The ‘Cruise Apple’
Cruise Travel – Which Challenges Lie Ahead?

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Beyond the question of cruise sector growth duration... to its ‘Stretchmarks’

Cruise Sector evolving, with increasing...
- Passenger numbers
- Variety of offerings
- Fleets & capacities
- Size of Vessels
- Importance for tourism (source markets & destinations)
- Presence in the media

Cruise Sector evolving, with increasing...
- Cost pressures
- Competition
- Scrutiny from critics

"Maturity Stretchmarks"
... We talked about:

- Environmental Responsibility (‘Clean Ships’?)
- Sustainability of Growth (Pax Growth indefinite?)

Since then...

- The question of ‘responsibility’ has ‘stretched’ to other areas:
  - Safety (Concordia Accident)
  - Social responsibility (Employment conditions)
  - Economic responsibility (Taxation, profitability, contribution to local economies)

What does this mean for successfully selling the “Cruise Apple”?  

- Sector public image and reputation management
- Sustainable quality of service
Larger vessels mean more opportunities to capture a larger share of cruiser wallet...!?
Cruise sector profitability...

The Wall Street Journal

Carnival Profit Slips, Hurt by Lower Cruise Prices

By TESS SINNERS

Carnival Corp’s 3Q earnings slipped as the world’s largest cruise operator’s cost controls and lower fuel consumption helped offset lower ticket prices.

For the current fiscal quarter, forecast per-share earnings of seven cents to 11 cents below recent estimates of analysts polled by Thomson Reuters, who expected 16 cents a share.

The company, which runs cruise lines such as Holland America, Cunard and Carnival, has reported stronger booking volumes as it gradually recovers from negative publicity following the shipwreck of its Costa Concordia off the coast of Italy in January.

For the fiscal year, Carnival narrowed its per-share earnings estimate to between $1.83 and $1.87 from its prior estimate of between $1.80 and $1.90. The company said improved yield expectations and costs were offset by unfavorable changes in fuel prices and currency exchange rates.

On the plus side, Carnival now expects net-revenue yields will be flat to down slightly for the year, excluding the impact of the Costa Concordia incident. Including costs, it forecast a decline of 3%. Carnival previously estimated that net-revenue yields would decline 2 to 4%, but on Tuesday said they would fall slightly, excluding its Costa Concordia business.

Net-revenue yields are a key cruise-industry indicator that measures revenues in constant dollars. For Carnival, Costa and Princess, it’s calculated in a similar way.

Cruise ships sail with cash, bling

CBC News

Cruise ship leaves 7:25

Two large cruise ships were in port in St. John’s Harbour on Saturday, bringing in more than 5,000 passengers and at least 1,200 crew members.

The Emerald Princess made an unexpected stop in the harbour, after bad weather forced the vessel to cancel a visit to Greenland.

The ship was carrying over 3,000 passengers and 1,200 crew.

Meanwhile, the Artania was also in port, carrying close to 2,000 people on a tour of the Atlantic provinces.

The city estimates each person who comes in generates $100 of income.

“My site is doing the retail therapy and supporting your economy.”

The Emerald Princess is 20 stories high.
Balance Sheet Analyses (RCL & Carnival) 2007*

Dependence on Onboard Revenue

Ticket Revenue
Other operating
Commissions/transport
Marketing
Payroll
Depreciation
Food
Onboard Revenue
Onboard expenses
EBIT

Billions of US$ (nominal)

100% -31%
-20%
-16%
-14%
-11%
-8%
+33%
-5%
28%

Ticket Revenue
Other operating
Commissions/transport
Marketing
Payroll
Depreciation
Food
Onboard Revenue
Onboard expenses
EBIT

Billions of US$ (nominal)

100% -35%
-25%
-18%
-13%
-11%
-7%
+39%
-9%
20%


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Balance Sheet Analyses (RCL & Carnival) 2011*

Dependence on Onboard Revenue

Revenue per PCD (real US$) -2.2% p.a.
-20%

Passenger cruise days (PCD) +13.1% p.a.

