

# **AN OVERVIEW OF THE CRUISE INDUSTRY: AN ALTERNATIVE TO LAND-BASED VACATIONS**

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## **ABSTRACT**

*The modern vacation cruise industry dates from about 1970 with the creation of the North American cruise industry. Since then, the industry has changed from a trans-ocean carrier service into a vacation alternative to land-based resorts or sightseeing destinations. According to the Cruise Lines International Association (CLJA), in 1970 500,000 passengers took cruises and by 2000, 6.6 million passengers took cruises per year. This paper reviews the cruise line industry.*

## **INTRODUCTION**

Cruise lines are differentiated according to the market niche that they fill. The cruise industry is divided into three parts: the luxury, premium, and contemporary segments. The luxury segment caters to the wealthy and is priced at more than \$500 a day for each day of the cruise. The premium segment is designed for the businessperson who wants upscale quality for a lower price, ranging from \$250-\$299 a day. The contemporary segment is marketed toward families and couples, offering activities at an even lower cost of up to \$249 a day. The lower berths, which are the number of passenger beds on a cruise ship calculated in accordance with the industry practice, are found by multiplying the number of passenger beds by two per cabin. Lower berth accommodations are increasing as the industry grows.

There are two different geographic segments of the cruise industry: the North American cruise industry and the European cruise industry. Although the European cruise industry is smaller (in operating cruise lines) than the North American industry, the number of cruise passengers has been growing faster in Europe than in North America.

## **NORTH AMERICAN CRUISE INDUSTRY**

There are only a few large competitors in the North American cruise industry. One reason for so few competitors is the high barrier of entry and exit. The industry is global but holds only two percent of the market share in the vacation industry. There are few shipbuilders in this industry, thus making it difficult to bargain for the best prices. However, there is greater buying power from the suppliers of the equipment for the ships.

Changes in the industry could be attributed to government regulations, external or internal changes, or changes in customer preferences. The competitors must position their products through advertisements as being attractive to the consumer. Key competitors in this industry include Star Cruises, Disney, and Carnival.

## **STAR CRUISES**

Star Cruises was originally incorporated in the Isle of Man in November 1993 as Galactica Limited. With the acquisition of the Norwegian Cruise Line (NCL), Star Cruises is the first global cruise line with a presence in the Asian-Pacific, North American, South American, and European markets. Star Cruises is the fourth largest cruise line in the world, operating a fleet of ships with over 21,000 lower berths. Star Cruises offers three different classes of fleets: 1. the Super Star Series, which is the premium segment, 2. the Star Series, which is the contemporary segment, and 3. the Mega Star Series, which is the segment designed to fit each consumer's taste and budget. The Super Star Series fleet includes the Super Star Leo, Super Star Virgo, Super Star Gemini, Super Star Aries, and the Super Star Taurus. The Star Series fleet includes the Star Pisces and the Norwegian Star. The Mega Star Series fleet includes the Mega Star Aries and the Mega Star Taurus. The total fleet consists of 19 cruise ships, of which 11 operate under the Star Cruises brand, six operate under the NCL brand, and two operate under the Orient Lines brand. There are three new ships on order--the Super Star Libra, Super Star Scorpio, and Norwegian Sun.

Star Cruises addressed the issue of safety and environmental concerns with the installation of hi-fog sprinklers in all ship cabins and engine rooms ahead of the requirements from the regulators. Star Cruises upgraded its fire detection systems to the highest standards along with installation of ARC-detection systems for the switchboard.

Concerning information technology (IT), a private communication satellite, MEASAT 1, was installed across Star Cruises' entire fleet. MEASAT 1 provides closed circuit television monitoring, voice, fax, and data communication from ship-to-shore and remote areas for future operations. Internet access is offered to all passengers on Star Cruises' ships.

The acquisition of NCL by Star Cruises occurred in March 2000. The acquisition began as a joint venture with Carnival Corporation, but ended in February 2000 due to differences concerning the direction of the company. Star Cruises owns one hundred percent of NCL, thus making it the first global cruise line. Star Cruises introduced "freestyle cruising" which gives the passengers a choice as to where and when they would like to dine. Star Cruises believes that this is a good method to continue a relationship with NCL's 30 million U.S. and European cruise passengers. Star Cruises' operating income was \$106,857,000 for 2000.

## **THE WALT DISNEY CORPORATION**

Walt Disney set out for Hollywood in 1923 and started his company with his brothers in 1928. Disneyland was opened in July 1955. The Disney Cruise Line's (DCL) first ship, Disney Magic, made its maiden voyage in July 1998. For over 30 years, parents and children have enjoyed an exciting land-based and fun-filled vacation, and it has now added cruise vacations to its list of offerings.

Catering to consumers' needs, DCL offers cruises suited for adults, children, and teenagers--all in one cruise. DCL's theme is magic, and it successfully displays the theme for each consumer age group. For adults, childcare is available if needed. Massage cabanas, comedy clubs, and dinner-dancing are popular with adult consumers. DCL offers adults a chance to rekindle the Disney magic. For teenagers, DCL offers Common Ground, a theme area for teenagers only which

includes New York style coffeehouses, music, games, lounge areas, and a chance for teenagers to make their own films. For children, daily fun is offered through the Oceaneer Club or Oceaneer Labs. There is one-on-one attention for the children, giving them a chance to grow and explore while their families are having their own fun.

DCL is a small part of the Disney Corporation. DCL's operating income was \$32,310,000 out of \$2.9 billion for the entire corporation in 2000. DCL offers a variety of activities and services such as golf, wedding services, or even a working vacation with available office space and equipment. Thus DCL caters to all market niches.

