The Walt Disney Company: Disney’s California Adventure

Case

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Abstract

Disney's California Adventure was part of an effort to increase traffic to the Disneyland Resort in Anaheim, and entice visitors to extend their vacations. With a goal of at least seven million annual visitors, the park underperformed and was widely criticized. California Adventure threatened to erode Disney's brand equity.

Case

> *"Any time you do something mediocre with your brand, that's a withdrawal. California Adventure was a brand withdrawal."*
>
> *—The Walt Disney Company President and CEO Robert Iger*

In an interview with the Wall Street Journal on November 8, 2010, Bob Iger, President and Chief Executive Officer of the Walt Disney Company, offered his thoughts on Disney's California Adventure, Disney's second amusement park in Southern California.[1] Located next to Disneyland, Disney's first theme park, California Adventure opened on February 8, 2001 to high expectations. Initial projections forecasted an estimated seven million in attendance for the first year.[2] Almost ten years later, California Adventure had yet to hit this annual attendance benchmark.[3] As he contemplated the state of the park during the interview, he also reflected on the options considered to revitalize the park. It had been three years since he made the decision he thought would increase the park's profile and attendance numbers. As is customary with all Disney Parks and Resorts projects, the options had been discussed for years, and future expansion opportunities are considered during the initial planning stages of any resort.

Iger had taken over as Disney's President and CEO in 2005, four years into California Adventure's existence. From early in his appointment, he recognized that something needed to be done to address the underperformance of the park. During his first meeting with Disney shareholders, Iger lamented, "We're still working to assure (California Adventure) is successful. In the spirit of candor, we have been challenged."[4] His solution was to move forward with a massive $1.1 billion reinvestment into the park, announced in late 2007.[5] In order to ensure the reinvestment was successful, Iger had to decide what the root issues were that contributed to the park's underperformance, and assemble a plan to allocate the funds that would address how Disney could solve these issues.

Southern California Resort and California Adventure

Disney Parks and Resorts is a highly profitable division of the Walt Disney Company. Disney's resorts are all around the world, with its Orlando, Paris, and Tokyo resorts designed as sprawling complexes featuring a wide range of attractions. Disney's objective with their resorts is to retain customers for extended stays. While Disneyland in Anaheim has always been a popular destination, it does not usually keep visitors on-site for more than one or two days. Disney has undertaken transforming Disneyland, the Disneyland Resort Hotels, and the surrounding area into what the company envisions as a vacation destination worthy of an extended stay.

California Adventure was designed with the thought that it would be a cornerstone, along with Disneyland, of the Disneyland Resort in Southern California. In order to increase its retention capabilities, Disney wanted a sister park adjacent to Disneyland that would serve as an additional draw. Disney's efforts to address this desire resulted in the construction of California Adventure.

Occupying 55 acres, California Adventure was smaller in size compared to the 85-acre Disneyland park. Despite the differences in size, ticket prices were the same at each destination. California Adventure was dubbed as a fresh novelty to compliment the child-centric themed Disneyland, a sort of "anti-Disneyland," attempting to cater more to parents. Examples of this effort are shown by a de-emphasis on classic Disney characters, more shops and restaurants, and alcoholic beverages. The park offered thrills equivalent to that of neighboring Disneyland, only with shorter queues, and featured "off-the-shelf" rides designed for other non-Disney theme parks.[6] This served to strengthen the California Adventure's "anti-Disney" feel.

Disney's California Adventure was built on the original parking lot of Disneyland, as part of a $1.5 billion overhaul of the area that included a 750-room Disney hotel and large shopping and entertainment complex called Downtown Disney (very similar to Florida's Disney World). Despite Disneyland hosting 14 million annual visitors and being the second most attended theme park in the world, California Adventure was Disney's way of maintaining its competitive edge in Southern California's very competitive theme park landscape which includes attractions such as Magic Mountain, SeaWorld California, Universal Studios Hollywood, Legoland and Knott's Berry Farm. Although Disneyland's business model included regular expansion, the consumer threshold for park entrance fees is relatively static, so Disney viewed California Adventure's grand opening as an opportunity to add a second gate to Disneyland. With a 60:40 split of local to tourist theme park goers, Disney hoped to pull in more tourists by offering a unique multi-generational appeal that cannot be repeated in the Florida theme parks. California Adventure featured attractions set to capture California's rich heritage, including a vineyard, a beach boardwalk, a stroll through San Francisco, a Wolfgang Puck restaurant and even alcoholic beverages – "something you won't find amid the spinning teacups and flying Dumbos in Disneyland."[7]

Disney spent $600 million on the park itself, which some industry insiders thought was too modest a sum.[8] The company hoped, however, that the "anti-Disneyland" would give day-trippers a reason to extend their visit to Walt Disney's original theme park, and the surrounding Disney Resort, into a weeklong affair. According to Paul Pressler, Disney Resorts Chairman, "At present, with many visitors, we capture only one or two days of their vacation. With the addition of the new park and hotel, we expect to capture three or four days." When combined with Disneyland's top-line capacity of 80,000, California Adventure's additional 30,000 person capacity offered Disney's stakeholders much hope and promise, given the park's anticipated seven million annual visitors.[9]

However, since its opening, California Adventure has not become the great success that the company had envisioned. Visitor response and attendance were not as strong as Disney had projected. Reviews of the park were negative, something uncharacteristic for a brand known for vacation destinations. An estimated five million guests visited the park in its first year, substantially below the seven million visitor forecast.[10] To add insult to injury, consumers immediately asked for more children's rides and, ironically, a more "Disney" feel. Criticisms of the park included the use of the California theme, and providing the lower number and quality of rides compared to Disneyland while charging the same amount per ticket.

