P&O, Princess and the International Passenger Cruise Industry

Mike Moulin was distracted as he looked out over the calm, blue Caribbean waters. He was soon to go home on leave – but afterwards he would not be returning to this ship. His employer, Princess Cruises, had invited him to be the first Captain of *Grand Princess*, the largest cruise ship in the world and due for her maiden voyage in Summer 1998. *Grand Princess* would split her cruising year between the Caribbean and Mediterranean – her choice of destinations limited by her sheer size. Captain Moulin knew just how dependent a cruise ship is on its staff and wondered whether the issues would be any different on the first Princess ship to require a crew of over 1000 people.

This case looks at the nature of competition in the growing passenger cruise industry.

The author is indebted to the UK Passenger Shipping Association and, in particular, the US Cruise Lines International Association for permission to reproduce statistical data. Most of the tables in the case are derived from information supplied by the PSA and the CLIA; a limited amount has been abstracted from a Euromonitor report. It is for classroom discussion and should not be taken to reflect either effective or ineffective management.

Introduction

Cruise holidays are no longer confined to the wealthy and elderly – a popular misconception for many people – but these groups continue to be important customers. Younger, more energetic tourists are now providing the revenue streams to build state-of-the-art luxury liners and develop new itineraries and destinations around the world. The industry is enjoying rapid growth. In 1997 North American cruise passengers (the largest segment) increased by 8.6% to 4,860,000. This is almost a tenfold increase since 1970, when just half a million Americans cruised. Also in 1997, UK passengers increased by 25% to 521,500; more British people cruise than from any other European country. However, Germany experienced a 12.3% increase to 401,000. The UK forecast for 1998 is 600,000. Overall, American cruise liners sail with 90% occupancy rates, but some lines enjoy figures well in excess of this. The growth of cruising has brought new prosperity to shipyards in Italy, Germany and Finland, which have been able to specialize in these high added-value vessels and compete again with Asian yards.

Cruising is popular for a variety of reasons. For most people it represents fun; it can be highly entertaining and, for some, romantic. It allows people to travel widely without constant packing and unpacking. It provides luxury at increasingly affordable prices. The holiday can be extensively organized for those who want it that way, freer for more independent travellers. In general it is a ‘safe’ way to see the world, minimizing the likelihood of illness from strange climates, foods and water. The market is dominated by large, specialist competitors, mainly American based, and particularly Carnival Group, Royal Caribbean Cruise Lines (RCCL) and Norwegian Cruise Line as well as P&O/Princess, but newcomers such as Airtours, Saga and Disney are opening up new segments and opportunities, particularly with short-duration and more informal cruises.

The established cruise operators are investing in ever-larger vessels. Princess Cruises’ *Grand Princess*, launched in 1998, is the largest in the world. She registers 109,000 tons (111,000 tonnes) and offers 1296 cabins to (normally) 2600 passengers. Costing $385 million to build, she sails with a crew of over 1100. The smaller *Carnival Destiny* takes more passengers; but 1999 saw the first of three new 130,000 ton (132,000 tonnes) (3100 passengers) liners on order by Royal Caribbean. Each of these costs some half a billion dollars and the first has both a TV studio and an ice-skating rink. These new, large megaliners are critical for the future of the industry and, to build, they cost roughly $150,000 to $160,000 per berth. Every new ship implies a step increase in capacity, unless it is matched by a withdrawal, but a failure to order new ships several years ahead can mean a missed opportunity. P&O and Princess are adding capacity equivalent to 12% per year, for example. One constraint with the newest large ships is their inability to sail through the Panama Canal, itself a popular cruise destination, but the key transit route between the Caribbean and Pacific Oceans. The largest cruise liners, therefore, can offer holidays in the Caribbean and Mediterranean, but Alaska, Hawaii and the South Pacific are effectively prohibited.

P&O/Princess is the third largest of the international cruise line groups, and the largest with UK ownership. It is part of the P&O Group. Princess is a leader in Alaska and the Panama Canal, but these are by no means the most popular destinations for passengers. Equally, Princess has an important position in the dominant Caribbean and Mediterranean markets, where P&O mainly concentrates. P&O and Princess operate as separate companies, based in London and Los Angeles, respectively. They are distinct brands and appeal to different passengers.

New ships, new itineraries and new standards reflect innovation and continuous improvement, but is there an opportunity for a radical new offering? Disney has recently entered the industry with a theme-park-style ship offering lavish entertainment for families. One London designer has conceptualized a 240,000 tons (244,000 tonnes) floating resort, incorporating a 120,000 seat arena, and supported by two 130,000 tons (132,000 tonnes) satellite ships which would provide cruise holidays and, at the same time, ferry people to the resort for short-stay holidays and special concerts and sporting events. This higher risk proposal 'requires a backer who relishes innovation'.

The potential seems enormous. Cruising is still under 2% of the American vacation market, way behind Orlando and Las Vegas, which both command a 10% share. Just over half the people cruising in any year are repeat customers; the other 45% are trying it for the first time, but many of these will choose to cruise again – if they enjoy the experience.

The emergence of the modern cruise holiday

European explorers sailed the oceans to discover the world and open up new trading routes. Later, people migrated to other countries by sea. Fast, convenient, affordable air travel is a relatively recent phenomenon. It was, however, in 1840 that Samuel Cunard began the first regular passenger trans-Atlantic steamship service. These early ships were not renowned for their passenger comfort, and up to World War I migrants were the target market. The White Star Line was the first to incorporate an indoor swimming pool, in 1910, but White Star's *Titanic*, launched in 1912, set new standards with superior, luxury accommodation for her most wealthy passengers. *Titanic* personified elegance. The 1920s have been termed the 'golden age' for steamship travel; during the American prohibition years the ships were not required to sail dry! New standards of lounges, accommodation and entertainment were introduced. However, it was the 1950s before the top deck was transformed into a centre for sports and outdoor activities, a feature which is ubiquitous today. When jet airliners began regular trans-Atlantic services in 1958, the market for five-day crossings by sea was hit dramatically.

