

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



<http://www.merkur-online.de/bilder/2013/10/26/3187155/1148367196-merkel-handy-1bk4Wgx09.jpg>

#HANDYGATE



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!**

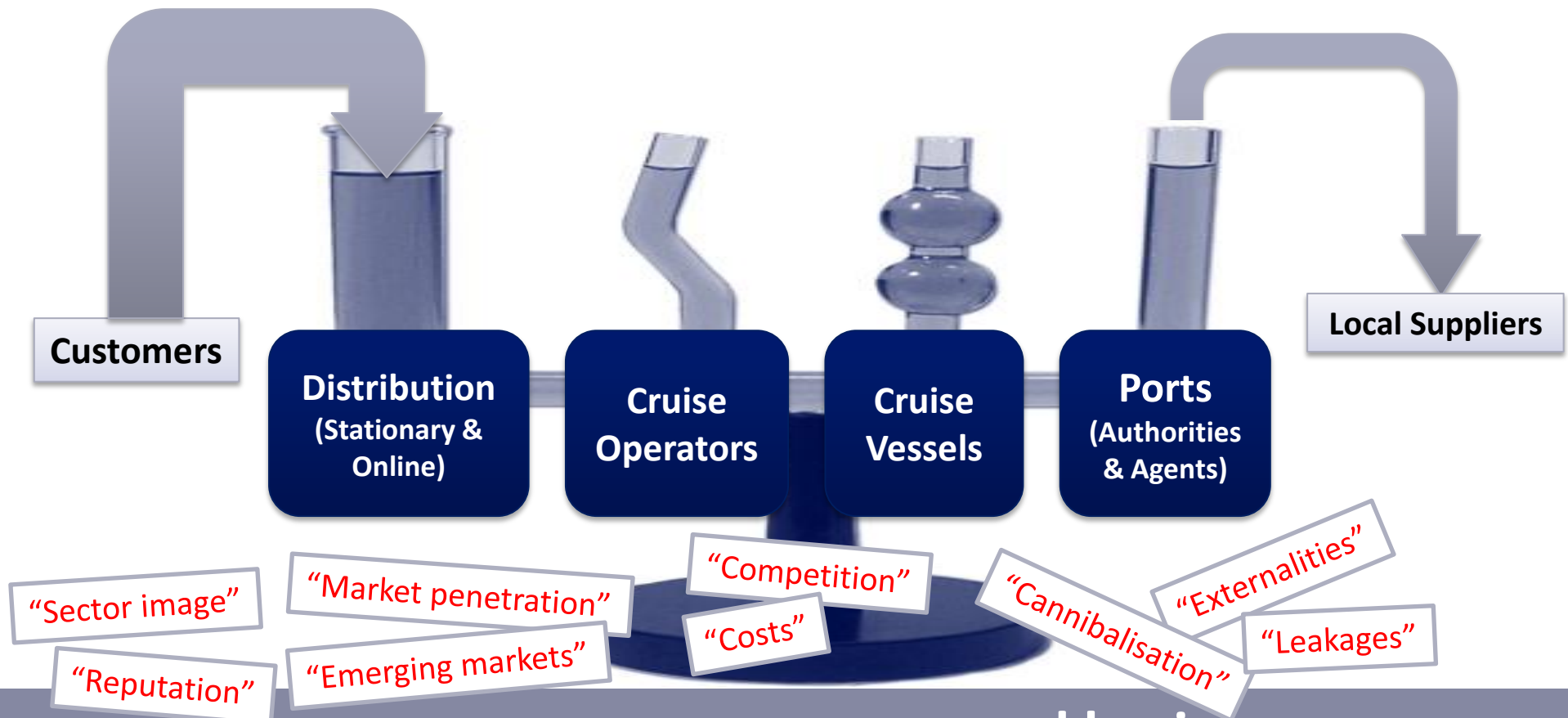
The background of the slide is a grayscale photograph of ocean waves. The waves are breaking, creating white foam and spray. The image is slightly blurred, giving it a sense of motion. The top half of the image is partially covered by a dark blue horizontal band containing the title text.

UNDERSTANDING PORT ALLIANCES & THEIR CHALLENGES

Key Concept: “The Prisoner’s Dilemma”

The Cruise Distribution & Supply Chain...

