

The 'Cruise - Cake Cherry Dilemma': Cruise Development and Tourism Destinations



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Cruise Research Society



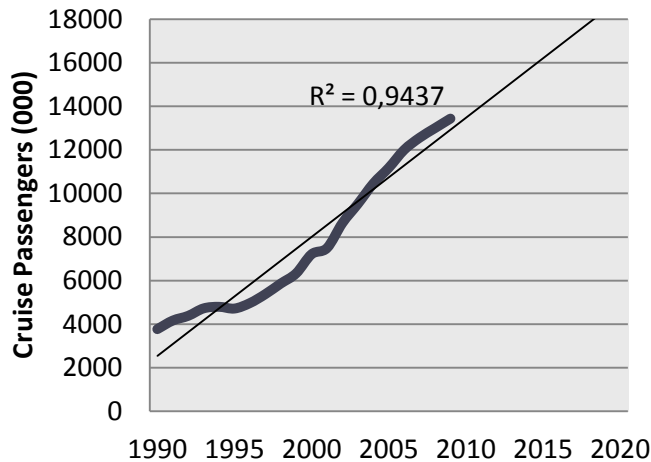
KEY TRENDS: GROWTH

“Cakes are tasty and increasingly more people enjoy them”

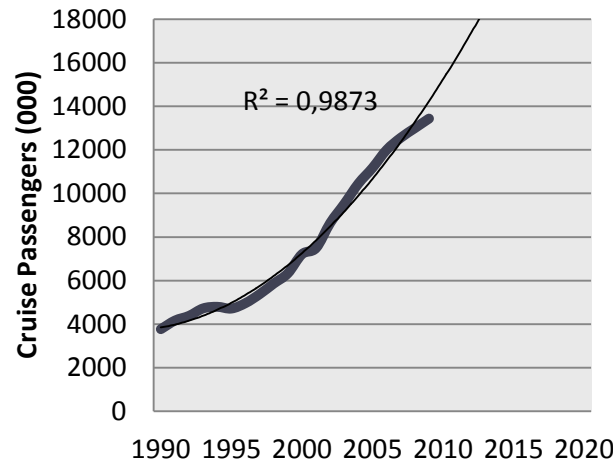
*Cruise market is growing
by approx. 10% a year over
the last decade... that is
passengers!*

A Critical View on Growth: Extrapolation of Historical Data

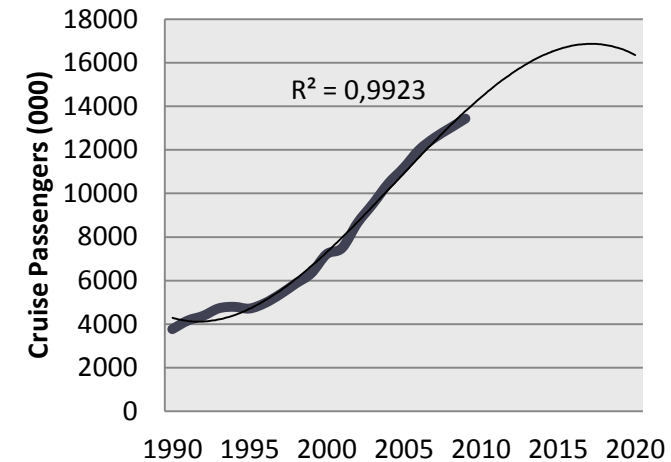
Linear Extrapolation



Quadratic Extrapolation



Cubic Extrapolation (S-Shaped Curve)



- ▶ Least data fit ($R^2 = 94\%$)
- ▶ 30 Million Pax by 2041
- ▶ Indefinite growth assumption

- ▶ Second best data fit ($R^2 = 98\%$)
- ▶ 69 Million Pax by 2041
- ▶ Indefinite growth assumption

- ▶ Best data fit ($R^2 = 99\%$)
- ▶ Compatible with the Product Life Cycle concept
 - ▶ Historically applicable for tourist destinations (Butler 1980, 2006) and
 - ▶ Tourism segments (Zimmermann 1997)

Forecast Implications?

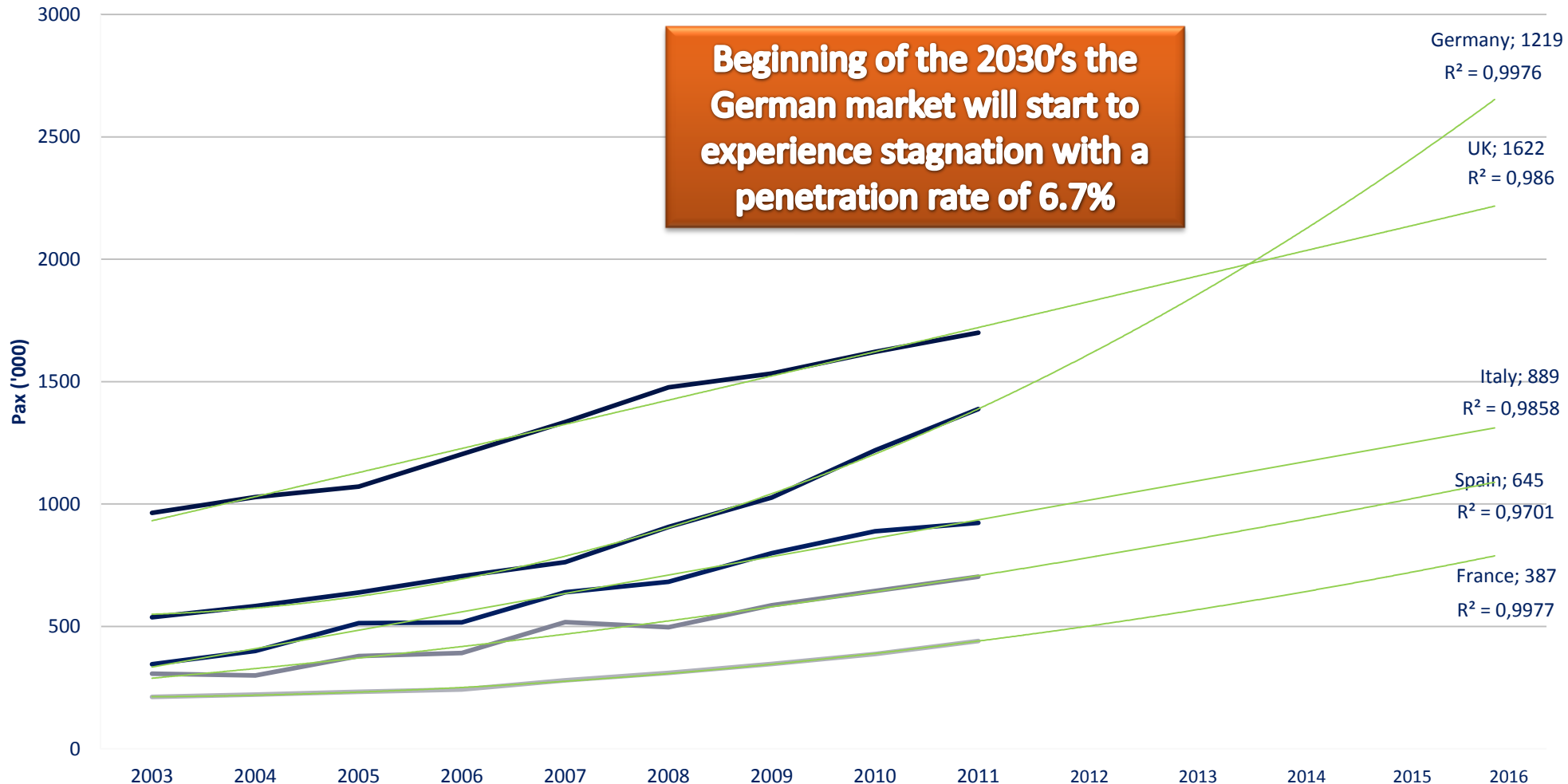
Weak signals (e.g. ticket price reductions; mega-ships / onboard revenue)