The modern cruise holiday began properly in 1966 when the Norwegian Caribbean Line (now the Norwegian Cruise Line) began three and four day cruises to the Bahamas from Miami. One general feature of the modern cruise, present from the beginning, is the absence of different classes of travel. Cabins or staterooms certainly vary in size and facilities, but passengers mingle freely and eat together. Generally passengers pay more for staterooms on the higher decks, where all the suites and cabins with balconies are located. Separated first, second and third classes were important features of trans-Atlantic crossings, and something similar is still available today on the QE2, which has 22 different grades of cabin and restaurants dedicated to certain cabin grades.

The industry grew more dramatically once the first fly/cruise packages were introduced in the

1970s. Ships could now be moved readily around parts of the world to exploit seasonal differences. In 1980 Norwegian Cruises was responsible for another key innovation; it converted an existing ship into one with a large theatre and a promenade of shops. Other new ideas followed quickly. The *Royal Princess*, launched in 1984, has, for example, no inside cabins. The *QE2* pioneered the daily newspaper by satellite in 1986. Windstar cruises traded on nostalgia with luxury sailing ships featuring computerized sails. RCCL introduced the five-deck atrium.

Perhaps paradoxically, the popularity of the movie *Titanic* in 1998 has boosted the industry. Research indicates that passengers have been tempted by the perception of romance and, of course, safety considerations are not the same as they used to be.

Passengers can now choose between large and small ships and luxury and less luxurious accommodation – all major lines offer high standards as a minimum. Ships with 2000 or more passengers are classified as megaliners. Superliners hold between 1000 and 2000; midsize from 400 up to 1000; small are under 400; and the term 'boutique' is attributed to exceptionally high-quality ships below 300 passengers. The industry is extremely competitive, with considerable discounts available for regular and loyal cruisers and people who book early. The major lines all have loyalty organizations of some form, designed to encourage people to return. The 12 key cruise destination areas are listed below and Table 1 summarizes the relative popularity of selected destinations in 1997. In addition, Appendix 1 provides details of the world's leading ports of embarkation and disembarkation in 1998.

The 12 key destination areas are:

- Eastern Caribbean – the area incorporating the US and UK Virgin Islands, Martinique, Grenada, Barbados and Trinidad
- Western Caribbean – originally the Bahamas, but now including Jamaica and the East coast resorts of Mexico. San Juan (Puerto Rico) is a leading cruise port which tends to divide the Caribbean into East and West; both Eastern and Western Caribbean cruises will sometimes be linked to partial or complete transits of the Panama Canal
- Eastern Mediterranean – Italy east to Turkey, Israel and Egypt
- Western Mediterranean – North Africa, Spain, Portugal, France and Italy – stretching to the Canary Islands. Some Mediterranean cruises will blend ports from both regions
- Scandinavia and northern Europe – including the Baltic ports and St Petersburg
- Alaska (north from Vancouver)
- Mexico's Pacific Coast (including Acapulco)
- South America – incorporating a trip around Cape Horn for those with a strong stomach!
- Australasia – and stretching to the South Pacific islands
- The Orient – China, Japan and the Philippines
- The Indian Ocean – the east coast of Africa, India and Malaysia

Table 1 Cruise destinations (1997)

Destination	% of US total	% of UK total
Eastern Caribbean	26.5	23.4
Western Caribbean	22.0	
Mediterranean	8.4	44.8
Rest of Europe	7.2	14.6
Alaska	9.2	1.8
Panama Canal	7.2	1.0 (est.)
World/trans-Atlantic	2.9	2.4
Other destinations	16.6	12.0

NOTES:

- The market each year is 5 million American cruise passengers, 1.2 million Europeans and 1 million Asians.
- The US market (the number of Americans cruising) is 9.3 times bigger than that of the UK, itself the largest in Europe; as a result,
- for every one UK passenger cruising in the Mediterranean, there are two Americans.
- The US:UK ratio for the Caribbean is 20:1; the Alaskan ratio is almost 50:1.
- In the 1990s, the key growth destinations have been:

	US passengers	UK passengers
1	Mediterranean	Mediterranean
2	Western Caribbean	Caribbean
3	Panama Canal	Rest of Europe

- The beginning of this new millennium is perceived by many to offer a wonderful opportunity for those cruise lines which can offer something special and distinctive.

- South-east Asia – Malaysia, Indonesia, Singapore and the Philippines.

(Clearly there is some overlap with these designated regions.)

These different regions enjoy seasonal popularity, linked to changing weather and sea conditions. Cruises in the Mediterranean and Eastern Caribbean tend to be the most port-intensive ones available. The Caribbean is seen as an all-year-round destination despite the unpredictable hurricane season in the autumn. Relative prices vary, based on several issues: popularity and competition, the distances that people have to travel to join the cruise and the potential for supplementary on-board earnings. These are reputedly highest in the Caribbean, where cruises tend to be cheaper than in Alaska and the Mediterranean.

The market for US passengers

The US passenger cruise industry has enjoyed an average growth of 7.6% per year since the beginning of the 1980s; this is faster than the leisure market overall. Some 67 million people have taken a cruise lasting for longer than two days since 1970, almost 70% of this total in the past 10 years and 40% in the past five years. Of those passengers who have cruised in the past five years, one cruise every two years is typical. Throughout the period of research, the average length of a cruise has remained between six and seven days. Research for the New York-based Cruise Lines International Association (CLIA) projects that the market will rise from 5 million passengers per year to 7 million by the year 2000. CLIA argues that taking a cruise is a dream for 60% of US adults – especially those born in the baby-boom years after World War II – but to date only 10% of the population has ever cruised. One-third of the adults surveyed indicated an interest in taking a cruise within the next five years. While the features designed into the new megaliners and the new destinations and itineraries are the result of extensive passenger and potential passenger research, the key challenge lies in translating this interest into real bookings.

Recent American cruisers have been categorized as follows:

	% of market	% who are first-time cruisers
Restless baby boomers	33	59
Enthusiastic baby boomers	20	46
Consummate shoppers	16	20
Luxury seekers	14	30
Explorers	11	20
Ship buffs	6	13

Restless baby boomers are seen as people who have tried and enjoyed cruising, but who have not necessarily committed themselves to a follow-up; they are interested in trying other vacation packages. Enthusiastic boomers are more committed. Typically they lead intense, stressful lives and prioritize their vacations. Consummate shoppers are those looking for 'best value for money' in their holidays; again they are frequently committed, believing that cruising meets their needs. Luxury seekers are those who will choose the boutique ships and the up-market lines which offer luxury – at a price. Explorers are those seeking new experiences and new destinations, while ship buffs are the regular, seasoned cruisers.