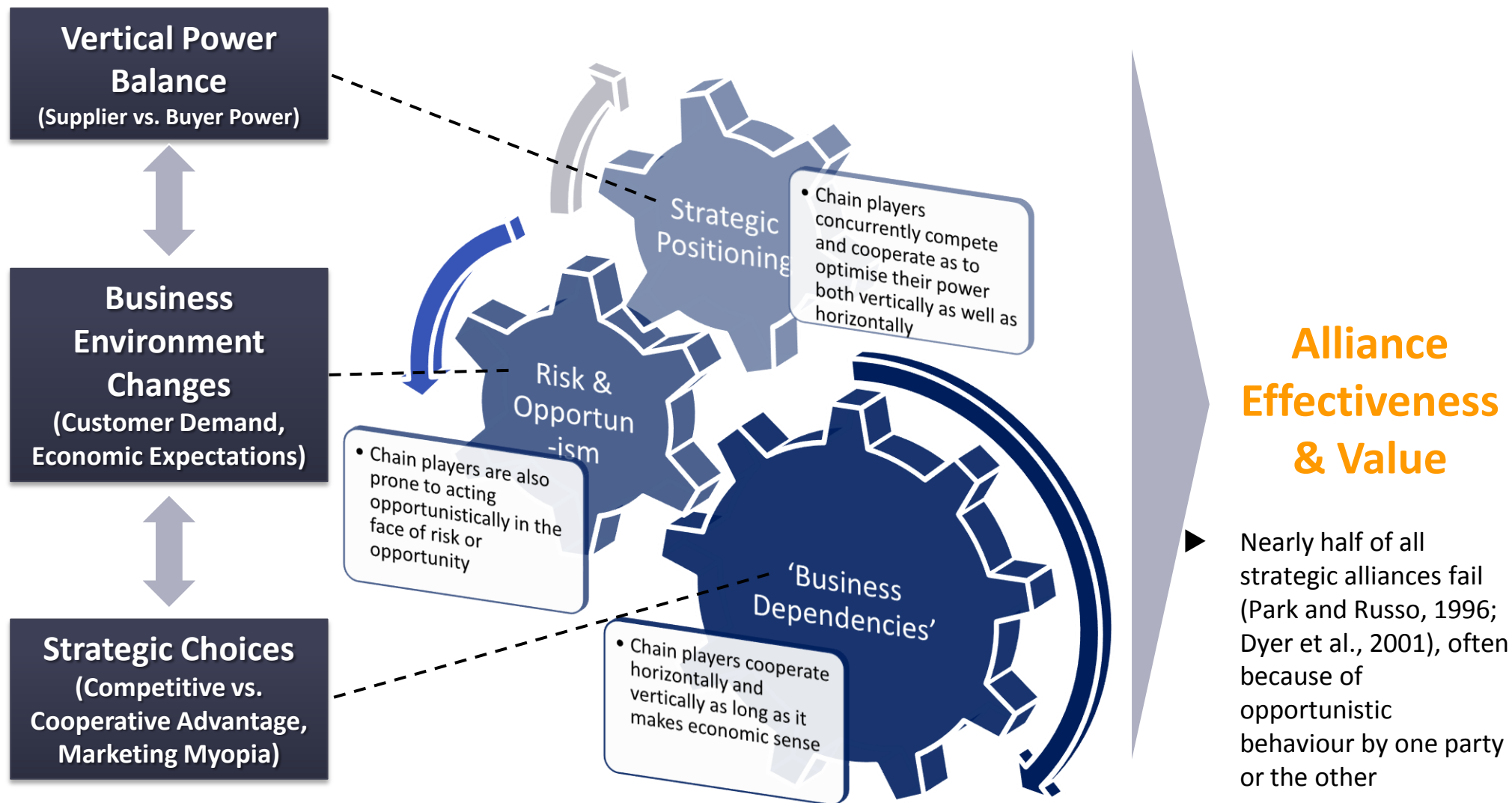
Rethinking some concepts!



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)

The 'Prisoners' Dilemma' and the Challenge of Alliances

Misguided Strategies & Asymmetrical Dependencies





CRUISE BUSINESS ENVIRONMENT CHANGES

The Exodus of US Cruise Lines from Europe... End of Cruise Passenger Growth?

