Cruise Market: Vision Today and Future Perspectives

Prof. Dr. Dr. h.c. Alexis Papathanassis
AGEPOR – Oporto (Portugal), 9th October 2016
Direct Economic Impact of Cruise Tourism for the Economies of Europe 2015

Cruise Line Purchases 2015 (€ 6,900 Mil)
- F&B 10%
- Petrochemicals 11%
- Manufacturing 20%
- Business Services 21%
- Transport 24%
- Other 14%

Direct Economic Impact of Cruise Tourism for the Economies of Europe 2015 (€16,880 Mil)
- Pax & Crew Purchases 23%
- Cruise Line Purchases 41%
- Shipbuilding 27%
- Cruise Employee Compensation 9%

Passenger & Crew Spending 2015 (€ 3,832 Mil)
- Embarkation Spending (mainly airfares) 46%
- Visit Spending (Shopping, F&B, Tours) 50%
- Crew Spending 4%

Ship-Building 2015 (€ 4,604 Mil)
- Other 22%
- Italy 28%
- Germany 28%
- Finland 11%
- France 11%

Cruise Employee Compensation (€ 1,550 Mil)
- Portugal 2%
- Spain 3%
- Norway 7%
- France 2%
- UK 37%
- Germany 8%
- Italy 35%
- Rest 6%

Some Simple Observations...
‘Big Business benefits Big Business’

Ship-Building and Cruise-Line Purchases = € 11.5 Bill. (68% of Total Impact)

Petrochemicals, Manufacturing and Transport / Logistics = € 3.8 Bill. (55% of Cruise Line Purchases / 23% of Total)

Germany, UK, and Italy = € 1.2 Bill. employee compensation (80% of the total of compensation)

Airfares and Embarkation = € 1.8 Bill. of Pax & Crew Spending (46% of Total Pax and Crew Spending)

Germany, Italy and France = € 9.8 Bill. of Ship-Building (67% of Ship Building / 58% of Total Impact)

Source market-economies benefit the most
The Cruise ‘Long-Tail’
Understanding & Predicting Sector Development

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

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

Carnival 36%
Royal Caribbean 22%
Norwegian 14%
Princess 7%
Costa Cruises 6%

2015 Intl. Capacity (Ships = 298)

2015 Intl. Passenger Capacity (250,732)

2015

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The current **Status Quo**: Highly-concentrated sector, focusing on **mass**-tourism and competing on **cost**-reductions achieved through **economies of scale** and negotiation power!
‘DICTATORSHIP’ OF PRODUCTION

Ship-Building Restrictions – MegaShips
Size Matters!!!

AVERAGE PAX / VESSEL

- CCL; 2223
- RCL; 2498
- NCL; 2041
- Other; 788

Total Average, 841

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** Data Source: Cruise Market Watch (2016) - http://www.cruisemarketwatch.com/capacity/
On Board Revenue = € 398.68 (2013: € 307)

Total Revenue = € 1640.68 (2013: € 986)

Onboard Revenue =24.2% of Total Revenue (2013: 23.8%)

Profit Margin = 12.6% (2013: 10%)
Cruise Guest Motives*

Challenges for Destinations - Competition

Ranking of Best Vacation Type
% of Cruisers, 2014

- Ocean cruise: 42%
- Land-based vacation: 14%
- All-inclusive resort: 9%
- Resort non-package: 6%
- Visit friends/relatives: 6%
- River cruise: 4%
- Resort package: 4%
- House rental: 4%
- Land-based escorted tour: 2%
- Camping trip: 2%
- Vacation with business trip: 1%

Factors Influencing Cruise Selection
% of Cruisers, 2014

- Destination: 24
- Overall experience: 20
- Property/ship: 15
- Cost: 29
- Facilities: 13

Ease of Travel

Value4Money

Cruise Value vs. Land Vacation
% of Cruisers, 2014

### The higher the Passenger Capacity, the higher the Air Pollution Reduction Score

(i.e. correlation significant at the 0.01 level)

