

LEVEL 3 ASSESSMENT SPECIFICATION

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UWTSD MBA (May/Nov 2020 intakes)

BMMB7009 Global Business Challenges

Assignment Title:

An Analytical Report on Strategies for Sustainable Development of Hong Kong Disneyland Limited in the Hong Kong Tourism Industry during Corona Virus Outbreak

“I, To Wun Fong 2030802, certify this work is the result of my own investigations, except where otherwise stated. All references have been duly cited”

Signed: Felix

Date: 20-Jan-2022

Synopsis

This report analyzes the COVID-19 impact on Hong Kong Disneyland Limited and recommends strategies which ensure its sustainable business. The report introduces the company background, cost structure and revenue structure, and then to demonstrate its current business environment by analyzing the globally and Hong Kong local economics environment. A detail challenging of costing, pricing and market is presented on the changes of market demand and supply. The conclusion and recommendation is made to ensure its sustainable business.

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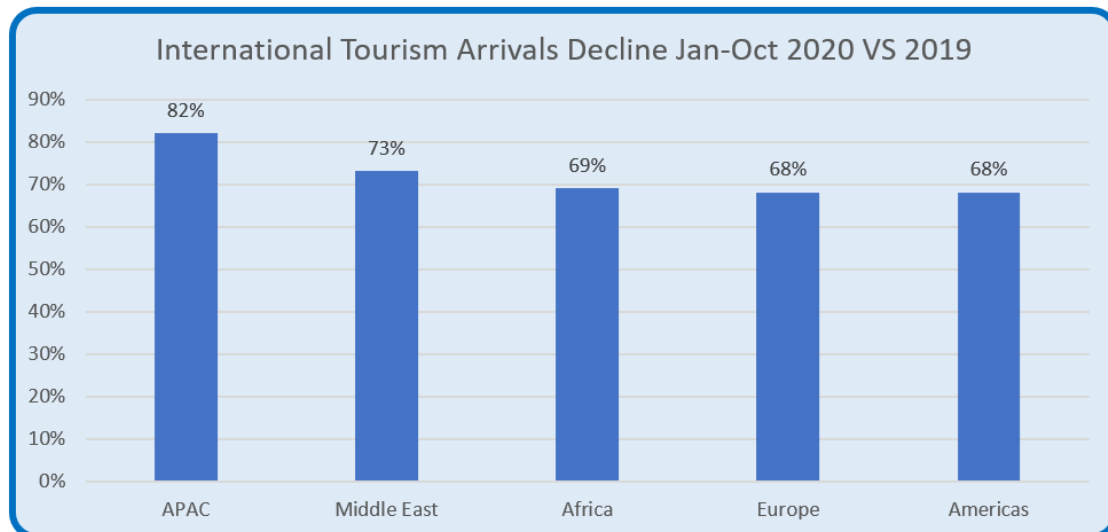
1 Introduction

This report aims to identify the impact of COVID-19 on Hong Kong Disneyland Limited and recommends strategies for sustainable development. The first review focuses on internal and external economic challenges against the company and the actions the management team have to overcome these challenges. Then they need to provide workable strategies and implementation plan to the company for sustainable development.

1.1 Background

In Jan end 2020, WHO published a comprehensive package of guidance documents for countries, covering topics related to the management of an outbreak of a new disease – later was named COVID-19 (WHO, 2020). Since then, the pandemic has brought huge impact globally related to multiple areas of people's life and global economy. In order to control the spread of the virus, almost all countries have restriction of travelling. International tourist arrivals (overnight visitors) fell by 72% in January-October 2020 over the same period of 2019. The decline of the ten months equals to 900 million fewer international tourist arrivals. It translates into a loss of US\$ 935 billion in export revenues from international tourism (UNWTO, 2020). The figures show COVID-19 has a huge impact to the tourism globally. This report further demonstrates the COVID-19 impact to Hong Kong local tourism, focused on Hong Kong Disneyland Limited.

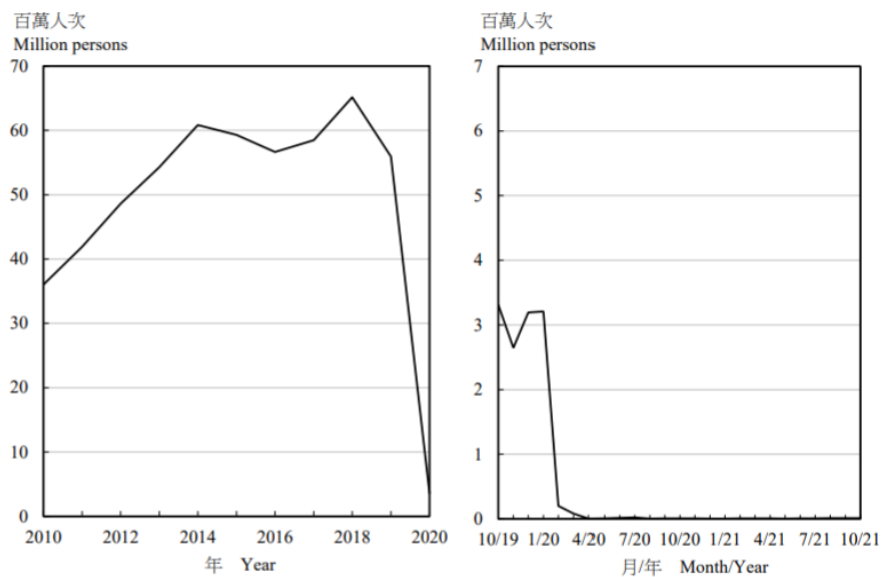
Figure 1 International Tourism Arrival Decline Jan-Oct 2020 VS 2019



Source: UNWTO, 2020 (<https://www.unwto.org/impact-assessment-of-the-covid-19-outbreak-on-international-tourism>)

Figure 1 shows the tourism arrival decline figures by different region globally of first ten months of year 2020 against year 2019. Asia and the Pacific recorded the highest decline numbers which is 82%. This figure shows the numbers of tourists declined 82% for APAC region, which includes Hong Kong. The dramatic decreasing of number of tourists to Hong Kong impacts Hong Kong Disneyland's business.