Validity of forecasting demand on the basis of supply

European Cruise Pax Development & Forecast

The EU Market is promising... Germany expected to be the leading EU source market by 2014

European Pax Development



Growth is neither indefinite nor
universal. And **passenger**
growth does not necessarily mean
financial success?

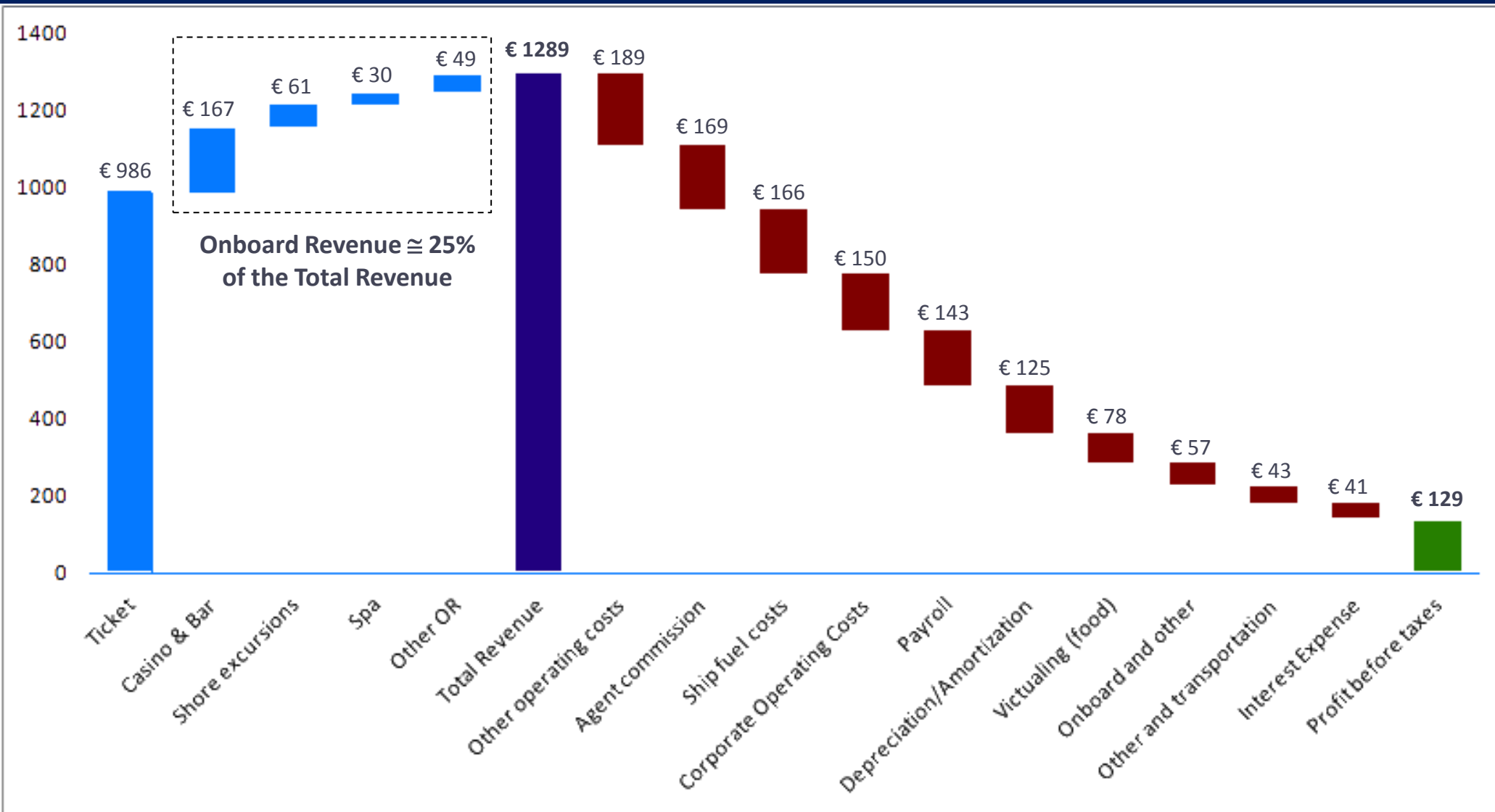
*“Just because everyone enjoys a cake, does not
mean that they will eat it all the time... and not
every baker is rich!”*

KEY TRENDS: ONBOARD REVENUE

“It is not just about selling cakes... It is also about bringing customers to the bakery”

