

# Collision Course: The cruise industry sails into an unexpected storm

Alan James reports from the Seatrade Cruise Shipping Convention in Miami, the ever-so-reticent 'cruise capital of the world'.

Cruise liners are unique in tourism terms. They are destinations in their own right and they visit destinations on their itineraries. Obvious, of course, but the tension concealed by this dichotomy was only one of a number of troubling issues which rose unexpectedly to the surface at this year's premier gathering of cruise industry leaders in Miami.

It was a surprise that anything at all should have broken the calm of what cruise line PR machines had doubtless planned as a bit of a celebratory bash. After all, total industry passenger numbers were up by 8% in 1999 to 5.9 million, with three million of these being first time cruisers. Capacity was 88% utilised, according to Vicki Freed, the Chair of the Cruise Line International Association (CLIA). She went on to link these good times for the cruise industry with the rise in leisure spending spinning out of the ten-year, 58% growth in output of the US economy and the 20 million new jobs created in the longest sustained boom in American history.

Cranking into statistical overdrive in her opening address, Freed congratulated the industry on maintaining the real-terms price of a cruise at the same levels as the deals offered by the now unrecognisable cruise industry of 20 years ago, compared, she argued, to 50% - 100% inflation in the real-terms cost of land-based vacations. It was this 'great value for money' and the fact that an estimated 87% of the US and Canadian population has yet to take a cruise that was powering the industry forward into a period of unprecedented growth.

2000 will see twelve new and three refurbished ships join the cruise fleet, spearheading an estimated \$24bn investment in some 60 new ships by 2004. For 2000, a further 9% growth in passenger numbers to around 6.5 million was forecast with about 3.5 million of these being 'cruise virgins'. Finally, the cruise industry consistently enjoys the highest consumer satisfaction ratings of any vacation type.

Supporting the drive for expansion, a major, industry-wide PR programme was also being ramped up, targeting 5 million consumer impressions for a spend of \$37m. Innovative channels were being developed, such as infomercials and product placement in prime-time sitcoms, updating the zap-inducing 'sunset couple on the ship's railings' advertising genre predominantly favoured until now by this largely conservative industry.



*It's all smiles for passengers, but can cruise bosses be happy about the future?*



## So all shipshape and Bristol fashion, then?

No. That's when the fun started. The first bombshell was that over 15% of the classic travel agencies which form the cruise industry's primary distribution channel have simply gone out of business. A 190% increase between 1996 and 1999 in the use of the internet by consumers making travel decisions was to blame. 'Ah yes', various speakers countered, 'but we still pay agents the best commissions in the travel industry, when the airlines are cutting theirs to the bone.'

Fine in the short term, perhaps, but surely one is entitled to ask what the industry is going to do when there are no agents left to pay commission to? It's an especially critical question for the cruise lines, as they mostly admit that they've yet to devise a stable *modus operandi* for dealing with the 'new animals' in booking and ticketing spawned by the internet. The problem is further highlighted by the industry's own admission that it has singularly failed to 'surf the Stelios wave' and sell directly to passengers, as per EasyJet and the US no-frills airlines. Between 90% and 95% of the industry's entire distribution depends on the classic travel agency channel, at a time when that channel is undergoing catastrophic contraction.

If the inevitable extinction of the 'Mom and Pop travel agency' wasn't bad enough, the real torpedo was fired from the conference floor before the rest of the panel of cruise line heavyweights had even spoken. 'Why', a questioner unexpectedly asked, 'have the stock prices of the cruise lines plummeted between 45% and 50%? Oh, and what effect might that have on the cost of capital for all those expensive new ships you're investing in?'

If a gob was ever well and truly smacked, it was that of Richard Fain, Chairman and CEO of Royal Caribbean Cruise Lines, to whom the question was passed. It was, Fain conceded, 'difficult to understand'. His real focus was on 'running a business' whose fundamentals everybody on the platform considered to be sound. Visibly thrown by the question, Fain fell back on the classic defence of the CEO under shareholder pressure: the expression of confidence. Although his company had to absorb an 18% increase in capacity in 2000, he was 'confident' that not only would he fill the extra berths, but that he would fill them 'at higher prices'.

