

Chapter

1

Marketing Strategies

Overview

Every company wants to succeed in the market, but doing business, much like fighting a battle, involves a set of strategies to stay strong and competitive. What is the recipe for KFC's success in China? Why are so many Chinese people lovers of the hotpot chain Hai Di Lao? Are you willing to pay a high entrance ticket to Disneyland? How do you take advantage of social media sites to promote your brand in China? The chapter, through four case studies, will take you on a business tour and reveal secrets behind some notable corporate successes.



Pre-reading Activities

1. Which company in the world do you admire most? What do you think contribute to its success?
2. What do you think are the essential components of a corporate marketing strategy? Give examples to illustrate your points.
3. Watch the video “The Marketing Mix” from the CAW Business School.



Part ①

Case Study of KFC

Read the following two texts, one in Chinese and one in English, and carry out your reading tasks as directed.

Text ①

KFC China's Recipe for Success

If there were just a few things that China has wholly embraced from the West, it would be their love for Kentucky Fried Chicken, or KFC as it is more commonly known. In 1987, the fast-food operator opened its first outlet near Tiananmen Square in Beijing. Then came 2,000 other outlets, which sprung up across China within the next 20 years—a phenomenal achievement by any standard.

The improbable success of KFC China can be attributed to a few key ingredients: context, people, strategy and execution, so says Warren Liu, a former vice president of

business development and a member of Tricon Greater China Executive Committee. Tricon was the predecessor to KFC China's parent company YUM! Brands.

In his book *KFC in China: Secret Recipe for Success*, Liu says it was firstly the context in which KFC entered the Chinese market that paved the way for its eventual success. "Strategy is context-dependent; a strategy that works well in a stable and mature market economy would most likely not work well in China, given the diversity of its people, geography, the heritage of a rich and complex culture, and a rapidly and continuously changing business environment since China's economic reforms commenced in 1978," Liu says in his book.

Case in point: When KFC first entered Hong Kong, China in 1973, it quickly grew to 11 restaurants in the following year. But it misjudged the local market and failed to develop a suitable business model. By 1975, all 11 restaurants were forced to close their shutters. Ten years later, KFC came back with a vengeance, eventually franchising its operations to a company called Birdland, which was backed by a group of local investors.

KFC's rocky experience in Asia served as invaluable and relatively inexpensive lessons in preparation for its entry into China in 1987. At a time when joint ventures were the only viable alternative in the late 1980s and early 1990s, KFC China selected local partners with government connections and effectively leveraged their tangible and intangible local resources. Once joint ventures were no longer required by Chinese regulations, and sufficient knowledge and resources had been transferred from the local partners, KFC went direct in order to avoid the paralysis that can result from disagreements between partners.

The "Taiwan Gang"

Another vital ingredient in KFC's secret recipe is its leadership team, specifically its founding leadership team known as the "Taiwan Gang", mainly because most had hailed from Taiwan, China. According to Liu, members of this pioneering team of KFC had accumulated at least 10, if not 15 to 20 years of fast-food industry experience prior to landing in China. Though predominantly Western-educated, being ethnic Chinese, they inherently understood China. Many also came with a background from McDonald's.



That factor led to an intuitive knowledge of the market context, which then put KFC China on track to becoming a successful enterprise. “In order to be successful, especially for foreign companies or non-local companies, a deep understanding and a broad understanding of that market context is critical to success. To the extent that understanding is (even) intuitive. Being intuitive means that you don’t have to do the market research, you don’t have to have multiple meetings to come to the best solution to a problem or to point to a future strategic direction,” Liu told INSEAD Knowledge.

“Those money and time saved are going to add to your probability of success in the long run because in a dynamic and fast-changing market environment, speed becomes a lethal competitive differentiator, the speed with which to come up with the best ideas, to make the optimal decisions, and to execute those decisions once they are made. Over time, speed contributes to the accumulation of a competitive advantage in a fast-paced and rapidly-changing market environment.”

