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China's theme parks face a new era

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1. China's theme park market overview



China is now the second largest market for theme parks in the world, and this pace of growth is set to continue—even in the pandemic, the country’s attraction industry continued to evolve, expand, and hold its global position.¹ Chinese consumers have embraced theme parks with enthusiasm, and operators are investing heavily with a raft of new attractions planned. The increased competition poses challenges, and opportunities, for operators to provide new product offerings that can enhance visitors’ on-site and off-site experiences. This report examines such opportunities for both greenfield developments and existing destinations.

China’s theme parks have transformed considerably over the past few decades through three distinct waves: inception, proliferation, and transformation. China’s first theme park, Splendid China, opened in 1989 in Shenzhen and quickly became popular. The new experience that theme parks offer drew visitors and boosted the market. This initial success led to proliferation from 1996 onwards, with hundreds of local players tapping into a rapidly growing market, resulting in differentiation and diversification. Some operators provided a dedicated product offering centered around strong intellectual property (IP) and distinct branding. Others focused on expanding their real estate portfolios where theme parks were only one element within a property complex, and the focus was on standardized products that could be quickly replicated.

Following Disneyland’s Shanghai opening in 2016, the industry entered the current wave of transformation. Policies have tightened to prevent property bubbles from developing, and international players with strong IP have upped the game to compete for visitors. By the end of 2021, three new international theme parks had opened in China including Disneyland Shanghai and Hong Kong, and Universal Studios Beijing.

Despite this growth and clear visitor interest, some theme parks face challenges. Even before COVID-19-related restrictions, only half of the country’s parks turned a profit.² During the pandemic, theme park attendance declined globally, in some regions by up to 80 percent. Theme parks had to comply with attendance caps, limits on individual rides, and a ban on indoor performances. Some theme parks shut down and those that remained open saw sudden, sharp drops in visitor numbers.

In China, there is still a lot of uncertainty related to the pandemic and operators have had to take an agile approach in response to restrictions by temporarily closing certain facilities or parks, and working hard to ensure that offerings remain attractive so that visitors return once they reopen. Parks in Shanghai and Beijing closed for a few months, but visitor numbers rebounded quickly after reopening—in part due to pent up demand for on-site experiences following lockdowns. Some theme parks hosted events to boost numbers, for instance Happy Valley Beijing held a summer holiday festival in 2022, including traditional cultural activities and exhibitions in the day, and a music festival during the night, which increased revenue by 25 percent, year-on-year, this summer.

However, some operators are still under pressure to make up lost revenues. In Tier 2 and 3 cities, frequent closures have affected consumer confidence, and many are avoiding large crowds, so some operators are finding it a struggle to maintain foot traffic. Fantawild, with theme parks in lower-tier cities, reports that in the first half of 2022 revenue from theme park operations had dropped by over 40 percent, compared to the same period in 2021.³

Given the highly competitive environment, volatility due to COVID-19, and the fact that visitors are looking for new experiences after lockdowns, operators may have work to do to capture market share. But the good news is that there is still enormous potential in the market. McKinsey analysis suggests that only 27 percent of China’s population has ever visited a theme park, less than half the average for developed markets, at 68

¹ Euromonitor data; “TEA/AECOM 2020 Theme Index and Museum Index: Global Attractions Attendance Report,” Themed Entertainment Association (TEA) and AECOM.

² “53% of projects are profitable: Have China’s theme parks solved the business dilemma?,” *Beijing Business Daily*, November 25, 2019.