<table>
<thead>
<tr>
<th></th>
<th>Passenger Capacity</th>
<th>Sewage Treatment</th>
<th>Air Pollution</th>
<th>Total FoE Score</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Passenger Capacity Correlation Coefficient</strong></td>
<td>1,000</td>
<td>0,143</td>
<td>0,003</td>
<td>0,011</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>171</td>
<td>171</td>
<td>171</td>
<td>171</td>
</tr>
<tr>
<td><strong>Sewage Treatment Correlation Coefficient</strong></td>
<td>0,143</td>
<td>1,000</td>
<td>0,184</td>
<td>0,831**</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>171</td>
<td>171</td>
<td>171</td>
<td>171</td>
</tr>
<tr>
<td><strong>Air Pollution Correlation Coefficient</strong></td>
<td></td>
<td>1,000</td>
<td>0,677**</td>
<td></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td></td>
<td>171</td>
<td>171</td>
<td></td>
</tr>
</tbody>
</table>

The higher the Passenger Capacity, the higher the FoE Total Score

(i.e. correlation significant at the 0.05 level)

Newer Vessels tend to be Larger and more technologically-advanced... Hence more environmentally-friendly!

Smart Cruise Ships: RCL Anthem of the Seas
Pax-Space & Pax-Crew Ratios...
A Look through 264 Vessels!

RCL’s Anthem of the Seas and Quantum of the Seas are the ONLY Megaliners with a Space-Service Ratio of over 10

Space-Service Ratio (Average 10)
- Boutique: 19,7
- Mainstream: 9,9
- Superliner: 8,4
- Megaliner: 8,5

Pax/Crew
- Average 1 Crew to 3 Pax:
  - Boutique: 1,79
  - Mainstream: 2,71
  - Superliner: 3,04
  - Megaliner: 3,14

Space/Pax
- Average 26 GT per Passenger – Guest or Crew:
  - Boutique: 31,01
  - Mainstream: 24,28
  - Superliner: 24,86
  - Megaliner: 26,16

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Meet Connie, the Hilton robot concierge

https://www.youtube.com/watch?v=ghbS-aTYw14

Robot hostess puts IT in international Tourism Fair

https://www.youtube.com/watch?v=fljHh__UnPA
The current Trend of Mega ships and ‘Smart’ vessels will persist. There are strong competitive and economic drivers for this!
‘DEMOCRATISATION OF DISTRIBUTION’

Cruise Market Growth, Hybrid-Cruisers, Theming and Digitalisation

© Alexis Papathanassis
Cruise Guest Motives*

Hybrid Customers...

Benefits of Cruise vs. Other Vacations

- Chance to Visit Several Locations: 70%
- Relax/Get Away From It All: 60%
- Being pampered: 60%
- Explore Vacation Area/Return Later: 59%
- High quality entertainment: 59%
- Easy to Plan and Arrange: 58%
- Hassle-free: 57%
- Variety of activities: 56%
- Unique & Different: 55%
- Fine dining: 55%
- Luxurious: 54%
- Offers something for everyone: 53%
- Good value for the money: 52%
- Exciting and Adventurous: 52%
- Fun vacation: 51%
- Makes me feel special - rich and famous: 49%
- Romantic getaway: 48%
- Reliable: 46%
- Good vacation for entire family: 45%
- Safe: 44%
- Cultural Learning Experience: 40%
- Comfortable accommodations: 39%
- Good Activities for Children: 36%
- Participate in Sports You Enjoy: 27%

Cruising as a Source for Future Trips

- Good to sample destinations: 85%
- Typically extend vacation in port city: 45%
- Have returned to destination first visited by cruise: 42%

Cruise Vacation Beliefs

- I enjoy cruising often, but prefer to mix cruising with other types of vacations: 34%
- I enjoy cruising, but I do it infrequently and instead choose other types of vacations: 28%
- I prefer cruising to other types of vacations and cruise as often as possible: 18%
- I enjoy cruising, but consider it a vacation I would only take once or twice in my life: 11%
- I don't enjoy cruising and prefer other types of vacations instead: 9%
Cruise Sector Digital IQ

Content & Booking Process Complexity = Human Agents

AVERAGE DIGITAL IQ & PERCENT OF BOOKINGS ONLINE
By Category

Digital IQ Score

<table>
<thead>
<tr>
<th>Category</th>
<th>Digital IQ Score</th>
<th>% Bookings Online</th>
</tr>
</thead>
<tbody>
<tr>
<td>Airlines</td>
<td>113</td>
<td>48%</td>
</tr>
<tr>
<td>Hotels</td>
<td>97</td>
<td>30%</td>
</tr>
<tr>
<td>Cruise Lines</td>
<td>86</td>
<td>9%</td>
</tr>
</tbody>
</table>

