this initial failure can be attributed to the following factors:

- **European Recession –** Just as Euro Disney opened, Europe was in the middle of an economic slump. Disney felt that they could overcome this issue, however, Europeans had little spending power at this time. The graph below illustrates the downturn in France's GDP during this period (1992-1994), resulting in a reduction in disposable income among the French population. Many of the other countries in Europe were experiencing a similar downward slope during this period.



- **Culture** – Disney did not anticipate the huge differences between themselves as consumers and the Europeans – especially the French. The entire resort was designed along the same guidelines as the original Disneyland (Taylor). Much of the reasoning behind this strategic approach can be attributed to the success Disney had with the opening of Tokyo Disneyland. According to Marty Sklar, Vice Chairman and Principle Creative Executive of Walt Disney Imagineering, "The Japanese told us from the beginning, 'Don't Japanese us.' What that meant was, 'we came here for Disney. We came here for America. Don't give us Japan, we know Japan." Disney determined that the Europeans would want the same as the Japanese – an Americanized Disneyland. However, the general sentiment among the French was one of indignation at what some called 'cultural imperialism' (Block). Therefore, Euro Disney was not accepted among the European culture.

- **Marketing** – Euro Disney was marketed incorrectly to both the consumers and the media. The views of the French were not considered when marketing strategies were created. The resort was marketed in the American-style of "…bigness and extravagance". Instead, Euro Disney should have concentrated on the emotional aspect, marketing that guests would have a unique, extraordinary experience they would not forget (Burgoyne). Furthermore, a fundamental error was made in media relations. In an interview with a popular French magazine, one Disney executive said, "We're building something immortal, like the pharaohs built the Sphinx." The media captured these types of quotes and placed them in publications throughout Europe. Before long, the media was able to develop large groups of activists publicly denouncing the arrival of Disney into the European culture (Eisner).

Many additional internal and external factors contributed to the initial failure of Euro Disney. Communication gaps, increasing interest rates, reduction in the real estate market, operational errors, and high labor costs all contributed to the $1 billion USD total loss in 1992 and 1993 (see appendix A for more details). However, many of these factors have been thoroughly analyzed throughout the years. Fortunately for Disney, many of these factors were corrected. By 1995, Euro Disney was able to make a profit of $17.4 million Euro ($15.6 million USD).

Euro Disney - 2001

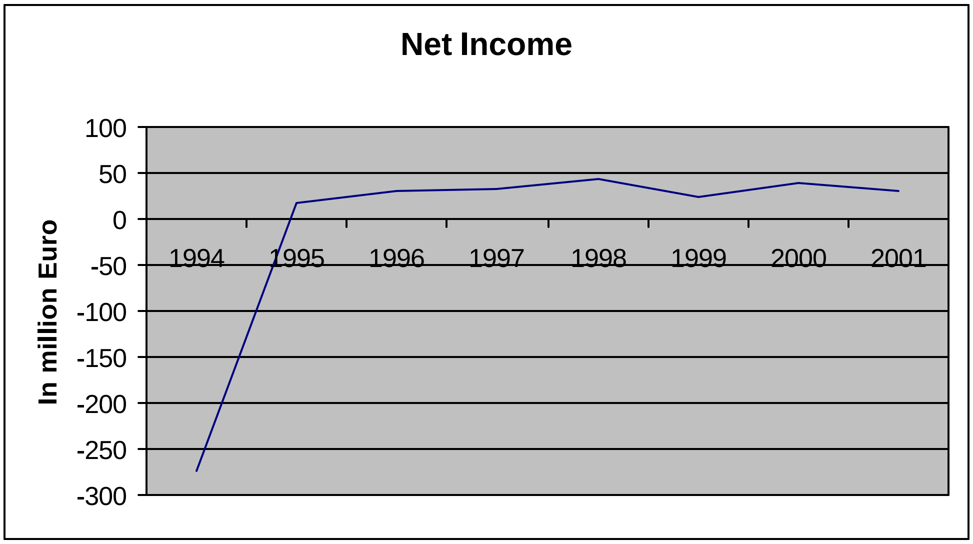
After the wavering beginnings of Euro Disney, management quickly learned many valuable lessons about international expansion and acted on these lessons to develop a culturally accepted and profitable theme park.