³ Fantawild semi-annual report.

percent.⁴ And the market size could more than double from RMB40 billion in 2019, to over RMB90 billion by the end of 2025.⁵

Despite pressure from leading international operators such as Legoland, Universal Studios, and Disneyland, local operators such as Happy Valley, Fantawild, and Chimelong are likely to draw more visitors than international brands. Leading local operators attract the majority of visitors thanks to the sheer size of their portfolios, number of chains, and their broad geographical coverage. In 2019, 81 percent of visitors chose local operators.⁶ It is expected that by 2025, local theme parks will serve around 70 to 75 percent of visitors.⁷

Trends affecting China's theme parks

With a growing and increasingly urban middle class, theme parks will likely have a bright future. Operators can consider the following three trends that are shaping visitor expectations:

New experiences can draw repeat customers

During COVID-19, trips around hometown cities became the first choice for leisure travel. A McKinsey survey of Chinese tourist attitudes revealed that nearly half of consumers said their first choice for travel would be a short trip to a new destination. And over 80 percent of consumers said they preferred short breaks of one or two nights.⁸

Operators can stay relevant by updating their offering regularly, and integrating entertainment and events, to provide repeat visitors with new experiences. For instance, the Disney characters dressed in traditional Chinese Hanfu attire to celebrate the Spring Festival in Shanghai soon captured visitors' attention and became a trending topic on social media, gaining over 20 million views on TikTok. And when Chengdu Happy Valley launched its Dunhuang-themed event, cosplayers and influencers arrived in Bodhisattva and Feitian costumes, creating a hype on social media with over 1.5 million views on TikTok.

Digitization enhances theme park experiences

Consumers are increasingly looking for interactive and immersive storytelling experiences, not just rides. Operators are now introducing wearable devices and augmented reality (AR) or virtual reality (VR) technology to elevate the in-park experience. Super Nintendo World at Universal Studios in Japan allows guests to play video games in real life, throughout the park. Players wear tracking devices and collect coins with interactive coin blocks and mini-games throughout the area, and can check their real-time ranking via mobile app.⁹

Social media experiences promote engagement

There is rising interest in experiences that are tailored to social media, making it easy for visitors to post their experiences online. And consumers are inspired by the influencers they follow to travel or visit attractions. COVID-19 pushed people to spend more time online—now short-form videos and livestreaming have become the top online entertainment options. These categories have seen exponential growth, and in the first half of 2022 short videos accounted for 30 percent of mobile internet use time in China.¹⁰

As a result, theme park operators are doubling down on social content. When Disneyland Shanghai premiered LinaBell through a promotional video and influencer/celebrity endorsements, the character quickly became ubiquitous online. LinaBell-related hashtags gathered an estimated 940 million views on Weibo and 200 million views on Tiktok, drawing visitors to the park.¹¹

⁴ Based on Canback Global Income Distribution Database (C-GIDD) population data, and theme park visitor numbers.

⁵ McKinsey analysis based on macroeconomic indicators sourced from CEIC, and The World Bank.

⁶ Based on AECOM theme park visitor numbers and company annual reports.

⁷ McKinsey analysis based on expert interviews, and company annual reports.

⁸ "Outlook for China tourism in 2022: Trends to watch in uncertain times," McKinsey, February 22, 2022.

⁹ Daniel Robson, "8 ways your visit to Super Nintendo World will be gamified," IGN, October 6, 2021

¹⁰ "In the first half of the year, the number of mobile netizens increased, and short videos accounted for nearly 30% of the total time spent online," *Chinadaily.com*, 27 July 2022.

¹¹ Weibo and Tiktok view count.

2. Developing greenfield theme parks



While new theme park developments, or greenfield projects, provide an opportunity to introduce something original to the market, they are capital intensive and require at least five years from initial planning to launch, but often longer.¹² To help ensure their success, greenfield developments should have a strong brand identity or IP, a unique product concept based on consumer insight, and use innovative technology so that the park retains its “wow factor.”

Build a strong identity based on IP

Strong brands with associated IP are critical to theme park success, helping to attract visitors and engage consumers, even when they are not on site. Global brands have invested heavily in IP, often over many years—and such success may be difficult to emulate. Operators looking to build IP could take a partnership approach, with the IP owner supervising development during the conceptual design phase and staying involved until construction is complete, so that the end product aligns with the overall storyline. Examples of IP-related partnerships include Haichang Ocean Park in Shanghai adding an Ultraman-themed pavilion to its offering—the first of its kind—including a theatre, restaurant, and entertainment center with interactive facilities.¹³ Global examples include Universal’s Wizarding World of Harry Potter in Orlando, and Pandora-The World of Avatar at Disney’s Animal Kingdom.

