Theme Park Competitive Strategies

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In the late 80s, the theme park industry in central Florida was composed of a dominant firm, Walt Disney World (WDW), and a competitive fringe. Market structure and nonprice conduct appeared to restrain the competitive drive to undercut prices. The hypothesis of a dominant-firm with price-followers was supported by results of a regression model on prices for WDW and its primary rivals (Braun, Soskin and Cernicky 1992). However, as that study went to press, it was apparent that a significant transformation was already underway in the central Florida theme park industry.

In the early 90s, a series of external shocks signaled an end to rapid growth in park attendance. The industry stagnated from decreased visitation during the Gulf War, the subsequent worldwide recession, and adverse global media coverage of violent crimes against tourists. In addition to these external shocks, two fundamental transformations occurred. One, the industry was entering a mature stage of product development, which is characterized by level attendance, a higher proportion of return visitors, and new competition from outside markets. Two, its structure was changed from monopolistic competition to oligopoly. This paper investigates how external and market shocks have affected strategic behavior. Pricing patterns indicate that the central Florida theme park industry has changed competitive strategy from dominant firm pricing to interdependent behavior, which is consistent with the structural realignment of this decade.

Since 1990, major structural changes have occurred in the theme park industry. First, Anheuser Busch carried out a series of acquisitions to complete a successful horizontal merger of WDW's three largest rivals (Busch Gardens, SeaWorld, and Cypress Gardens). Busch then mobilized its financial resources, management experience, and park development expertise to match Disney's $10 billion investment in central Florida. A second change in market structure resulted from the entry of Universal Studios, the first major entrant since SeaWorld, ten years earlier. Universal introduced a replicated set of market-proven attractions from its thriving southern California parent site. Universal also drew upon scale economies to diversify their product mix into high-tech rides. When technical delays threatened its reputation for quality, Universal redoubled investment and demonstrated its commitment to the central Florida market. In addition, Universal exploited economies of scope derived from complementarities in movie and TV production. The entry of Universal Studios had an immediate effect on local labor markets and theme park prices.

Universal attacked two of WDW's vulnerabilities. One, WDW had always enjoyed its strongest appeal among families with younger children. Thus, young adults presented a large market niche that was attracted by high-tech thrill rides and more sophisticated attractions. Two, WDW expanded into a wide range of themes. Although this traditional brand proliferation strategy was effective in limiting the market shares of its existing Florida rivals, WDW was late to recognize the dangers from a potential entrant with deep pockets. From a game theory perspective, if a market niche is
large enough for only one firm to enjoy economic profits, a preemptive strategy of committing large investments irrevocably in that niche provides a credible signal to deter other firms from entry (Dixit 1980). Disney exploited its regional presence to be the first to open a Florida movie tour park, Disney-MGM Studios. However, they were too late to forestall Universal’s entry. Rival entry had occurred before when WDW underestimated the size of the profitable water parks and night clubs market niches. But with Universal’s entry, WDW was forced for the first time to play a technological catch up game against a well-heeled rival. Disney’s price leadership position was clearly being challenged.

Beyond these structural changes, broader market factors have affected the central Florida theme park industry. It appeared to be entering a mature phase of its product life cycle with a consequent leveling of the customer base (Scherer and Ross 1989). Theme parks, like any durable goods industry, must obtain an increasing share of business from repeat customers (Braun and Milman 1994). Attracting this business requires potential guests to be convinced that previous visits are inferior substitutes for vacation experiences at the new and improved parks. For this strategy to be effective, new and more exciting rides, attractions, and entire parks must be designed and constructed. This form of nonprice competition involves high sunk costs as parks race to bring state-of-the-art designs online. Without a proven market demand, this investment commitment raises the stakes.

Throughout the 80s, central Florida boomed as the world leader in number of visitors and hotel rooms. As domestic highway visitation peaked, WDW maintained market growth by successfully tapping into an expanding international market. By early 1990, both auto and air arrivals to Florida stagnated. At the same time, there was increased competition for tourism dollars from cruises and all-inclusive resorts, in which Disney later became a major player. Competition also intensified for WDW’s brand of the wholesome “family-style” vacation. Massive investment by hotels in Las Vegas successfully merged casino operations with a new version of the theme park model. With changes to industry structure and the weaker market of the 90s, it would be surprising not to see pressures on pricing discipline. The question is whether those pressures were sufficient to elicit a more aggressive and interdependent competitive strategy.