It is instructive to recall that Bob Ayling was unceremoniously jettisoned by BA for his inability to deliver only *half* of this strategic travel industry equation – to sell *less* capacity at higher prices. Whether the cruise industry can sell *more* and make a greater profit remains to be seen.

Bob Dickinson, the President of Carnival Cruise Lines, rushed to Fain's aid. The cruise industry, he believed, was 'a superior vacation product' and had enormous potential for growth, from its current base of only 2% of the current annual US and Canadian vacation market. 'Cruise does six million passengers a year, Vegas does 20 million tourists, and Orlando – thanks to that mouse – does 40 million!' So there was a huge market sponge out there, just waiting to soak up all that new capacity. Dickinson was even bullish enough to posit an industry 'fifteen to twenty times bigger than now' in a couple of decades.

Peter Ratcliffe, the President of Princess Cruises, now being spun-off from P&O's logistics business, also agreed with Fain's defence. Stock market analysts and investment advisers, he thought, simply did not understand the high global satisfaction ratings the fundamentally profitable cruise industry achieves. Furthermore, much of the new build coming on stream was 'innovative tonnage' appealing to a broader market.

But that's the key conundrum. For 'broader market' read mass market. And it is the mass market into which the once-genteel cruise industry is unmistakably, deliberately and explosively expanding. The new-build ships themselves provide the evidence. They accommodate a small town's worth of 3,000 passengers. They have architectural styles which even Albert Speer might have found a little bombastic and their fit-out has all the self-restraint of the Las Vegas Hunter S. Thompson so memorably coupled with 'Fear and Loathing'. It certainly smells like the mass market downwind of a megaship concept development meeting these days.

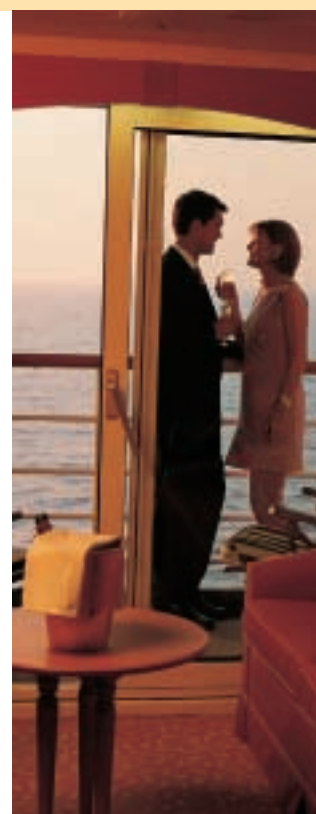
But, as the debates at Seatrade made abundantly clear, there is as yet no real sign that the majority of cruise industry leaders have even begun to address the questions of sustainability that the mass market raises. Embarking ever more of Mr and Mrs Middle America, their kids, and their slightly less wholesome neighbours *en masse* and schlepping them round the Caribbean for a few days' over-eating, gambling and souvenir touting by wisened-up locals is hardly the 'holiday of a lifetime'.

In marketing terms alone, this risks a one-way trip to the shipbreaking beaches of Bangladesh for a sizeable proportion of the glitzy new tonnage now being constructed or commissioned.

Why have some cruise stocks plummeted by 45% – 50%?



Even more superships: bigger vessels – and bigger problems for the cruise industry



With stock prices falling and market congestion ahead, cruise companies face a less than tranquil period

In corporate strategy terms, unless the industry rapidly changes course there is a risk that the megaship cruise lines will be left with the 'bloated midriff' of the market. Already, the upper market operators are differentiating themselves by the *smallness* of their 'pocket cruiser' ships and intimate luxury of their itineraries. Equally, and as surely as seagulls follow the trawler, internet-savvy direct marketers will shatter the commission-paying cruise line club and swallow vast percentage shares of the bottom of the market.

Sitting in a Miami Beach hotel room writing this article, observing at least *twenty-four thousand* bedspaces go floating past in one weekend as the cruise liners leave the world's largest turnaround port, it becomes obvious that the looming cruise industry crisis is not new. We've seen it all before. On land.

## Reinventing the Costas?

What the cruise industry is doing is reinventing the Spanish Costas of the 1960s. But making the hotels float.

