CRUISE INDUSTRY: MANAGEMENT CHALLENGES AHEAD

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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 ethnic 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