Going Local

Intuition led to product localization, which is also a very important part of the success formula. Liu says that KFC China tended to introduce new products more frequently than their competitors in China. Also the fact that KFC has chicken as its core product offering is a very natural advantage that fits this context very well, since most Chinese prefer pork, followed by chicken; whereas beef and mutton lag far behind. So in that light, KFC enjoys a natural product advantage over McDonald’s.

That KFC has also done a lot of work to continuously invent and launch new products; products that better fit the Chinese consumers’ taste preference have allowed them to keep the competition at bay. It has got a 2:1 ratio over McDonald’s in China, whereas outside China it’s the other way around.

Although KFC’s original recipe is accepted by most Chinese, KFC China did not stop there. The highly localized menu includes congee or Chinese-style porridge for breakfast; Beijing Chicken Roll served with scallion and seafood sauce; Spicy Diced Chicken resembling a popular Sichuan-style dish. Their latest creation is you tiao or Chinese dough

fritters.

Yet for all its hits, there are already rising brands that are not the KFCs or the Burger Kings or the McDonald's. Liu says that Wei Qian La Mian, also known as Ajisen Ramen, is a Japanese product that has been doing very well in various cities throughout China. So is Zhen Gongfu or Real Kung-fu, a Chinese fast food chain which is showing a lot of promise.

The competition has even gone hi-tech. "I recently heard about a robot developed with subsidy from the Chinese government which is capable of preparing dozens of popular Chinese dishes at high speed, and with excellent taste, based on expert knowledge."

Dawn of a New Era?

This probably explains why KFC China has fired its latest salvo. Liu says: "I think the reason that YUM! Brands is interested in launching and launching aggressively this new brand called East Dawning is for reasons both offensive and defensive in nature...because (they) wanted to fend off potential local Chinese fast-food competitors."

However, Liu thinks KFC China should reposition East Dawning, and move its market focus and resources to outside China; and within China, continue to focus on KFC, Pizza Hut and Pizza Hut Express. After all, he says, KFC China is the indisputable star of YUM! Brands' worldwide growth engine.

That being said, Liu feels that more attention in the future should be paid to the flavour, quality and price performance of new products—not frequency of new product introduction, as this can detract consumer focus away from core products offerings.

He also thinks that the company should develop senior local talent within KFC China to take on top national, regional and even international leadership roles in the next few years.

"While the 'Taiwan Gang' played its historical mission exceptionally well during the first two decades, it's time for the baton to be passed on to the local Chinese—not for any altruistic reasons, but simply because the locals understand this market even better than the 'Taiwan Gang'," he says in his book.

But past achievements do not guarantee future success. So will the "Local Gang" be



as good or even better than the “Taiwan Gang”? That, Liu says, remains to be seen. “It all depends on the evolution of that leadership team and the evolution of China, the market, in the future.

Implementation will be key. And in China, successful implementation requires not only sound, localized products, people, systems and processes, but also the flexibility to change direction according to a new government policy, crisis or opportunity.

“Only the most perceptive and swiftest-moving companies will rise to the top, and stay on top,” Liu says in his book, although having said that, he still has a lot of faith in his former company. “KFC’s leadership position in the Chinese restaurant industry is KFC’s to lose.”

Text 2

肯德基“土”配方谋变

当洋快餐开始卖油条、豆浆和米饭时，产品已经不是问题，态度才是关键。

2010年6月1日，肯德基在中国内地的第3000家门店在上海开张，同期，全球快餐业霸主麦当劳在中国大陆只有1100多家门店。

从1987年进入中国大陆开始，百胜餐饮集团下属的肯德基品牌在门店数量上就一直领先老对手麦当劳，这让许多人误以为两家连锁餐厅势均力敌，肯德基略占上风。而实际上，从全球市场来看，肯德基连锁餐厅数量比麦当劳少15.6%。在美国本土，肯德基更是被彻底边缘化，完全不是麦当劳、汉堡王和赛百味的对手。

