

# The cruise industry: itineraries, not destinations

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## From liners to cruise ships

The global cruise industry carried about 19.1 million passengers in 2011, up from 7.2 million in 2000. Since 1990, over 154 million passengers have taken a cruise of more than two days. Of this number, over 68 percent of the total passengers have been generated in the past 10 years and nearly 40 percent in the past five years. The global growth rate of the cruise industry has been enduring and stable, at around 7 percent per year, in spite of economic cycles of growth and recession.

The emergence of the cruise industry can be traced to the demise of the ocean liner in the 1960s as it was replaced by fast jet services for which it could not compete. The last liners became the first cruise ships; the availability of a fleet of liners, whose utility was no longer commercially justifiable, incited their reconversion to form the first fleet of cruise ships. However, liners were not particularly suitable to the requirements of the emerging cruise industry. For instance, since many liners were designed to operate on the North Atlantic throughout the year for scheduled passenger services, their outdoor amenities such as boardwalks and swimming pools were limited. Additionally, they were built for speed (which was their trademark) with the related high levels of fuel consumption.

The first dedicated cruise ships began to appear in the 1970s and could carry about 1,000 passengers. By the 1980s, economies of scale were further expanded with cruise ships that could carry more than 2,000 passengers. The current largest cruise ships have a capacity of about 6,000 passengers.

## The cruise industry finds its business model

The modern cruise industry began in the late 1960s and early 1970s with the founding of Norwegian Cruise Line (1966), Royal Caribbean International (1968) and Carnival Cruise Lines (1972), which have remained the largest cruise lines. The early goal of the cruise industry was to develop a mass market, since cruising was until then an activity for the elite. In doing so, it developed a business model reflecting the mobility of its assets: the cruise industry sells itineraries, not destinations, implying a greater flexibility in the selection of ports of call and adaptability to changing market conditions.

Applying this business model in the past decades, the cruise industry developed into a mass market using large vessels and adding more revenue generating passenger services onboard. The Caribbean, with its winter peak season, remains the key market, but its dominance is being slowly eroded by the Mediterranean market, which offers a complementary summer peak season. Furthermore, strong niche markets have developed, focusing on, for instance, history (Hanseatic cities in northern Europe) or natural amenities (Alaska). Since the cruise industry is a relatively small segment of the global touristic sector, it has so far been very successful at finding customers to fill ever larger ships. The cruise product has become diversified to attract new customers and to respond to the preferences of a wide array of customer groups. In doing so, the cruise industry has innovated through the development of new destinations, new

ship designs, new and diverse onboard amenities, facilities and services, plus wide-ranging shore side activities.

## Capturing passengers and value

What is novel with cruising is that the ship represents in itself the destination, essentially acting as a floating hotel (or a theme park) with all the related facilities (bars, restaurants, shops, theaters, casinos and swimming pools). This permitted cruise lines to develop a captive market within their ships as well as for shore based activities (for example, excursions or facilities entirely owned by subsidiaries of the cruise line). Some cruise operators go very far in developing new entertainment concepts on board of their vessels, such as surf pools, water parks, ice skating rinks or rock climbing walls.

Onboard services typically account for between 20 and 30 percent of the total cruise line revenues. The average customer spends about \$1,700 for their cruise, including on ship and off ship expenses for goods and services. The majority of these expenses are captured within the cruise ship, as passengers spend on average \$100 per port of call.

## Selecting itineraries

Three main types of itineraries can be found:

- **Perennial** – The region covered by the itinerary is serviced throughout the year as the demand remains resilient, which is associated with stable (subtropical) weather conditions as well as stable itineraries. There may be significant seasonal variations in the number of ships deployed but the market remains serviced throughout the year. The Caribbean is the foremost perennial cruise market (summer low season), but the Mediterranean is also serviced year round, with a winter low season.
- **Seasonal** – Weather is the dominant factor explaining seasonality, implying that some regions have a market potential only during a specific period or season. This is particularly the case for Baltic, Norwegian, Alaskan and New England cruises that are serviced during summer months. Inversely, South American and Australian itineraries are serviced during the winter months.
- **Repositioning** – Because of the seasonality of the cruise industry the repositioning of ships between seasons is required. Cruise companies are increasingly using this opportunity to offer customers lower cost cruises for the inconvenience of having to book air travel arrangements for the return trip since the beginning and ending ports of call are not the same. This mainly takes place across the Atlantic as ships move from the winter Caribbean peak season to the summer Mediterranean peak season (and vice versa).

The number and order of port calls, the total sailing distance and the vessel speed are the main determinants of the total vessel roundtrip time. Schedule reliability is of utmost importance to cruise passengers, particularly when a tight synchronization exists between their arrival at the hub port and the departure of their international flights.

When delays along the route and in ports give rise to schedule reliability problems, cruise ship operators often decide to catch up lost time by increasing the sailing speed at night. Cruise ship operators can insert time buffers in the cruise liner service to reduce the risks of delays.

