

CRUISE INDUSTRY: MANAGEMENT CHALLENGES AHEAD

Ross A. Klein, PhD

Memorial University of Newfoundland

ross@cruisejunkie.com

Croatia Institute for Tourism - Zagreb – 20 May 2011

STATE OF THE CRUISE INDUSTRY

- ✘ Despite economy, continues to grow and expand – Average 7% per year; doubling every 10 years.
- ✘ Greatest growth has shifted from North America to Europe
- ✘ Significant growth in Asia and "down under"
- ✘ Some new ships now go to Europe (contrast "big three" and European cruise lines – Louis, TUI, Pullmantur, charters)
- ✘ Australia and Asia get old tonnage
- ✘ Stable pricing

ECONOMICS ARE STRONG

- ✘ Companies contain costs and maximize income
 - + extra tariff restaurants and surcharges (from Johnny Rockets to celebrity chefs, to ethic foods)
 - + fewer amenities.
- ✘ Onboard revenue largest source of revenue
 - + Shorex are a major source
 - + “Big three” (bars, casino, art auctions)
 - + ATMs, activities and classes, onboard shopping malls, communication services, beverages
- ✘ Carnival Corp – \$2.5 billion net profit/yr
 - + RCCL – 30% of profit from Shorex
 - + Onboard spending ~\$300/day, translating into net profit of \$50+/per pax per day

PORTS CLAMORING FOR BUSINESS

- ✘ Perception of cruise ships as a cash cow
- ✘ If you build it they will come
 - + Brisbane
 - + Campbell River
- ✘ Giving away more than it's worth
 - + New terminals
 - + Transportation services
 - + Forgetting about land-based tourists

DANGERS AND RISKS IF LEFT UNCONTROLLED

- ✘ Ownership and control of cruise terminals
 - + St. Thomas & San Juan (Plan previously rejected by others)
 - + Kusadasi (RCCL vs CCL)
 - ✘ Auction off tours
 - ✘ Auction commercial space (50K vs 30K)
 - ✘ Longstanding business pushed out of business
 - + Belize (RCCL vs CCL)
 - ✘ Tourist village vs local merchants
 - ✘ Shore excursion expectations and economic
 - ✘ Problems around tenders
 - ✘ Environmental issues

CONTROLLING CRUISE TERMINALS

- + Italy (Naples: MSC, Costa, RCCL, Savona, etc, etc)
- + Turks and Caicos
 - × The model for exportation
- + Honduras
 - × Response to Belize
 - × Private property
- + SSA Marine
 - × Operator of cruise terminals
- + Bermello, Ajamil & Partners
 - × Port consultant
 - × Designer of cruise terminals

DANGERS AND RISKS IF LEFT UNCONTROLLED

- ✘ Balancing cruise and land-based tourism
 - + Dubrovnik: 12 ships in one day; traffic (10 minutes vs 75 minutes)
 - + Cozumel: 40,000 pax in one day
 - + Skagway and Ketchikan (pax numbers, stores)
 - + Costa Rica & Belize (80% of foreign visitors; 10% of employment in hospitality sector)
 - + Avoiding sites on cruise ships days
 - + Key West and “getting ugly”
 - + Be sensitive to NG Traveler Destinations ratings

DANGERS AND RISKS IF LEFT UNCONTROLLED

- ✘ Contracts in local currency
- ✘ Predatory conditions
 - + Insurance requirements
 - + Refunds
 - + Inspections
 - + Income split
- ✘ With fluctuations in US dollar, shore-based providers are losing money
 - + Tenders in Belize
 - + Shore excursion providers
 - + Suppliers

DANGERS AND RISKS IF LEFT UNCONTROLLED

✘ Environmental issues

+ Air emissions (incinerators, fuels)

- ✘ Emission Control Areas (EEC, Baltic, North America)

- ✘ Cold ironing

+ Wastewater

- ✘ Gray water unregulated

- ✘ Med as “special area” under MARPOL

- ✘ Solid Waste

+ Solid Waste

- ✘ Recycling?

- ✘ Dumping at sea (including ash)

DANGERS AND RISKS IF LEFT UNCONTROLLED

- ✘ Becoming another St. Thomas
 - + Generic – same shops
 - + Cruise tourism over land-based tourism
 - + Culturally bankrupt
 - + Catering to the lowest common denominator
 - + Onshore spending cut by 75% in 15 years as nature of passengers changes
 - + Dependent upon cruise tourism (no going back)

POWER STRUGGLES & POLITICAL/ECONOMIC DYNAMICS

- ✘ When is enough enough?
 - + Charleston, SC
 - + Victoria, BC
 - + Gold Coast, Australia
- ✘ No guarantees (Playing Off Ports)
 - + Prince Rupert
 - + Campbell River
 - + Norfolk, VA
 - + Mobile, AB

POWER STRUGGLES & POLITICAL/ECONOMIC DYNAMICS

- ✘ The problem of ownership
 - + Belize
 - + Kusadasi
 - + Turks and Caicos & Honduras
 - + Jamaica (Falmouth)
 - + Cozumel (won't be undersold)
- ✘ Who pays?
 - + Naples
 - + Terminal vs infrastructure
 - + Hidden costs of cruise tourism

PROSPECTS FOR MANAGING INDUSTRY TO MAXIMIZE BENEFITS (AND MINIMIZE COSTS)

- ✘ It's a business
- ✘ Resist exploitation
- ✘ Play by your rules and on your terms
- ✘ Create incentives and disincentives to maximize business
- ✘ Prospects for strategic alliances
- ✘ Be sure to solicit information from all sides

