

# Disney's Multi-Channel Strategies in Chinese City Tier System

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## ABSTRACT

This study enhances our understanding of the branding strategies adopted by The Walt Disney Company in China. Disney has provided memorable experiences for family entertainment and quality customer experience, which have encouraged brand loyalty over generations around the world. It has been present in China since the 1930s when “Snow White” and other Disney characters first entered the Chinese market. However, due to policy restrictions on foreign companies, Disney made slow progress before the mid-2000s. On that basis, Disney's emotional connection with Chinese consumers is considered weak and the company has applied different strategies to change it. Our essay shows how Disney has gradually gained market share by using multi-channel strategies among various middle classes located in the city tier system.

**Keywords:** *The Walt Disney Company, branding strategy, Chinese market, city tier system*

## 1. INTRODUCTION

How is Disney strengthening its strategy among Chinese consumers given its weak brand loyalty? In the last few decades since The Walt Disney Company began operations in China, Disney has substantially invested to gain market share by licensing its standard cartoon images, such as the Mickey Mouse and Disney Princess series, by establishing a chain of English Learning Centers in major cities responding to increased demand for English language teaching, and also by opening a theme park in Shanghai. Although the company's access to the Chinese market has increased over time, consumer loyalty does not seem to be strengthened when compared to the US where Disney is considered a symbol of culture that nurtures generations with memorable experiences.

Brand loyalty is considered one of Disney's best marketing strategies [1]. It consists not only of creating happiness through magical experiences but nurturing creativity and also delivering it via innovation so as to share experiences over generations. Disney has carefully balanced a combination between nostalgia [2] and the use of contemporary technology as well as new media [3] to secure loyalty. Thus, to better understand how Disney has adopted a variety of strategies to gain consumers in China, this essay is organized as follows. The second section provides an overview of The Walt Disney Company as a symbol of mass culture and Disney in China. The third section analyses the main features of the Chinese market structure and consumers by focusing on the urban middle class in various levels of the city tier system. Lastly, Disney's strategies are summarised and conclusions are presented.

## 2. THE SYMBOL OF AMERICAN CULTURE IN CHINA

Disney is not simply a trademarked American product, but a complex political, economic, and cultural phenomenon which holds a “sacred place” in American lives [2]. It started operations in the late 1920s with two brothers, Walt and Roy Disney, in the production of cartoons. Mickey Mouse was developed in 1928 in collaboration with Ub Iwerks and it was the company's first popular success. By the mid-1930s, thanks to international distribution Mickey Mouse was already a global phenomenon. According to Wasko [2], Disney was phenomenally successful because it matched with the emergence of the baby-boomers after the WWII who had grown up watching cartoons. Additionally, the success was also due to an increase of income for leisure established family-oriented entertainment consumption, especially among the American middle class. Wasko also attributes the success of Disney products to a large range of distribution channels which collaborate to spread the company's image and characters to almost everywhere.

Disney has driven the trend of industrial transfer and globalization of technology and services, becoming a truly global enterprise. It has also diversified through acquisitions of other related companies which is helping the company to be one of the largest and most influential corporations in the entertainment business [2]. Besides acquiring many key companies and franchises since 2000, such as Pixar, Marvel, Lucasfilm, BAM Tech and 21st Century Fox, it has diversified to include media networks, parks and resorts, studio entertainment, consumer products and interactive media. Parks were expanded overseas to Tokyo (1983), Paris (1992) and Hong Kong (2005). The

latest theme park investment was in Shanghai in 2016. It was strategically built in the Pudong district within an area easily accessible for around 330 million people, the area is also surrounded by two major airports and luxurious shopping malls [4]. According to Robert Iger, the CEO of Disney at that time, in an interview for USA Today, it built “China’s Disneyland”, an “authentically Disney, distinctly Chinese” [5].

Disney’s first appearance in China began long before the opening ceremony in 2016. It first happened via Snow White (1937) and Pinocchio (1940) which were released in Shanghai and Hong Kong during WWII. With the foundation of the People’s Republic of China, and during the Cold War era, however, Disney withdrew from China and re-emerged only in the 1980s with China’s reform and opening up policy. In 1984, Disney and the CCTV (China Central Television) signed a historic licensing agreement which allowed Mickey Mouse and Donald Duck cartoons to be played every Sunday [6]. Since then, Disney has gradually entered the Chinese consumer’s imagination.