For operators without their own IP, the brand itself can become a key element in building a strong identity. For example, Chimelong built nation-wide brand awareness with its Guangdong theme park complex that includes unique product offerings such as a wild animal park, amusement park, water park, ocean park, and circuses.

Provide a unique product concept, with the consumer in mind

New concepts should incorporate consumers’ insights and perspectives to ensure that the end product provides a unique experience that consumers want. Leading operators have incorporated consumer perspectives early on, for instance by drawing on a design-thinking process or running “innovation garage” initiatives to test new concepts with consumers, and adjust and optimize the product design accordingly.

Think two steps ahead

Rides and experiences need to retain a wow factor even after a five-year design phase. Keeping abreast of the latest technological developments is key to ensuring that the visitor experience will be exciting, easy to navigate, and on trend.

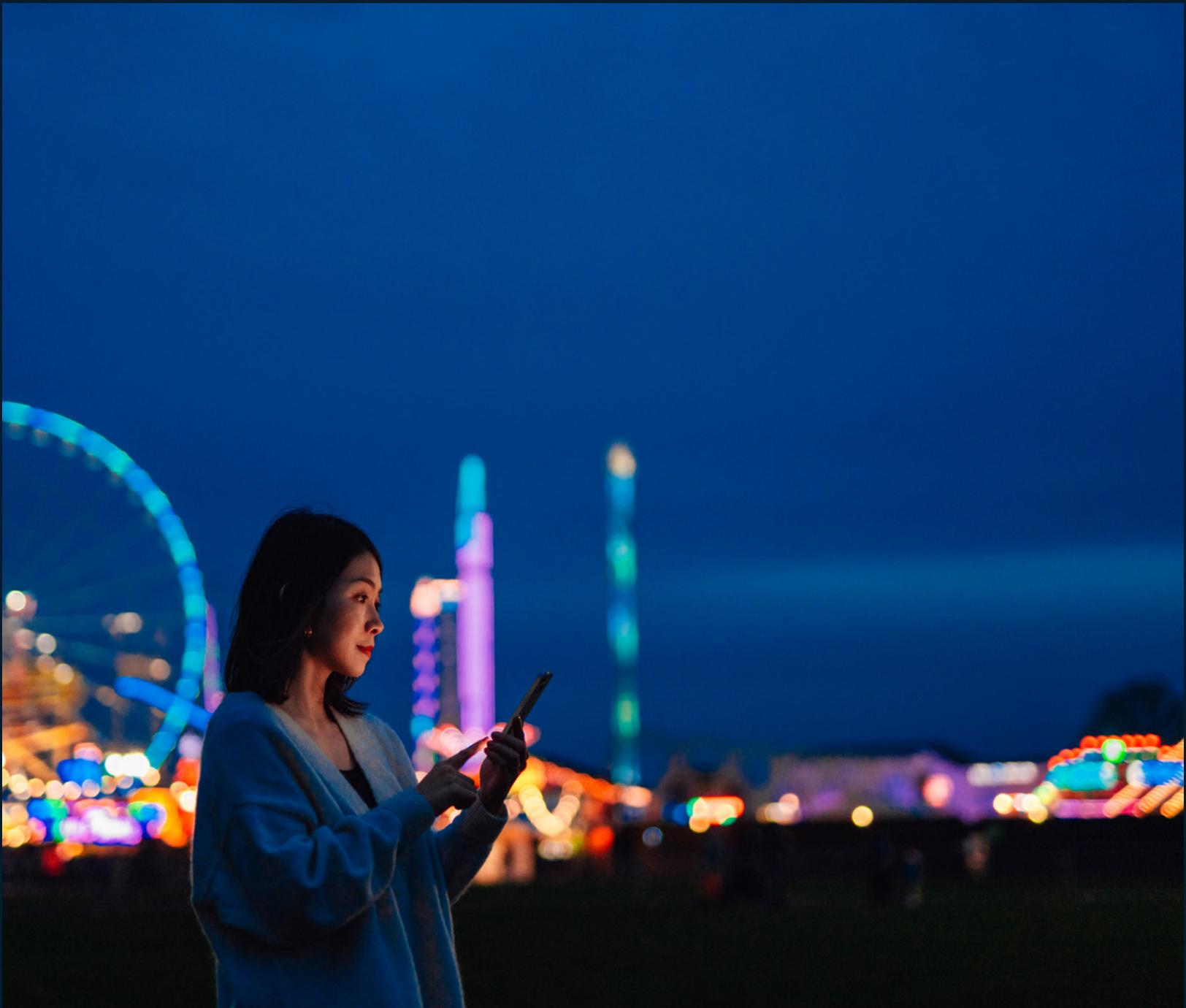
Current examples of these developments include VR/AR devices, and radio-frequency identification (RFID) systems which can be used to create immersive experiences and ensure a seamless customer journey. For example, Universal Studios’ Super Nintendo World features a Mario Kart-themed ride including AR headsets for an immersive experience. And other operators are creating customized solutions for visitor identification, including wearable devices and mobile apps, for a ticketless experience.