Revenue per PCD (real US$) -1.8% p.a.
-17%

Passenger cruise days (PCD) +8.5% p.a.


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Balance Sheet Analyses (RCL & Carnival) 2011*
Cost-Saving Pressures?!

Costs per PCD 2001 vs. 2011 excluding cost of onboard sales

Profit margins have decreased by approx. 4% over the last decade and are following a downward trend.
Cruise Contribution to Local Communities?

Cruisers may spend an average of 70 Euros at the ports of call. Question is if the money spent at port covers the indirect costs and if it goes into the wallet of the locals.
The Cruise Economy 2012:
*Direct Economic Impact of Cruise Tourism in Europe*

**Cruise Line Purchases in Europe (€6.4 Billion)**
- Business Services: 21%
- Transport: 22%
- F&B: 9%
- Petrochemicals: 13%
- Manufacturing: 24%
- Other: 11%

**Cruise Line Purchases (42%)**
- Shipbuilding: 26%
- Manufacturing: 24%
- F&B: 9%
- Petrochemicals: 13%
- Other: 11%

**Pax & Crew Spending Breakdown (€3.4 Billion)**
- Visit Spending (Shopping, F&B, Tours): 50%
- Pax & Crew Spending: 47%
- Crew Spending: 3%
- Embarkation Spending (mainly airfares): 47%

**Cruise Employee Compensation Shares (€1.3 Billion)**
- Italy: 35%
- Germany: 8%
- Norway: 6%
- Spain: 2%
- Portugal: 2%
- Rest: 5%

**Shipbuilding Expenditures In Europe (€3.8 Billion)**
- Italy: 32%
- Germany: 35%
- France: 17%
- Finland: 13%

**Base data:** European Cruise Council (2012: Online)

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Cruise Income is primarily created by production at the source markets; not by consumption at the ports!
Cruises are generally and comparatively (to other holiday forms) safe. Although there are several incidents at sea every year, the amount of injuries and death are relatively low...

... But the question is not whether cruises are safe or not! It about how can they become even safer?
Cruises & Safety Perceptions
Do Cruisers feel able to deal with an onboard emergency?

Information / Education
Confidence / Experience

54% of respondents view safety as their own responsibility especially when travelling with their family?

53% of respondents do not trust (or cannot assess) the crew’s ability to deal with an emergency... Staff perceived as highly motivated and willing to help, but less highly as able to provide information and communicate emergency info...

Safety is a state and not a Procedure... dependent on the attitudes and abilities of the people on board!
Perhaps, maybe for a number of crew, the wages and life on board are better than at home... But are they fair? For how long? With what implications?
Cruise Employment
"24/7 for 500 Dollars a month!?”

Costs of getting a Cruise Job*
Applicants from poor countries (Philippines, Indonesia, India)
Between $1500-2000 to get the job
Job start with a credit
Money sent home = $300 / month (7 months’ work + 2-3 months’ lay-off)

Indicative Wage levels**
F&B: Low paid, non-customer facing staff = $350-500 / month
Housekeeping: Low paid, non-customer facing staff = $600-800 / month
Cruise staff: Staff organising activities for passengers = $1800-2100 / month

Working Conditions:
Long-working hours
• ... But tax free income!?
Private quarters & crew facilities – quality of life
• ... But no extra living costs (accomm & catering)
Long absence from family & friends

“Our vision is to **empower and enable our Employees** To deliver the best vacation experience for our Guest, thereby generating **superior returns for our Shareholders** and enhancing the **well-being of our Communities**.”

“We recognize that our success is tied to **protecting the environment**, safeguarding and developing **our workforce**, strengthening stakeholder relationships, **enhancing the port communities** that we visit and maintaining **our fiscal strength**. We also recognize that, in today’s business climate, the viability of our business as well as our **reputation** depends on being more sustainable and transparent.”
The age of digital transparency has arrived... What happens at sea does not stay at sea anymore!
Information Management in a Wider Context
“Cruise Leaks” – Big Brother is being watched!