Seventy-five per cent of cruisers are married and 54% take children with them. 47% are male, 53% female, and their average age is 49. The age ranges 25–40, 40–59 and over 60 are roughly evenly represented.

In order of priority, the following five prospect segments have been identified and will be used to direct marketing and promotional strategies designed to persuade people to cruise for the first time.

First, families, who are not looking for adventurous holidays and for whom expenditure is critical. Sightseeing, shopping and swimming are high on the agenda. Secondly, comfortable spenders, who are less constrained financially. Typically sports orientated and physically active, they take more vacations than the average household and frequently travel abroad. Thirdly, want-it-alls, who aspire but have yet to achieve the status and income they desire. Because they work hard, there is an element of escapism in their holiday choice. Expectations are very high, and there is a fear that the cruise may be a disappointment. Cautious travellers are fourth. Content with the simpler things in life, they are neither trendy nor fashion conscious. They are not physically active or sporty; instead they are attracted by sightseeing and shopping opportunities. The fifth target group, adventurers, are experimenters. Confident and independent, they tend to be experienced travellers who are willing to spend money to access unusual and exotic destinations. This group would include those interested in unusual wildlife and archaeology. Appendix 2 provides a more detailed summary of this research.

The market for UK passengers

The UK market has been transformed in the 1990s as Airtours and Thomson Holidays have both entered what was previously perceived to be a more upmarket sector of the holiday industry. Growth in the cruise holiday industry is in double figures for all leading Western European countries, but UK passengers exceed those from any other country. Germany is second, but Italy and France account for under 200,000 each. In the early 1990s, and before the impact of Airtours, some 80% of UK cruisers were couples; 10% were single and the other 10% families. Targeting families with limited-length cruises on medium-quality ships has proved very successful in persuading people to cruise for the first time. In its first full year, 1995, Airtours took over 20% of the market. At this time P&O/Princess led with a 35% share and Cunard (18%) was pushed into fourth place. World market leader, the Carnival Group, had 24%.

Relative to the overall holiday industry, cruising is small, but growing, with the real potential in fly/cruise holidays as distinct from those which start in either Dover or Southampton. Cruises to the Mediterranean from the UK imply extra days at sea, instead of ports of call, and require a journey through the highly unpredictable, and frequently rough, Bay of Biscay. In 1996, 49% of UK cruisers were first-timers, but for fly/cruise holidays this proportion rises to 60%.

Averaging 56 years in 1996, UK cruisers tend to be slightly older than Americans on average, although those journeying to the Caribbean to cruise are younger. A substantial number here is under 40. UK passengers typically take longer cruises than their American counterparts, with those lasting between eight and 14 days being the most popular. The average duration exceeds seven days, unlike in America. The average is falling all the time, however, with the impact of the industry's newcomers. In 1996 some 6% of UK cruisers were persuaded to book over 12 months in advance – both to take advantage of early-booking discounts and to secure their first choice of cabin. Forty-seven per cent booked over six months ahead. This proportion increased during the 1990s.

The UK Passenger Shipping Authority believes that of those UK people who can afford to cruise, just 1% do. Forecasts for growth in the UK market postulate annual increases of around 20% such that the annual total will surpass 1 million people early this century. The value of the market should exceed £1 billion in the year 2000. The perpetual growth in capacity is tending to hold prices constant in real terms; and consequently, as operating costs continue to grow and new vessels have to be financed, it becomes increasingly imperative to 'part people from their money' more and more while they are on board ship. This requires more and better shopping opportunities and imaginative, exciting trips ashore for which cruisers are willing to pay.

Competition

The main bases for a competitive strategy are as follows:

- overall size and facilities available
- the grades and size of cabins/staterooms – including facilities, furnishings and balconies
- restaurants and cuisine – quality, variety and flexibility (fixed or variable dining times)
- service and tipping – some lines adopt a strictly no-tipping policy; others encourage certain amounts

- on-board entertainment – clearly the largest ships have larger theatres and more scope. Big shows will be interspersed with specialist individual acts
- sports facilities, indoor and outdoor
- on-board, duty-free, shopping alternatives
- itineraries – numbers of days at sea and in port; actual ports of call; busyness of ports (some feature maybe six cruise ships on the same day!); length of stay at each port (it is typical for ships to sail at night and stay in port all day)
- shore excursions – emphases on shopping, sightseeing, activity (snorkelling, scuba-diving, rafting, biking) and adventure (helicopter and seaplane rides)
- facilities for children – and the opportunity for parents to enjoy activities on their own.

The leading cruise lines adopt different approaches in their search for distinctiveness and real competitive advantage, and these are described later in the case. Table 2 shows the capacities of the leading lines; Table 3 compares passenger:crew ratios for selected ships.

Ships and cruise lines certainly look and feel different, but clearly there are common elements which constitute 'the modern cruise experience'. Lines such as Celebrity deliberately target the 45–65 age group, but the facilities are sufficiently extensive that younger people can enjoy the experience and fit in. Carnival concentrate on 'fun', but most Carnival ships are large enough that people who want simply to relax can do so.

Food is often a major talking point for both cruisers and non-cruisers, who have probably heard that

Table 2
Capacities of the four major cruise lines (figures are based on numbers of berths)

Group/line	Passenger capacity, end 1997	Projected capacity at end of 2001, based on new orders and planned withdrawals
Carnival Group	41,681	53,839
Including Carnival Line	20,103	
Holland America	10,302	
Costa*	7533	
Cunard	3131	
Seabourn†	612	
Royal Caribbean Cruise Line	21,726	32,312
Celebrity	8218	8218
P&O Group	14,744	28,244
Including P&O	3984	5784
Princess	10,760	22,460
Norwegian Cruise Line	10,612	22,644
Totals	96,981	149,807

These four cruise lines represent some 80% of the current global cruising capacity – which is targeted at the key American market. Cruise lines also operate from countries in eastern Europe and the Far East where English is less likely to be the first-choice language. There is a small presence in the Pacific. Guides normally feature 32 mainstream lines with 131 ships; there are perhaps another 30 or so lines operating, none of them large in size.
*Costa Cruises is a 50:50 joint venture between Carnival of the USA and Airtours (UK). Carnival, however, also owns 29% of the shares in Airtours.
†Seabourn is another 50:50 joint venture involving Carnival and a Norwegian entrepreneur. Carnival merged Cunard and Seabourn, its two prestige brands, in 1998.