为何肯德基品牌能在中国大陆获得成功？对此，肯德基的回答是“本土化”。

“自1987年来到中国，肯德基一直秉承‘立足中国、融入生活’的总策略。”在接受《世界博览》采访时，百胜集团公关部的李薇介绍说，对于一家快餐店来说，首要任务是为消费者提供好吃的食物，否则一切都是空谈。肯德基一直想在全球树立“烹鸡专家”的形象，当家产品有吮指原味鸡、香辣鸡翅、香辣鸡腿汉堡等，但仅凭这些产品坐吃老本是不现实的。

20世纪90年代中期，肯德基中国分部就成立了自己的产品研发团队，至今

已发展到 100 多人的规模，他们的主要任务就是开发适合中国人口味的食品。1987 年，北京前门肯德基餐厅里只卖 8 种产品；现在，餐厅里至少有 57 种常规产品可供选择。在过去 20 多年里，肯德基推出的新产品超过 140 种；最近几年，在中国市场更是平均每年推出 20 种新食品。

2002 年，肯德基在广东地区推出第一款中国特色食品——早餐粥。随后，油条、豆浆、蔬菜等菜式不断推出。

肯德基公司解释说，更改产品线的关键在于增加了蔬果类食品，让烹饪方式不再局限于油炸，而是更加多元化，这样能避免被贴上“垃圾食品”的标签。2010 年，肯德基最大的举措是推出了米饭类食品，这可以说是开了“洋快餐”的先河。

除了丰富的本土化菜单以外，肯德基的另一个法宝是管理的本土化。与很多外企喜欢聘请东南亚或在国外长大的华裔经理人做高管不同，肯德基中国公司的核心团队大多来自中国台湾地区，甚至有媒体称其为“台湾帮”。据说这个团队的成员来到大陆之前，大多在快餐行业已经工作了 10~20 年。虽然他们中大多数人受过西方的高等教育，但更了解中国的国情。

肯德基公司向本刊介绍说，1987 年，中国肯德基的员工不到一百人。时隔 24 年，肯德基员工已超过 23 万人，实现了 99.9% 的本土化。肯德基在中国的 16 个分公司总经理中，有 14 个是从公司内部的市场培训提拔上来的，这也充分说明肯德基对员工自身发展的重视。

肯德基在原料供给方面也希望尽量做到本土化。肯德基在中国有 500 多家原料供应商。将一个汉堡拆分开，里面的鸡肉、蔬菜、面包和调味料大多是在中国本土采购的。

即使是在广告中，肯德基都充分考虑到了中国的文化。与崇尚个人主义的美国人不同，中国人更重视集体，特别是自己的家庭，这一点在用餐的时候体现得最明显。中国人不会放弃一切同家人一起吃饭的机会。

在 2008 年奥运会之前，肯德基在中国共播放过 24 条广告，其中有 7 条都在推销“外带全家桶”。这 7 条广告都在强调同家人朋友分享的快乐，可谓“击中中国人感情中最柔软的部分”。

在广告中，肯德基塑造了一群“主角”，也就是理想中的客户群体——一群朝气蓬勃的年轻人，他们乐观开朗，懂得分享。



另外，在6条有孩子出镜的广告中，主角是清一色的男孩儿。这不是性别歧视，而是肯德基敏锐地注意到了几千年农业文明的积淀对中国父母们的影响。

肯德基很早就提出“为中国而改变，全力打造‘新快餐’”的理念。肯德基的当家人——百胜餐饮集团中国事业部主席兼首席执行官苏敬轼曾经说过，“中国肯德基是中国人的肯德基”。在同麦当劳的竞争中，本土化让肯德基节省了资源和时间，给消费者留下了肯德基总是先行一步的印象。



Reading Tasks

I Summary Writing

1. Complete the following summary of Text 1 in Chinese.

肯德基在中国市场的四大利器

店面管理结构	香港模式：_____；大陆模式：_____
	模式不同的原因：_____
管理层	特 点：_____；优 势：_____
产品	产品做到以_____为主，同时推出_____。
战略执行	推出_____； 关注_____；
	而非_____； 加速_____。

2. Complete the following summary of Text 2 in English.

Localization in KFC

Product:	_____
Supply chain:	_____
Management:	_____
Promotion:	_____

II Reading Comprehension

Briefly answer the following questions about the two texts in English.