Figure 2 Hong Kong Visitor Numbers

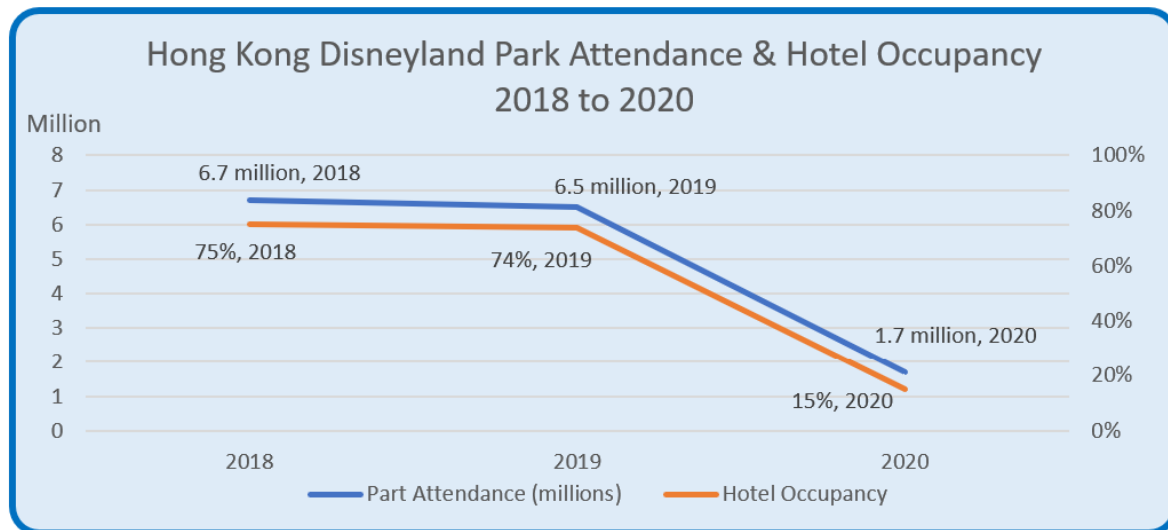


Source: Hong Kong Census and Statistics Department, 2021 (https://www.censtatd.gov.hk/en/data/stat_report/product/B1010002/att/B10100022021MM12B0100.pdf)

The lefthand of Figure 2 shows the number of tourists in Hong Kong increased from over 35 million persons in 2010 to the peak of over 65 million persons in 2018. The number decrease dramatically from 2018 due to social issues happened in 2019 following by the COVID-19 started January 2020. The righthand chart shows the figure vertically dropped from 3 million person in January 2020 decreased to almost 0 as the Hong Kong government has started restriction actions from end January 2019 (Hong Kong Government, 2019).

Hong Kong Disneyland Resort is one of the top five most popular scenic spots to visit in Hong Kong. It is the fifth Disneyland in the world. The business of Hong Kong Disneyland Resort has been heavily impacted by the number of tourists declining due to COVID-19. The number of visitors to the theme park and hotels are both declining, which directly impact the company's revenue.

Figure 3 Hong Kong Disneyland Part Attendance and Hotel Occupancy 2018 to 2020



Source: Hong Kong Disney Land, 2020,

(<https://hkcorporate.hongkongdisneyland.com/pdf/AnnualBusinessReview20.pdf>)

Figure 3 shows the number of Hong Kong Disneyland Park Attendance decreased from 6.5 million in 2019 to 1.7 million in 2020. The decreasing rate is 74%. Hotel occupancy rate decreased from 74% in 2019 to 15% in 2020. Comparing the same set of data in 2018 vs 2019. The trend is flat. The majority reason to cause both figures decreasing in 2020 is because of the number of visitors in Hong Kong decreased since COVID-19, as well as the closure days for the theme park is severely impacted during COVID-19 period to comply with the Hong Kong government regulations.

1.2 Research framework

Hong Kong Disneyland publishes its annual report every year on its website, which includes its financial performance, operational process etc. This report will base on the figures that Hong Kong Disneyland publishes, to combine the globally and Hong Kong key economic data, including GDP growth, unemployment rate, trading figures to analyze if the actions that

Hong Kong Disneyland has taken are effective and appropriate in the COVID-19 environment. The report will also use demand and supply curve, elasticity theory to identify the current situation that Hong Kong Disneyland is placed and what further recommendations will be useful for the business sustainability.

2 Company background

This section gives a brief review of the company's profile of Hong Kong Disneyland Resort, and the analysis of its cost structure and revenue structure.

2.1 Company profile

Hong Kong Disneyland Resort is the fifth Disneyland in the world. Hong Kong Disneyland Resort is owned by a joint venture company of the Hong Kong Government and The Walt Disney Company. By end of fiscal year 2017, the Hong Kong Government holds 53% share and Walt Disney Company holds 47% of Hong Kong International Theme Park Limited (Hong Kong Disneyland Corporate Information, 2022).

Hong Kong Disneyland Resort includes a theme park and three hotels. Its revenue are mainly contributed by the theme tickets, hotel income, the products that are sold in the theme park and hotels, and catering services in the theme park and hotels. Hong Kong Disneyland Theme Park opened in September 2005, with a daily capacity of 34,000 visitors. The park consists of seven themed area and attracted 5.2 million visitors in its first year, below its target 5.6 million (Chan, 2007). According to the annual reports, the park first recorded an annual profit was in 2012, of HK\$109 million. However, it has operated at an increasing loss in year 2015 to 2017.