Critics & Interest Groups
- Tax avoidance – Flags of convenience
- Environmental Externalities (Friends of the Earth Scorecard)

Suppliers
- Economic Impacts at Source Markets
- Destination limitations (Seasonal, infrastructural)

Investors
- Pax Numbers vs. Profitability
- Risk of over-capacities
- Critical profitability dependencies (Regulatory environment and fuel prices)

Customers
- Mass Cruising
- Overcrowding
- Safety
- Criminality on board (Balancing security with recreation)

Employees
- Image issue ('Sweatships')
- Intl Transport Workers’ Federation (ITF)
- International Labour Organisation (ILO)
- Crew living & employment conditions

Competitors
- Fusion packaged tourism – cruise tourism (extended competitive scope)
- New players
Traditional Onboard Practices & Communication Policies and Platforms need to be revised

Celebrity Cruises saddened over 'biased' documentary

Celebrity Cruises has said it is saddened by the imminent airing of a Channel 4 programme about the cruise industry which it fears will be "biased and unbalanced".

Channel 4's investigative programme Dispatches sent an undercover reporter on board a Celebrity Cruises ship to conduct an expose on the cruise industry.

The documentary, due to air on Monday, has been described by the makers as a look at the "reality of life below deck for the multinational workforce who toil behind the scenes of glamorous ocean-going holidays."

Dispatches reporter Tazeen Ahmad travelled as a passenger on a cruise ship, and also went undercover working as an assistant waiter to "discover working conditions below the legal minimum in the UK."

Jo Rzymowska, associate vice-president and general manager for Celebrity, told Travel Weekly the cruise line had taken "immediate steps" to investigate the claims made by the undercover reporter.

"On Thursday, September 20, we were informed by producers for Channel 4 Dispatches that covert and unauthorized filming took place on Celebrity Eclipse by one of their reporters who was hired as an assistant waiter," she said.

"Sadly, we are anticipating a biased and unbalanced programme about the labour and wage issues in the cruise industry – with Celebrity Eclipse as the show's primary example."

Rzymowska added: "We are committed to our employees, both shipboard and shoreside. Celebrity Cruises has taken immediate steps to investigate all of the allegations made by the undercover reporter to determine their basis and validity."

"If we discover that anyone within the company, or at the hiring and placement agencies we work with, violated our procedures and requirements, we will take swift and corrective actions."
Some Recommendations...

“Inform and Communicate” vs. “Promote and Advocate”

“Actions speak more than Statements and Reports”

• ‘Acting responsibly’ is not the same as ‘Responsible action’

“Internalise the notion of a ‘Chinese Contract’”

• Aim for win-win agreements with stakeholders (Destinations, retail partners, special interest groups)

“If you trust your offering, trust the judgement of your customers”

• Customers are increasingly experienced, well-informed and media-competent. They are sophisticated with filtering information, can relativise public criticism and media-shows

“Utilise sector critics... It is quality control for free.”

• Criticism is not to be silenced or debated against
• Criticism is to be explored, understood and reacted upon
• Frequently, dealing with the criticism is more cost-effective than dealing with the critic

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Reputation is about ‘meaning what you say’ and ‘saying what you mean’!
An ‘Apple’ cannot stay indefinitely fresh...

... But a ‘ripe apple’ can be a business success!

... Nobody expects it to either! Selling it as such raises **concerns and suspicion**.

Perhaps a ‘ripe apple’ is attractive not due to its appearance, but due to its **consumption value** (e.g. best for apple pie) and **reputation** (e.g. organic).

For the maturing cruise sector, the greatest challenge ahead lies with **socio-economic responsibility** and **action-focused reputation management**.
Thank You for your Attention

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