- 1) Do you like to dine out or eat at home? What are the main reasons for you to dine out compared with eating at home?
- 2) What is your favorite restaurant/chain? Why are you attracted to it?
- 3) What do you know about YUM! Brands, the parent company of KFC?
- 4) Text 1 is based on an interview conducted by INSEAD Knowledge. What do you know about INSEAD?
- 5) According to Text 1, KFC used franchising in Hong Kong, China. If you were to start your own restaurant, would you like to start your own brand or choose franchising? What are the advantages and drawbacks of franchising?
- 6) Summarize the differences and similarities between KFC and McDonald's or between any of your favorite fast food restaurants based on Text 2.

III Translation

1. Provide the Chinese equivalents to the following terms and expressions.

- | | |
|---------------------------|------------------------|
| 1) fast-food operator | 2) outlets |
| 3) Greater China | 4) vice president |
| 5) parent company | 6) franchising |
| 7) joint ventures | 8) launch new products |
| 9) product introduction | 10) subsidy |
| 11) core product offering | |

2. Translate the following sentences/paragraphs into Chinese.

- 1) If there were just a few things that China has wholly embraced from the West, it would be their love for Kentucky Fried Chicken, or KFC as it is more commonly known.
- 2) "Strategy is context-dependent; a strategy that works well in a stable and mature market economy would most likely not work well in China, given the diversity



of its people, geography, the heritage of a rich and complex culture, and a rapidly and continuously changing business environment since China's economic reforms commenced in 1978," Liu says in his book.

- 3) "...YUM! Brands is interested in launching and launching aggressively this new brand called East Dawning is for reasons both offensive and defensive in nature...because (they) wanted to fend off potential local Chinese fast-food competitors."
- 4) "While the 'Taiwan Gang' played its historical mission exceptionally well during the first two decades, it's time for the baton to be passed on to the local Chinese—not for any altruistic reasons, but simply because the locals understand this market even better than the 'Taiwan Gang'," he says in his book.
- 5) "Only the most perceptive and swiftest-moving companies will rise to the top, and stay on top," Liu says in his book, although having said that, he still has a lot of faith in his former company. "KFC's leadership position in the Chinese restaurant industry is KFC's to lose."

IV Language Exercises

Replace the expressions in bold in the following sentences/paragraphs without changing their meanings.

- 1) KFC China's **Recipe for Success**
- 2) The improbable success of KFC China can be attributed to **a few key ingredients**: context, people, strategy and execution, so says Warren Liu,...
- 3) ...it was firstly the context in which KFC entered the Chinese market that **paved the way for its eventual success**.
- 4) **Another vital ingredient** in KFC's secret recipe is its leadership team, specifically its founding leadership team known as the "Taiwan Gang",...
- 5) ...in a dynamic and fast-changing market environment, speed becomes **a lethal competitive differentiator**, ...