A couple Cruise Press Extracts...

A US Cruise Line Exodus from Europe?



“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?

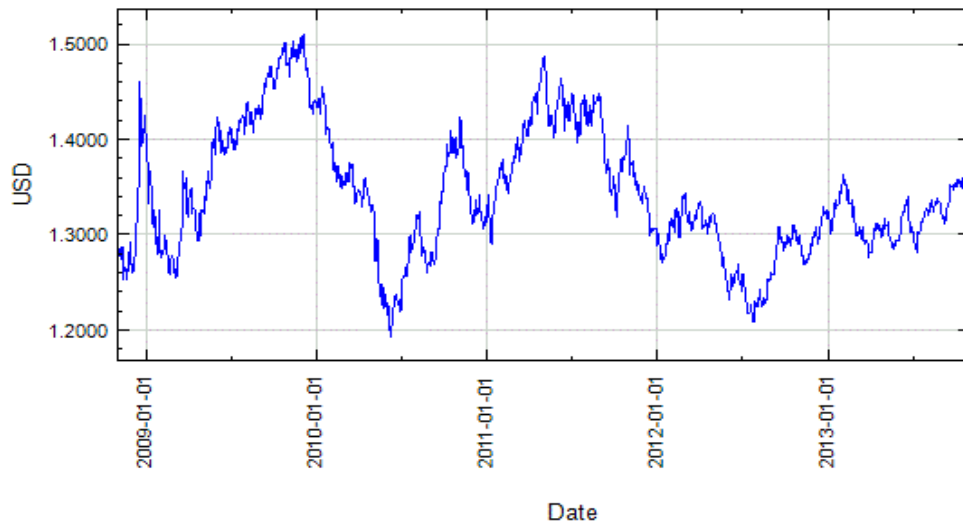
The 'Weak-Side' of the 'Strong-Euro'...

UNITED STATES CONSUMER SENTIMENT



SOURCE: WWW.TRADINGECONOMICS.COM | THOMSON REUTERS/UNIVERSITY OF MICHIGAN

USD to EUR Exchange Rate



<http://www.indexmundi.com/xrates/graph.aspx?c1=USD&c2=EUR&days=1825>

“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) **

Is Europe becoming too risky for US Cruise Operators?

EU Source Market Demand & the Debt Crisis



SOURCE: WWW.TRADINGECONOMICS.COM | EUROSTAT

“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.” *

“Cruise **bookings among Europeans**, who are struggling with high unemployment rates and a festering debt crisis, **have dropped**, according to industry reports.” *



SOURCE: WWW.TRADINGECONOMICS.COM | U.S. BUREAU OF LABOR STATISTICS

“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

Understanding US Cruise Line Strategic Actions

The 'Engine' of EU Cruise Sector Growth?