Hong Kong Disneyland Resort has three hotels and provide 1,750 rooms to the guests (Hong Kong Disneyland, 2020).

2.2 The cost structure

It is always important to look at a company's cost structure as the one of the key purpose and target for a business is to achieve the maximum cost. Put simple, $\text{profit} = \text{total revenue} - \text{total costs}$. To try minimizing the cost is one of the actions that the business does to maximize its profit (Weil and Maher, 2005).

Hong Kong Disneyland Annual Report shows its yearly costs, including costs and expenses, depreciation and amortisation.

Table 1 Cost structure of Hong Kong Disneyland Resort

HK\$ millions	2020	2019	2018
Costs and Expenses	2,908	4,921	4,666
Depreciation and amortisation	1,211	1,250	1,384

Changes Year on Year	2020	2019	2018
Costs and Expenses	-41%	5%	
Depreciation and amortisation	-3%	-10%	

Sources: Hong Kong Disneyland, 2018 – 2020

<https://hkcorporate.hongkongdisneyland.com/pdf/AnnualBusinessReview18.pdf>

<https://hkcorporate.hongkongdisneyland.com/zh-hk/pdf/AnnualBusinessReview19.pdf>

<https://hkcorporate.hongkongdisneyland.com/pdf/AnnualBusinessReview20.pdf>

Table 1 shows Hong Kong Disneyland Resort cost details and year-on-year changes from 2018 to 2020. The costs and expenses include labour, operating and support costs, costs of sales, marketing and sales expenses. The annual reports do not provide the breakdown of the details. 2019 costs and expenses increased from 2018 HK\$ 4,666 million to 2019 HK\$ 4,921 million, increased amount is HK\$ 255 million or 5%. The increment was due to cost inflation and spending on new guest offering projects, for example, “Ant-Man and The Wasp: Nano Battle! The costs and expenses for 2020 decreased 41% compared with year 2019 to HK\$ 2,908 million.

There are several reasons led to the cost deduction. Hong Kong Disneyland joined participate in the Hong Kong government Employment Support Scheme, which was intended to preserve jobs while managing costs. As part of the reaction to control the spread of COVID-19. Hong Kong Disneyland had to apply closures to the hotels and theme part, i.e., operated five days in a week and 2 days close. The park also reduced marketing spending, cancelled some seasonal events to save costs.

Compare the depreciation and amortisation of 2020 against 2019, the number decreased 3% from HK\$ 1,250 million to HK\$1,211 million as certain assets were fully depreciated during the year. Compare the depreciation and amortization of 2019 against 2018, the figure decreased 10% from HK\$ 1,384 million to HK\$1,250. The decrease was partially related to new project, “Ant-man and The Wasp: Nano Battle!”.

Overall, the park has 60% of calendar days closure, which is 60% reduction of last year, however, the cost reduction is 41% compare 2019 vs 2020. The park leadership should consider more actions to further reduce the cost, i.e., sourcing different products to lower down the cost; consider some new launch shows as previous shows to reduce the training cost, etc.

2.3 The revenue structure

Hong Kong Disneyland Annual Report shows its yearly revenue figures.

Table 2 Revenue of Hong Kong Disneyland Resort

HK\$ millions	2020	2019	2018
Revenue	1,443	6,047	6,021
Changes Year on Year	-76%	0.4%	

Sources: Hong Kong Disneyland, 2018 – 2020

<https://hkcorporate.hongkongdisneyland.com/pdf/AnnualBusinessReview18.pdf>

<https://hkcorporate.hongkongdisneyland.com/zh-hk/pdf/AnnualBusinessReview19.pdf>

<https://hkcorporate.hongkongdisneyland.com/pdf/AnnualBusinessReview20.pdf>

Table 2 shows the revenue of Hong Kong Disneyland Resort. Hong Kong Disneyland generates revenue from the tickets of the theme park, hotel income such as room nights, food and beverage, product sales etc. Compare the number of 2019 against 2018, the number slightly increased HK\$26 million from HK\$6,021 million to HK\$6,047 million. It was driven by higher guests spending at the hotels and the park, although the attendance rate of the park was decrease from 2018 to 2019 and the situation in last quarter of 2019 impacted the hotel occupancy rates.

Compare the number of 2020 to 2019, the figure decreased significantly from HK\$ 6,047 million to HK\$ 1,443 million, the decreasing rate is 76%. The reason was caused by the park closure from second quarter and social incidents in the first quarter in 2020. The closure was due to COVID-19, the protecting action to prevent the virus spread.

In order to increase more revenue, Hong Kong Disneyland realized their focus should be local visitors. They have launched a series new events and programs to attract local customers as well as offer promotions. However, once the customers purchased annual ticket, the leadership should put more efforts to attract customers on more spending in theme park and hotels.

Above data from Hong Kong Disneyland annual reports show the cost and revenue from 2018 to 2020. From the figures, it shows the revenue keep flat of 2019 against 2018. Last quarter of 2019 social events have some impacts to the numbers. However, the dramatic 76% decreasing of revenue is recorded in 2020 while the cost decrease is 41%. The huge decreasing was

majority caused by COVID-19. Hong Kong Disneyland should take all means to reduce its cost and increase its revenue to keep the business sustainable and competitive.

3 The Company's current business performance

This section analyzes the external and internal business environment based on key economic figures which including GDP growth, unemployment rate and trading figures. All these impacts the business of Hong Kong Disneyland and its profit.

3.1 External business environment

The global economy environment faced hug pressure since COVID-19. It was not just by far the sharpest economy recession experienced since World War II, it was qualitatively unique. It was, as the International Monetary Fund put it, “a crisis like no other.” The impact of COVID-19 has been a disruption that went beyond anything can be captured in statistics of gross domestic product (GDP), trading, and unemployment rate globally (Tooze, 2021).