- 6) Implementation will be **key**.
- 7) Intuition led to product localization, which is also a very important part of **the success formula**.
- 8) By 1975, all 11 restaurants were forced to **close their shutters**. Ten years later, **KFC came back with a vengeance**,...
- 9) Then came 2,000 other outlets, which **sprung up** across China within the next 20 years...
- 10) KFC's **rocky experience** in Asia served as invaluable and relatively inexpensive lessons in preparation for its entry into China in 1987.
- 11) That factor led to an intuitive knowledge of the market context, which then **put KFC China on track to** becoming a successful enterprise.
- 12) ...KFC China is the indisputable star of YUM! Brands' worldwide **growth engine**.
- 13) ...KFC went direct in order to avoid the **paralysis** that can result from disagreements between partners.
- 14) "While the 'Taiwan Gang' played its historical mission exceptionally well during the first two decades, **it's time for the baton to be passed** on to the local Chinese...", he says in his book.
- 15) That KFC has also done a lot of work to continuously invent and launch new products; products that...has allowed them to **keep the competition at bay**.
- 16) This probably explains why KFC China has **fired its latest salvo**.
- 17) "...this new brand called East Dawning is for reasons both **offensive and defensive** in nature...because (they) wanted to **fend off** potential local Chinese fast-food competitors."

Part 2

Case Study of Hai Di Lao

Read the following English text and carry out your reading tasks as directed.

Chinese Hot Pot Chain Hai Di Lao Makes Move to U.S.

If P. T. Barnum had ever opened a restaurant, it might look a lot like Hai Di Lao, the popular chain of 75 Chinese eateries planning its first foray into the U.S. market this fall.

Talk about a three-ring circus: Diners pass the time in the waiting area with Internet terminals, board games and kids' toys. They can nibble on unlimited free snacks. Or kick back for a shoeshine, manicure or hand massage.

In the dining room, patrons wearing full-size aprons provided by the restaurant lean together over the boiling caldrons embedded in each table, dropping morsels of uncooked meat, fish, vegetables or tofu in a spicy steaming broth, then dipping them in flavorful sauces. On special holidays, magicians in colorful, traditional masks perform tricks. Patrons order using iPads. Periodically, a server breaks into the restaurant's signature Olympic-style "noodle dance".

Such showmanship, along with service, has set Hai Di Lao apart in China's burgeoning restaurant landscape and has distinguished it from competitors that also sell hot pot, the traditional communal cuisine that originated in Mongolia centuries ago. Spicy versions emerged from the southwestern city of Chongqing and expanded in neighboring Sichuan Province and then across China. Hot pot is particularly popular with groups of young people and families. The act of pulling food from the caldron lends to the chain's name, which in Mandarin means "fishing in the bottom of the sea".

Owner Zhang Yong, who launched Hai Di Lao in Sichuan in 1994 and opened his first international branch in Singapore last year, hopes the touches that established his brand in China will also pave the way for his first U.S. outpost. It is scheduled to open this September in the affluent Los Angeles enclave of Arcadia.

Only in the past several years have Chinese companies significantly embarked outside the country. But most have centered on sectors like energy and manufacturing. Mr. Zhang is one of the few who have gone after consumers.

In China, every Hai Di Lao employs a handful of “noodle masters”, who train an average of four to six months before starting to perform their dance in the middle of the dining room. They stretch foot-long wads of dough into at least 10 feet of slender, ribbonlike noodle by whipping the center out like a jump rope and rippling and swirling it through the air like the ribbons twirled by Olympic rhythmic gymnasts. Often, the dancer flings the dough over customers’ heads as they squeal and clap, before folding it with a flourish and dropping it in the broth.

Hot pot itself isn’t totally foreign to the U.S. market. Yum! Brand, Inc., which owns KFC and acquired Chinese hot-pot chain Little Sheep in 2011, already has a dozen outlets in the U.S. They are predominantly in areas with high Chinese populations, like Flushing, N.Y. According to the most recent census, Arcadia, Hai Di Lao’s new U.S. home, is more than 50% Asian.

The staff doles out a steady stream of hot towels and other niceties: hair elastics to longhaired customers (to prevent hair from falling in food), eyeglass wipes to the bespectacled (all that steam can fog one’s vision) and plastic bags to phone-toting eaters to protect mobiles from getting messy. Unlike at many Chinese restaurants, patrons don’t have to yell out for menus or checks. In the restrooms, they have access to an array of free perfumes and lotions.