MOBILE PRESENCE BY CATEGORY
% of Brands with the Following:

<table>
<thead>
<tr>
<th>Category</th>
<th>Mobile Site</th>
<th>Smartphone App</th>
<th>iPad App</th>
</tr>
</thead>
<tbody>
<tr>
<td>Airlines</td>
<td>76%</td>
<td>61%</td>
<td>50%</td>
</tr>
<tr>
<td>Cruise Lines</td>
<td>6%</td>
<td>13%</td>
<td>24%</td>
</tr>
<tr>
<td>Hotels</td>
<td>0%</td>
<td>11%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Distribution Democratization
Cruise Booking Process Complexity & Third Parties

** Source Data: Alexa.com

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* Source Data: Alexa.com


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### Online Marketing Share by Channel

<table>
<thead>
<tr>
<th>Year</th>
<th>Airlines</th>
<th>Hotels</th>
<th>Cruise Lines</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>31%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>33%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>34%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>41%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>44%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>46%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>44%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>56%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>56%</td>
<td></td>
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</tr>
</tbody>
</table>

- **BRAND WEBSITE**
- **ONLINE TRAVEL AGENT (OTA)**

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### Ratings of Distribution Channel with Best Service and Price

- **Service**
  - Tour operators: 34%
  - The cruise line directly: 35%
  - Travel agents: 24%

- **Price**
  - Websites and online travel retailers: 47%
  - Cruise lines: 19%
  - Hotels: 30%
  - Airlines: 4%

% of Cruisers, 2014
263 comments,
744 people ‘Likes’...
since yesterday!

A big 'ol tip of the hat to Captain Greybeard for revealing the hull design for Norwegian Cruise Line’s Breakaway. Painted by Peter Max. Love it or hate it? http://bit.ly/OMY5aa
New Players Examples...
Apple iTravel Cruise Patent
New Players Examples...

**Cruise.Me Startup**

http://cruise.me

The five founders recognised that most online cruise sites are modeled on flight and hotel services but that booking a cruise is complex and typical customers require more than a few hours to go through the process.

So, with a goal of creating the best possible online cruise booking experience, the team has invested time in tackling the existing problems while drawing inspiration from the online property and banking sectors.

Booking online is complex due to the vast number of ships, ports, destinations, cabin categories, etc. We have built a more intuitive way for consumers to search, discover and plan/book their cruise.

A cruise is definitely a social experience but so far social has been neglected by most OTAs. Cruise.me helps you to connect with the cruise community, your friends and family and even other passengers who travel on the same ship. We enhance your travel experience before, during and after your cruise.
Cruise lines had kept the shore excursions business under strict control; it was in fact their most profitable ancillary product. Exclusivity contracts with travel agents and on-destination companies closed the circle, making it impossible for local operators to reach the cruise customers before they got off the ship.

More and more cruise passengers are doing their own research online and booking their shore excursions independently, skipping the travel agent and the cruise line.

Unsurprisingly, cruise lines have started to lose ground to local operators as standard, 45-passenger, over-priced excursions seem obsolete and unappealing compared to more local, personalized and economical independent operators tours.

Enabling a direct conversation between the customer and the local operator has essentially unlocked the cruise excursions market. And whilst the attempts of cruise lines to keep the gates closed has proven unsuccessful, obviously the time has come for them to rethink their strategy in order to stay relevant for this critical part of the overall cruise experience.
Cruise Control

Your one-stop shop for health and safety data on cruise ships

By Lena Groeger, ProPublica, May 21, 2015

ProPublica includes a ship-by-ship accounting for about 300 vessels. For any specific ship he or she might sail, a traveler can see a track record dating back to 2010.
The Internet will be the main competitive arena for the cruise sector... And the `Share of Passenger Wallet’ will be the prize.
So where does this leave us?!

*Cruise Business ‘Oligarchy’*

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’
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 – Faculty of Management and Information Systems
- Member of the Research Committee of the Bremerhaven University of Applied Science
- Chairman of the CTM Examinations Committee
- Member of the CTM Study Affairs Committee