## Caribbean itineraries: the cradle of the cruise industry

The Caribbean is the world's largest cruise shipping market, representing over 40 percent of the annual cruise supply. It acts as an ideal cruising destination for the following reasons:

- The Caribbean is mostly a chain of islands in close proximity, implying short cruising distances between ports of call. The climate is subtropical with limited temperature fluctuations, albeit the hurricane season (August to October) can create some disruptions. There are a variety of landscapes ranging from rain forests to semi-arid conditions, as well as the presence of coral and volcanic islands.
- The region has a long history associated with European colonialism and accounts for the oldest settlements in the Americas. African, Hispanic, English, French and Dutch influences are prevalent, conferring a very diversified cultural landscape that often changes completely from one island to the other. Therefore, the cruise industry is able to offer to its customers a variety of cultural experiences in close proximity.
- Being adjacent to the US offers a large market of potential tourists able to afford cruise packages without having to travel far to start a cruising itinerary.

Most Caribbean cruises begin (and end) from the Miami or Fort Lauderdale cruise ports that act as the main hub ports. Both are major airports well connected to the rest of the US. New York is also a significant hub port, but its distance limits its Caribbean ports of call options; Kings Wharf (Bermuda) represents a common port call for New York bound Caribbean itineraries. Itineraries using San Juan, Puerto Rico as a hub port have the advantage of being able to effectively cover the eastern Caribbean, the furthest from the US and not serviced by cruises of seven days and less calling from southern Florida.

The typical itinerary is of about seven nights duration, which enables to cover a sub-region of the Caribbean comprising of three or four ports of call (see Figure 1). Cruise ships commonly arrive at the port of call early in the morning and leave in the evening, using the night to sail to the next port of call. To take advantage of a location that does not have sufficient infrastructure to accommodate cruise operations, several cruise shipping companies developed private cruise terminals, including related private touristic amenities, such as beaches, craft markets and restaurants. A salient example is Labadee in Haiti, which is privately owned by Royal Caribbean Cruises. The facility is an enclave protected by private security forces and acts as a port of call for most of the company's Western Caribbean itineraries.

## Mediterranean itineraries: an emerging complementarity

The Mediterranean is the world's second largest cruise shipping market, representing over 29 percent of the annual cruise capacity.



Figure 1. Selected cruise itineraries, Caribbean.