Hai Di Lao’s 75 outlets made more than 10% profit on 3.127 billion yuan (\$510 million) in revenue in 2012, up 54% from a year earlier, Mr. Zhang said.

The entrepreneur is well aware that not every trick in his playbook will work for the U.S. market. Manicures in restaurants aren’t likely to pass muster with U.S. food-safety inspectors. Costs for amenities like hot hand-towel service and dancing wait staff are bound to be higher in the U.S., just as they have been in Singapore.

Some broth flavors, like the sour vegetable fish soup, may not translate, either. Mr. Zhang said he would tweak the menu to fit consumers’ tastes, but using chopsticks to eat



remains a must.

He also said he would offer individual pots for U.S. customers rather than the group caldrons used in China. The reason, Mr. Zhang said, is that Western dining is more individual. “Whatever they want is what I’ll give them,” he said.



Reading Tasks

I Reading Comprehension

Briefly answer the following questions about the text in English.

- 1) Describe the distinctive services of Hai Di Lao based on the text above and then come up with more based on your own dining experience.
- 2) What is the recipe for Hai Di Lao’s success?
- 3) Do you think the success of Hai Di Lao can be repeated in the U.S.? What services should remain the unchanged and what should be adapted to suit the U.S. market?

II Language Exercises

Search the text and the Internet for expressions associated with “火锅”.

III Translation

1. Translate the following sentences/paragraphs into Chinese.

- 1) Talk about a three-ring circus: Diners pass the time in the waiting area with Internet terminals, board games and kids’ toys. They can nibble on unlimited free snacks. Or kick back for a shoeshine, manicure or hand massage.
- 2) In the dining room, patrons wearing full-size aprons provided by the restaurant lean together over the boiling caldrons embedded in each table, dropping morsels of uncooked meat, fish, vegetables or tofu in a spicy steaming broth, then dipping them in flavorful sauces.
- 3) On special holidays, magicians in colorful, traditional masks perform tricks.

Patrons order using iPads. Periodically, a server breaks into the restaurant's signature Olympic-style "noodle dance".

- 4) ...hot pot, the traditional communal cuisine that originated in Mongolia centuries ago. Spicy versions emerged from the southwestern city of Chongqing and expanded in neighboring Sichuan Province and then across China. Hot pot is particularly popular with groups of young people and families.
- 5) In China, every Hai Di Lao employs a handful of "noodle masters", who train an average of four to six months before starting to perform their dance in the middle of the dining room.
- 6) They stretch foot-long wads of dough into at least 10 feet of slender, ribbonlike noodle by whipping the center out like a jump rope and rippling and swirling it through the air like the ribbons twirled by Olympic rhythmic gymnasts.
- 7) Often, the dancer flings the dough over customers' heads as they squeal and clap, before folding it with a flourish and dropping it in the broth.

2. Translate the following sentences/paragraphs into English. Note that you must use expressions you picked from the text to translate the parts in bold.

- 1) 改革开放以来，大量外资企业进入中国；不过随着中国经济的腾飞，越来越多的中国本土企业也开始“走出去”。
- 2) 《中国好声音》注重选手的实力而不是外表，因此在中国迅速发展的歌唱类选秀节目中脱颖而出。
- 3) 世界酒业巨头帝亚吉欧收购水井坊后，将把其打造成国际品牌。英国是该品牌进入欧洲市场的第一站。
- 4) 阿里巴巴绝非仅仅是美国电子商务公司在中国的“仿制品”。实际上，有些公司还曾借鉴过马云的经营理念。
- 5) 上月，新西兰乳业公司恒天然集团的部分批次婴儿奶粉质检不达标。中国质检总局要求立即召回可能受到污染的产品。
- 6) 社交网络上的好友数量不代表真正的友情。真正的友谊并不是打开手机、电脑就能找到的，而需要切实付出，祸福与共。



IV Research and Discussion

Search the Internet for answers to the following questions and share your findings in class.