"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...**"*



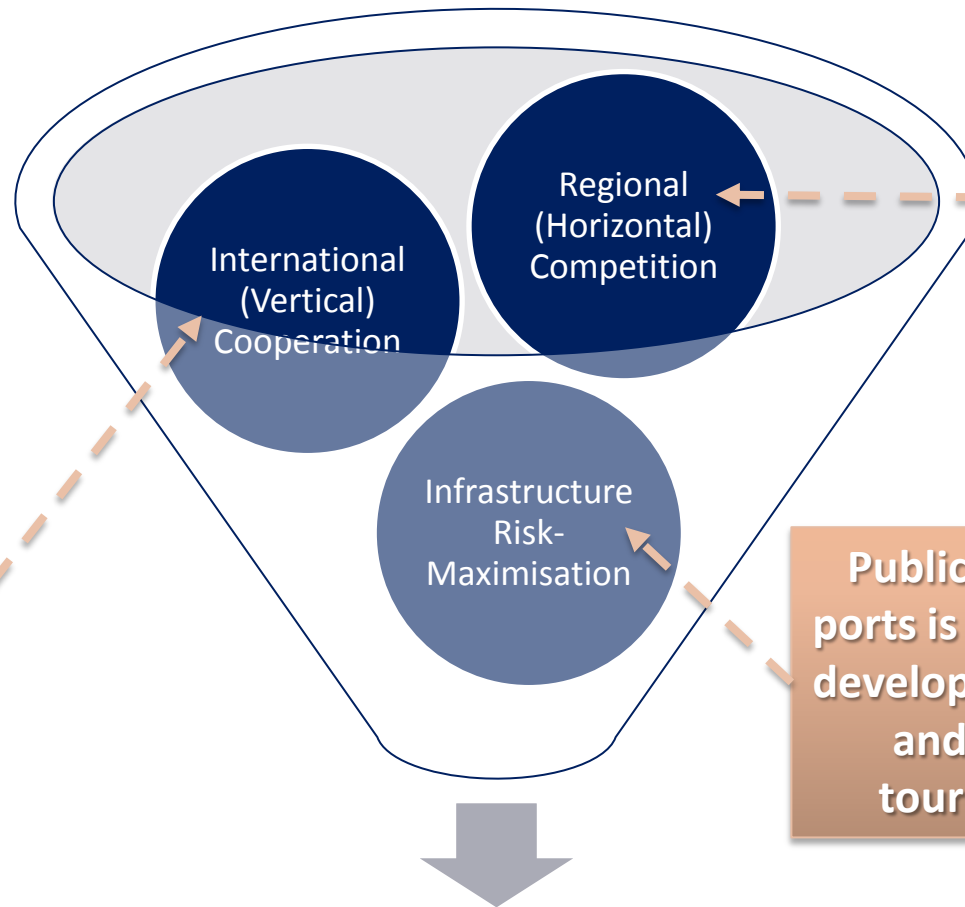
"The bigger lines are taking advantage of the **reality** that cruise line management can make **prudent** moves and **shift vessels around...**"*



**US Cruise
Operator Risk
Man/t &
Opportunism**

Emergent Port Strategies

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



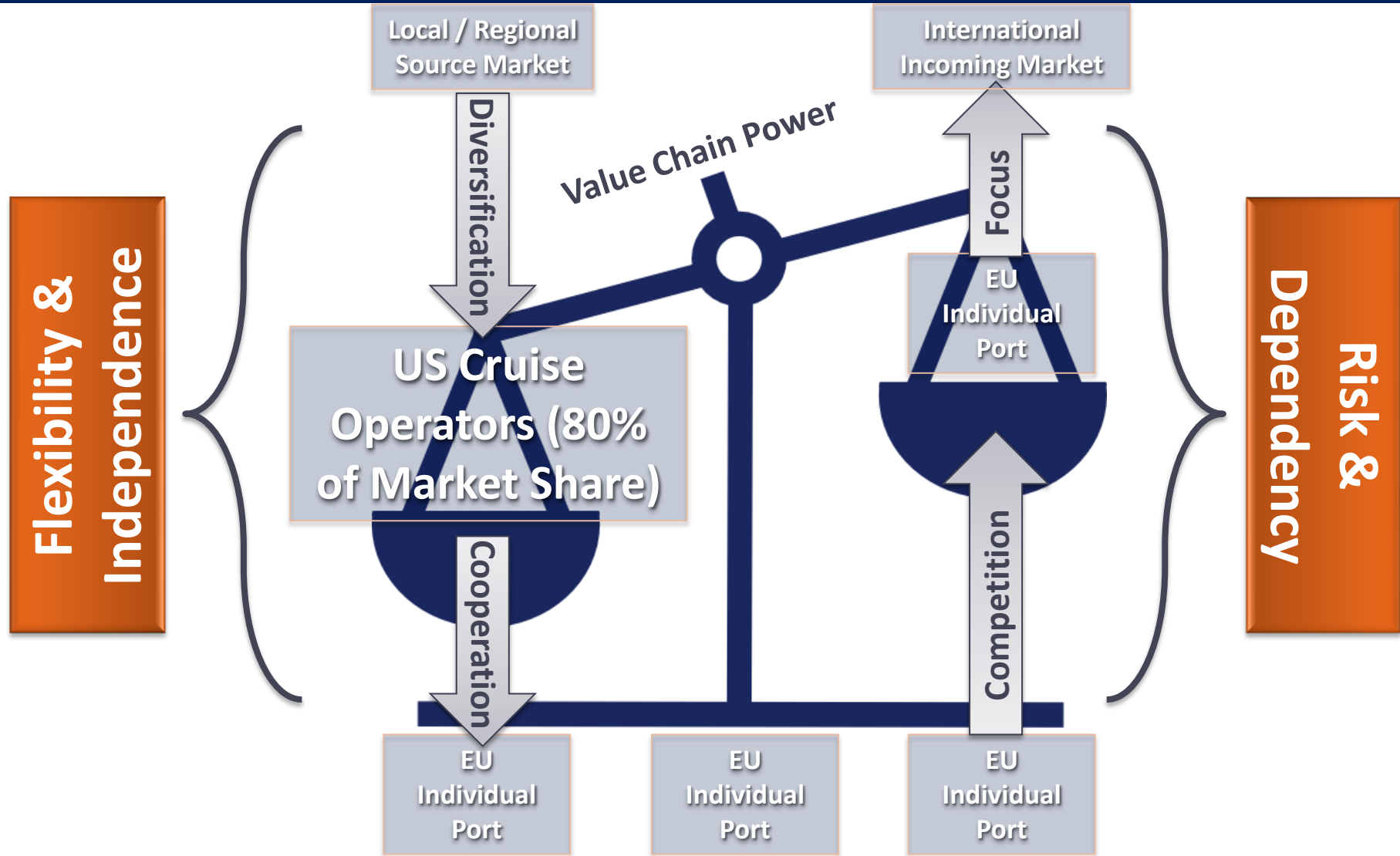
Alliances focus on attracting foreign cruisers and cruise operators – mainly common promotional material