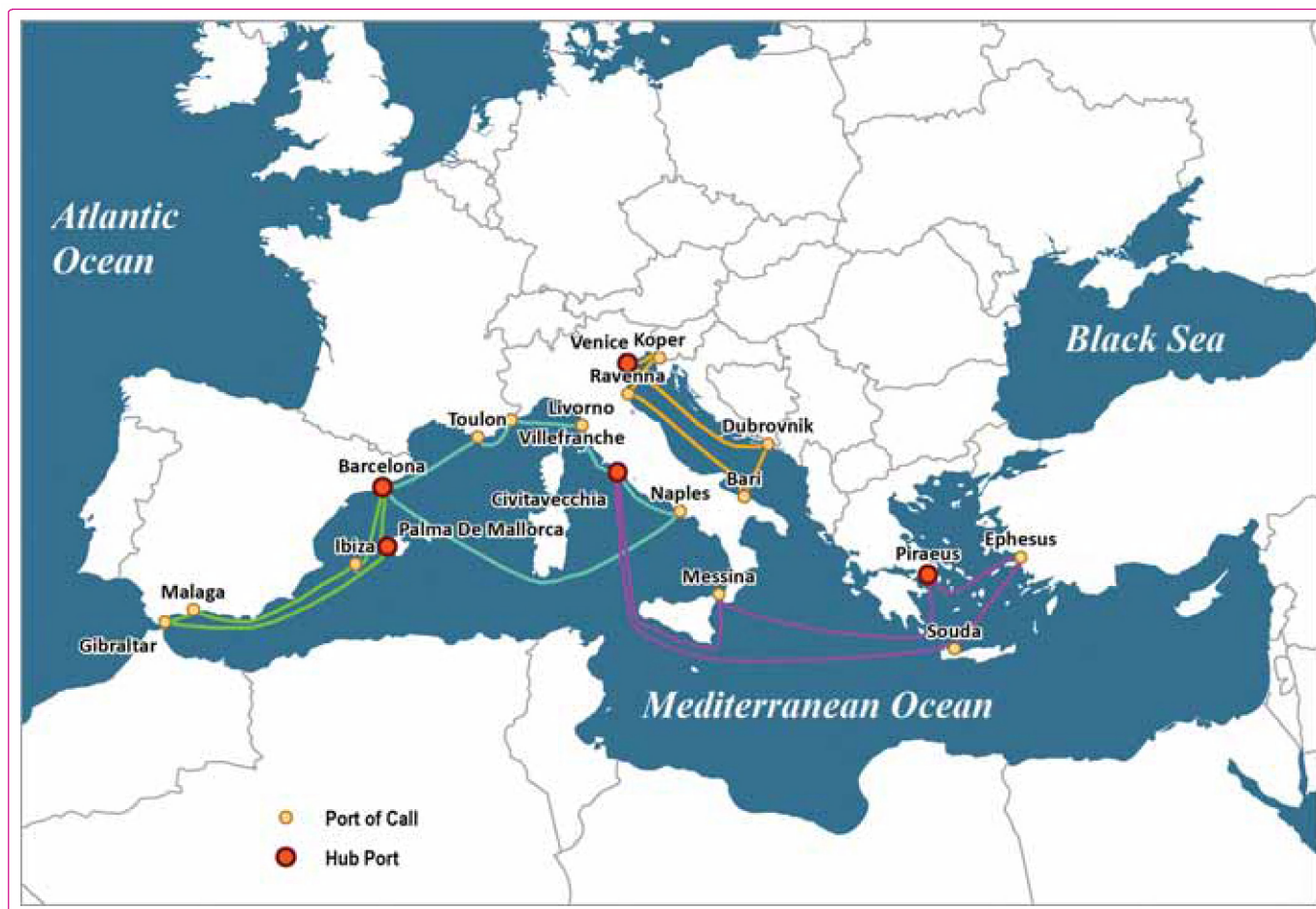


Figure 2. Selected cruise itineraries, Mediterranean.

Its adjacency to Europe provides the advantage of a large pool of customers. It is a perennial cruise market with a summer peak season (several itineraries are not serviced in the winter). The Mediterranean offers seaside resort destinations as well as world class cultural amenities, as several cities are museums by themselves (for example, Venice). Seven day itineraries are structured into small loops of four to five ports of call, each covering a specific sub-region, such as the Adriatic or the Spanish coast (see Figure 2). Since the distances between ports of call are relatively short, this leaves additional time for shore excursions as each port of call offers a wide array of cultural amenities. Itineraries of 14 days are also being offered, covering large parts of the European side of the Mediterranean.

Many of the itineraries are focused on historical sites and exceptional scenery. The most popular countries for cruise ports of call in Europe are Italy, Spain and Greece. Strong growth in Mediterranean cruises in the past years has meant that some ports are getting very crowded. This is particularly felt in top cruise tourist destinations such as Santorini in Greece, Venice in Italy and Dubrovnik in Croatia, but also hub ports, such as Civitavecchia and Barcelona, are challenged to cope with the strong growth of the past years.

### The importance of ports of call

Cruise ports come into three main categories depending of the role they serve within their regions:

- **Destination cruise port** – There are several reasons why the cruise port area can be the sole destination. In the case of cities such as Venice and Barcelona, the cultural amenities offered are world class to the point that tourists will have few incentives to see anything else in the vicinity. Alternatively, in some cases

there may be safety and security issues outside the port area, which can be common in developing countries.

- **Gateway cruise port** – Some cruise ports act as technical stops since they offer no significant cultural or physical amenities, but are used because they are servicing a major touristic destination. For instance, the port of Civitavecchia is the gateway to Rome, one of the most visited cities in the world.
- **Balanced cruise port** – These represent an array of cruise ports where the port can be a destination, but excursions are also available. The balance between the gateway and destination functions varies according to what each port and its region has to offer.

For most customers, a cruise involves two travel segments, the first being air travel to the hub port (with a return trip) and the second is the cruise itself. It is therefore important that the hub port is serviced by a well connected airport, with significant airlift capacity and which represents in itself a touristic destination. This is the case for Miami, Fort Lauderdale and San Juan; these are respectively well connected airports and act as hub ports for Caribbean itineraries. Barcelona and Civitavecchia (near Rome) are major hub ports for the Mediterranean and are well serviced by air transportation. Poorly connected airports are commonly associated with higher airfares, which impair the competitiveness of the city for mass tourism. There are a number of customer benefits linked to having more cruise embarkation points available, such as drive to convenience (particularly felt in North America) and fewer airport hassles. More 'close to home' ports also increase the likelihood of cruising; the reason why cruise lines will call at ports along the American Gulf Coast and Eastern Seaboard, such as Tampa, Galveston, Baltimore and New Orleans, is to capture customers wishing to avoid the hassles of flying to a hub port.





*MSC Splendida*, one of the largest in MSC's fleet with a capacity of 3,900 passengers (plus a crew of 1,300), pictured here in the Port of Barcelona, the second largest cruise port in the world after Miami.

## Live by the supply, perish by the supply?

The cruise industry has emerged to become a significant niche to the global tourism industry. The selection of ports of call and itineraries are carefully pondered to maximize the commercial potential and utilization of the ship assets. Since the cruise industry appears fundamentally to be driven by supply, it is likely that supply saturation, as opposed to demand saturation, will constrain future developments and impose a maturity on an industry that has until now continued to grow rapidly. While large hub ports have the capacity to accommodate additional port calls, it is the smaller 'exotic' or 'must see' ports that cruisers are seeking to visit;

this presents challenges for additional capacity. Berth availability and the capacity of small communities to accommodate large tourist influxes of short duration have become salient issues. This is likely to incite the additional involvement of the cruise industry in terminal operations, a trend that has already taken place with the setting of private port or resort areas. An emerging strategy involves the development of new cruise terminals co-located with service amenities, such as hotels, attractions, condominiums and shopping malls. While a further fragmentation of itineraries is likely to take place, a closer integration between the cruise port and cruise shipping industry is to be expected.

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