- 1) What are the most important factors that affect your choice of a restaurant? Rate them in terms of importance.
- 2) China's restaurant industry has been racked by a spate of scandals in recent years. For example, there are reports of some hotpot restaurants using "gutter oil", or recycled cooking oil, as substitute for good ones in their broths. Describe in bilingual terms the food scares you've heard about or experienced personally.
- 3) What are the effective measures to ensure China's food safety and that restaurants are rule followers?

V Bilingual Debate

The following is an excerpt from a Chinese news report on Hai Di Lao. Take a stance on the following motion "Should Hai Di Lao Be Forgiven for Its Unsanitary Kitchen Practices and Breach of Public Trust?" and state your reasons in both Chinese and English in class.

为什么那么多人选择原谅海底捞?

海底捞的官网上,醒目地挂着两句话——海底捞可能有两种死法:第一种是管理出问题,死亡过程可能持续数月甚至上年;第二种是食品安全出问题,一旦发生,海底捞可能明天就会关门,生死攸关。

然而谁也不曾想到,眼下,身为中国餐饮业标杆、视食品安全如命的海底捞,真的摊上了第二种“生死攸关”的问题。

2017年8月25日上午11:00:《法制晚报》发布了一篇记者暗访报道,称海底捞后厨有老鼠爬进装食品的柜子,扫帚、簸箕、抹布与餐具一同清洗,洗碗机内部肮脏不堪,顾客用过的漏勺被拿来掏下水道……

14:46:海底捞发表致歉信,承认媒体披露的问题属实,表示“感到非常难过和痛心,也十分愧疚”。

17:16: 海底捞通报了关于这起事件的处理结果，宣布北京劲松店、太阳宫店停业整改。通报大意：“这锅我背，这错我改，员工我养”。

18:00 左右：“海底捞回应”的消息上了新浪微博热搜第一位，这时的评论风向已经开始改变。

Part

3

Case Study of Disneyland

Read the following English text and carry out your reading tasks as directed.

Of Course Disney Should Use Surge Pricing at Its Theme Parks

The Walt Disney Company is reportedly considering implementing surge pricing at its various theme parks. Admission to Disneyland in Anaheim, CA, for instance, is currently \$99 for any day of the week. The rumored pricing plan involves offering Gold (\$115), Silver (\$105), and Bronze (\$99) ticket options that are priced based on anticipated demand. Gold would be good for admission any day of the week; Silver (\$105) would be for off-peak weekdays and weekends; Bronze (\$99) would get you in on select off-peak weekends.

Implementing demand-based pricing strategies at Disneyland, or any theme park for that matter, simply makes sense. Raising prices during popular times such as Fourth of July weekend capitalizes on higher consumer valuations. Is this gouging? Some observers think so, but if customers are willing to pay more in certain instances, I vote for accepting this “free money”.

One refinement I'd consider making to the rumored Disney pricing plan is reducing the lowest Bronze plan price. It's worth investigating whether a significantly lower price can activate “dormant customers” to fill the park on otherwise sparse days. By dormant customers, I mean those who are interested in coming to the theme park, but haven't done so because the price has been too high. By offering deeper discounts on off-peak days, customers who otherwise would not have enjoyed Disneyland could now do so. This would result in growth. Since theme parks are high fixed cost and low variable cost

entities, revenue from discount-enticed new customers is virtually all profit...free money. These newly activated dormant customers would also likely show up hungry and snap up souvenirs... more free money.

Using discounts to activate dormant customers can be highly effective. Randy's Car Wash, located across the street from the *Harvard Business Review's* office, offers a \$5.99 wash special on Tuesdays. Shazam: Demand is so strong on some Tuesdays that a police officer has to direct traffic. The upside of discounting for Randy is...free money.

Having a lower price option—as part of a surge pricing strategy—provides a great rebuttal to potential pushback on premium prices: “Yes, we’ve raised prices on popular days, but you now have the option to visit at a much lower price on certain days.” Framing pricing options in this manner makes a price increase more palatable. Instead of forcing a “take it or leave it” decision, customers tend to feel better because they’ve chosen to pay more: “I had the opportunity to get a lower price, but I decided to pay more because that option was more convenient for me.”