The 80s was a period of steady growth in attendance, and theme park prices increased faster than consumer inflation. In this period, WDW’s price rose at a compound annual rate of 12.1%. Its pricing strategy provided an umbrella for similar price hikes at rival parks. Cypress Gardens and SeaWorld each raised prices at an annual average rate of more than 11%. Busch Gardens, hampered by its distance from WDW, was only able to raise prices at an annual rate of 9.5%. In fact, WDW succeeded in widening the price margin over its rivals throughout the 80s (Figure 1). Busch Gardens saw its relative price erode the most, from a 10% price gap in 1983 to 30% in 1990. SeaWorld and Cypress Gardens also saw their prices lose ground to WDW. The primary cause of the widening price gap was the difficulty that WDW’s rivals had in matching the costly expansions and diversifications made by the industry leader. Viewed as inferior substitutes for WDW, competing parks tempered price increases. In addition, corporate cash flow problems necessitated an aggressive price strategy to restore market share.

Because of its unique market advantages, WDW was able to retain industry dominance while continuing to command a premium price. The land holdings that Disney had acquired in the 60s provided WDW with spatial insulation from subsequent entrants. A relentless wave of its expan-
In addition to price convergence, the theme park industry experienced increasing stability in their inter-quarter prices. Prior to the opening of Universal Studios in 1990, price changes were quite common. Following Universal's entry, price stability became the rule rather than the exception and diversification was not matched by its rivals. WDW invested heavily in infrastructure, which included new attractions, transportation, shops, hotels, golf courses, restaurants, clubs, and water parks. Multi-day discount pricing helped keep visitors at its properties, limiting the residual market available to rivals. During the 80s, WDW was able to ignore the individual actions of its rivals. The only way the competitive fringe could attract customers away from it was by charging lower prices. WDW was free to fine tune its prices to maintain optimal profits, consistent with its position as the dominant price leader. From January 1982, to January 1990, Disney raised prices in 20 of 32 quarters. Rival parks had equally frequent price changes, but followed WDW's price increases with a significant lag (Braun, Soskin and Cernicky 1992).

By the early 90s, however, changes in industry structure and market conditions began to exert dramatic effects on pricing behavior. The lagged-response of followership behavior finally broke down, and was replaced by pricing strategies that resemble the parallel pricing behavior seen in the cigarette, steel, and auto industries. Three developments in pricing patterns provide evidence that strategic behavior in the theme park industry has changed: the growth rate of park admission prices has slowed substantially; prices have converged, and the frequency of price changes has fallen. Despite costly upgrades and expansions, the growth in prices slowed dramatically. From 1990 through 1995, the annual average rate of price escalation was less than 7% at each of the major theme parks. At WDW, prices rose only 3%, barely one-fourth the rate of the previous decade. The result was a narrowing price gap between Disney and the other parks. By 1993, prices had converged. Universal reached price parity with WDW, while SeaWorld narrowed its price margin to 5% below WDW (Figure 2). Disney responded with a brief but aggressive price cut before once again matching Universal's prices. Thereafter, WDW and Universal acted as co-leaders, acknowledging the other's actions and contemporaneously matching price changes. This recognized interdependence is characteristic of the competitive strategies employed by oligopolies.

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tion. The rate at which no more than one park changed prices rose from 23% (seven of 31 quarters) to nearly two-thirds (15 out of 23 quarters). The contrast between time periods is supported by a chi-square test (estimated p value of 0.004), which shows a statistically significant alteration in the distribution of price change frequencies between the 80s and 90s. This reticence to alter prices is consistent with recognition of interdependent behavior in the face of oligopolistic uncertainties (Cecchetti 1986). While dominant price leaders freely respond to changes in costs or demand, fear of misinterpreted market signals may deter oligopolists from initiating price changes.

In summary, substantial changes in both industry structure and the overall market environment have led to an observable alteration in competitive strategies of the central Florida theme park industry. In the 80s, WDW operated like a dominant firm with a competitive fringe that matched WDW price changes with a lag. However, pricing patterns now illustrate behavior that is characteristic of an interdependent oligopoly. Price increases have been tempered, relative prices have converged, and prices have become more stable. As the theme park industry continues to mature, so too will competitive strategies evolve.

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Submitted 30 June 1997
Resubmitted 10 January 1998
Resubmitted 5 February 1998
Accepted 27 May 1998

PII: S0160-7383(98)00084-X