Ports negotiate as separate units with cruise operators and compete with each other for the same cruise segments

Public investment in ports is not the same as developing a diversified and sustainable tourism portfolio

EU Port Reduced Vertical Power and Increased Upstream Dependency in the Cruise Value Chain

The As-Is Situation Simplified...



The background of the slide is a grayscale photograph of ocean waves. The waves are breaking, creating white foam and spray. The sky is overcast with soft, diffused light. The overall tone is somber and reflective.

LEARNING FROM THE PAST...

... Surprise?!

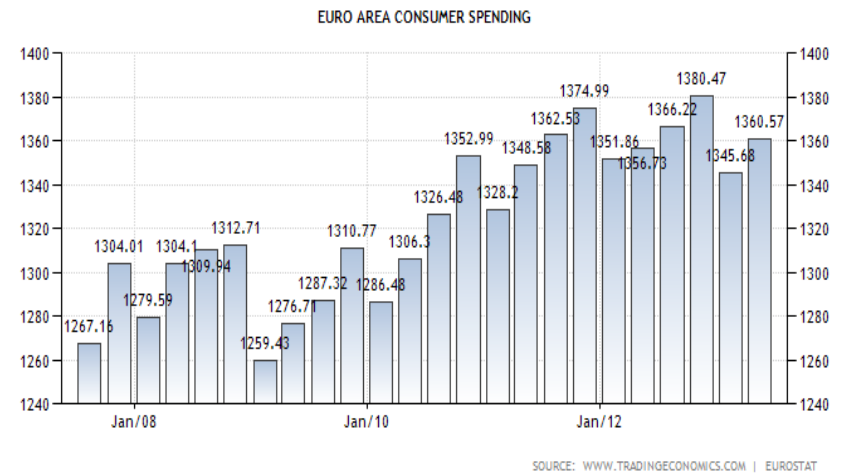
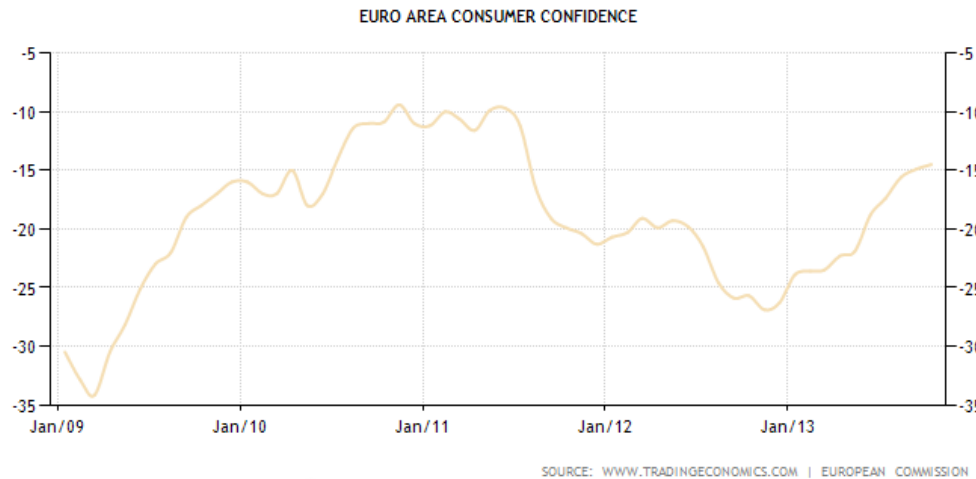
Should we be surprised by this development?