As attendance numbers and visitor complaints remained relatively constant throughout the decade, it became apparent that the park needed a major overhaul. Along with Iger's reference to the park as "mediocre," Disney California Adventure Vice President Mary Niven proclaimed, "While they enjoyed the individual experiences, what was missing for them was the deep, emotional connection that they like to have with Disney parks."[11]

History of Disney

The Disney Brothers Cartoon Studio was founded by brothers Roy and Walt Disney in 1923. It was reincorporated as Walt Disney Production, Ltd. in 1929. During the early years the studio produced cartoon shorts including the Alice comedies and a series of cartoons revolving around a character named Oswald the Lucky Rabbit, who served as much of the inspiration for Disney's first – and still most recognizable – character, Mickey Mouse. Mickey was introduced to the world in 1928.

After the success of the Mickey Mouse shorts, Walt and his animators began the unprecedented task of producing the first full-length animated feature film. Despite being told no one would ever sit through a feature length cartoon, Walt persisted, and "Snow White and the Seven Dwarfs" was released in 1937. It quickly became the highest grossing film of all time up to that point.

With the enormous profits from Snow White, Walt moved the company to its current location, a 51-acre complex in Burbank, California. There, his team of animators was able to complete several more feature length films during the late 1930's and early 1940's including "Pinocchio," "Bambi," and the ground breaking "Fantasia." During World War II, the now-named Walt Disney Studios dedicated nearly all of its resources to producing propaganda films for the United States government. This business essentially kept Disney afloat until the end of the war.[12]

"The Happiest Place on Earth"

Walt may have had his first idea for Disneyland much earlier, but it did not become a reality until 1954. With the studio's success, Walt was able to dedicate a great deal of resources to the construction of the park. Once again, Disney defied the odds and Disneyland opened on July 17, 1955 to incredible fanfare, and a nationally televised special which was viewed by more people than any other televised program to date. Disneyland was an entirely different kind of destination, and revolutionized the idea of an amusement park.

Throughout the next several years, Disneyland enjoyed great success, but Walt was unhappy with the shops, hotels and businesses that quickly moved in to take advantage of Disneyland's ability to attract people. The Disneyland Hotel, which was connected to Disneyland by a monorail in 1959, was not owned or operated by the Walt Disney Company (Disney did eventually purchase the hotel during the 1980's). While the park itself was able to maintain its atmosphere inside, Walt felt the surrounding area in Anaheim was a drawback to the experience.

To address this drawback, Walt Disney began secretly buying swamp land near Orlando, FL, funded by the box office of the hugely successful *Mary Poppins* in 1964. He purchased more than 30,000 acres under different guises to hide the fact that Disney was coming to the area, and to prevent other businesses from trying to take advantage. The announcement that a second theme park, Disney World, was in the works was made in 1965. However, Walt Disney died of lung cancer on December 15, 1966 and plans for the park were temporarily put on hold. His brother Roy quickly took the reins of the company. He made the decision to rename the Florida project Walt Disney World. On October 17, 1971, Walt Disney World was opened to the public. Roy Disney died of a stroke on December 20 of that same year.

Initially, the Walt Disney World Resort consisted of one theme park, The Magic Kingdom, which was very similar to Disneyland in Anaheim, California. The property also contained two resort hotels, Disney's Contemporary Resort and Disney's Polynesian Resort, as well as Disney's Fort Wilderness Resort and Campground. In 1982 EPCOT Center opened which provided another theme park to attract visitors. Disney's MGM Studios opened in 1989 and Disney's Animal Kingdom was added in 1998.

In addition to adding theme parks to the property, Disney also added many resort hotels throughout the years. There are now 33 resorts and hotels on Disney's property with 24 of them being owned and operated by The Walt Disney Company. There is also a Downtown Disney area featuring a shopping mall, cinema, restaurants and nightlife, and related Disney themed shows and attractions.

Disney has opened several theme parks and resort destinations overseas. The Tokyo Disney Resort opened in 1983. It is owned by the Oriental Land Company with Disney licensing their name, though they do maintain some control over the business. Euro Disney Resort, now named Disneyland Paris, opened on just over 4,900 acres in 1992. The resort is owned and operated by Euro Disney S.C.A. The Walt Disney Company does own a stake in this publicly traded firm. Hong Kong Disneyland Resort opened in 2005 as a joint venture between Disney and the government of Hong Kong.