Figure 4 Global Real GDP Growth % 1980-2025



Source: IMF GDP Growth, 2021

https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/OEMDC/ADVEC/WEOWORLD

Figure 4 shows the global real GDP growth from 1980 to 2025. The figures for 1980 to 2021 are actual numbers which show year 2020 experienced a 3.1% decrease globally. Before that, it was an average of 3.7% growth in the past ten years from 2010 to 2019. Global real GDP growth is bounced back to 5.9% due to various reasons: governments have adopted and implemented different rules and regulations in countries and regions, and the analysis of these policy responses indicates that it helped to resume the global and local economies (Silva, 2022). IMF also gives the forecast of real GDP growth in year 2022 to 2025, which is between 3-5%. This is based on the assumption of the COVID issue will be solved or the situation will go to positive trend, then the global economy will go back to the track.

Table 3 GDP Growth % 2010-2021 by Key Countries in Asia, Europe and America

Real GDP growth (Annual percent change)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Australia	2.4	2.8	3.8	2.1	2.6	2.3	2.7	2.4	2.8	1.9	-2.4	3.5
Canada	3.1	3.1	1.8	2.3	2.9	0.7	1	3	2.4	1.9	-5.3	5.7
China, People's Republic of	10.6	9.6	7.8	7.8	7.4	7	6.9	6.9	6.8	6	2.3	8
France	1.8	2.2	0.4	0.6	1	1	1	2.4	1.8	1.8	-8	6.3
Germany	4.2	3.9	0.4	0.4	2.2	1.5	2.2	2.7	1.1	1.1	-4.6	3.1
Hong Kong SAR	6.8	4.8	1.7	3.1	2.8	2.4	2.2	3.8	2.8	-1.7	-6.1	6.4
India	10.3	6.6	5.5	6.4	7.4	8	8.3	6.8	6.5	4	-7.3	9.5
Japan	4.1	0	1.4	2	0.3	1.6	0.8	1.7	0.6	0	-4.6	2.4
Malaysia	7.5	5.3	5.5	4.7	6	5	4.4	5.8	4.8	4.4	-5.6	3.5
Switzerland	3.2	1.9	1.3	1.9	2.4	1.6	2	1.7	2.9	1.2	-2.5	3.7
United Kingdom	2.1	1.3	1.4	2.2	2.9	2.4	1.7	1.7	1.3	1.4	-9.8	6.8
United States	2.7	1.5	2.3	1.8	2.3	2.7	1.7	2.3	2.9	2.3	-3.4	6
Vietnam	6.4	6.4	5.5	5.6	6.4	7	6.7	6.9	7.2	7.2	2.9	3.8
World	5.4	4.3	3.5	3.4	3.5	3.4	3.3	3.8	3.6	2.8	-3.1	5.9

Source: IMF GDP Growth, 2021

https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/OEMDC/ADVEC/WEOWORLD

Table 3 shows the real GDP growth from 2010 to 2021 by some key countries and regions in Asia, Europe and America. Global figures show a decrease of 3.1% in 2020. Looking at the key countries and regions, Hong Kong is decreasing more than the global figures recorded a 6.1% decrease and increase 6.4% in 2021. Europe experienced the most decreasing, United Kingdom decreased 9.8% and France decreased 8% in 2021. China is the only country amongst the list recorded an increase in 2021, shows 2.3% increase, this number is lower than the previous years of 6-11% increase due to the COVID impact of lockdowns, transportation etc.

Table 4 Unemployment Rate 2012 - 2020 by Key Countries in Asia, Europe and America

LOCATION	2012	2013	2014	2015	2016	2017	2018	2019	2020
AUSTRALIA	5.22	5.66	6.08	6.06	5.71	5.59	5.30	5.16	6.46
CANADA	7.33	7.13	6.94	6.94	7.05	6.40	5.89	5.73	9.56
CHINA	4.09	4.05	4.09	4.05	4.02	3.90	3.80	3.62	4.24
HONG KONG	3.29	3.40	3.30	3.32	3.39	3.09	3.04	2.96	5.80
JAPAN	4.35	4.03	3.59	3.38	3.12	2.81	2.44	2.35	2.78
FRACE	9.76	10.30	10.28	10.35	10.07	9.43	9.03	8.43	8.03
UNITED KINGDOM	7.97	7.60	6.18	5.38	4.89	4.40	4.08	3.83	4.55
SWITZERLAND	4.48	4.75	4.83	4.80	4.92	4.80	4.71	4.39	4.82
USA	8.07	7.38	6.17	5.29	4.87	4.35	3.90	3.67	8.09
GLOBAL	5.78	5.77	5.63	5.63	5.66	5.55	5.37	5.37	6.47

Source: OECD, 2021 & Statista, 2021

<https://data.oecd.org/unemp/unemployment-rate.htm>

The unemployment rate is a useful indicator to measure the underutilization of the labor supply, as well as to show the efficiency and effectiveness of an economy to absorb its labour force (Knight, 1986). Table 4 shows the unemployment rate from 2012 to 2020 for key countries in Asia, Europe and America. Overall global unemployment rate is quite stable from 2012 to 2019 from 5.37 to 5.78. This figure increased to 6.57 in 2020 due to the COVID-19 impact. Among the countries in the list, Japan and China shows the lowest unemployment rate. However, both countries unemployment rate increased compare year 2020 against 2019. North America recorded very high unemployment rate in 2020, which Canada shows 9.56 and USD shows 8.09. Hong Kong's unemployment rate is stable from 2.96 to 3.4 from 2012 to 2019, and increases to 5.8 in 2020.