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.*

Europe as a Cruise-Source Market

Is it Really that Bad?



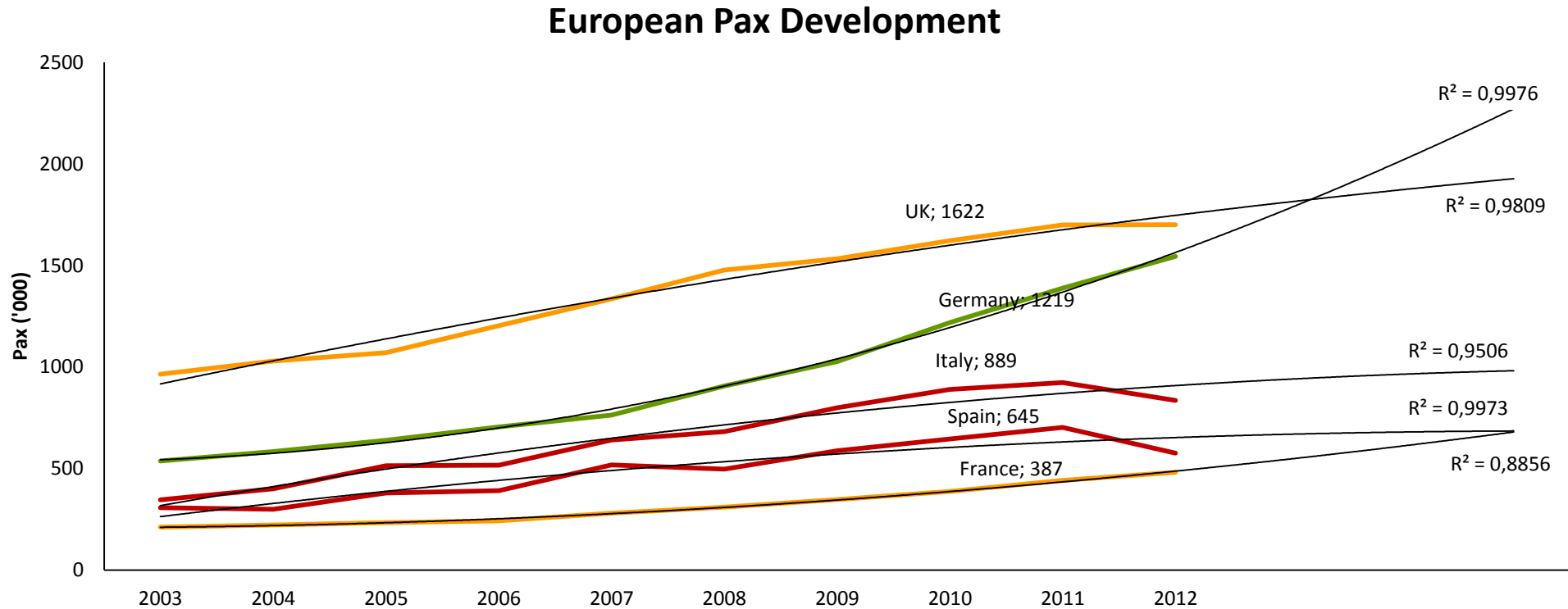
In the medium-term the European economy is expected to stabilise

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?**

Here we are again...

