The ‘Cruise-Gate’ Analogy
Rethinking the Value of Port Alliances and Meeting Future Challenges

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Cruise Research Society
“Handy-Gate”: NSA Scandal and its Implications
... Just for the Purpose of Entertaining an Analogy
Some Key Questions...

- Is the ‘HandyGate’ really a scandal?
  - ... Or ‘business as usual’ that caught the attention of the press?

- Is it a crisis of trust between Europe and the US
  - ... Or a crisis of cooperation between the European states?

- Is it really about the US abusing its power?
  - ... Or is it about Europe not exploiting its potential?

Perhaps the real scandal and shock, stems from the realisation that the European information infrastructure is entirely dependent on the US... The very fact that our partners are also our competitors!
UNDERSTANDING PORT ALLIANCES & THEIR CHALLENGES

Key Concept: “The Prisoner’s Dilemma”
Cruise passenger growth does not necessarily mean good business. The level of ‘money fluid’ depends on the business models and strategies of all chain members (size, shape and condition of all the tubes).
Nearly half of all strategic alliances fail (Park and Russo, 1996; Dyer et al., 2001), often because of opportunistic behaviour by one party or the other.
The Exodus of US Cruise Lines from Europe… End of Cruise Passenger Growth?
“Therefore we (Carnival) have decided to keep ships in North America during this period rather than place capacity in Europe in 2014.”*

“Industry giant Royal Caribbean only will have seven ships in Europe in 2014, not eight as originally planned, as soft demand in the region prompts the company to cut back.” **

“Both Royal Caribbean Cruises and Princess Cruises are reducing capacity in the Mediterranean. Royal Caribbean said it plans to reduce 2014 year-on-year capacity in Europe by a further 10 per cent.” **
Is Europe becoming too Expensive for American Cruisers? The ‘Weak-Side’ of the ‘Strong-Euro’...

“We anticipate that **airfares** to Europe will remain high, and we believe our North American passengers will continue to prefer more **affordable vacation** options closer to home as we move into next year... (Carnival Statement)*

“Customer service scores have been very high, but the fact remains that the majority of our **guests are sourced from the US**. This is a mass-market brand and customers are **extremely price-sensitive**. A trip to Europe is still regarded as the holiday of a lifetime.” (Carnival Statement) **

* http://www.usatoday.com/story/cruiselog/2013/05/13/carnival-cruise-europe-2014/2156097
“Cruise bookings among Europeans, who are struggling with high unemployment rates and a festering debt crisis, have dropped, according to industry reports.” *

“But the decline in European bookings has been offset by strong sales among U.S. vacationers, who represent as much as 50% of the industry's passengers.” *

“As a result, we are seeing pluses and minuses in the different geographic markets. North America is holding up reasonably well. Asia is a big plus but Europe is a pretty consistent minus.” *
STRATEGIC CHOICES & POSITIONING

Short-Term Revenue Maximisation vs. Medium-Term Risk Minimisation
“The majority of the major cruise lines that are active in North America, like Carnival and Royal Caribbean, were drawing a significant amount of their passenger boardings from the European source market...”*

“The bigger lines are taking advantage of the reality that cruise line management can make prudent moves and shift vessels around...”*
Emergent Port Strategies

... Are we really talking about a long-term strategy?!?!

- Alliances focus on attracting foreign cruisers and cruise operators – mainly common promotional material
- Public investment in ports is not the same as developing a diversified and sustainable tourism portfolio
- Ports negotiate as separate units with cruise operators and compete with each other for the same cruise segments

EU Port Reduced Vertical Power and Increased Upstream Dependency in the Cruise Value Chain
The As-Is Situation Simplified...

Value Chain Power

US Cruise Operators (80% of Market Share)

Local / Regional Source Market

International Incoming Market

Focus

Cooperation

Diversification

Flexibility & Independence

Risk & Dependency

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LEARNING FROM THE PAST...

... *Surprise*?!
Should we be surprised by this development? Is the ‘Cruise-Gate’ (or ‘Handy-Gate’) really a unique occurrence?

This is **not the first time** North American cruise lines have pulled back on plans to offer what they do for European cruise travelers. Cruise lines were looking for more **profitable waters** to sail in when the **economic depression** occurred several years ago. Boasting their "**biggest European deployment ever**" cruise lines were quick to turn back when Europe sailings did not fill up as they had anticipated.*

In the medium-term the European economy is expected to stabilise

Some more critical questions:
- What does the ‘US Exodus’ mean for **transit** EU ports, and what does it mean for EU **turnaround** ports?
- Which type of port do I want to be?
- What is the mix in the region?
European Source Markets are Diverse!
Germany is still expected to grow... As a source market!

Another critical question: To what extent does the German source market growth support the economies of German ports and destinations?
For Germany, supplying the cruise business is more economically beneficial than attracting its passengers!

- Leading source market with relatively good margins
- Secondary importance as a cruise destination
- Destination development investments need to be economically-driven (not just politically)
- Indirect income and employment potential (Shipbuilding, transportation / logistics, business services)

A destination is not a product... It is a complex value-chain / socio-economic system

- Interplay of environmental, social, economical and infrastructural factors
- Multiple stakeholders with various interests – coordination challenge

Cruise tourism requires ‘tourism’ and ‘tourism’ can benefit from Cruising

- Cruise tourism development cannot (should not) be planned and implemented in isolation to other service areas
The Strategic Role of Port Alliances...

From ‘Horizontal Communication’ to ‘Diagonal Integration’

- Local / Regional Source Market
- Diversification
- Flexibility & Interdependence

US Cruise Operators (80% of Market Share)

- EU Individual Port
- Co-opetition
- Pooled Representation

- EU Individual Port

- EU Individual Ports AND Tourism suppliers

- Local / Regional EU Source Markets
- Diversification
- Flexibility & Concentration

- EU Individual Port
- Cooperation
- X-Destination Communication
- Multi-Source Market Distribution Support

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Solving the EU (Cruise) Prisoner’s Dilemma:
... Maybe not just for the cruise-sector!

For Port Alliances acting as:

- **Active** Alliance Members
  - Intense communication and open information-sharing between EU ports (not just passive participation)
  - Partners working for long-term Regional Positioning
    - Compromise individual short-term interest for long-term common benefit (not visa versa)
  - Supporters of ‘**Pooled**’ Negotiation & Governance
    - Coordinated and common communication to cruise operators

- **Diagonal** Integration Enablers
  - Extend reach towards X-Source Market Distribution Entities and X-Destination Tourism Suppliers (esp. Within Europe)

- **Strategy** Development Moderators
  - Moderate and organise a regional strategic development process

- **Empowered Representatives** towards cruise operators
  - Syndicate a transparent governance framework

Invest resources & delegate competencies

Provide cooperation structure & Demonstrate governance competence
Research Functions:
- Founder & Chairman of the Cruise Research Society (http://www.cruiseresearchsociety.com)
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