Table 5 Trading Data 2015 - 2020 by Key Countries in Asia, Europe and America

Country	2015	2016	2017	2018	2019	2020	2015	2016	2017	2018	2019	2020
Australia	188	193	232	258	272	251	209	197	229	236	222	212
Canada	411	390	421	451	447	391	431	413	444	471	464	415
China	2274	2098	2264	2487	2500	2591	1680	1588	1844	2136	2079	2058
France	507	502	536	583	571	489	571	568	620	677	655	583
Germany	1327	1335	1449	1561	1490	1381	1052	1056	1163	1285	1234	1171
Hong Kong	511	517	550	569	535	549	559	547	589	627	578	570
India	268	265	300	325	325	277	395	362	450	515	487	373
Japan	625	646	699	739	706	642	649	608	673	749	721	636
UK	466	411	441	487	470	405	631	637	642	673	696	635
USA	1503	1452	1547	1664	1644	1432	2316	2251	2409	2615	2568	2408
World	16561	16047	17747	19560	19020	17619	16737	16213	17988	19840	19290	17829
Exports goods Year-on-Year Change							Imports goods Year-on-Year Change					
Country	2015	2016	2017	2018	2019	2020	2015	2016	2017	2018	2019	2020
Australia		2.7%	20.2%	11.2%	5.4%	-7.7%		-5.7%	16.2%	3.1%	-5.9%	-4.5%
Canada		-5.1%	7.9%	7.1%	-0.9%	-12.5%		-4.2%	7.5%	6.1%	-1.5%	-10.6%
China		-7.7%	7.9%	9.8%	0.5%	3.6%		-5.5%	16.1%	15.8%	-2.7%	-1.0%
France		-1.0%	6.8%	8.8%	-2.1%	-14.4%		-0.5%	9.2%	9.2%	-3.2%	-11.0%
Germany		0.6%	8.5%	7.7%	-4.5%	-7.3%		0.4%	10.1%	10.5%	-4.0%	-5.1%
Hong Kong		1.2%	6.4%	3.5%	-6.0%	2.6%		-2.1%	7.7%	6.5%	-7.8%	-1.4%
India		-1.1%	13.2%	8.3%	0.0%	-14.8%		-8.4%	24.3%	14.4%	-5.4%	-23.4%
Japan		3.4%	8.2%	5.7%	-4.5%	-9.1%		-6.3%	10.7%	11.3%	-3.7%	-11.8%
UK		-11.8%	7.3%	10.4%	-3.5%	-13.8%		1.0%	0.8%	4.8%	3.4%	-8.8%
USA		-3.4%	6.5%	7.6%	-1.2%	-12.9%		-2.8%	7.0%	8.6%	-1.8%	-6.2%
World		-3.1%	10.6%	10.2%	-2.8%	-7.4%		-3.1%	10.9%	10.3%	-2.8%	-7.6%

Source: WTO trading, 2021

Available at: <https://stats.wto.org/>

Table 5 shows the trading data from 2015 to 2020. Globally, both import and export goods data decreased over 7% in 2020 due to COVID. Some countries have double digit decrease, for example, Canada, France, UK and USA of developed countries. India as a developing country, also shows 14.8% decrease on export and 23.4% decrease on import. It is highly impacted by the COVID spread in the country and lockdowns stop the manufactory as well as the logistics and transportation (Gupta and Kuan, 2020).

In general, the economy globally faced huge pressure since the COVID-19 pandemic. It impacts people on everyday life as well as economics. Tourism is a direct impact due to the lockdowns and quarantine policies globally.

3.2 Internal business environment

Hong Kong suffered severely from the COVID-19 epidemic. Table 3 shows Hong Kong Real GDP declined more than the world declining figures in 2020, which is 6.1% against world 3.1%. However, the number increased 6.4% for Hong Kong in 2021, which is above the world increasing rate of 5.9%. There are many reasons lead to the numbers. Hong Kong's zero COVID policy compare with Europe and America's relative flexible policies is stricter. The numbers increased back in 2021 shows the confidence of people. More and more local Hong Kong people accepted the COVID situation and spend money locally, which involves food and beverage, and local tourism.

Table 4 shows Hong Kong unemployment rate increased from 2.96% in 2019 to 5.8% in 2020. Both figures are below the world figures. Hong Kong government has launched multiple phases of "employment support scheme" under the "Anti-epidemic Fund". The purpose is to provide time-limited financial support to employers to prevent the employees getting redundant. It helped the further declining of unemployment rate (HK employment support scheme, 2021). The government also launched several rounds of consumption voucher scheme to qualified Hong Kong residents. The consumption voucher stimulated local consumption of goods and service, as well as helping to keep more jobs in the market (HK consumption voucher, 2021). Despite the actions the government has done, the unemployment rate in Hong Kong is still high compare with last decade.

Table 5 shows the import and export figures of Hong Kong decreased more than globally figures in 2020. All the data show the internal business environment faced huge challenge in Hong Kong for the tourism industry. This is a dramatic challenge for Hong Kong Disneyland Limited.

3.3 A summary of the COVID-19 impact on the company's profitability

Since the COVID-19, Hong Kong Disneyland net profit has been impacted seriously.

Table 6 Hong Kong Disneyland Profit 2018 – 2020

HK\$ millions	2020	2019	2018
Revenue	1443	6047	6021
Costs and Expenses	-2908	-4921	-4666
Earnings before interest, taxes, depreciation and amortisation	-1465	1126	1355
Depreciation and amortisation	-1211	-1250	-1384
Net finance income/(cost)	14	19	-25
NET PROFIT/(LOSS)	-2662	-105	-54

Sources: Hong Kong Disneyland, 2018 – 2020

<https://hkcorporate.hongkongdisneyland.com/pdf/AnnualBusinessReview18.pdf>

<https://hkcorporate.hongkongdisneyland.com/zh-hk/pdf/AnnualBusinessReview19.pdf>

<https://hkcorporate.hongkongdisneyland.com/pdf/AnnualBusinessReview20.pdf>

Table 6 shows the net loss for Disneyland is HK\$54 million in 2018. The loss increased to HK\$105 million in 2019 which is more than double. However, the profit increased to HK\$2,662 in 2020 which is over 200 times compared with 2019. COVID-19 caused unprecedented challenges to the economy and the tourism industry. Disneyland theme park was closed for nearly 60% of calendar days in 2020 according to the regulations, which directly affect the revenue and profit.