### **CARNIVAL CORPORATION**

Carnival Corporation was incorporated in Panama in 1974. Carnival is the world's largest multiple-night cruise company based on the number of passengers, revenue generated, and available capacity with 48,196 lower berths. It also holds equity in Airtours, an integrated leisure travel group targeted under the name of Sun Cruises. Carnival offers luxury, premium, and contemporary cruises. Ships of the luxury fleet include the Cunard, Seabourn, and the Windstar. The Holland America is offered in the premium fleet, and the Coasta and Carnival are offered in the contemporary fleet.

The cruise line operates over 35 cruise ships, of which 14 operate under the Carnival brand, nine operate under the Holland America brand, four operate under the Windstar brand, two operate under the Cunard brand, and four operate under the Seabourn brand. Carnival Corporation signed agreements with shipbuilders to build 16 new ships due to the age of the fleet.

### **INDUSTRY ANALYSIS**

Some key features of the industry include its market share, scope of rivalry, market growth, size, and entry and exit barriers. A key feature of the industry is its market share.

The vacation industry is a very small part of the leisure/entertainment industry, and the cruise line segment is even smaller with only two percent of the market. The industry as a whole is not large in comparison with similar industries. For example, Carnival Corporation has the highest revenue (\$3,497,470,000) and Star has the lowest (\$391,685,000). The scope of rivalry is global; however, companies such as Disney travel to a limited number of locations, whereas most companies travel abroad. The cruise line industry is mature with potential growth due to the Internet. For example, Coasta Cruises, owned by Carnival, only accepts reservations via the Internet. The size of the market is relatively small due to only a few major competitors such as Star, Disney, and Carnival. This allows each company to watch the competition closely for potential threats. The size of the market is a key element to its high barriers of entry and exit. A luxury cruise ship costs approximately \$300,000,000. This becomes a significant part of the high barrier to entry and exit because it is difficult to raise that amount of capital in order to buy a cruise ship. Competition in the market is very broad. For example, a consumer could choose Disney for a vacation over Carnival. The consumer could also choose to visit land-based sites such as the Grand Canyon or Yellowstone National Park, bypassing cruise ships altogether. This broad range of choices renders the cruise industry relatively small and alert concerning competition.

Risk factors encountered in the industry include environmental and health and safety legislation, increase in fuel prices, and consumer demand for cruises to potentially hostile countries. Environmental groups have fought for stringent regulations of cruise ships. The U.S. Environmental Protection Agency (EPA) is considering new laws and rules to abate cruise ship waste. This would increase operating costs and adversely affect the industry. The cost of fuel could adversely affect the industry's financial position because it may not be able to increase prices on its cruise vacations in order to cover the increased cost of fuel. A country's economic strength and level of disposable income may affect demand for cruises. This could have a negative impact on net revenue yields and thus on net income.

In the cruise industry, the entry of new competitors in the market is relatively difficult. There are three different segments in the industry: luxury, premium, and contemporary. For example, Radisson is the largest in luxury cruises, even though Carnival is the largest in the industry. Disney is a competitor in both land-based vacations and vacation cruises.

The bargaining power of the industry for the suppliers is both low and high. There are few ship-builders in the industry, and they must take the prices that are offered to them. However, there are many different suppliers of food and equipment in the industry, so companies can shop around for the best prices. Consumers have bargaining power as to where they spend their vacation dollars. Technology is one of many drivers of change in an industry that alters the way products are marketed to the consumer. Consumers surf different web sites and view vivid pictures of vacations before they make their choice. Travel agents also brought about change in the industry. Some companies such as Carnival still use travel agents to handle reservations. The Internet has posed a threat to travel agents' job security because the cruise line industry could have all of its business handled directly or through the Internet. Government regulations, such as environmental and safety regulations, can also affect the industry.

In this industry analysis, Carnival has the strongest position in brand image and size of the market, with six subsidiaries that fit into each market niche of the cruise line industry. Disney has a strong brand image but a low percentage of the cruise line market. Star Cruises does not have such a strong brand name or percentage of the market; this also applies to Star Cruises' acquisition of NCL.

There are many strategic moves that each company could attempt in order to reach their goals. Smaller companies can go after a market niche. For example, Radisson only has luxury cruises and is number one in this segment, although Carnival has three different luxury cruises. The companies could offer discounts and coupons along with an attractive itinerary. Radisson has a complete section on its web site just for discounts and coupons. Another strategic move could be to ascertain what the consumer wants. For example, Disney is family oriented and markets its vacations around family life. Carnival has the reputation of marketing to couples.

Studying competitors, staying on top of marketing and innovation, and upholding brand image are key factors for competitive success. Keeping a close watch on the competition is vital. If scrutiny of the competition is neglected, another company could take over a portion of business by attacking a niche of the market. Marketing and innovation are important. For example, Carnival has increased its advertisements yearly and is building new ships. Star Cruises also increased its fleet. Upholding brand image is also important in this competitive industry. For example, Carnival Corporation reportedly did not pay travel agents the standard ten percent commission rate for a

period of time, which hurt Carnival Corporation's image. This also created personnel problems because the travel agents were bitter towards the company, and in all probability, bitter towards the consumer.

The potential growth is high in this industry among the companies that already exist. The competitors will probably become stronger through marketing and innovation. Brand image will become a vital issue as each competitor begins to offer the same services. Other substitutes in the vacation industry can make the cruise industry less attractive to the consumer. For example, the increase in theme parks and resorts makes it that much easier for the consumer to choose not to take a cruise.

### **CONCLUSION**

The cruise line industry is continuously developing markets that rely on many factors to operate successfully. When these factors change, such as consumer desire or level of disposable income, threats are posed to the industry's revenue. If the top companies continue to build more diverse ships with activities for all types of consumers and increase their marketing efforts, they should best their competition.

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