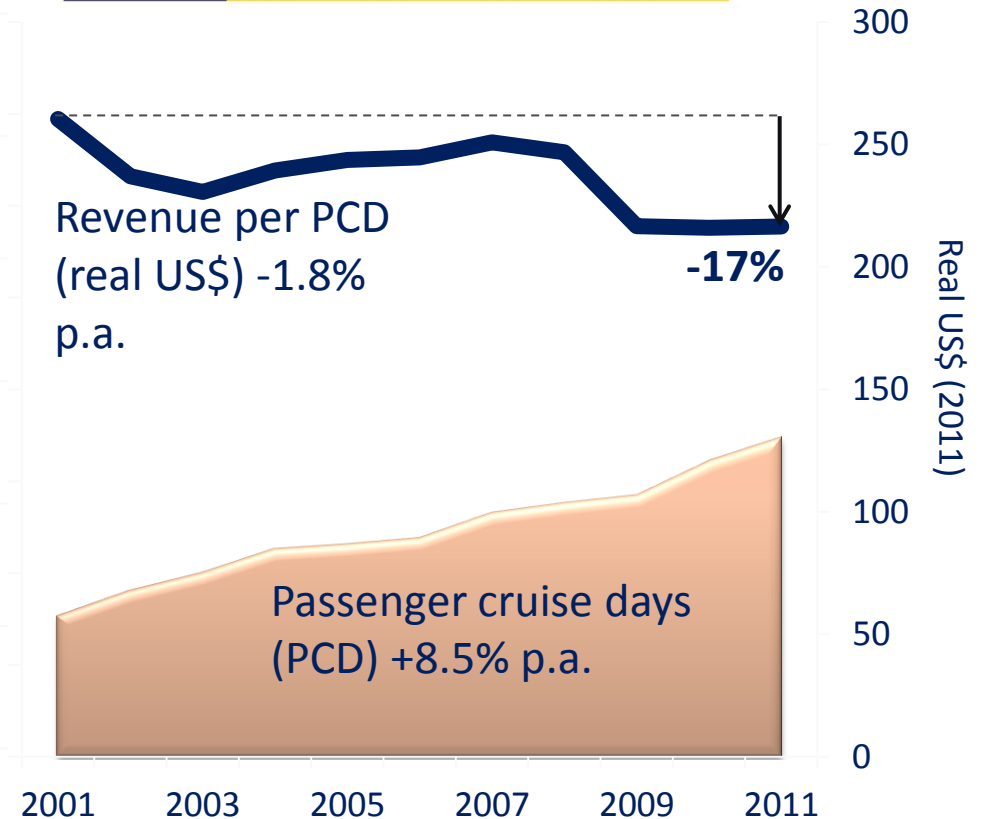
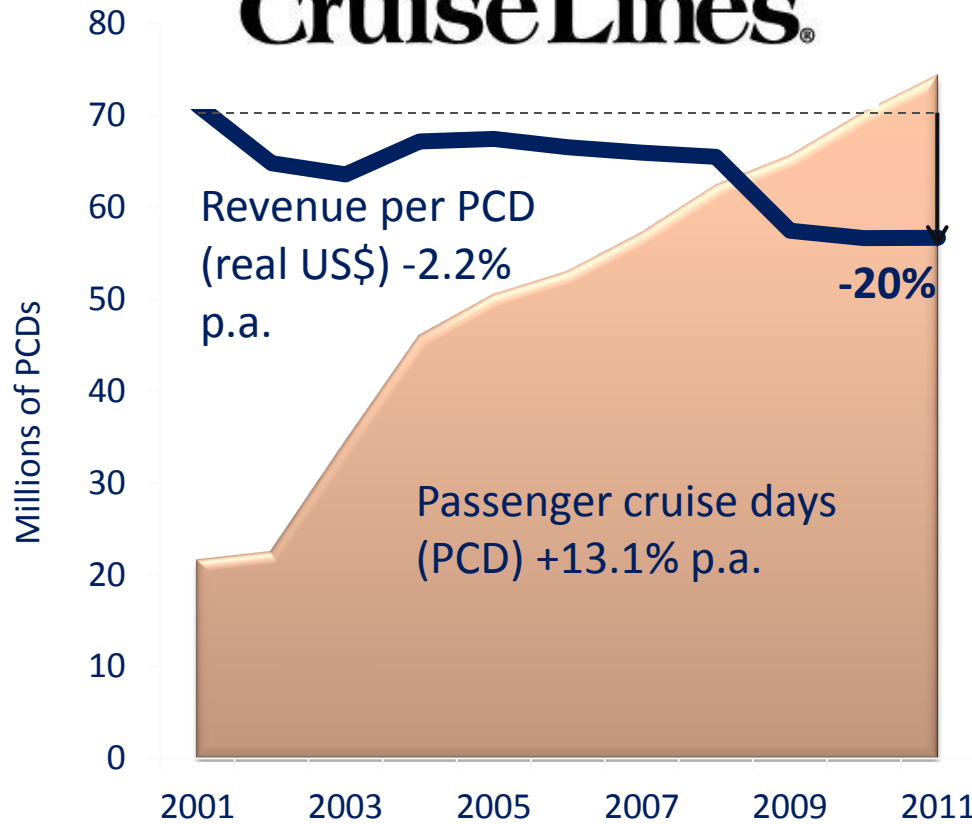
*Cruise operators
increasingly depend on
Onboard Revenue to
cover their operational
costs!*