Table 3
Selected passenger:crew ratios

Ship	Passenger numbers	Crew numbers
Carnival Destiny	2640	1070
Veendam (Holland America)	1627	571
Wind Star (Carnival)	168	91
QE2 (Cunard/Carnival)	1500	1015
Sea Goddess (Cunard)	116	89
Costa Victoria	2250	800
Splendour of the Seas (RCCL)	2440	760
Oriana (P&O)	1975	760
Royal Princess	1200	520
Dawn Princess	1950	900
Grand Princess	2600	1150
Norwegian Majesty	1509	500
Celebrity Galaxy	1870	909

it is relatively easy to put weight on! Meals throughout the typical day can be 'sit-down' or self-service, as people prefer, but in the evening most people will dine in the restaurant. Some evenings will be casual and informal; on other occasions passengers are required to dress more formally. Nobody should ever go hungry. All cruise liners have pools and exercise facilities of various forms, theatres, discos and shops. Bingo can be a popular way to gamble, but normally there is a casino with tables and slot machines. When the ship is sailing all day, a whole range of activities will be organized for the fit and the unfit or lazy. Shore activities will offer sightseeing, shopping and activity, the latter depending on location. White-water rafting can be offered in Alaska; snorkelling and scuba diving in the Caribbean, for example.

Cruise staff

The cruise liner will be staffed by a mix of career officers supported by both long-service crew members and others who do not intend to stay for very long. In charge of the ship is the Captain. The other members of the key support team are the staff captain, the chief engineer, the purser and the cruise director. The purser is responsible for all financial, immigration and on-shore tour issues, and may also be responsible for the 'hotel'; if not there will be a hotel manager who will manage the restaurants and kitchens. The cruise director controls the recreation and entertainment and recruits his or her own staff. These are critical roles because the passengers' *feel-good factor* is extremely dependent on the food and entertainment. Officers come from various parts of the world, but it is quite typical to have a mainly British team (say on P&O) or a mainly Italian team. Cruise directors are most likely to be American or British.

Basically the staff fit into clusters. Some run the ship as a form of transport. Some look after the hotel and catering aspects while others are there to entertain the passengers and look after their well-being. A fourth cluster provide retail and other services.

All staff work for a number of months, say four or six, and then have an extended break. Career staff will be paid during their leave; the others are not – although they will be flown home. Crew members on temporary contracts may or may not be invited back. Again they can come from almost anywhere in the world. Their basic wages are likely to be lower than the prevailing American rates for on-shore work, but for many they are extremely high compared with wages in their home countries. Some cruise lines pay more than others and treat their staff better. Many will manage to avoid paying income tax – and many also rely heavily on (undeclared) tips from passengers. On some lines, tipping is (in theory, at least) forbidden; on others it is positively encouraged. It is also quite typical for high-ranking staff to tip lower-status crew members occasionally.

Training programmes attempt to ensure passenger service, as a large number of the crew actually meets passengers at some point on the voyage. This, however, is unlikely to be in passenger lounges and areas if they are not on-duty. Crew who work for concession holders (perhaps the photographers or retail staff) may have more freedom to mingle, but it remains a dismissible offence if a crew member is found in a passenger cabin (unless they are working in it, of course) or if a passenger is found in the crew member's quarters. Rules on drugs are also typically very tight.

The cruise lines have interesting arrangements with the countries that they visit. Staff passports are held by the purser throughout the period of the contract; the moment a contract is finished the crew member resorts to immigrant status.

Everyone works hard; there is really no escape from this. Staff will be on duty at some time during every day of a voyage; there are no days off as such, as there is little delay when one complement of passengers is disembarked to be replaced by another a few hours later. It would be unusual if a ship were ever empty overnight, except when it is laid off in dry-dock for cleaning and refitting. The exterior is often repainted and woodwork revarnished while the ship is at sea. The workload and pattern will vary between days at sea and days in port, when some staff are free of any duties and allowed onshore. Nevertheless, food is available somewhere on the ship 24 hours a day. The cabin staff typically work during the mornings (cleaning and tidying) and again in the evenings (tidying the rooms again while passengers have their evening meals. They have a break during the afternoons.

Staff all receive free accommodation and meals. Many will be required to share cabins, and these will typically be those that would be least popular with passengers – inside with no windows or down in the bowels of the ship. Although allocated berths, staff will inevitably make informal arrangements and move around. Depending on the line, their food may or may not be the passenger menu. On the face of it, the high-quality passenger menu might seem like a bonus – but the same menus run week after week after week! A selected number of the officers is expected to eat in the passenger dining rooms, at least once during the voyage. The actual number of times is likely to depend on the passengers with whom they end up sitting!

On-board services and revenues

Although transport to and from the cruise liner, together with all accommodation and food, is provided in the holiday price, on many lines passengers also have to pay separately for drinks, hairdressing and beauty services and shore excursions. In addition, the retail shops, on-board photography and the casino are money-earners. These constitute between 20 and 30% of the revenues of the cruise line. Many of the services will be provided by the cruise line itself, but some may be concessions. On Royal Caribbean, for example, photography is a concession but they run their own shops. On Carnival, the reverse is the case. The casino is invariably a concession. In such cases the concession holder employs and deploys the staff in return for a fee; their people are provided with food and accommodation onboard by arrangement.