The external environment is severe globally for the whole tourism industry. People are not convenient to visit Hong Kong from abroad due to the quarantine regulations, therefore, Hong Kong Disneyland business relied much on Hong Kong residents. However, the internal environment of Hong Kong local economy also shows how tough it is in 2020 of GDP growing declining and unemployment increasing. Hong Kong Disneyland kept losing money in recent years, with 2020 loss of HK\$2,662 reaching a historical high. In October 2020,

Hong Kong Disneyland started drawing upon the revolver facility funded by the Walt Disney Company. This is a temporary contingency plan for the business, establish sustainable strategy to face the challenges are the right way to do, as there is no accurate date of ending this pandemic.

4 Analysis and discussion

Under the COVID-19 challenges, Hong Kong Disneyland faced the challenges of cost increasing, but number of tourism reduction as well as the income keep flat or slightly going down to some of the families. However, the regulations of lockdown and quarantine are threats as well as chances for Hong Kong Disneyland to develop their business. The company should establish strategies to deal with the challenges, and strategies to seize the opportunity.

4.1 Identification of the major challenges

There are multiple challenges that Hong Kong Disneyland is facing during COVID-19. Costing challenges, pricing challenges and market sharing challenge are the major ones.

4.1.1 Costing challenges

The cost of Hong Kong Disneyland consists of labour, operating and support costs, costs of sales, marketing and sales expenses. Hong Kong Disneyland has more than 5300 full-time staff and 1800 part-time staff. It is one of the largest employers in Hong Kong. As the company joined the Hong Kong government employment support scheme, one of the conditions is not to lay off the employees, therefore, reduce the labor cost by redundant is not an option.

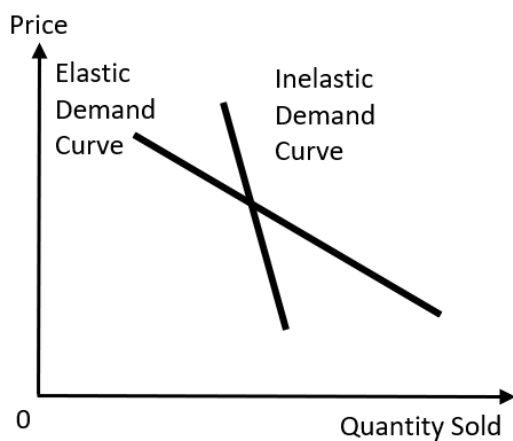
The operation cost for the theme park and hotels are quite flat day-by-day. However, during COVID-19, the operation cost increased slightly due to more process and higher standards for hygiene and sanitary environment. There are many promotions for seasonal events or flash discount for Hong Kong Disneyland. Marketing and sales expenses are expected high to attract more customers.

Above costing challenges adds pressure to the company's profitability. The company needs to set up strategic policies to control the cost so that to maximize the profit.

4.1.2 Pricing challenges

Tourists' income, own price, and substitute price are general and key factors to affect tourism demand (Nguyen, 2021). As visitors of Hong Kong Disneyland has been increased to 75% of Hong Kong residents, the challenges on pricing are from Hong Kong residents' income, its own cost, and its substitute's price.

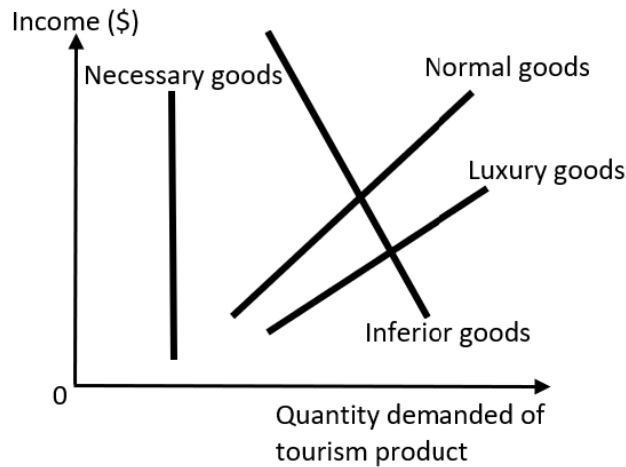
Figure 5 Tourism demand curves



Source: Hudson, 2012

Figure 5 shows the price elastic and inelastic curve. The general price elasticity for tourism and hospitality is from elastic to inelastic. The wide range exists for various factors. One of the key factors depends on the traveler's purpose (Klijs, 2016). For Hong Kong Disneyland, as the pandemic has been lasting for months and years now, most of the Hong Kong residents have been stayed in Hong Kong without any abroad to travel. The willingness or purpose of local tourism has been increased significantly during COVID-19 period. Therefore, it is price elastic in this case. When the price decreased 10%, it will be more than 10% increase of number of visitors. In this situation, it is better for the company to promote their products, includes theme park tickets, hotel rooms and other products like souvenirs.

Figure 6 Income elasticity of tourism products



Source: Dwyer, Forsyth and Dwyer, 2020

Figure 6 shows different tourism products income elasticity. Considering Hong Kong average household income is around HD\$28,000 with a household size of 2.7 (HK Census and Statistics Department, 2021), and Hong Kong Disneyland one day ticket fee is HK\$639, Hong Kong Disneyland theme park ticket is tended to normal to luxury goods to most of the residents.