Average Cruiser 2013 Financial Breakdown*



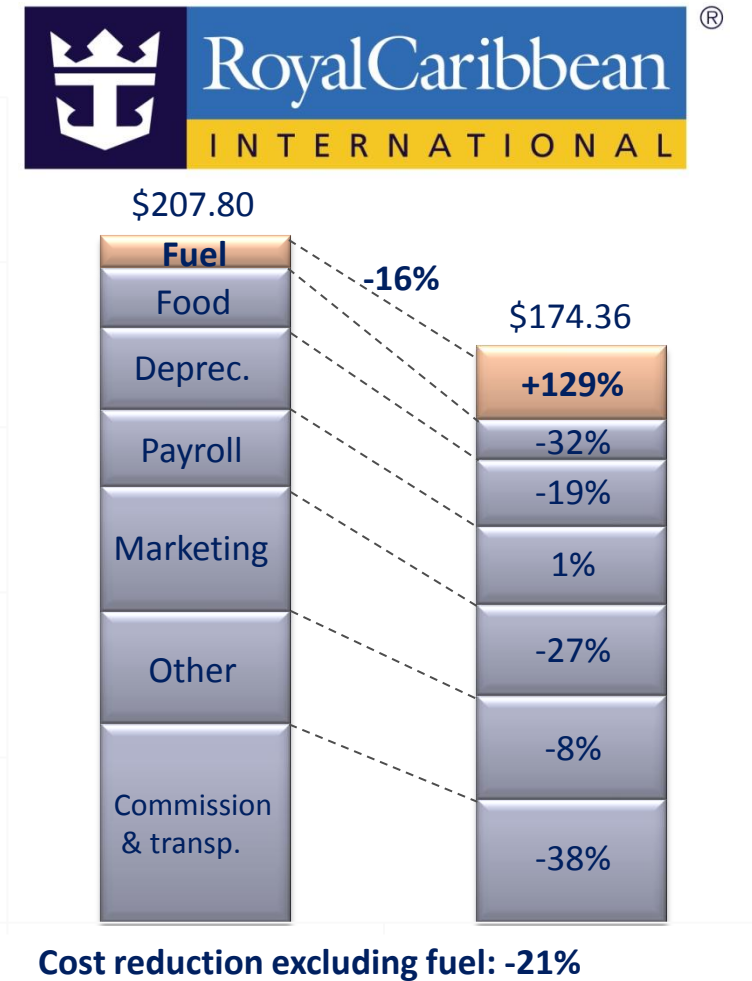
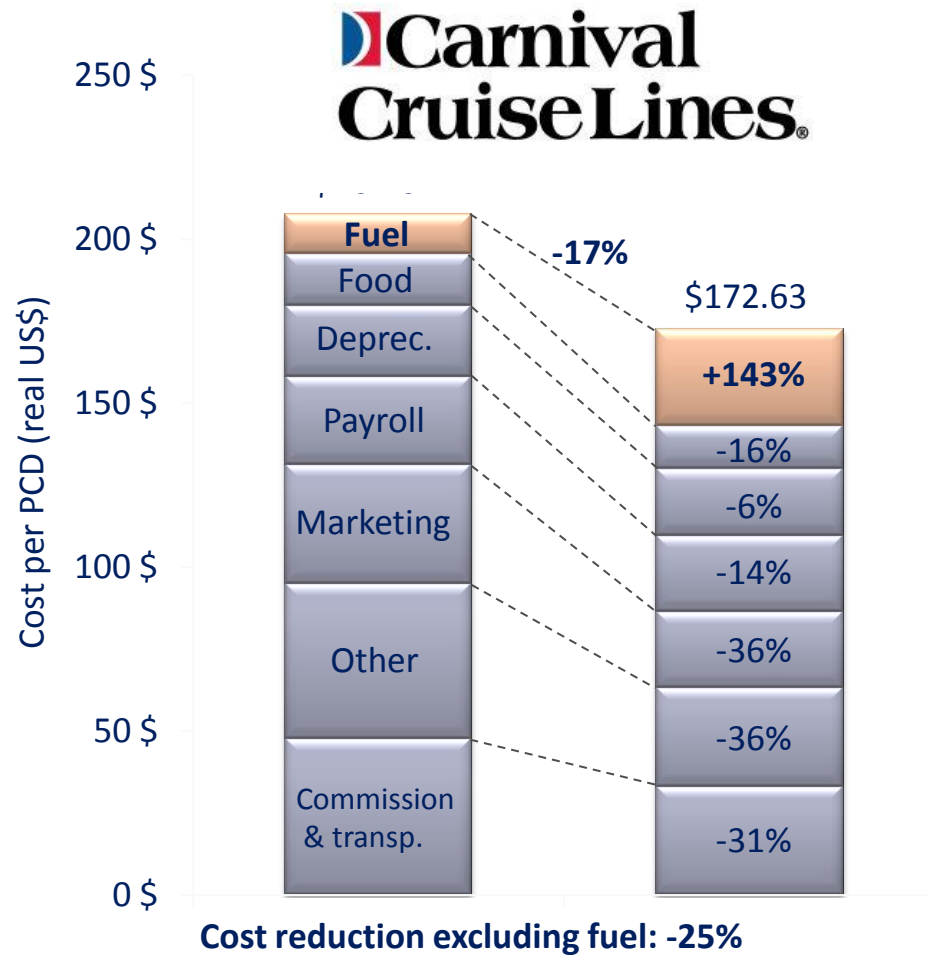
Balance Sheet Analyses (RCL & Carnival) 2011*

Dependence on Onboard Revenue



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... Could it be that too many options onboard **cannibalise shore-side** cruise operator income?

“A huge cake leaves little appetite for other sweets”