Name Change

One of the first steps taken was a change in name from Euro Disney to Disneyland Paris. As Americans, the word "Euro" is believed to mean glamorous or exciting. For Europeans it turned out to be a term they associated with business, currency, and commerce. Renaming the park "Disneyland Paris" was a way of identifying it with one of the most romantic and exciting cities in the world (Eisner).

Financials

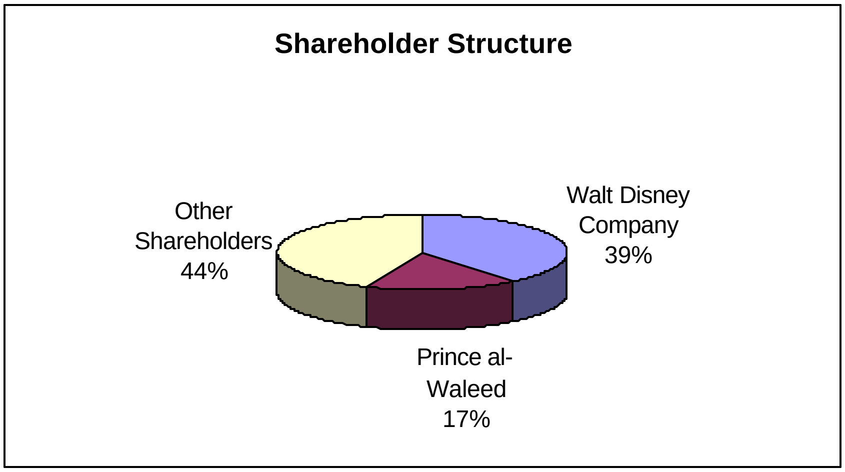
Many other small but important changes developed and gradually attendance increased and profits grew. The graph below illustrates net income from 1994-2001.



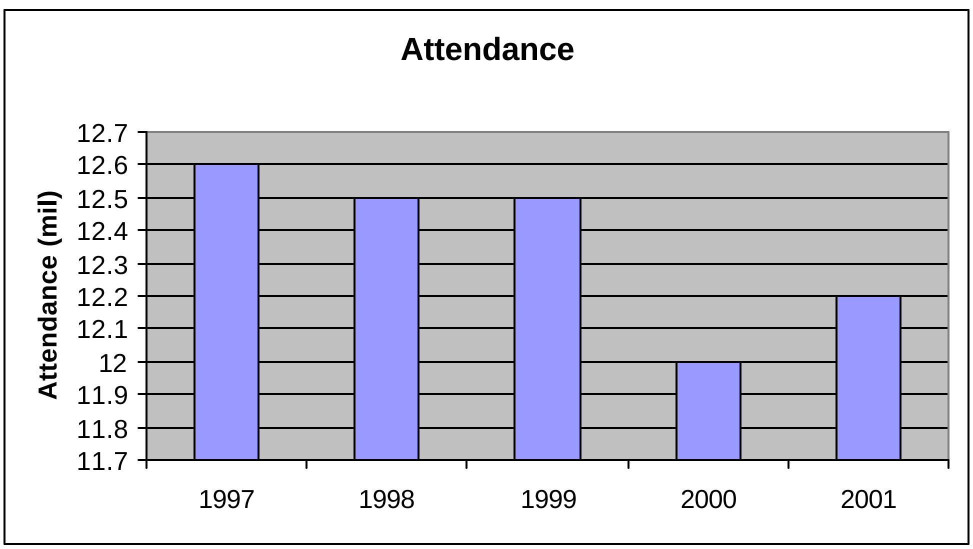
Source: Euro Disney S.C.A. Annual Report 2001

