The ‘Cruise - Cake Cherry Dilemma’: Cruise Development and Tourism Destinations

Prof. Dr. Alexis Papathanasssis

Kerkyra – 19th of February 2013
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
- Least data fit (R² = 94%)
- 30 Million Pax by 2041
- Indefinite growth assumption

Quadratic Extrapolation
- Second best data fit (R² = 98%)
- 69 Million Pax by 2041
- Indefinite growth assumption

Cubic Extrapolation (S-Shaped Curve)
- Best data fit (R² = 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?

© Alexis Papathanassis
Source data: CLIA (2010)
European Cruise Pax Development & Forecast

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

European Pax Development

Beginning of the 2030’s the German market will start to experience stagnation with a penetration rate of 6.7%

Base data: European Cruise Council (2012 Online) - Own Forecast

© Alexis Papathanassis
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!”
“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*

Onboard Revenue ≈ 25% of the Total Revenue

© Alexis Papathanasssis
* Source Data: Cruise Market Watch 2013
Balance Sheet Analyses (RCL & Carnival) 2011*

Dependence on Onboard Revenue

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

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

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

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

* Source: Vogel (2012)
Balance Sheet Analyses (RCL & Carnival) 2011*
Cost-Saving Pressures?!

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

© Alexis Papathanasssis  * Source: Vogel (2012)
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”
“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

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%
- Pax & Crew Purchases 23%

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

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

Cruise Line Expenditures
- F&B 9%
- Petrochemicals 13%
- Manufacturing 24%
- Transport 22%
- Business Services 21%
- Other 11%

Cruise Line Purchases in Europe (€6.4 Billion)
- UK 40%
- France 2%
- Norway 6%
- Spain 2%
- Portugal 2%
- Rest 5%

Shipbuilding Expenditures in Europe (€3.8 Billion)
- Italy 32%
- Germany 35%
- Finland 13%
- France 17%
- Other 11%

Base data: European Cruise Council (2012: Online)
The Cruise Economy 2012: 
Total Cruise Employment In Europe (315,500 Employees)

Where do they work?

- Italy: 32%
- UK: 20%
- Germany: 12%
- Spain: 9%
- France: 5%
- Finland: 4%
- Norway: 4%
- Portugal: 2%
- Netherlands: 2%
- Rest: 9%

For whom do they work?

- Cruise Lines: 18%
- Financial & Business Services: 19%
- Trade: 9%
- Hospitality: 5%
- Transportation & Utilities: 13%
- All Other: 13%
- Manufacturing: 23%
- Base data: European Cruise Council (2012: Online)

© Alexis Papathanassis
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*

- **Attractions** (Natural & created)
- **Activities** (Special events, festivals, entertainment, shopping)
- **Accessibility** (Transportation system, Travel infrastructure)
- **Availability** (Marketing the destination supporting domestic demand)
- **Amenities** (Accommodation, Catering, Tourist Info)
- **Ancillary Services** (Telecommunications, Banks, Medical services)

Core Resources & Attractions

- Local Authorities

Complementary Conditions

- Educational Organisations (e.g. Universities)
- Local Tourism Companies & Suppliers
- DMOs (Destination Management Organisation – e.g. Atlantic Alliance)
- TNCS (Transnational Corporations / Cruise Operators)

* Adapted from Kim & Wicks (2010) and complemented from Buhalis (2000)
Cruise Destination Positioning and Development Strategy

**PORT-Folio Matrix***

**Infrastructure Development**

- Accessibility (Transportation system, Travel infrastructure)
- Ancillary Services (Telecommunications, Banks, Medical services)
- Availability (Marketing the destination supporting domestic demand)

**Attractions** (Natural & created)
- Activities (Special events, festivals, entertainment, shopping)
- Amenities (Accommodation, Catering, Tourist Info)

**Attractiveness**
- Competitive focus: Differentiation
- Critical resources: Unique POIs
- Strategic focus: Market penetration, strategic investment
- Risks: Antagonism (locals -> guests)

**Accessibility**
- Competitive focus: Reputation
- Critical resources: Image / Brand
- Strategic focus: Loyalty & Sustainability (Economic, Social, cultural, Environmental)
- Risks: Exploitation (locals -> guests), Overcrowding