A profile of a new superliner

When *Sun Princess* was launched in 1995 she was the largest cruise ship ever built. 856 feet long and 83 feet wide (261 by 25 metres), she will sail comfortably through the Panama Canal. A crew of 900 serves 1950 passengers. She was joined in 1997 by her sister ship, *Dawn Princess*, and two more sisters, *Ocean Princess* and *Sea Princess*, in 1999. But she is dwarfed by *Grand Princess* which joined the fleet in 1998. At 935 feet long and 118 feet wide (285 by 36 metres) she is bigger than three football pitches. Her crew of 1150 serves 2600 passengers. She is the first Princess ship not able to pass through the Panama Canal. The appended illustration (Appendix 3) highlights her main features.

Some 70% of her 710 outside cabins have verandas, giving her the largest number of private balconies on any cruise ship. In general, the cabins are spacious. There are three show-lounges and three dining rooms, supported by nine other food venues, including a pizzeria and 24 hour bistro. There are five swimming pools and some lifts are glass walled. The golf club boasts a putting green and full-scale simulator; and another unusual feature is a virtual-reality arcade. *Grand Princess* also provides 'Grand Class Gold' butler service in its suites and minisuites. This has normally only been available on the most expensive luxury liners. Quite typically, money has not been spared on the interior decorations – paintings, sculptures, tiles and glass work and furnishings.

Grand Princess sails the Caribbean from October to May. The weekly cruises go from and to Port Lauderdale (north of Miami) and call at St. Thomas (the US Virgin Island renowned for duty-free shopping), St. Maarten and Princess Cays (a private beach ideal for water-sports in the Bahamas). Three days are spent at sea and three on-shore.

Her summer months offer cruises from Barcelona to Istanbul and from Istanbul to Barcelona. There are nine port days and two full days at sea but, because of flights the actual holiday period is some 13 days. The ports of call take passengers to Monte Carlo, Florence, Pompeii, Venice, Athens and Ephesus.

Interestingly, 40% of UK cruise holidays last for between five and seven days and 43% last for eight to 14 days. For Americans, 36% last for just two to five days, 53% for five to seven days and 11% between eight and 14 days.

The leading competitors

This section describes and compares the four leading cruise groups identified in Table 2 earlier. These profiles could be used to try and identify which lines are best placed to exploit the predicted growth in the market. In addition to the lines considered, there is a number of important and successful niche operators. Crystal and Silversea Cruises, for instance, and like Cunard and Seabourn, offer exceptionally high-quality, luxurious cruises on smaller ships for those passengers willing to pay a premium price. Other lines specialize in river cruises on, say, the Mississippi, the Nile or the Rhine. Windstar and Clipper offer cruises on distinctive (and still luxurious) sailing yachts.

Generally, Celebrity, Holland America, Princess and Costa are acknowledged as premium cruise lines, with Carnival, Norwegian and Royal Caribbean 'contemporary' and not quite as up-market.

Carnival (as an organization, and including all associated lines) has the lowest cost structure and strongest balance sheet in the industry. Its net income (profit before interest and tax) in 1997 was $666 million from a turnover of $2.5 billion. P&O/Princess showed corresponding figures of $280 million and $1.65 billion. Royal Caribbean lagged behind with $175 million income from revenues of $1.9 billion. The cruise lines, not unexpectedly, enjoy tax and regulation concessions from being registered in places such as Panama and Liberia, but the downside of this is that their ships cannot sail from one American port to another without first calling into an international port.

Carnival

Carnival provides casual, contemporary, mass-market fun ships. They are generally perceived to offer exceptionally good value for money in the lower price ranges, and they are very strong on entertainment and recreation – Las Vegas on the water. The average age of passengers is early 40s; 70% are first-time cruisers. Carnival is seen as ideal for couples and for families with children, rather than, say, singles or groups.

Carnival was started in 1972 by Ted Arison, then a cruise holiday executive based in Florida, who joined forces with a Boston-based travel company to acquire the Empress of Canada, which had run aground off Miami. Carnival lost money for the first three years, but has since grown to become the world leader, and run by second-generation Micky Arison. Carnival became a public company in 1987.

The *Empress of Canada* was renamed the *Mardi Gras* and, after the early period of disappointment, the idea of 'the fun ship' was conceived. Arison's declared aim was to 'take the stuffiness out of cruising and abandon the elitist image on which classic ocean liners had thrived'. He targeted 'middle America', who had previously 'never dreamed of a holiday at sea'. His new and innovative marketing strategy implied making the ship itself the most important element in the holiday experience – with casinos, gymnasiums, cocktail lounges, bingo, Las Vegas-style shows, etc., as well as all the food people could eat. 'We took an approach of positioning ourselves in the vacation business, not just the cruise business.'

The 1970s and 1980s saw the addition of new ships and new itineraries, focusing increasingly on families but maintaining an emphasis on the Caribbean. When the 101,000 ton *Carnival Destiny* was launched in 1996, she was the largest cruise ship in the world, accommodating 2640 passengers. She was also the first liner to be too wide for the Panama Canal.

Carnival deliberately sets its prices below those of its main competitors, but enjoys scale economies which enable it not to sacrifice high levels of service. The emphasis remains on three, four and seven day cruises – the alternate and different three and four day cruises can be doubled up into a seven day cruise as well – from San Juan and Florida, and these run throughout the year. There were 11 ships in the fleet at the end of 1997, with two more in 1998 and a further one in 1999. Of these 14, ten can take over 2000 passengers.

In 1989 Carnival acquired the more up-market Holland America and Windstar Lines and formed the Seabourn joint venture. Carnival's partial ownership of Airtours (1996), its half ownership of Costa Cruises (1997) and the acquisition of Cunard (1998) have made it a dominant force in world cruising. The lines are run as separate businesses with different images, customers and target markets.

Holland America

Holland America has eight cruise liners, with two more launched in 1999. The emphasis is on superliners and cruises for more mature travellers who value consistency, quality and high standards of service. It is positioned more up-market than Carnival; its passengers average mid-50s in age during the winter, but are younger in summer. Around half the total are holidaying with a tour group of some sort. While the passenger profiles might be different, Holland America and Princess tend to concentrate on similar itineraries and ports of call. It is typical for a white Princess liner to be moored alongside a navy Holland America ship in a port.