Shareholder Structure

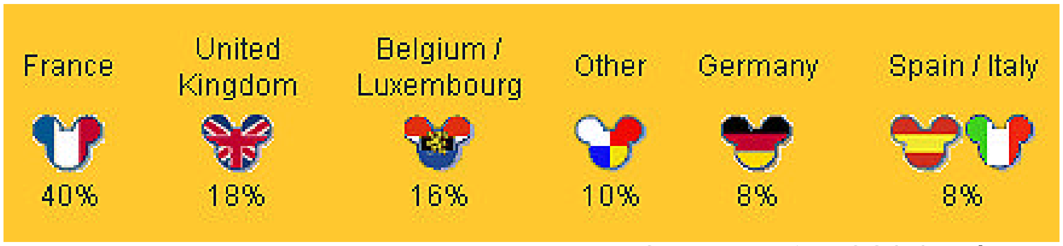
Disneyland Paris is a public company, unlike the Walt Disney Company's wholly owned American theme parks, with 51% of equity owned by individuals and institutions and 49% owned by the Walt Disney Company – who maintains management control of the company. In 1993, the Euro Disney S.C.A. (the holding company) was in major financial trouble. In 1994, Prince al-Waleed, a billionaire from Saudi Arabia decided to purchase a 24% share of the debt-ridden Euro Disney, allowing the company to withstand the European recession and continue building despite the increased debt ratio. Many analysts attribute much of the Euro Disney's future success to the Prince al-Waleed's investment. Below is the current shareholding structure of Euro Disney S.C.A.



Attendance
Today, Disneyland Paris is the number-one tourist destination in Europe. In January 2001, Disneyland Paris welcomed their 100 millionth visitor since the opening of the park in 1992. However, attendance has stabilized since an initial surge in the mid-1990's. The graph below illustrates the attendance from 1997-2001.



In 2001, guests from France accounted for less than 50% of Disneyland Paris's overall attendance. Management originally evaluated sites at over 1200 different locations to build the resort. A major reason for selecting Paris was its accessibility to other European countries. Of the more than 350 million Western Europeans, 17 million can reach Disneyland Paris within two hours by car or 310 million by flight (Burgoyne). Disneyland Resort Paris is easily accessible, with direct links to Paris via the RER train network, and shuttle buses to and from the Paris airports. The inauguration of the Marne-la-Vallée/Chessy TGV station in May 1994 opened direct TGV links to Disneyland Resort Paris from all over France and Europe. The figures below indicate that managements original decision to locate Disneyland in Paris was successful in attracting attendance from countries throughout Europe.



Source: Euro Disney S.C.A. Annual Report 2001

Culture

Disney has recently updated their mission statement to include their commitment to cast members (employees) and to the French region. The company's 11,000 employees represent more than 95 nationalities in over 500 different professions. Many additional training opportunities have been developed to educate employees on the French and European culture. In 2001, cast members participated in over 43,000 total training days. In addition, Disney has developed a new commitment to the French community by working to preserve the environment and local traditions. An urban project is being developed, Val d'Europe, which will supply over 25,000 jobs to the local community and support local businesses. Furthermore, the Community Relations Team was developed to assist hospitalized and underprivileged children in the extended community. In 2001, over 700 cast members participated in the Team to make "children happy". The aforementioned activities have aided in adjusting Disney into the local culture and gaining the respect of the local and extended French communities.

Marketing

Disneyland Paris also incorporated a few significant marketing changes. The resort is now marketed outside of the French regions into Eastern and Western European countries as well as Middle Eastern and African countries. After Prince al-Waleed's investment, attendance from Arabic countries has increased significantly. Disney also began to recognize the travel patterns of Europeans and incorporate these patterns into their marketing schemes. Most Europeans acquire 6 or more weeks of vacation per year. Therefore, many families travel to several destinations during their "holidays". Rather than market Disneyland Paris as a vacation destination, the theme park is now promoted as one of many stops on a month-long European itinerary (Burgoyne). Disney executives are also trying to downplay the attention that has been given to Euro Disney's poor financial reputation. Instead, management is emphasizing their recent successes in the areas of culture adaptation, environmental policy, and economic stability.

Resort Attributes

The most significant change was in the resort itself. The resort was transformed to incorporate more aspects of the European culture and less than that of the American culture. Signs became multilingual, food was changed to reflect the tastes of Europeans, and cast members were trained to be more cordial with the French culture. Disneyland

Paris was “Europeanized” in response to the criticism generated by the guests of the resort.