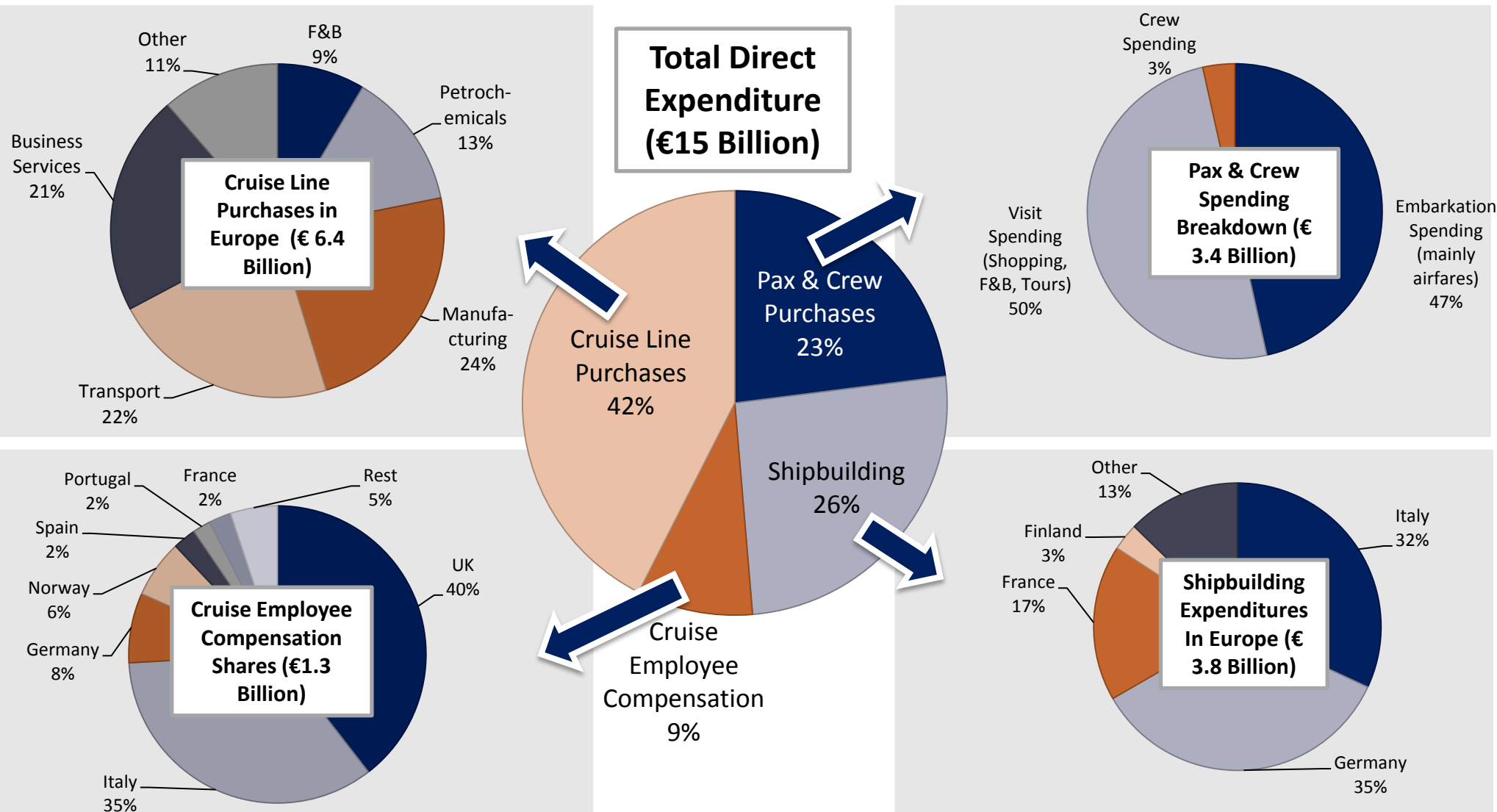
SOME KEY ECONOMIC INDICATORS

“What is actually the nutritional value of a cake?”

*Cruises have beneficial
effects on the **Economy**.
Directly and indirectly!*

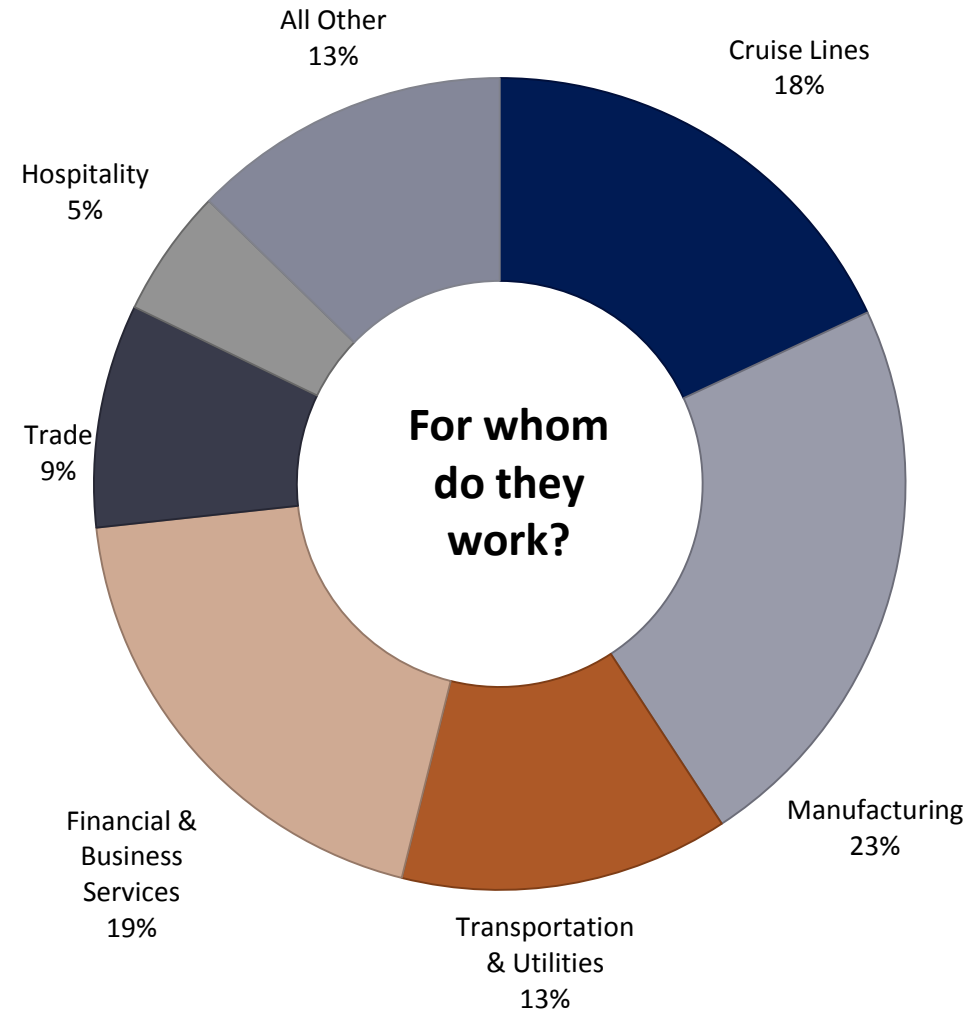
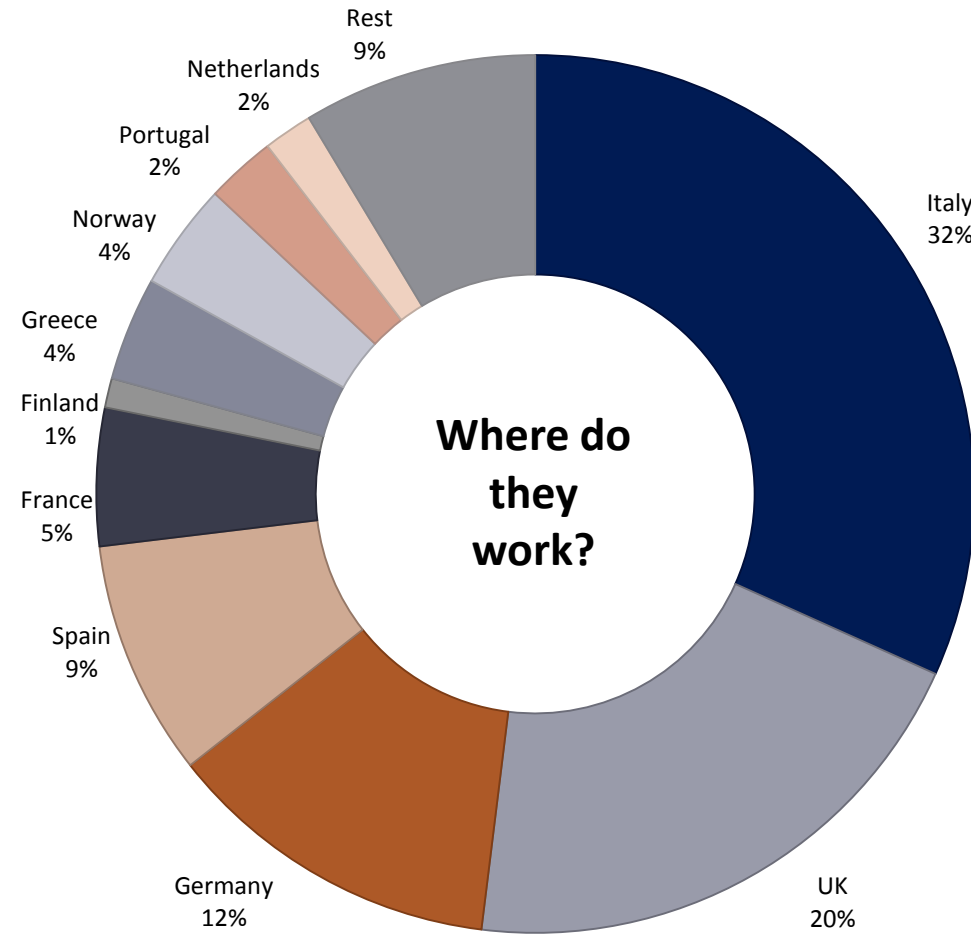
The Cruise Economy 2012:

Direct Economic Impact of Cruise Tourism in Europe



The Cruise Economy 2012:

Total Cruise Employment In Europe (315,500 Employees)



Cruise **Income** is primarily created
by **production** at the **source**
markets; not by consumption at
the ports!

*“At the end it is the bakery who profits... not the
necessarily the baker and certainly not the cake!”*

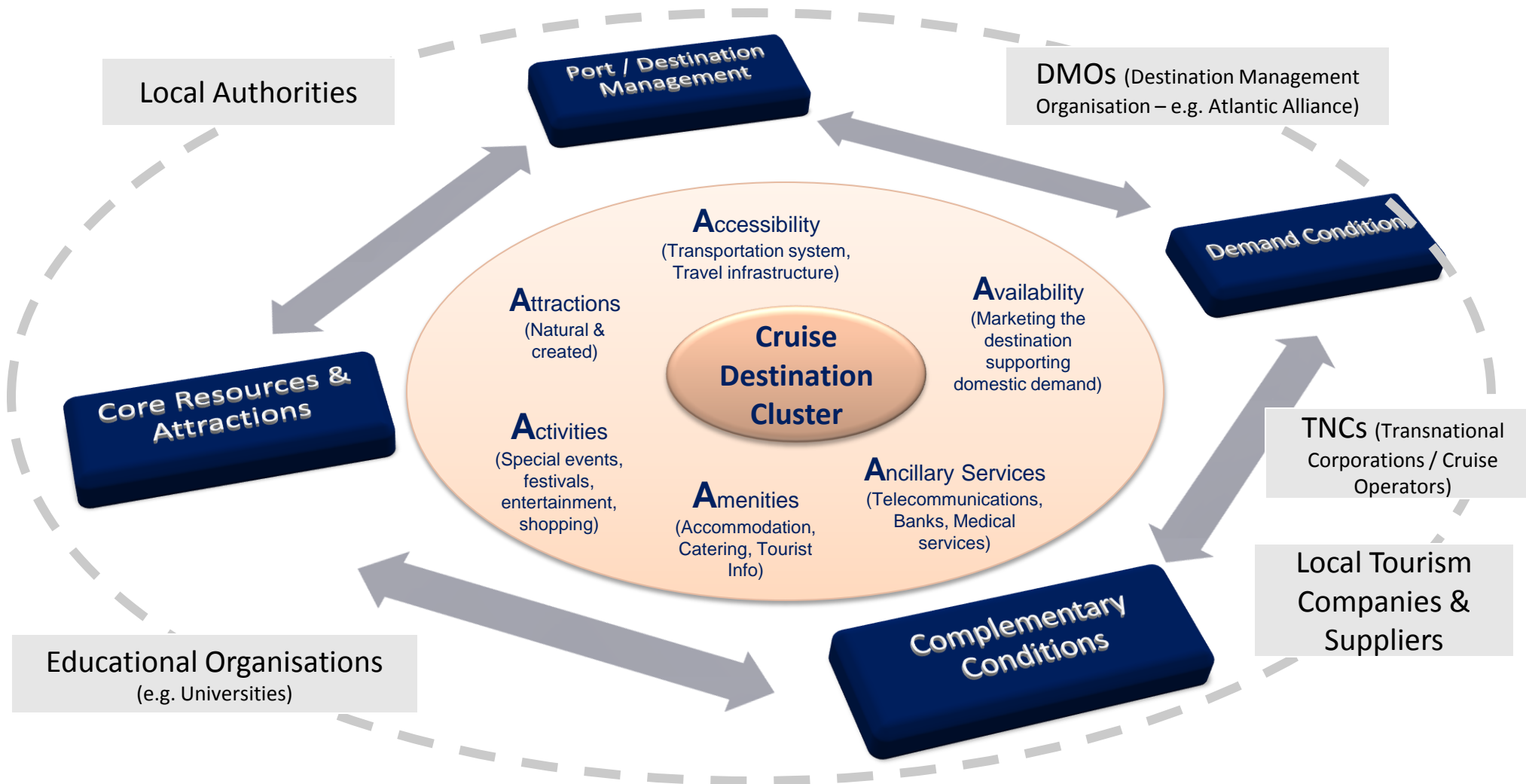
UNDERSTANDING CRUISE DESTINATION DEVELOPMENT

“How to bake a cake”