Originally a classic steamship company, Holland America was another pioneer of the modern cruise holiday, acquiring Windstar before being acquired itself by Carnival. Windstar offers cruises for younger professionals in four de-luxe sailing yachts. Holland America had also bought Westours, the Seattle-based travel company which pioneered land-based tours to Alaska. A recent joint venture with Tauck Tours has linked trips through inland Alaska with those to the Canadian Rockies to supplement a cruise along the Alaskan coast.

Holland America has always been kept separate from its parent but provided with the investment capital it has needed to expand its fleet.

Cunard

This old-established English line was acquired by the diversified conglomerate Trafalgar House in 1971. Trafalgar slimmed the fleet in the 25 years it owned the line and then was acquired itself by the Scandinavian company Kvaerner which, as a shipbuilder, had only a passing interest in operating a cruise line.

In 1998, Carnival acquired a business with an up-market profile, a reputation for service and outstanding itineraries, but just five ships. The flagship is the *QE2*, last in a long line of famous Queens. She had been launched in the late 1960s as the epitome of style and elegance and refitted in 1987 to make her one of the most luxurious ships afloat. A more recent refit in Germany brought adverse publicity when she had to leave the yard with the work unfinished and the workmen still on board. *QE2* takes 1500 passengers and operates a form of class separation by linking cabin grades and restaurants. Five-day trans-Atlantic crossings are a speciality, linked for many with a return flight on Concorde. In addition, the *QE2* sails round the world every year, a voyage lasting for some three months. Passengers can sail for the whole or just part of these world cruises. The other Cunard ships are the *Royal Viking Sun* and *Vistafjord*, both 740 passengers, and *Sea Goddess I* and *Sea Goddess II*, both just 116 passengers.

These five liners have joined forces with *Seabourn's* three ultra-luxurious, 204 passenger ships, whose service is reputed to be among the best afloat and which roam the world with a wide variety of itineraries.

Costa Cruises

Together with the UK travel company Airtours, Carnival owns Costa, a maritime company which has been based in Genoa for over 100 years and which has been providing cruise holidays in the Mediterranean for 40 years. In the 1980s Costa adopted the phrase 'cruising Italian style' but, although the staff are predominantly Italian, the appeal is broadly European for the mass market. In the winter Costa ships sail in the Caribbean with some 80% American passengers and an average age of 45 plus. In the summer, in the Mediterranean, 80% of the passengers come from Italy, France and Spain. The cruises typically exceed seven days, and consequently the passengers tend to be reasonably affluent.

Airtours

Airtours is number two to Thomson Holidays in the UK for air-inclusive travel packages. It operates its own airline and the Going Places travel-agency chain. In April 1994 Airtours bought its first ship, a 800 passenger liner which it refitted and renamed *Seawing*. This ship sailed at full capacity throughout 1995, selling its capacity very quickly. She was soon joined by the 1962 passenger *Carousel*, which had been previously named *Nordic Prince* and operated by Royal Caribbean. Airtours later added *Sundream*, which carries over 1000 passengers. All of these are classed as three-star, whereas most of the major ships are four- or five-star. A four-star ship is planned. Airtours' aim has always been to offer cruises which their typical package holidaymaker can afford.

The initial strategy was short breaks in the Mediterranean with a strong family focus at affordable prices, and often linked to a resort stopover. Throughout the summer all three ships provide seven day cruises in the Mediterranean (from a Mediterranean base port), and offer alternate week-long routes, allowing people to enjoy 14 nights and different ports if they so choose. In the winter *Seawing* offers alternate three and four day cruises in and around the Canaries on a similar basis; the others sail the Caribbean.

Its main travel company rival, Thomson, operates on a smaller scale with just one 660-berth ship which it charters and sails on five different Mediterranean routes in the summer.

Royal Caribbean Cruise Line

RCCL provides the 'big ship experience' and is extremely popular with active, fun-seeking couples and families. Some 90% are American with an average age of early 40s. Although it offers destinations around the world, its speciality is year-round Caribbean cruising. RCCL was formed in 1969 when three Norwegian shipping companies merged. Admiral Line, which specialized in short cruise holiday breaks, joined the group in 1995; and in 1997, RCCL merged with Celebrity, which Carnival had been eying. Recently, RCCL has been enjoying very high occupancy rates.

When RCCL launched the *Sovereign of the Seas* in 1988, she was the largest cruise ship then afloat. Reports say that land traffic ground to a halt when she first arrived in her home port of Miami. When *Legend of the Seas* joined in 1995 she was the first ship to boast an 18-hole miniature golf course.

RCCL currently has 13 ships, of which nine carry over 1800 passengers and five are classed as megaliners. The company's shares are traded publicly on the New York Stock Exchange but the original founders remain the majority shareholders. These families also have a controlling interest in Hyatt Hotels. It is quite normal for passengers to add on extra days at the ports of embarkation and disembarkation.

Celebrity Cruises

Celebrity's reputation is built around good value for money in the mid-price categories. Cruises on Celebrity's five superliners are moderately priced, but there is still an emphasis on quality for a relatively affluent clientele. Some two-thirds of the cruises sail from the east coast, with trips between New York and Bermuda a speciality. Typically, the ships sail from Florida into the Caribbean for seven days; they all offer a wide range of entertainment and are designed without the popular but spaceconsuming atriums. Michel Roux acts as a consultant to Celebrity's chefs.

Celebrity is a young cruise line; it was started in 1989 by the owners of Chandris Cruises (long-established in the budget cruise industry) to 'provide deluxe cruises for experienced travellers at affordable prices'. Some industry experts were sceptical of this strategy, but it has worked.

The *Celebrity Galaxy* was the subject of a regular documentary programme on BBC Television in 1998, a series which generated considerable publicity for the ship and some of its crew. A factual programme such as this will entice some people to try a cruise holiday while putting others off.

Norwegian Cruise Line

The 'line for everyman', Norwegian provides highly acclaimed entertainment and (especially) sports facilities. Originally Norwegian Caribbean Line, and begun in 1966, Norwegian was the first line to offer mass-market cruising. There are currently nine ships including one megaliner. Over the years the company's fortunes have risen and fallen and, consequently it has been overtaken by its rivals in the industry. There have been no new ships since 1993, but some existing ones have been refitted and stretched to create additional berths. However, six new ships are on order, two each due in 1999, 2000 and 2001.