The Future of Euro Disney S.C.A

The past 6 years have been relatively profitable for Euro Disney S.C.A. However, the overall net loss of the resort, dating back to 1992, is over $700 million USD. Although attendance has been relatively high, it has been stagnant since it’s record year of 12.5 million people in 1997. Therefore, changes must be made to enhance profitability and improve the guest’s entire vacation experience. The overlying goal of Euro Disney S.C.A. is to increase attendance and extend the length of guest’s stay within the resort. This growth and enhancement can occur only if the following three factors can be achieved:

1.) Increase Product Offering

2.) Enhance Current Marketing Strategy

3.) Overcome Self-Reference Criterion and Ethnocentrism Obstacles

1. Increase Product Offering

In order for Disney to succeed in the future, they must strengthen their position as the leading tourist destination in Europe. Although more people visit Disneyland Paris each year than the Eiffel Tower and the Louvre Art Museum, many guests stay within the resort for two days or less. In comparison, majority of the guests who visit the American Disney resorts stay on average of 4-5 days. Extended visits greatly increase the bottom line, most notably in the revenue generated in the hotel sector of Euro Disney S.C.A.

In order to increase the average length of stay per visitor, Disney must increase their product offering. Disneyland Paris must continue to develop new attractions and enhance existing products to encourage repeat business and encourage new visitors to experience the resort. Furthermore, by increasing the product offering, guests will be more likely to extend their stay, brining in additional revenue to the company.

However, Disney cannot expect visitors to extend their visits by simply enlarging the resort. Quality must be defined and maintained and products must be adapted to fit within the European culture.

Quality
In 1999, the U.S. theme park market was considered “mature,” by most analysts, with a 1-to-1 ratio of 270 million theme park visits a year for a national population of 270 million people. In Europe, the ratio is 1-to-3 with 80 million theme park visits a year for a national population of 240 million citizens (della Cava). Euro Disney S.C.A. was the first company to invest over a billion dollars in the European them park industry.

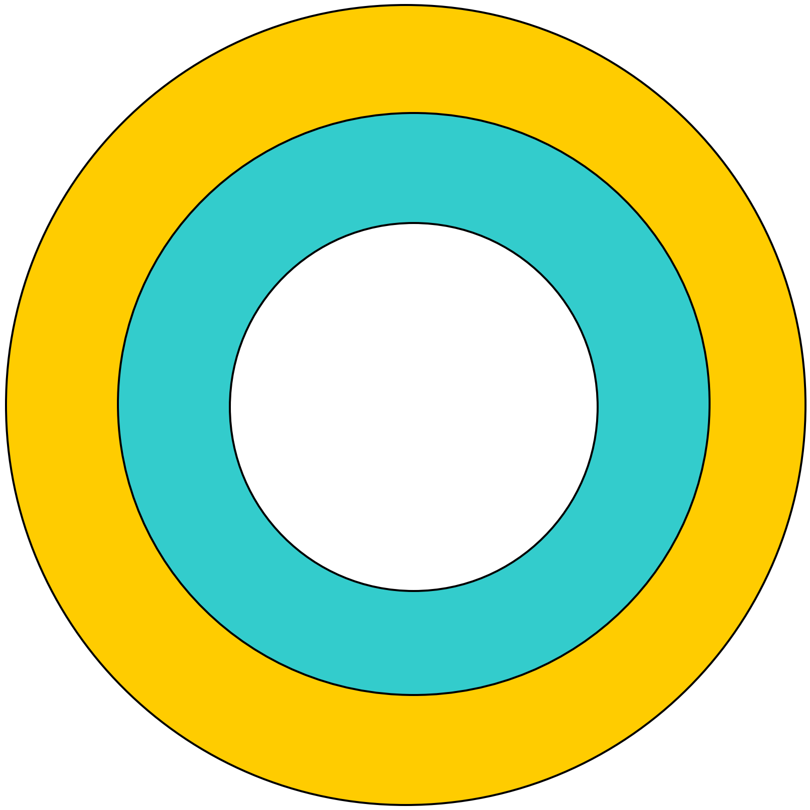
However, the competition has noticed the increase in demand among consumers for theme parks in Europe. Premier Parks Inc., owner of Six Flags amusement parks, recently spent $140 million to purchase six parks from the Belgium-based Walibi Group. Warner Brothers is planning a $300 million park in Germany and considering a park in Spain. Universal Studios and Anheuser-Busch invested over $100 million in the creation of a new theme park titled Port Aventura south of Barcelona, Spain (della Cava).