A Review of the Key Points from 2011



**KEEP
CALM**

AND

**I'M SO HAPPY
TO BE HERE...**

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-economical system

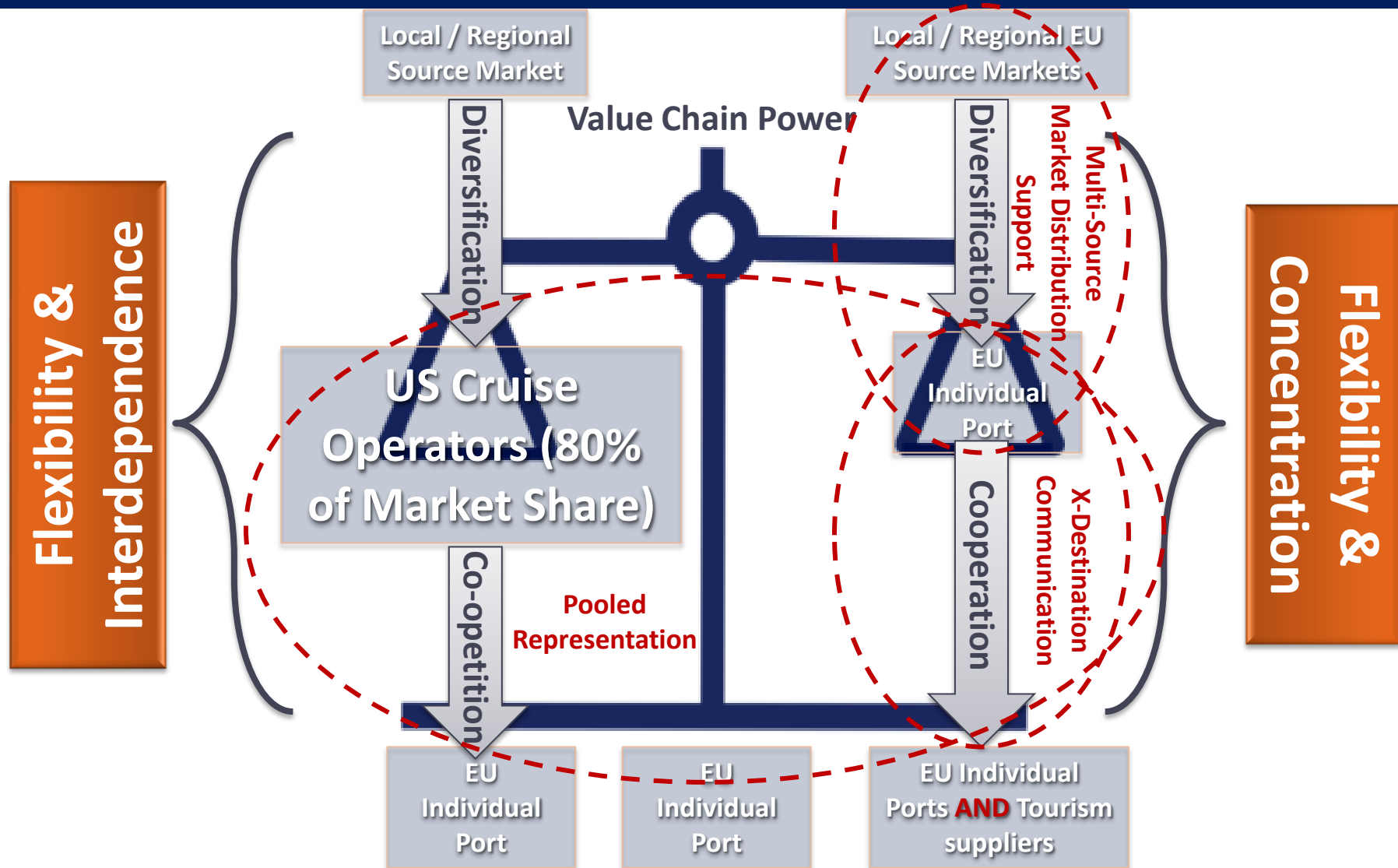
- Interplay of environmental, social, economical and infrastructural factors
- Multiple stakeholders with various interests – coordination challenge

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'



Solving the EU (Cruise) Prisoner's Dilemma:

... Maybe not just for the cruise-sector!

Invest resources &
delegate competencies

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*

Provide cooperation structure &
Demonstrate governance competence

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)**
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- Editorial Board Member of the Journal of the European Journal of Tourism, Hospitality and Recreation (EJTHR) –
(<http://www.ejthr.com/>)
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