*Cruisers do not **pay** to visit
a port... They pay to
experience an itinerary!*

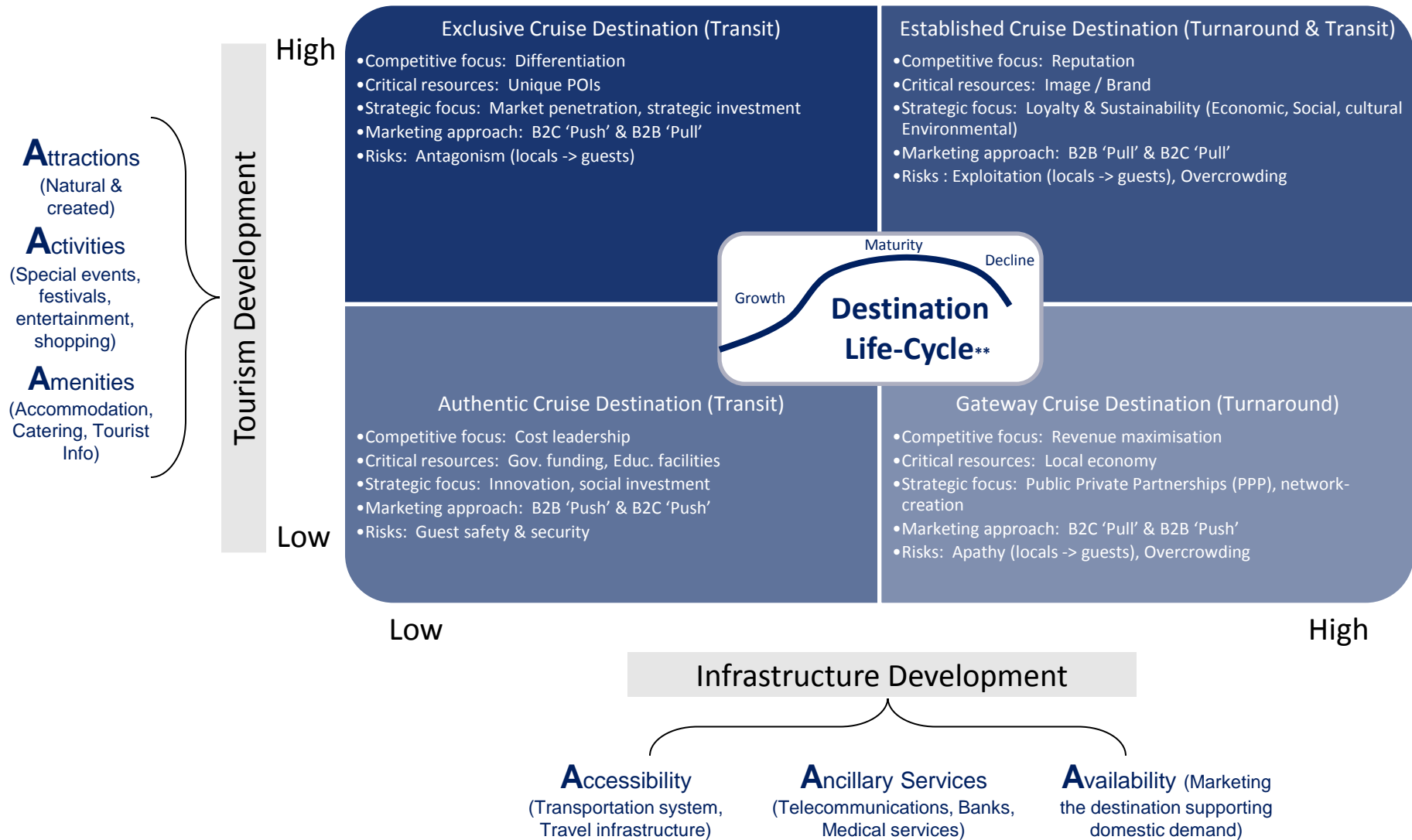
Developing Competitive Cruise Destinations