Table 7 Hong Kong median monthly income vs Disneyland ticket price

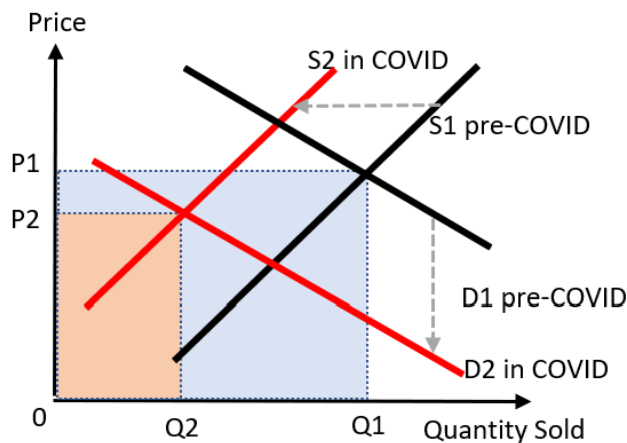
	Number of domestic households	Average domestic household size	Median monthly income of domestic household	Disneyland Ticket Price per People	Disneyland Ticket Price per Family (3 members)	Ticket price vs household income
Year	('000)	Persons	HK\$	HK\$	HK\$	%
2011	2 359.3	2.9	20,000	350	1050	5.25%
2012	2 386.2	2.9	21,000	399	1197	5.70%
2013	2 407.3	2.9	22,200	450	1350	6.08%
2014	2 432.4	2.9	23,200	499	1497	6.45%
2015	2 471.1	2.9	24,800	619	1857	7.49%
2016	2 498.9	2.8	25,200	619	1857	7.37%
2017	2 534.7	2.8	26,500	619	1857	7.01%
2018	2 571.5	2.8	28,000	639	1917	6.85%
2019	2 614.4	2.8	28,700	639	1917	6.68%
2020	2 645.2	2.8	27,000	639	1917	7.10%

Source: Hong Kong Household Income 2021 & Disneyland website public news

https://www.censtatd.gov.hk/en/web_table.html?id=5#

Table 7 shows the recent 10 years Hong Kong household numbers and median monthly income. Assume there are three family members for one family. The family tickets of Disneyland Park is 5.25% of monthly income in 2010 and increased to 7.15 in 2022. As a single day entertainment, this is luxury for a family. Combine with Figure 6, this means, if the income increases, the quantity of demand will increase. It is more elasticity than necessary goods. Due to the COVID pressure, the GDP of Hong Kong decreased in 2020, and increased in 2021. Therefore, the quantity demand of Disneyland also decreased in 2020. However, due to the lockdown and quarantine, Hong Kong residents have less choices of travelling abroad as they did pre-COVID. Travelling abroad against local travelling are considered as substitutional. The demand for travelling abroad decrease will cause the demand for local tourism increase (Hoag and Hoag, 2008), although overall the demand is still decreasing for the business.

Figure 7 Supply and Demand of Hong Kong Disneyland pre-COVID and in-COVID

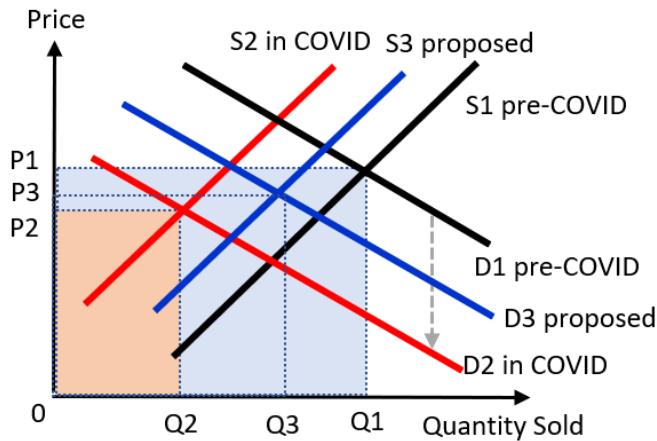


Source: Dolan and Vogt (1984).

Based on the supply and demand theory, Figure 7 shows the supply and demand of Hong Kong Disneyland per-COVID and in-COVID. As the demand changed from global visitors to local visitors, demand of Hong Kong Disneyland declined dramatically. In the chart, it reduced from curve D1 to D2, which will lead to price decrease at the same level of quantity. On the other hand, supply of Hong Kong Disneyland also decreased in COVID-19 due to the limits of operating around 40% of the calendar days and limited number of visitors daily. Therefore, the supply curve moved from S1 to S2, which means with the same quantity, the price will increase.

In Figure 7, $P1 \times Q1$ is the pre-COVID revenue, and $P2 \times Q2$ is the in-COVID revenue. It is obvious that the revenue in-COVID is much smaller than revenue pre-COVID.

Figure 8 Supply and Demand of Hong Kong Disneyland Proposed



Source: Dolan and Vogt (1984).

Hong Kong Disneyland strategy during COVID-19 is to create demand for local visitors to control the price falling. In Figure 8, it is in D3 proposed. For 8 million Hong Kong residents, due to the options for travelling are limited, the demand curve might exceed the original global demand for Disneyland, which is above the D1 pre-COVID curve. That requires Hong Kong Disneyland to launch more attractive program for customers.

In Figure 8, the other essential action for Hong Kong Disneyland is to control the decreasing of supply. Overall number of tickets and hotel rooms have limitation; however, the management team need to think about how to further supply attractive products to customers. It includes Disney related products, food and beverage, service etc.

4.1.3 Market sharing challenges

There is another competitive theme park in Hong Kong – Ocean Park. For most of the visitors, they are substitutional. For some of the visitors, especially with young kids, both theme parks are “necessary”, and they are complimentary.