P&O Cruises

P&O is a leading operator of high-quality cruises, designed for and marketed to the UK market; it operates alongside, but separate from, Princess in the P&O Group. P&O stands for the Peninsular and Oriental Steam Navigation Company, which was founded in 1737 to provide, essentially, mail services which linked England with India, China and Australia – the eastern routes which pre-dated the Panama Canal. The current P&O flag is blue, white, red and gold – the Royal colours of Portugal (blue and white) and Spain (red and gold) which the company has been allowed to use in recognition of its 'support for legitimate causes' in the civil wars of the 1830s. The *Canberra*, a cruise-ship legend for 36 years until it was retired and scrapped in 1997, also enjoyed active service in the Falklands War.

P&O's first passenger cruise was one from Southampton to Constantinople (now Istanbul) in 1844; it lasted for six weeks. The real expansion came after World War II when new routes were opened in America and the Pacific. P&O merged with Orient Lines in 1960, but this name was abolished, and now an American cruise line operates with this brand. Cruising (both the P&O and Princess brands) provides some 15% of P&O's total revenue and 30% of the operating profit. Before recent corporate changes, the other businesses were ferries (P&O merged with Stena in 1998), container ships (the largest revenue contributor), bulk shipping, property and construction (Bovis). P&O also manages Earls Court and Olympia, which are both used for exhibitions and major events.

P&O has just three ships: *Oriana*, which carries 1800 passengers, and which is due to be joined by a new sister ship in the year 2000; the 1470-passenger *Arcadia*; and the 714 passenger *Victoria*. *Arcadia* was transferred (after a refit) from Princess Cruises – she had previously been the *Star Princess* – to replace the slightly larger *Canberra*. *Victoria* is a compact and informal ship; her suites are smaller than the designated mini-suites on *Arcadia*, for example. For the three-month period December 1999 to February 2000 she was leased to Union Castle Lines, which will re-badge her for special millennium cruises.

There is a strongly European flavour to the cruise programme, with many starting in Southampton. There is a substantial proportion of the market which prefers not to fly before joining the cruise; this option is also ideal for organized groups which can travel by coach at the beginning and end of their holiday. Because of P&O's colonial origins, world cruises remain popular, and both *Arcadia* and *Oriana* sail round the world each year between January and March. In a typical year, P&O carries 75,000 short-break passengers and 9000 on its round-the-world voyages. The programme is normally along the following lines:

	Arcadia	*Oriana*	*Victoria*
January–March	Round-the-World		Caribbean
April–October	Europe	Europe	Europe
November–December	Europe	Caribbean	Caribbean

Some P&O advertising features exotic locations but with the important qualification: 'Everywhere you go you'll find England in the little things'. The ships have British officers, feature British cooking, present British television and radio programmes, and 'run their activities with precise timing'. 'Many of the passengers do not like change, so not much has changed aboard the line's ships in many years'. It is a carefully designed product for an identified and discerning segment and it works. Regular passengers are members of the POSH club, for which there is an annual subscription and various discount and other entitlements.

An example of a P&O advertisement is appended (Appendix 4), together with a typical one for Princess, which adopts a quite different style and approach and provides far more detail about the cruise itself.

P&O in London also operate the Swan Hellenic Line, which has just one small ship, the *Minerva* which specializes in cruises for people interested in archaeology and culture. P&O Australia has one cruise ship, *Fair Princess*, which sails in the South Pacific.

Princess

In 1997 some 450,000 passengers sailed with Princess, many of them attracted by its reputation for shore excursions. The line is 'moderately up-market' and describes its all-white ships as 'Love Boats'.

Princess began as an independent company in 1965, with just one ship sailing to Mexico and Alaska from Los Angeles. A casual and relaxed atmosphere was a feature from the very beginning. Princess acquired more ships, including the *Island Venture*, before P&O bought the line in 1974. The *Island Princess* was the *Venture's* new name; and in 1975 her sister ship *Pacific Princess* was added. Carrying 640 passengers each, they still remain as the two 'baby' ships of the fleet. *Pacific Princess* became the 'Love Boat' when an American television producer raised the finances to make a series based on a cruise ship. The ship was distinctively white and different passenger characters (and their stories) were featured every week. For nine consecutive years the programme received high ratings in America; overall it has been translated into 29 languages and exported to 93 countries. The distinctive Princess seawitch logo has remained synonymous with cruising ever since. The programme had an incalculable impact on modern cruising for Americans, dispelling the elitist image and opening up new markets.

When the *Royal Princess* was christened by Diana, Princess of Wales, in 1994 she was described as the 'most stylish and elegant ship of her day'. She remains British in character with British officers – Princess normally uses Italian offices.

Princess acquired Sitmar cruises, an Italian cruise line, in 1988, and thereby added three more ships. *Star Princess* is now *Arcadia* but *Crown* and *Regal Princess* remain. These two Italian ships have a very distinctive dolphin-inspired shape and interior design; their cabins and public areas are relatively spacious and the ships carry fewer passengers than others of a similar size. Critics say that they are more like hotels than ships. The outcome is an unusual fleet of quite different ships, many of which have passengers loyal to the ship rather than the cruise line – as was the case with *Canberra*. This is being remedied to a degree. *Dawn*, *Sun*, *Ocean* and *Sea Princesses* are all sisters; and sisters are planned for *Grand Princess*. The full fleet is summarized in Table 4, while Table 5 summarizes their annual schedules.

Princess attracts experienced cruisers, and in 1997 the average age fell below 50 for the first time. The New England coastal voyages from New York to Montreal, an annual and extremely popular feature of *Royal Princess*' schedule in September and October, for example, attract older passengers. The Caribbean passengers generally tend to be younger. Princess has an established link with PADI (the Professional Association of Diving Instructors)

Table 4
The Princess fleet

Ship	Launch date	Passengers
Crown Princess	1990	1590
Dawn Princess	1997	1950
Grand Princess	1998	2600
Island Princess	1971	640
Pacific Princess	1972	640
Regal Princess	1991	1590
Royal Princess	1984	1200
Sky Princess	1984	1200
Sun Princess	1995	1950
(on order)		
Ocean Princess	1999	1950
Sea Princess	1999	1950
xxxx Princess	2001	2600
xxxx Princess	2001	2600

The older ships are typically refitted every six to eight years.

which allows passengers the opportunity to become fully certified divers while on a cruise.