*Cluster Theory & the 6As**



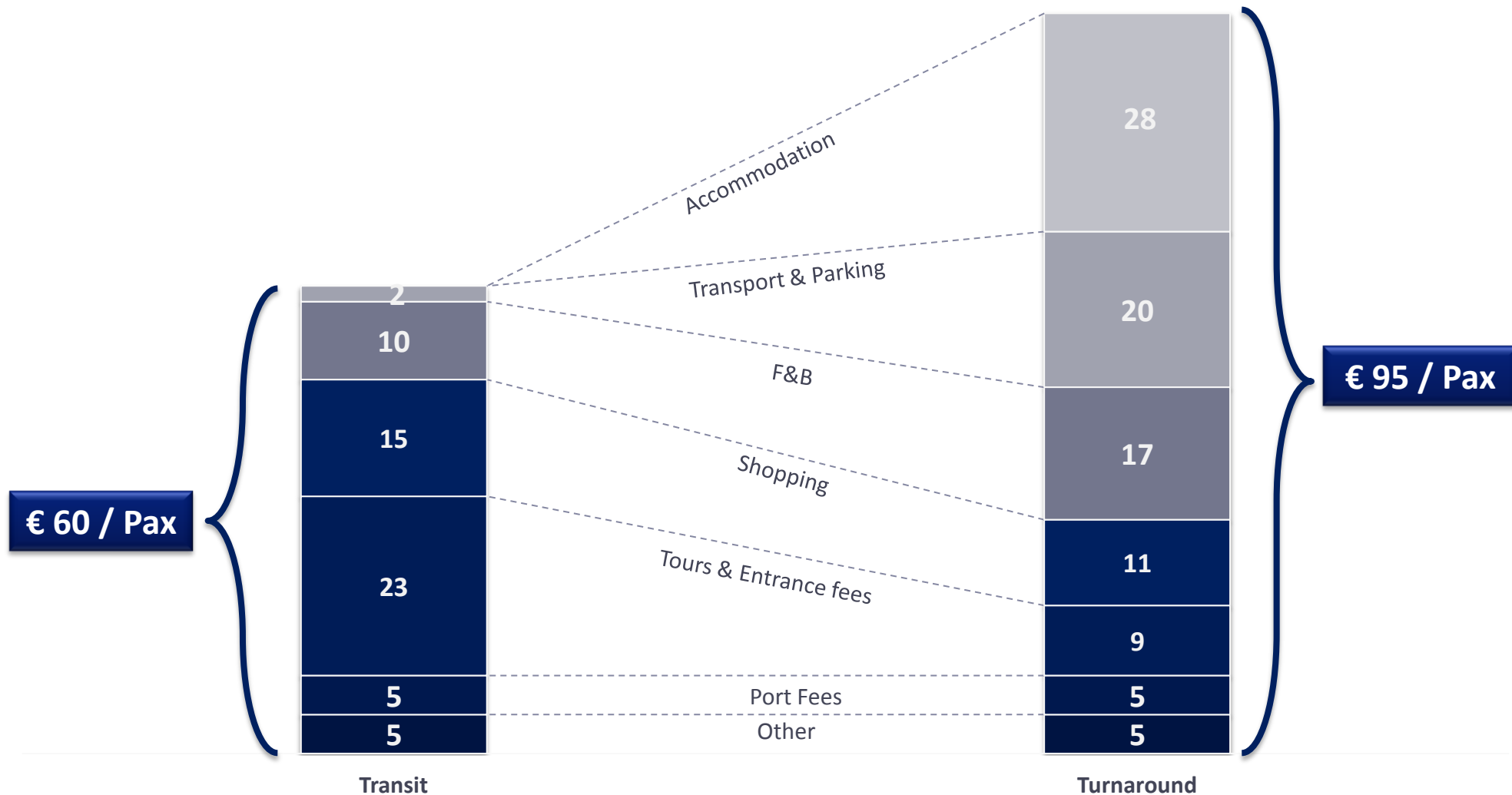
Cruise Destination Positioning and Development Strategy

*PORT-Folio Matrix**



Pax Spending on Ports

Transit (Port of Call) vs. Turnaround (Arrival / Departure Port)



Cruise Destination Planning
requires a clear **Strategic** focus.
Turnaround ports require a
different setup than **Transit**
ports.

“A cherry does not make a cake!”

CRITICAL SUCCESS FACTORS & RECOMMENDATIONS

“Cake Trends and Baking Tips”

Cruise operators and ports are not just partners, they are also competitors. ‘Win-win’ is really a matter of scope and perception!

Cruise Trends & Recommendations for Destinations

“Floating Destinations”

- Fewer ports of call
- Over-Crowding (Many visitors at one time)
- Infrastructure Stress (both Public & Private)

On-board Revenue (All-Inclusive at Sea)

- Destination income mainly from excursions, cultural experiences
- Cruise operators promote destination services that generate a profit for them!

“Hybrid Cruisers”

- Profile of cruise visitors near that of package tourists
- More price-sensitive / More ‘Do-It-Yourself’
- Assess destination for a ‘future land-holiday visit’

Governance & Infrastructure

- Cruise-port alliances (easier to promote an itinerary than a port of call)
- Destination capacity management
- Infrastructure investments (not just at port but also surrounding area)

Off-board Revenue (All-Exclusive at Land)

- Invest in ‘Heritage & Nature’ not just ‘Commerce’
- Public-Private-Partnerships with cruise operators
- Key Account Management (Excursion Managers)

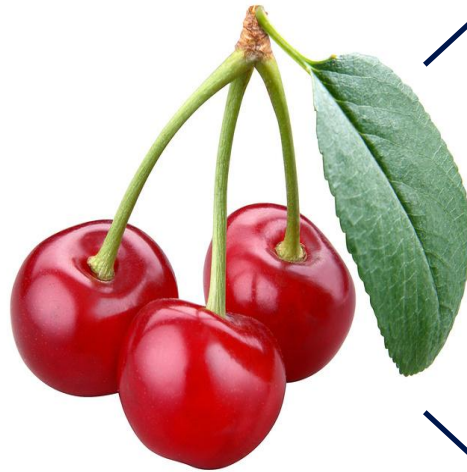
“Pure Hosts”

- Fair pricing
- Destination content management (B2C, Online)
- Focus on authenticity & ‘philoxenia’

Where is the 'Cherry' for Hellenic Ports?

Cruising as a 'Seasonality-Smoother' and 'Infrastructure-Enabler'

- **Season extension**
- **Reduced dependencies to large Tour Operators**
- **Economic sustainability of local tourism industry**



Short-term objectives

- DMOs (Public) key account management
- Content availability (to cruise visitors, source markets and cruise operators)
- Encourage off-peak tourism for cruisers (e.g. Theme-ing, pricing)
- Online Marketing Initiative

Mid-term objectives

- Form / participate in regional cruise port alliances
- Invest in port and port-area infrastructure

Long-term objectives

- Reduce 'tourist expenditure leakages' (invest in heritage, promote local products)
- Segment-based diversification (not just on the basis of national source-market)

Cruise tourism does not occur in a vacuum. It needs to be integrated to the pre-existing tourism landscape of the destination.

“A cherry does not make one full and foul cherry can ruin an entire cake!”

References

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Thank You for your Attention



► Research Functions:

- Founder & Chairman of the **Cruise Research Society**
(<http://www.cruiseresearchsociety.com>)
- Co-Director of the **Institute for Maritime Tourism (IMT)**
(<http://www.imt.hs-bremerhaven.de/>)
- Editorial Board Member of the Journal of the European Journal of Tourism, Hospitality and Recreation (EJTHR) –
(<http://www.ejthr.com/>)
- Reviewer of the Tourism Management Journal
(<http://journals.elsevier.com/02615177/tourism-management/>)

► Administrative Functions:

- Dean of Studies – Faculty of Business & Economics
- Chairman of the CIM Examinations Committee
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