Customers now have more choices as more companies are competing for their Euro. More competition, more choices, puts more power in the hands of the customer, and that drives the need for quality (Cateora). In recognition of the need to increase product offering and improve the quality of the Disneyland Paris resort, Euro Disney S.C.A. is funding the development of a new theme park titled Walt Disney Studios. The park should increase the average visitor stay and attract repeat customers. By adding attractions, Disneyland Paris increases the likelihood that visitors will stay extra days, thereby adding revenue at gift shops, hotels, and restaurants. This "destination" concept is a staple in the U.S., but remains new to Europeans, who tend to make one-day visits to theme parks (della Cava). Yet, quality is a major concern due to the recent problems encountered in Euro Disney.

Quality can be defined on two dimensions: market-perceived quality and performance quality. Both are important concepts, but customer perception of a quality product often has more to do with market perceived quality than product quality. When there are alternative products, all which meet performance-quality standards, the product chosen is the one that meets market-perceived quality attributes (Cateora). Disney's main competitive advantage is the fact that they have over 10 years of experience in the European theme park market. They must take into account the lessons learned, such as the need to adjust theme park attributes to meet the needs of the European culture, during the design and operation of the Walt Disney Studios (Spring 2002).

Product Adaptation

A product is multidimensional, and the sum of all its features determines the bundle of satisfaction received by the customer. When a product enters a new market, it is useful to separate its dimensions into three distinct components, providing the structure for a product component model (Cateora). Disney has taken these components into account in the development of a new product offering, the Walt Disney Studios. The model below illustrates the components of the product model.



1.) Core – The core component consists of the physical product and all its design and functional features (Cateora). Walt Disney Studios is modeled after an old Hollywood studio, but elements of the studio remind one of the Old World (Europe), not the U.S. A stunt show, designed by French stuntman Remy Julienne, features cars and motorcycles racing through a village modeled after St. Tropez, not the streets of San Francisco. The food venues have covered seating, protecting guests from the rainy weather common to Paris. Many other parts of the Studio were designed by Francois Confino, a Swiss architect, who understands the design aspects preferred by the general European population. All of the aforementioned core features were developed to increase the market acceptance of the theme park (Prada).

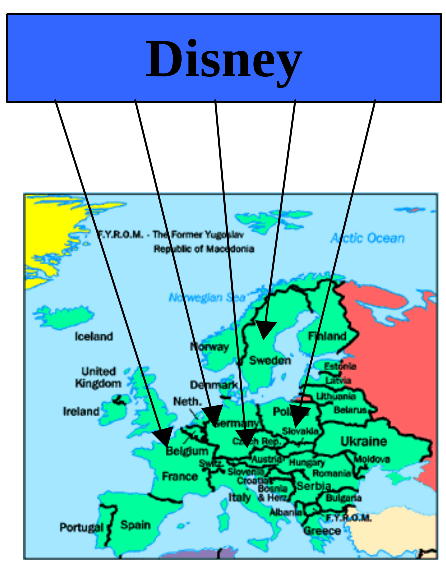
2.) Packaging – The packaging component includes style features, packaging, labeling, trademarks, brand name, quality, price, and all other aspects of a product's package (Cateora). Disney has agreed to maintain the price of admission at approximately 33% less than that which would be charged at a similar U.S. them park (Disney's MGM Studios in Orlando, FL). In addition, the perceived market-quality is enhanced through the adaptation of food and attractions to meet the tastes of the European culture. Furthermore, the Disney brand has gained acceptance in Europe and is being use to promote the park as a quality family destination.