**Ancillary Services**
- Competitive focus: Cost leadership
- Critical resources: Gov. funding, Educ. facilities
- Strategic focus: Innovation, social investment
- Risks: Guest safety & security

**Activities**
- Competitive focus: Revenue maximisation
- Critical resources: Local economy
- Strategic focus: Public Private Partnerships (PPP), network-creation
- Risks: Apathy (locals -> guests), Overcrowding

**Amenities**
- Competitive focus: Market penetration, strategic investment
- Critical resources: Unique POIs
- Strategic focus: Market penetration, strategic investment
- Risks: Antagonism (locals -> guests)

**Attractiveness**
- Competitive focus: Reputation
- Critical resources: Image / Brand
- Strategic focus: Loyalty & Sustainability (Economic, Social, cultural, Environmental)
- Risks: Exploitation (locals -> guests), Overcrowding

**Accessibility**
- Competitive focus: Cost leadership
- Critical resources: Gov. funding, Educ. facilities
- Strategic focus: Innovation, social investment
- Risks: Guest safety & security

**Amenities**
- Competitive focus: Revenue maximisation
- Critical resources: Local economy
- Strategic focus: Public Private Partnerships (PPP), network-creation
- Risks: Apathy (locals -> guests), Overcrowding

**Attractions**
- Competitive focus: Differentiation
- Critical resources: Unique POIs
- Strategic focus: Market penetration, strategic investment
- Risks: Antagonism (locals -> guests)

**Established Cruise Destination (Turnaround & Transit)**
- Competitive focus: Reputation
- Critical resources: Image / Brand
- Strategic focus: Loyalty & Sustainability (Economic, Social, cultural, Environmental)
- Risks: Exploitation (locals -> guests), Overcrowding

**Exclusive Cruise Destination (Transit)**
- Competitive focus: Differentiation
- Critical resources: Unique POIs
- Strategic focus: Market penetration, strategic investment
- Risks: Antagonism (locals -> guests)

**Authentic Cruise Destination (Transit)**
- Competitive focus: Cost leadership
- Critical resources: Gov. funding, Educ. facilities
- Strategic focus: Innovation, social investment
- Risks: Guest safety & security

**Gateway Cruise Destination (Turnaround)**
- Competitive focus: Revenue maximisation
- Critical resources: Local economy
- Strategic focus: Public Private Partnerships (PPP), network-creation
- Risks: Apathy (locals -> guests), Overcrowding

**Destination Life-Cycle**

* Papathanassis (2011)
** Life Cycle Concept originally discussed by Butler (1980)
Pax Spending on Ports
Transit (Port of Call) vs. Turnaround (Arrival / Departure Port)

<table>
<thead>
<tr>
<th>Category</th>
<th>Transit</th>
<th>Turnaround</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accommodation</td>
<td>2</td>
<td>28</td>
</tr>
<tr>
<td>Transport &amp; Parking</td>
<td>10</td>
<td>20</td>
</tr>
<tr>
<td>F&amp;B</td>
<td>15</td>
<td>17</td>
</tr>
<tr>
<td>Shopping</td>
<td>23</td>
<td>11</td>
</tr>
<tr>
<td>Tours &amp; Entrance fees</td>
<td>5</td>
<td>9</td>
</tr>
<tr>
<td>Port Fees</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Other</td>
<td>5</td>
<td>5</td>
</tr>
</tbody>
</table>

Base data: European Cruise Council (2012: Online)
Cruise Destination Planning requires a clear **Strategic** focus. **Turnaround** ports require a different setup than **Transit** ports.

“A cherry does not make a cake!”
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-Smooother’ and ‘Infrastructure-Enabler’

**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)

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


Thank You for your Attention

- **Research Functions:**
  - Founder & Chairman of the Cruise Research Society ([http://www.cruiseresearchsociety.com](http://www.cruiseresearchsociety.com))
  - Co-Director of the Institute for Maritime Tourism (IMT) ([http://www.imt.hs-bremerhaven.de/](http://www.imt.hs-bremerhaven.de/))

- **Administrative Functions:**
  - Dean of Studies – Faculty of Business & Economics
  - Chairman of the CIM Examinations Committee
  - Member of the CIM Study Affairs Committee