### **3. CHINESE MARKET STRUCTURE AND CONSUMER FEATURES**

We cannot talk about Chinese consumers without mentioning the country’s market structure as it reflects the level of cities and consumers’ sophistication and the opportunities for companies in general. There is a hierarchical classification of cities in China and they are substantially different [7]. For instance, tier one cities are the best developed urban areas in China, with income levels higher than any other cities, and directly controlled by the Central Government. Megacities like Beijing, Shanghai, Guangzhou, and Shenzhen are well recognized as part of the tier one cities. Slightly smaller than them, are the tier two cities which comprise provincial and sub-provincial capitals. Chengdu, Wuhan, Hangzhou and Harbin are some of the cities included in tier two. These cities have received increasing investment and are the fastest growing areas in China. The rapid economic growth of some of them is also considered to be higher than that of tier one cities and they are considered to present the next big wave of opportunities. Cities at tier three level are usually economically and historically important, and there are over 100 cities, including Quanzhou, Xian, Wuxi, and Wenzhou. Although they are smaller and less developed than their tier one and tier two counterparts, the largest tier three cities are expected to drive China’s consumption boom by 2030 [8].

Distributed in this tier system are the various levels of the Chinese middle class. The emergence of this middle class occurred in the 1980s in sync with the opening up of the economy. The Chinese middle class comprises people with high levels of income, good education, and occupational prestige [9]. China’s middle class is mostly located in megacities in the tier one cities. By 2022, it is expected that 76% of the total middle class will be concentrated in tier two and tier three cities, while tier one will fall to

about 16% [10]. Lower tier cities, which include prefectures and county-level urban regions, comprise 59% of China’s GDP and 73% of its population. It is believed that lower tier cities will drive China’s consumption boom in the next 14 years, according to a 2017 report by Morgan Stanley. Consumers in these cities have stronger appetites and are more eager to spend. Compared to larger cities’ households, they are at an advantage because of the lower housing cost burden [8].

Besides the market structure, a variety of cultural peculiarities describe Chinese consumers. For instance, the one-child policy of China, which was introduced in 1979, created a new mindset in society as well as for families. Consumers in the first generation of the one-child policy are usually called “little emperors” or “little empresses” and also referred to as Millennials. This generation has a different living style according to Kuhne [11], all available resources are centered on the future of the child. This has led to a “sense of entitlement” which has led to consumers demanding high-quality goods and services [12]. Also, Chinese parents praise more education and extracurricular activities which combined with the “face culture” changes “people’s sense of worth” [11]. In this sense, according to Kuhne, The Walt Disney Company is focusing well by opening English Learning Centers. Additionally, an increase of income for leisure among the middle class has enhanced consumers to spend more time in shopping malls, dining out, traveling and entertainment experiences that the entire family can enjoy [13]. In this sense, Disney is one of the most influential companies in the global entertainment industry operating in China.

### **4. DISNEY’S STRATEGY IN CHINA**

Disney has enhanced different business segments in various levels of the city tier system in China. It has established Disney English Learning Centers in first and second tier cities such as: Shanghai, Beijing, Guangzhou, Chengdu, Nanjing, and Shenzhen. The Center first opened in Shanghai in 2008 and currently there are 44 training centers. A large number of Disney characters, films and music are used in the textbooks. The course targets children between 2 and 12 years old and is distributed to a total of 96 classes a year, twice a week, from RMB 24,000 yearly (around US\$ 3,400). Disney English also offers summer and winter vacation classes as an option for Chinese students [14]. According to Kuhne, many foreign companies are tying their brand in with Chinese consumer behavior such as China’s tiger parents and the shopping behavior in China. Disney, for instance, understood this feature by offering English Learning Centers where kids while playing with Disney character’s toys, can learn new skills as well [11].

Disney still offers high quality movies and makes full use of its intellectual property advantages for first and second tier cities. The company has also adopted co-production with local Chinese companies to offer domestic films focusing on third and fourth tier cities. As an illustration,

there is “The Dreaming Man,” shot by Shanghai Media Group but funded by Disney in 2017.

Disney has also invested in consumer goods by opening its first one-stop store in Guangzhou, “Disney Kids Mall,” which is a retail format unique to Disney in China, specifically targeting high-end consumption in first and second tier cities. It is located in an area of 1,000 square meters with more than 5,000 products including clothing, home furniture and toys full of Disney cartoon characters. It also launched the “Toonsland” store model for third and fourth tier cities from 2010. They are licensed by Disney to local Chinese companies, which takes a form of franchise. They are simple, large in quantity of products offered, but relatively simplistic in terms of goods, and low-priced compared to “Disney Kids Mall”. Currently, 28 shops are distributed in 18 cities, of which 8 are located in third tier cities. “Toonsland” stores are also allowed to operate as online stores, which diversify its sales channel by covering a wider area. Disney is catering to the low consumption level of the third and fourth tier cities as they realize they have great potential [15].

## 5. CONCLUSION

This essay presents a preliminary analysis of the multi-channel strategies adopted by The Walt Disney Company in the Chinese market. Few foreign companies are aware of the peculiarities and specifics of the Chinese city tier system and how they could approach targeted consumers. Disney has been working on the lack of brand loyalty among Chinese consumers by pursuing the necessity and growing demand of consumers at each city’s level. Disney has also shown that brand loyalty should be built according to the city tier system.

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