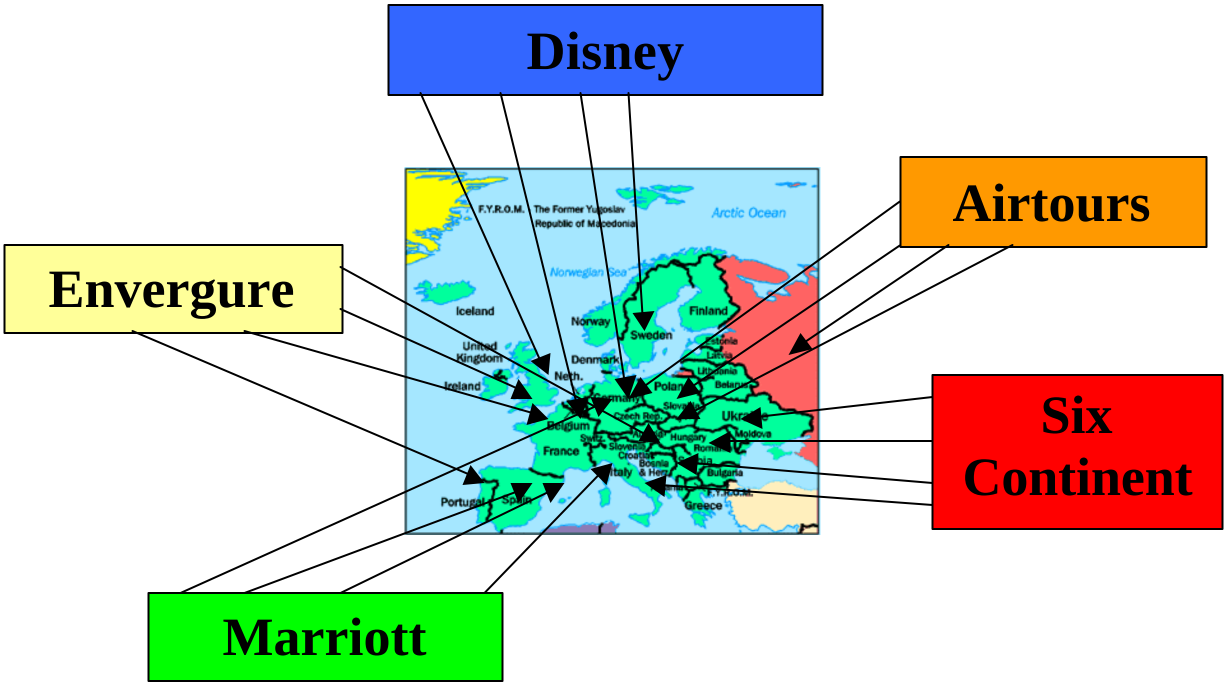
3.) Support Services – The support services component includes repair and maintenance, instructions, installations, warranties, and deliveries (Cateora). The Walt Disney Studios primarily relates to this category in terms of the delivery of the service to the customer. In Europe, majority of travelers book their reservations through travel agents. Therefore, Disney has generated partnerships with travel companies such as Airtours PLC, the biggest tour operator in the U.K., to assist in the delivery of their services to the customers.

2. Enhance Current Marketing Strategy

Disneyland Paris originally used a direct marketing strategy to promote the resort during the early stages of development. As Disney gradually began to understand the distribution system, television advertising and billboards were added to the marketing mix. However, Disney did not develop partnerships with travel agents or investing businesses in hopes of broadening their marketing strategy. Recent agreements have been reached with four major hotel chains: Airtours, Envergure, Six Continents, and Marriott Vacation Club International. Each of these internationally renowned companies will build a new hotel on the Disney site by 2003. This increase in lodging capacity will not only expand the product offer, but also represent a fundamental piece to enhance the marketing strategy. It could allow Disney to enlarge the reach of the promotional strategy via shared commercial agreements for the marketing of the hotels, hence, the marketing of Disneyland Paris. At the dawn of the European Union and the development of the Euro, Disney could be side-by-side in all of the European markets with the biggest names in the tourism industry (2001 Annual Report). The graph below illustrates this point.

Marketing Penetration





The strategic implications for marketing in Europe are very broad and alluring to international businesses. In an integrated Europe, U.S. multinationals may have an initial advantage over expanded European firms because U.S. businesses are more experienced in marketing to large diverse markets and are accustomed to looking at Europe as one market. U.S. firms do not carry the cumbersome baggage of multiple national organizations dealing in many currencies, with differential pricing and administration, with which most EU firms must content. The advantage, however, is only temporary as mergers, acquisitions, and joint ventures consolidate operations of European firms in anticipation of a single Europe (Cateora). This further proves the importance of developing partnerships with existing European businesses.