Disney theme parks account for the top 8 most attended amusement parks worldwide, accommodating nearly 120 million guests in 2009. Disney has established itself as leader in the theme parks, and is noted for the unique feel and atmosphere its parks provide.[13]

The Theme Park Industry

The first amusement park can be traced back to the 1500's when "pleasure gardens" filled with games, music and rides were popular throughout Europe. The year 1893 marked the introduction of the amusement park in Chicago, Illinois with the World Columbian Exposition. The first Ferris wheel was present there along with many other attractions. Steeplechase Park opened at Coney Island in 1897 and marked the beginning of a period of enormous popularity which resulted in three amusement parks being built on Staten Island. The Depression, World War II, and construction issues eventually led to the decline of the industry. Fire and safety concerns were constant threats since all the attractions and roller coasters were made of wood. During the early 1950's, the amusement park was all but forgotten.[14]

Walt Disney opened Disneyland in 1955 in Anaheim, California. This would revolutionize and revitalize the amusement park industry. Instead of a series of unrelated rides and attractions, Disneyland offered visitors the chance to visit themed areas centered on Disney's movies, television shows and characters. The first theme park was born.

Disney enjoyed success as the only player in the theme park industry until 1961, when Six Flags opened Six Flags Over Texas in Arlington, Texas. The theme park industry became competitive, and Six Flags would open two more parks during the next decade; Six Flags Over Georgia in 1968 and Six Flags over Mid-America in 1971.[15]

The year 1971 also saw the opening of Disney's second theme park effort, the Walt Disney World Resort just outside of Orlando, Florida. Walt Disney World was a much larger and more ambitious project than Disneyland as the resort occupies twice the area of Manhattan. To this day it remains the largest and most visited theme park and destination in the world.

Today there are around 600 domestic theme park destinations with a few major players competing in the industry. The Walt Disney Company is the clear worldwide leader with parks attracting roughly 120 million annual visitors. The second largest player is British theme park operator Merlin Entertainment Group with 40 million annual visitors followed by Parques Reunidos, Six Flags, Inc., Universal Studios Recreation Group, Busch Entertainment, and Cedar Fair Entertainment Company.[16]

The Disney Brand

Due to the vast successes of its past theme parks, Disney holds its parks' performance to a high standard. In the $10.3 billion theme park industry specifically, Disney dominates its competition. Major players in the industry include Merlin Entertainment Group, Cedar Fair Amusement Company, and Six Flags. While these companies are successful in their own right, Disney enjoys a clear lead with over 50% market share.[17] Disney has established itself as the best in theme park entertainment, which makes California Adventure's struggles all the more puzzling.

Beyond the theme park industry, Disney continues to find success in nearly all the endeavors it undertakes. The Walt Disney Studios continue to produce successful children's television shows and films, and the Disney brand has become synonymous with the childhood experience. In addition, they have expanded their business units to include Disney Consumer Products, Disney/ABC Television Group, Disney Interactive Media Group, Disney Cruise Line, and obviously Disney Parks and Resorts. *Bloomberg BusinessWeek* ranks Disney as having the 10th highest brand value of any company in the world at an estimated $28 billion in 2009.

Disney is continually creating new characters and movies to strengthen its association with children. New endeavors related to this include the 2006 acquisition of Pixar, bringing the computer-animation film production company into the Disney family. The animation studio leads the Computer Generated Imagery (CGI) movie-making industry, having won 14 Academy Awards, and is responsible for the production of such films as Toy Story, Finding Nemo, Monsters Inc., and Cars. Pixar's 11 films rank in the top 50 grossing animated films of all time. Four of Pixar's films are in the top 50 grossing films of all time. This acquisition further strengthens the Disney brand, and positions Disney to engage a new generation of children with its Pixar characters.

Brand value is of utmost importance to the success of Disney. Iger headed the acquisition of Pixar, and saw the opportunity to strengthen its brand by buying out a company at the forefront of its industry. Conversely, he acknowledges the damage a weak product can have on the brand. This is a chief concern with California Adventure. With the massive reinvestment into the park underway, Iger is seeking to leverage the Disney brand to make California Adventure a success in the eyes of the company, while making sure the park does not further erode brand equity. Consumers already familiar with the original park will need to be convinced that this reinvestment will result in a park worthy of their additional time and money. Communication efforts must also be geared towards those consumers who are not aware of offerings at the Disneyland Resort, but may be future patrons given what they see and hear regarding the theme parks and hotels. CEO Robert Iger became captain of a ship that was the leader of the pack, but needed to increase separation and exhibit growth. Disney Parks and Resorts, and the Disneyland Resort could be a catalyst for that growth if handled properly.

Discussion Questions

1. Was Disney's attempt to create the Disneyland Resort based on sound information?
2. What were some of the pros and cons of the theme of Disney's second theme park in Anaheim?
3. Are Disney's expectations too high with regards to their theme parks' performance? Was California Adventure underperforming?
4. Including the reinvestment that was decided upon, what was Disney's best option for dealing with the situation at California Adventure?
5. Now that the reinvestment and construction effort is underway, how can Disney best position itself for future success with California Adventure?

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