There are plenty of other industries—such as restaurants, barbershops, and health clubs—that can also benefit from surge pricing. Surge pricing has typically been used in industries with perishable goods (e.g., hotel rooms), but it can be used any time when demand varies. Should beer prices at the TD Garden be higher at a rowdy Boston Bruins game than when a traveling circus is using the arena? I think so.

Another instance when surge pricing can be used is in cases of fluctuating supply. Restaurants, for example, often charge “market price” for seafood entrees to reflect varying supply conditions. I visit a neighborhood where four gas stations are located in close proximity and compete vigorously on price. However, only one of these stations is open 24 hours. Should the all-night gas station raise prices every evening between 11 p.m. and 6 a.m. when its competitors are closed? Yup, I think so.

Managers are often wary of raising prices during times of high demand because they fear a consumer backlash. It's a fair concern, but it's worth noting that consumers are becoming desensitized to surge pricing—high/low pricing is being used more often in more industries. If well-known companies that are fiercely protective of their brands—such as

Disney—are contemplating (and using) surge pricing, other companies are probably good to go. And of course, another way to view this strategy is instead of raising prices, you are offering discounts during low-demand periods.

Back in Economics 101, we were taught that every company faces a demand curve for its products and services. The reality is that this demand curve is not static: There are times when demand is higher and other times when it is lower. Surge pricing enables companies to capture additional profit when demand is high and just as importantly, provide discounts to generate growth during off-peak periods.



Reading Tasks

I Reading Comprehension

Briefly answer the following questions about the text in English.

- 1) What does “surge pricing” mean according to the text?
- 2) Does the author agree with this strategy? What is his line of logic to support his claim?
- 3) What revisions does he make to Disney’s pricing strategy?
- 4) Can Disney pricing strategies be applied to other industries? Come up with concrete examples to support your points.
- 5) What other pricing strategies are used in real life besides surge pricing? Give examples to back up your observation.

II Translation

1. Provide the Chinese equivalents to the following terms and expressions.

- | | |
|------------------|----------------------|
| 1) off-peak | 2) admission |
| 3) gouging | 4) perishable goods |
| 5) economics 101 | 6) dormant customers |
| 7) demand curve | |



2. Translate the following sentences/paragraphs into Chinese.

- 1) Implementing demand-based pricing strategies at Disneyland, or any theme park for that matter, simply makes sense. Raising prices during popular times such as Fourth of July weekend capitalizes on higher consumer valuations.
- 2) Since theme parks are high fixed cost/low variable cost entities, revenue from discount-enticed new customers is virtually all profit...free money. These newly activated “dormant customers” would also likely show up hungry and snap up souvenirs...more free money.
- 3) Having a lower price option—as part of a surge pricing strategy—provides a great rebuttal to potential pushback on premium prices...
- 4) Instead of forcing a “take it or leave it” decision, customers tend to feel better because they’ve chosen to pay more...
- 5) Managers are often wary of raising prices during times of high demand because they fear a consumer backlash. It’s a fair concern, but it’s worth noting that consumers are becoming desensitized to surge pricing—high/low pricing is being used more often in more industries.



Survey

Conduct a survey on Shanghai Disneyland on campus based on the following questions and share your findings in class.

What Do You Think of Shanghai Disneyland?

After more than a decade of planning and five years of construction, Shanghai Disneyland finally opened its door on June 16th, 2016—and already there’s been plenty of debate within China. News reports on the theme park have focused on topics ranging from the price of its tickets to the taste of its food. Hit the streets on your campus to find out more about people’s views of the resort.

- 1) Have you heard about Shanghai Disneyland? Do you have any plans to visit the park? With whom? And when? Is surge pricing a decisive factor in deciding when