Yet it is precisely the 'floating' bit that the cruise industry has always perceived to be its USP, its talisman against the ghastly mistakes of 'concrete and chips' mass tourism developments on land. Even when cruise lines do move into truly mass market operations, the argument goes, they can avoid all of the archetypal problems of land-based operators. They can simply sail the ships off somewhere else: somewhere less crowded, less polluted, less 'samey'.

Of course, it doesn't work like that. The reason why the 24,000 bedspaces leave Miami on Saturday and Sunday is because Americans and Canadians take vacations that fit with their working weeks. Although there is now a fairly wide range of cruise durations, Saturday and Sunday will always remain the prime departure days. Then the basic nautical equation of speed, time and distance takes over. Result: *ten or eleven* of these monster ships turn up in St Thomas every Tuesday! San Juan and other Caribbean ports also suffer to a similar extent.

Having docked, the assembled leviathans then belch up their passengers into a shoreside experience which, inevitably, bears precious little resemblance to the marketing images of palm trees and lonely beaches. Naturally, market forces are at work in the local destination economy, and disembarking passengers are now deposited into a chaotically disorganised, if highly entrepreneurial, taxi system or go 'souvenir' shopping in increasingly grotty impressions of US discount stores, stuffed with tat. Once again, purely from a marketing perspective, this is simply unsustainable. More fundamentally, in corporate terms, it will only take one small upsurge of local resentment at being forced every week into such an extremely unequal exchange – possibly with a ship or its passengers becoming the focus for violence – and then the game will be up.

Up conclusively: one disadvantage of building such large, highly visible things as cruise ships and then stuffing them full of Americans is that they do make tempting targets for a range of undesirable activities, up to and including the terrorism seen in the QE2 bomb threats and the Leon Klinghoffer murder on board the Achille Lauro.

Size is also a potentially huge downside in PR terms. A cruise liner's high profile also means it attracts potentially market-killing media attention when things do go wrong. Unsurprisingly, the industry is united in its view that it really must do more to stop ships sinking, running aground, catching fire or colliding. Not crowding ten or eleven of them into a small area of sea off an overcrowded

destination might be a good start.

But it's not that easy. The sheer size of the ships has now created inflexible requirements for port infrastructure that fundamentally flaws the 'we can just sail off some place else' argument. There only very few ports with the passenger handling facilities and convenient mass airlift capacity to turn around a cruise liner (let alone several) in the few hours that economic operation demands. Even at ports of call, the size of modern vessels is creating problems, not solutions. With the vast populations of today's cruise ships (let alone tomorrow's floating dystopias) it is highly impractical to use tenders to put passengers ashore. Result: misguided attempts by many ports of call to build identikit terminals, lavishly equipped, depressingly, with 'improved' souvenir shops.

Cruise ships, with the odd exception like the disquietingly haddocky 'Norwegian Wind', tend to have names like Celebration or Fantasy. **The world they risk creating, unless something is done soon, will be a nightmare, initially for the destinations they visit, but ultimately for the cruise companies themselves and their shareholders.**



The cruise industry is in danger of reinventing the Spanish Costas of the 1960s – on water

At Seatrade, there was a lone voice raised amongst the cruise industry itself, addressing many of these concerns. Arne Baekellund, President of AB Maritime, had looked over Jordan, or rather into the overcrowded fjords of Norway, where ten or eleven vessels also sometimes turn up and overwhelm communities of a few hundred inhabitants. And he had not liked what he had seen. Giant shopping malls erasing a destination's original *raison d'être*, coming on stream just as the internet generation, in Baekellund's opinion, loses interest in retail. Or 'people pollution' in ports so grossly congested that some masters are now tannoying warnings to passengers not to go ashore in order to avoid spending their holiday standing in one queue after another.

But prophets are famously not recognised in their own land. It was not Baekellund who came closest to making Seatrade sit up and take notice. Not a prophetic remark at all, but an *idiot savant* slip of the tongue by John Tercek, Vice-President of Commercial Development at Royal Caribbean. 'On today's cruise ships', he enthused, passengers feel a real 'wow', they feel 'like they're on the Titanic'.

Rarely can a slip of the tongue have said so much about the state of an entire industry. Baekellund's remarks show that the iceberg has been clearly sighted, but the 2000 Seatrade convention betrayed precious little sign that the collision course between the cruise industry and reality is about to change.

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