Prof. Dr. Dr. Alexis Papathanassis

THE BUSINESS CYCLE IN THE CRUISE INDUSTRY: A Short Cruise across the Blue Ocean
A Short History of Cruising

A History of Crisis and Technology-enabled Transformation

1960-70s: Crisis in passenger shipping
- Early 20th Century, mainly focused on Transatlantic crossings
- Crisis through the commercialisation of jet-engine flight transportation

1980s: Transformation of a cruiseline voyage to a cruise holiday
- Amenities and facilities on board
- Increasing vessel size – floating resorts, enabled by ship-building technological advances

1990s: Capacity investments and modernisation
- New-builds and capacity investments
- Gradual reduction of prices / ‘democratisation of cruising’

2000s: Consolidation
- Horizontal M&A resulting to high concentration

2010-Today: Crisis in Cruise Tourism’s Supply Chain
- Maturity in main source markets
- Sustainability-, Health and Safety Regulations
- Overcrowding / Port infrastructure / Destination Carrying Capacities

Symphony of the Seas (Royal Caribbean Intl.) = 228,021 GRT

Titanic (White Star Line) = 46,328 GRT

Number of operational Cruise Vessels

Cruise Sector Development Blueprint
‘Rather Sail than Swim’ – Aggressive Blue Ocean Strategy

- Key Characteristics:
  - Strategic Paradigm:
    - Supply-Driven Growth
  - Key Drivers:
    - Capacity Utilisation
    - ‘Share of Wallet’ Maximisation
  - Key Enabler: Technology
  - Competitive Stance:
    - Horizontal Concentration (Market Power)
    - Vertical Competition (Revenue Maximisation)
  - Transformation Trigger:
    - Supply-Chain Challenges

“It is more imperative than ever for companies to move from red oceans of bloody competition to blue oceans of profitable growth..”

Demand and Cruise Passenger Development

Maturity in the Main European Markets

% Change YoY Passenger Growth

* Data Source: CLIA Europe Economic Impact Reports 2012-2018
The Asian ‘Blue Ocean’
Current Size Comparable to Europe… Potential also?

“Our study shows that blue ocean strategy is particularly needed when supply exceeds demand in a market. This situation is applying to more and more industries today and will be even more prevalent in the future.”


- Cruise Market Potential: Approx. 400 Million middle-class Chinese
- Cruise Deployment: 4.9% Share of Capacity (Europe w/o Med = 11.1%)*
- Cruise Market Penetration: 0.06% (2.4 Million Chinese Pax in 2017)**


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From ‘Cruise Holidays’ to ‘Floating Resorts’
Transformation driven by On-board Revenue and Scale Economies

Average Cruiser Financial Breakdown 2013-2018

<table>
<thead>
<tr>
<th>Year</th>
<th>EXPENSES</th>
<th>REVENUE</th>
<th>Profit Margin</th>
<th>Total Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>1.161 €</td>
<td>986 €</td>
<td>10%</td>
<td>1293 €</td>
</tr>
<tr>
<td>2015</td>
<td>1.429 €</td>
<td>1.242 €</td>
<td>12.7%</td>
<td>1637 €</td>
</tr>
<tr>
<td>2018</td>
<td>1.390 €</td>
<td>1.151 €</td>
<td>12.7%</td>
<td>1595 €</td>
</tr>
</tbody>
</table>

- **Ticket Revenue**: €175, €187, €239
- **OnBoard Revenue**: €307, €395, €444
- **Profit before Tax**: €129, €208, €202
Capacity and Technology Investments – B2B Focus

Cruise Tourism Direct Economic Impacts on European Economies (2011-2017)

- Pax & Crew Purchases: 23%
- Cruise Line Purchases: 42%
- Cruise Employee Compensation: 9%
- Shipbuilding: 26%

R² = 0.9927

- Embarkation Spending (mainly airfares): 46%
- Visit Spending (Shopping, F&B, Tours): 50%
- Crew Spending: 4%

- Other: 16%
- Italy: 29%
- Finland: 8%
- France: 12%
- Germany: 35%
- Other: 14%

- Business Services: 20%
- Transport: 23%
- Petrochemicals: 13%
- Manufacturing: 20%
- F&B: 10%

* Data Source: CLIA Europe Economic Impact Reports 2012-2017
Technology-enabled Modernisation – ‘Smartness’

‘Smartness’ equals more capacity for the same size


http://media.royalcaribbean.com/content/shared_assets/images/fleet/cabin_type/gallery_main/QN_studio_interior_305x202.jpg

http://www.royalcaribbeanblog.com/2014/10/05/99-days-of-quantum-royal-iq/

“A blue ocean strategy brings with it considerable barriers to imitation.”

Concentration and Consolidation
Ship-Building Restrictions and Barriers to Entry

Anderson (2009): Effect of 'Connecting Supply & Demand = Driving tail towards niches

TAIL: Rest 46 Tour Operators = 37% of Market Share

Anderson (2009): Effect of 'Democratization of Production' = Tail becomes longer

Anderson (2009): Effect of 'Democratisation of Distribution' = Tail becomes thicker

Top 5 Cruise Operators / Brands = 63% of Market Share

Concentration Implications
*Cruise Business ‘Oligarchy’ and Ports*

The ‘Cruise Tail’ will become:

• ‘Shorter’ (Dictatorship of Production):
  • *Mega-Smart Ships* (Technology and Ship-building Barriers)
  • ‘Shake out’ of SME Cruise Operators (‘differentiate or die’)
  • ‘Thicker’ (Democratisation of Distribution):
    • *ICT-enabling of distribution and reduction of capacity risk* (for large vessels)
    • *Upward Vertical Integration* (esp. Online Retail) – To capture market share
    • *Downward Vertical Competition* (esp. Ports) – To maximise ‘share of wallet’ / Onboard revenue

For Ports this means:

• Increased M&A and PPP activity at the destination-level
• Increased cruise passenger volumes (plus externalities) for ‘primary ports’
• Decreased cruise passenger volumes and increased competition for ‘secondary ports’
Strategic Implications for Ports and Cruise Regions

Making Red Oceans Blue...

“Many industries are suffering from hastened commoditization of products and services, intensified price wars and contracting markets. Competing head-on in these markets results in nothing but a bloody ‘red ocean’ of rivals fighting over a shrinking profit pool.”


- Shift from Cruise Destination MARKETING to Cruise Destination MANAGEMENT
- Shift from Cruise Region PROMOTION to Cruise Region STRATEGY
- Seamless Land-Sea SMARTNESS (Digital Holiday Experience)
- Tourism PORTFolio Management (Integration of Cruise Tourism in the overall tourism strategy)
- Beyond short-term economic and political opportunism... Towards long-term value-creation through Public-Private-Partnerships and Profit-Sharing
Research Metrics:
- H-Index: 12
- 115 Publications
- 930 Citations
- 25357 Downloads

Review Activity:
- Editorial Board member of the ‘Tourism Review’

Prizes and Distinctions:
- Paper in the Top 10 Most-Cited in Tourism Management (2016)
- Emerald Literati Prize (2018)
- Web-of-Science Top Peer Reviewer (2019)