Table 8 Revenue and Park Attendance Comparison of Hong Kong Disneyland vs Ocean Park

		2020	2019	2018
Revenue HK\$ millions	HK Disneyland	1,443	6,047	6,021
	Ocean Park	717	1735	1686
Market Share %	HK Disneyland	67%	78%	78%
	Ocean Park	33%	22%	22%
Park Attendance (millions)	HK Disneyland	1.7	6.5	6.7
	Ocean Park	2.2	5.7	5.8

Source: Hong Kong Disneyland 2018 – 2020; Ocean Park 2018 – 2020.

https://media.oceanpark.com.hk/files/s3fs-public/ophk_ar18-19.pdf

https://media.oceanpark.com.hk/files/s3fs-public/ophk_ar19-20.pdf

https://media.oceanpark.com.hk/files/s3fs-public/ophk_ar20-21.pdf

Table 8 shows the comparison of Hong Kong Disneyland vs Ocean Park in term of revenue and park attendance. Both theme park business declined in 2020 due to COVID-19 impact. The market share of Hong Kong Disneyland is predominant in Hong Kong of theme parks, which is 78% in 2018 and 2019. However, Ocean Park attendance is more than Hong Kong Disneyland in 2020, while it is lower in the previous years pre-COVID. One of the reasons is because the transforming of the Ocean Park brings new experience to the customers. The market share of Disneyland also decreases from 78% in 2019 to 67% in 2020. Over 10% decreasing in one single year makes the competition much difficult for Disneyland to gain back the market share.

Rather than the above costing, pricing and market share challenges, there are also other challenges, like limitation of days of operation within a week. Number of visitors per day is also limited as a new regulation during COVID-19. These regulations have direct impact to the company's revenue and creates concerns to the potential Disneyland visitors.

4.2 Strategies to ensure business continuity under the Covid-19 crisis

From the annual report information, the leadership of Hong Kong Disneyland realized

that they should focus on the local customers. Therefore, the approach is slightly different compare with previous policies.

4.2.1 The business continuity plan

In order to control the labor cost, as well as keep and improve the service quality to tourist, Hong Kong Disneyland provided professional and technical training online during the year. There are also multiple programs for staff career development, such as Virtual Leadership Spotlight Event. By doing these actions, the company tried to avoid the high turnover rate as well as lower down the labor cost. To reduce and control the operational cost, some of the projects were delayed, such as opening Castle of Magical Dreams. The management also reduced marketing costs as the key target customers are Hong Kong local customers instead of globally visitors pre-COVID.

Trying to attract Hong Kong local visitors, Hong Kong Disneyland launched a series promotion plans, such as special discount for Hong Kong residents for both theme park tickets and hotel rooms. The number of annual members enrolled reached a new record in 5 years' time.

Hong Kong local staycation was quite popular during COVID. Hotel occupancy hits 90% as lack of travel overseas option (SCMP, 2021). Hong Kong Disneyland Hotels launched different promotions programs to their members as well as other visitors, the target is for families. Hong Kong Disneyland Hotel is one of the few hotels in Hong Kong that accept a room with four people. They also implied different Disneyland character theme for the hotel rooms to attract customers.

As there are limitations of number of visitors in theme park and hotel rooms, to stimulate the spending per head is what the management target to do. "Dine & Shop Voucher" and product discounts are launched for those who buy tickets and hotel rooms. Between the closure period, an innovative online merchandise was introduced and generated HK\$2 million revenue (Hong Kong Disneyland, 2021).

4.2.2 Implementation process

Hong Kong Disneyland implemented the above programs at appropriate time. They launched it by seasonality or new program launches. They launched the program on multimedia through advertisements as well as working with local travelling agencies in early 2020. Hong Kong Disneyland launched new products to the customers including special drinks during Halloween in Oct 2020. However, these promotions were launched by events without regular new products launching to stimulate customer spending, which is not sustainable enough. The difficulties are mainly from the budget of launching new programs as well as need time to develop the new product, sourcing, testing, put into mass production and market.

5 Conclusion and recommendations

It is tough business environment internally and externally for Hong Kong Disneyland since COVID-19 epidemic. The above analysis has indicated the challenges that Hong Kong Disneyland faced and actions they have done. This section will have the conclusion and recommendation to Hong Kong Disneyland.

5.1 Conclusion

The management of Hong Kong Disneyland has done multiple actions to control the cost, attract more visitors to drive more revenue and profit. In general, the policies lead to a positive effect to the business. However, during COVID-19, 75% of the visitors are from Hong Kong local people, therefore, how to keep creative and attractive should be the area that Hong Kong Disneyland to focus before their doors are open to the global customers again.

5.2 Recommendations

Below are some recommendations to Hong Kong Disneyland.

One of the reasons that Ocean Park visitors were more than Disneyland is due to transformation,

the new experience to customers. Hong Kong Disneyland need to think about how to keep customers to visit their park in a regular basis and keep spending. For the customers who buy an annual ticket, they normally will visit in a regular basis. Give more discount to the annual ticket holder for hotel rooms will encourage them spending more.

In general, Hong Kong Disneyland has controlled the cost of labour, operation and marketing. There are some other costs they could further review, such as the products sold in hotel rooms and theme park. Not only the cost, but also the product creativity and quality should be reviewed with existing and potential suppliers. This can help to reduce the product cost, as well as create demand for customers.

Develop online store. Hong Kong Disneyland online store did not cover all the items they sold in stores, which is not attractive to customers. There is no online only items or special promotions. Not mention that their current APP has not any function of purchase online. The website of Hong Kong Disneyland focus on theme park tickets and hotel rooms which drives limited revenue to customers, once they buy annual pass or booked several nights, the spending has been done. To drive more revenue constantly, product selling within members and with non-members can help without limitation.

The other actions for Hong Kong Disneyland Limited to improve the customer demand is improve its reputation by actions on corporate social responsibility. During COVID-19, it will be a good idea and timing to develop some plans. The common actions that other enterprises did were free masks distribution to Hong Kong residents that the Hong Kong Disneyland Limited management team could consider based on its budget plan.

In conclusion, Hong Kong Disneyland have done actions to attract local customers numbers to a five-year high record. The next step is for the company to think more about cost control and expand the scheme to drive more customer spendings in the theme park, hotels and online platform.

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