With a unified Europe, Disney must pay close attention to their marketing mix – especially pricing. Over half of the attendance to Disneyland Paris is from outside of France. With a common currency, the Euro, now being used by many of the Western European countries, price standardization should occur. Disney learned how sensitive Europeans are to prices, a major reason for the early failure of Euro Disney, and must be sure to keep prices consistent to the customer expectations.

Disney must also update their marketing strategy to take advantage of some key changes occurring in European life. The deregulation of European skies has made air travel affordable. The construction of the Chunnel between England and France has allowed the travel-eager British unprecedented mobility (della Cava). These changes represent a significant marketing opportunity in the regions affected by these changes. Future success will be directly related to the effectiveness of such a campaign in these regions.

3. Overcome Self-Reference Criterion and Ethnocentrism Obstacles

The key to successful international marketing is adaptation to the environmental differences from one market to another. Adaptation is a conscious effort on the part of the international marketer to anticipate the influences of both the foreign and domestic uncontrollable factors on a marketing mix and then to adjust the marketing mix to minimize effects. The primary obstacles to success in international marketing are a person's self-reference criterion (SRC) and an associated ethnocentrism (Cateora).

In the early stages of development and operation of Disneyland Paris, Disney management primarily made their decisions using SRC – an unconscious reference to one's own cultural values, experiences, and knowledge as a basis for decisions (Cateora). Ethnocentrism, the notion that one's own culture or company knows best how to do things (Cateora), was also an obstacle which had to be overcome before management was able to make culturally adapted decisions.

Euro Disney S.C.A. has had recent success in ignoring their SRC and reducing their ethnocentrism views. Training programs and community outreach teams have been successful in assisting Disney's adaptation into the European culture. However, this effort must continue and improve in order for Disney to prosper culturally in the future, especially when dealing with the media.

Several uncontrollable factors are beginning to surface in the foreign environment. The future of Disneyland Paris will be determined by their reaction to these factors. The following is a list of uncontrollable elements in the foreign environment in which Disney will have to respond to in the near future:

- **Economic Forces –** Europe appears to be headed towards another recession. In the third quarter of 2001, Germany's gross domestic product began a slow descent into recession, which economists fear will pull the rest of Europe with it beginning in early 2002 (Souza). Disney could be facing a similar situation to that of 1992 when Europe followed the U.S. into a deep recession.

- **Competitive Forces –** Universal Studios, Warner Brothers, and Six Flags are beginning to tap into the lucrative European theme park market. Disney's response to this increase in competition will be key to growing attendance in an increasingly aggressive market.

- **Cultural Forces –** Disney has paved the way for the competition in terms of the acceptance of a U.S. style theme park by the European citizens. The competition has presumably analyzed Disney actions over the past 10 years in order to learn from their mishaps. However, being directly involved with the culture versus simply reading about it are two entirely separate entities. As the European culture evolves, especially with the continued development of the European Union, Disney must act on the innate lessons learned, primarily being to ignore their SRC, in order to adapt to the altering culture.

Conclusion

Euro Disney S.C.A. has greatly enhanced their product since the troubled beginnings in 1992. During this period, many key lessons were learned about the relationship between culture and product offering. These lessons learned became the basis for future development in the European market. Today, the Disneyland Paris Resort is marginally profitable and is experiencing high, yet stagnant, attendance rates. It would be presumptuous to label the resort a success, especially since its net total loss is still over $700 million. However, changes in the marketing and design of the resort have led to profitability and gradual acceptance among the European citizens. In order to increase profitability and attendance, three factors must be achieved: product marketing must be increased, the current marketing strategy must be enhanced, and SRC and ethnocentric obstacles must be overcome. There exists long-term optimism for the future of Euro Disney S.C.A. due to the strong foundation it has developed over its 10 years of existence, the strong financial backing of the investors, and its plans for future development within the European culture. With proper strategic planning and a relentless pursuit to continue to learn and adapt to the European culture, Disneyland Paris will be a successful resort.

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