Given the capital-intensive nature of such projects, operators can prepare for the launch of a new theme park by building in a buffer “warm-up” period of between 12 and 24 months. During this period, operators can build momentum through marketing activities, raise awareness of the opening, and begin to build their consumer base.

¹² One leading park took almost 20 years from initial planning to opening; the average of five years is based on McKinsey discussions with industry experts.

¹³ “An Ultraman universe opens at Shanghai Haichang Ocean Park,” Shanghai Municipal Administration of Culture and Tourism, July 25, 2022.

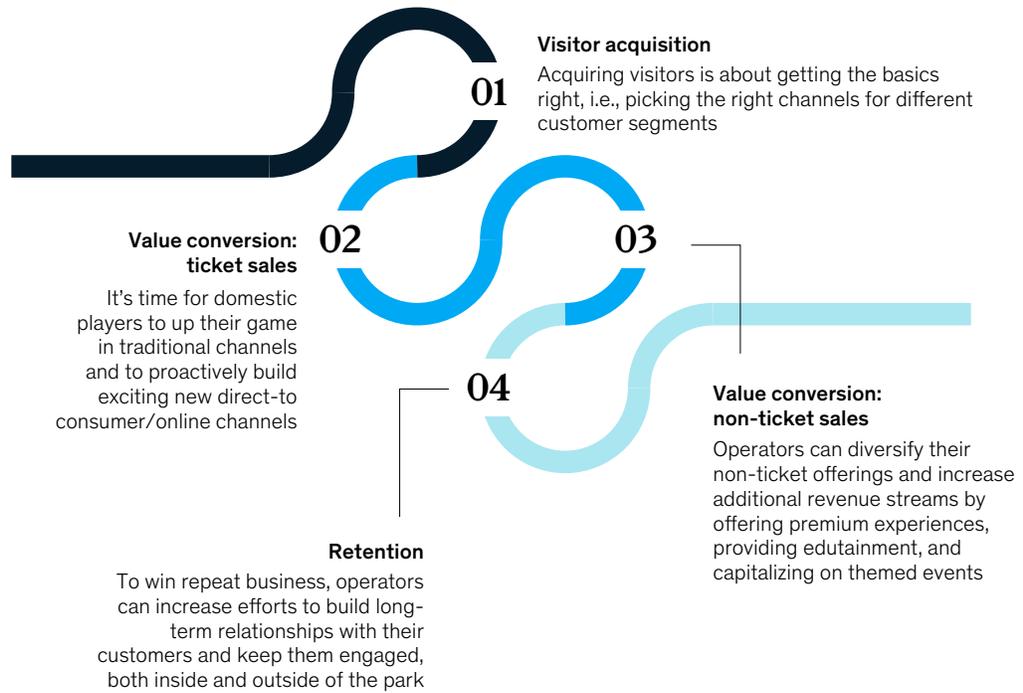
3. Elevating brownfield theme parks



For operators looking to elevate established parks, or brownfield developments, it's critical to understand value-creation across the customer journey: visitor acquisition, value conversion (including ticket sales, and non-ticket sales), and customer retention (exhibit).

Exhibit

Creating value across four phases on the customer journey.



Visitor acquisition: Getting the basics right

Local operators often invest in one-size-fits-all mass marketing campaigns through traditional and offline media such as TV, newspapers, and outdoor advertising—but McKinsey research indicates that more than 70 percent of customers find out about certain theme parks online. With consumers spending almost half of their screentime on short videos and social media, operators can invest in online presence—and use customer insights to tailor messages to different segments and personas.

For instance, Disneyland targets young visitors on the social media app Red by partnering with influencers who have large followings of their own. In January and February 2022, Disneyland was the top-seeded brand on Red, with 20,000 posts and more than six million interactions. Universal Studios Beijing created excitement with its giant Transformer who greeted visitors at the park. Videos of customers chatting to the Transformer soon went viral and became a favorite on social media.¹⁴ Operators could also draw inspiration from the tourism industry where online travel agencies successfully promote travel destinations via live

¹⁴ Ji Yuqiao "Universal Studios' Beijing's 'employee' Megatron becomes favorite on Chinese social media," Global Times, September 15, 2021.

streaming. The industry partners with internet personalities, such as Ding Zhen, to promote interest in specific destinations.¹⁵

Operators could stimulate demand by promoting holidays or events that fall outside peak periods and by creating themed events, often with local interest. When organizing new events, operators can evaluate the return on investment and use data to plan, monitor and direct marketing budgets accordingly—beyond planning an event based on experience alone.

In addition, operators can look for ways to collaborate with partners, across industries, to reach new customers. For example, Universal Studios Beijing leveraged Tencent's Honor of Kings mobile game to attract gamers by holding themed events at the park.¹⁶ And Chimelong is sponsoring the Chinese Basketball Association games and will support children's basketball training, bringing in a new visitor segment.¹⁷

Value conversion: Growing ticket sales

Take a tailored approach to travel-agency management: Travel agencies accounted for around 45 percent of Chinese tourism bookings in 2019.¹⁸ This offline channel still plays an important role in smoothing out the seasonality of customer traffic, for instance by arranging group visits in off-peak periods. Theme parks may be able to manage travel agency sales in a more efficient manner. Instead of relying on the traditional commission model, operators could categorize agencies into various levels—for instance according to sales volumes and growth, strategic fit, target segments, and geographic coverage—and regularly review their performance. They could then apply a tailored incentive policy for each category and provide appropriate sales support including customized packages and sales training to maximize sales in each category. To be successful, operators could use data to help define sales-growth priorities and find the right agency partners.

Collaborate with online travel agencies (OTAs): OTAs made up around 30 percent of Chinese tourism bookings in 2019.¹⁹ Local online shopping channels and apps such as Meituan are gaining traction too. Theme parks can partner to better leverage online platforms' capabilities in planning and executing marketing campaigns. For example, Happy Valley Beijing partnered with Meituan to launch a themed event, pre-COVID-19, in which Meituan helped with IP selection, coordinated the IP partners, and supported the event planning, promotion, and ticket sales.²⁰ In another example, the tourist attraction Xi'an City Wall partnered with Ctrip to coordinate an event in 2021.

Leverage direct channels: Direct-to-consumer channels currently account for less than 30 percent of total market revenues.²¹ Although use of direct channels is on the rise, they have generally been underutilized by park operators, when compared to other industries such as retail. Many direct channels offer sophisticated features, for example WeChat's mini-programs and WeCom functions, which could be more effective than operators' official brand websites and mobile apps.²²

¹⁵ "Ding Zhen's World" by Timeisland on YouTube, December 6, 2020; "Smile of the Plateau makes Ding Zhen new icon of Sichuan and Tibet," *China Daily*, November 30, 2020.

¹⁶ Cecil Gao, "Honor of Kings held heroes live event at Universal Studios Beijing," Superpixel, April 11, 2022.

¹⁷ "The first CBA championship parade was held in Guangzhou, Chimelong CBA jointly created a 'tourism + sports' ceremony," Sina Guangdong, October 12, 2020.

¹⁸ Phocuswright data.

¹⁹ Ibid.

²⁰ "Beijing Happy Valley 2018 Carnival kicks off," *China News*, July 02, 2018.

²¹ Phocuswright data.

²² McKinsey analysis based on experience in direct-to-consumer channels in China, and expert interviews.

Value conversion: Boosting incremental revenue

Industry leaders derive between 30 and 40 percent of their total income from non-ticket revenue, excluding accommodation, while for local operators this figure is usually less than 20 percent.²³ Three potential opportunities exist to increase incremental revenues.

Develop premium experiences: VIP tours and experiences, such as backstage passes, fast passes, and exclusive services appeal to a premium audience willing to pay for greater convenience and personalized experiences. These services are popular in mature markets such as the United States and usually have a high margin. For example, the “Exclusive VIP Experience” at the San Diego Zoo costs \$675 per person while the Zoo’s other experience packages range in price from \$55 to \$92 per person.²⁴

Provide edutainment: Operators could provide tailored offerings for families designed around educating and entertaining children, as parents often value education-oriented activities. Such offerings are relatively new in the market. For example, Lotte’s Little Socium in Shanghai is an educational play area featuring themed areas such as an airline, veterinary clinic, and police station that allow children to experience a variety of occupations.²⁵

Celebrate festivals and holidays: Seasonal and special occasions such as Halloween, Thanksgiving, Christmas, and Chinese New Year allow for specially designed dining options, costume offerings, and limited-edition holiday merchandise.

Retention: Building long-term relationships

To help ensure customers return, operators can increase efforts to build long-term relationships with their customers and keep them engaged, both inside and outside of the park. Brand touch points outside the park help to boost engagement and keep the brand top of mind. For instance, Universal Studios partnered with Nintendo to provide a wearable power-up band to park visitors. The band is more than just an in-park accessory, it is a Nintendo amiibo with game characters which can be connected to Nintendo consoles for at-home use. This extends the park experience.²⁶

Annual passes are popular, but may be a double-edged sword as they have the potential to cannibalize sales of standard tickets. One way around this dilemma is to create a tiered annual pass that meets different needs. For instance, a weekday pass can cater for visitors with more flexible schedules who prefer to avoid crowds. Passholder benefits such as value-added services, and hotel and dining discounts can also enhance perceived value. Operators could use data when designing such passes, to help avoid cannibalization and provide value to customers.

Over and above visitor acquisition, value conversion, and retention, park operators need to continue to provide a seamless and enjoyable visitor journey. This requires multiple forms of operational support including optimized staffing, utilities and sustainability management, as well as use of predictive maintenance to keep the park running smoothly. These issues are not covered in this report, but will be covered in forthcoming publications.

²³ Expert interviews and company annual reports.

²⁴ San Diego Zoo website, accessed July 2022.

²⁵ Little Socium, Trip.com.

²⁶ “How Universal Studios’ Super Nintendo World interacts with your Switch,” Gamespot, March 17, 2021.

Conclusion

As China's theme parks enter a new era, operators might consider examining their fundamental product offerings and look beyond the traditional on-site experience to engage new visitors and build lasting relationships with existing customers.

Despite the potential for market growth, the environment will remain competitive. Strong and unique products, and commercial and operational excellence, will be needed as consumers' entertainment options expand. To succeed, theme parks may need to excel in both greenfield and brownfield opportunities.

Those preparing or considering new parks may need to plan ahead to ensure their tech-enabled products will continue to impress for years into the future. They may also consider budgeting for a launch phase to build awareness before the opening date, as well as for periodic upgrades to maintain or improve their facilities. Operators with existing parks could continue to elevate the experience and build value across all areas of the customer journey.

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