With six ships on regular summer duty in Alaska and seven sailing through the Panama Canal, Princess is a major player in these two key destinations. To support one of the most extensive shore excursion packages available anywhere, Princess has invested in developing a holiday infrastructure in Alaska. Table 6 shows the percentage growth of passengers to these destinations from 1987 to 1997. The new, larger megaliners should boost its share of the key Caribbean market in the future.

Princess' loyalty club is called the Captain's Circle. Membership is free, and there are a number of concessions and members' only cruises. Passengers automatically join after their first cruise. After two they become First Officers; after four, Captains; and after nine, Commodores. They are given distinctive pins if they are minded to wear them. An all-ship occupancy rate of 98.4% in 1997 was a slight reduction on the 1996 figure.

Princess advertises and promotes its cruises widely. Expensive and glossy brochures are supported by extensive media advertising. Princess Cruises is run from Los Angeles, with a second office in Seattle for the Alaskan holidays. There is also an office in London, but the main market is America. American holidaymakers join most of the cruises with domestic flights; UK passengers with international ones. To a great extent, the package is the same. But there is certainly one key difference. Americans can cancel without penalty up to 60 days before the ship sails; British passengers would normally lose their deposit

Table 5
The Princess fleet schedule

Ship	January/March	April/September	October/December
Island	Far East	Mediterranean & Baltic	Holy Land
Pacific	Africa	Mediterranean & Baltic	Holy Land
Sky	Australasia/ South Pacific	Alaska	Far East
Royal	South America	Mediterranean & Baltic New England	New England South America
Crown	Mexico	Alaska	South Pacific
Regal	Caribbean/Panama Canal	Alaska	Caribbean
Sun & Dawn	Caribbean/Panama Canal	Alaska	Caribbean/Panama Canal
Grand	Caribbean	Mediterranean	Caribbean

Where required, there are additional one-off trans-Atlantic and Panama Canal repositioning cruises.

Table 6
Percentage changes in cruise passengers to Alaska and the Panama Canal (1987–1997)

Year	US passengers	UK passengers
Alaska:		
1989 from 1987	(7)	NA
1991 from 1989	23	NA
1993 from 1991	14	NA
1995 from 1993	34	NA
1996 from 1995	NA	19
1997 from 1995	20	NA
1997 from 1996	NA	(28)
1998 from 1997 (projected)		16
Panama Canal:		
1989 from 1987	1	
1991 from 1989	11	
1993 from 1991	50	62
1995 from 1993	40	(28)
1996 from 1995	NA	6
1997 from 1995	1	

NA: not applicable.

unless covered by insurance. Prices are competitive and reflect seasonal variations; there are special discounts for early bookings. These can be reinforced by travel agents' cruise discounts. Most reservations come via travel agents, but some cruise wholesalers buy blocks of non-returnable tickets at special prices to sell independently, often via teletext or the Internet. There are some late-booking 'distress prices' available but people may not be able to obtain their preferred cruise or cabin if they wait in anticipation.

Some 40% of UK passengers book at least six-months ahead, with 75% booking three months ahead. The American pattern is similar.

Some cruise lines feature special event cruises as part of their itineraries. Wine tasting, music of a particular style (say big band or country) and eclipses of the sun are typical.

The last sections of the case now examine (briefly) cruising through the Panama Canal and (more extensively) up and down the Alaskan coast. The development here of a holiday infrastructure by Princess, in particular, and Holland America has been critical for supporting growth. The cruise experience has to be enhanced with carefully selected itineraries and shore excursions.

Cruises through the Panama Canal

For some passengers, a trip through the Panama Canal is a 'must', more for the experience than the scenery. The Canal is 50 miles long and runs from the north-west to the south-east across the state of Panama to link the Atlantic (Caribbean) and Pacific oceans, and shave a mere 7873 miles (12,670 km) off the journey! Unlike the other major transit canal, the Suez, there are locks at both ends. They are all double locks, handling two large ships side by side separately. In three stages (three locks) a ship is raised 84 feet (26 metres) and then lowered the same amount at the other end. In between is a large lake, Gatun Lake, fed naturally by rivers in one of the wettest places on earth, and the Gaillard Cut, which slices through a steep tropical forest. Some cruise liners go up the locks at Gatun (the Caribbean end) and then turn round in Gatun Lake before returning to the Caribbean.

Ships are held firm in the locks by towing locomotives, known as mules, which each weigh 56 tonnes and cost several million dollars. Rather than actually tow the ships, with lines on either side the mules simply hold them straight. It takes approximately eight hours for a ship to complete its transit.

The first survey of Panama was conducted as early as 1534, under instructions from Charles I of Spain, but it was the French (who also built the Suez Canal) who first began construction. Having worked for 20 years between 1880 and 1900 they abandoned their attempt at a huge cut, beaten by disease, finance and engineering problems. In 1903 Columbia granted independence to Panama, which quickly signed a treaty with America, granting the USA the right to build the canal and control its operations until the end of the twentieth century. The USA financed everything and paid Panama $10 million. Costing $387 million, the Panama Canal opened in 1914.

The locks are all 1000 feet long and 110 feet wide (305 by 36 metres). The largest passenger ship ever to sail through is the *QE2* at 963 feet long and 105 feet wide (294 by 32 metres). The longest ship ever through is 973 feet and the widest had a beam of 108 feet.

The *Sun* and *Dawn Princesses* are both 856 feet long and 83 feet wide, but the *Grand Princess* is too wide. The other Princess regulars, *Crown* and *Regal Princess*, are 811 feet long and 105 feet wide (247 by 32 metres). Based on size, the cost of a single transit for either of these ships was $164,000 in 1998. Cruises which include the Panama Canal are likely to start in Florida, San Juan or Acapulco, they are unlikely to be round trips and they will normally be for at least ten days. This makes them a relatively expensive cruise.

The Panama Canal is floodlit and operates 24 hours a day. It is permanently busy with shipping, and the Gaillard Cut is currently being widened to allow two large ships to be able to pass each other. At the moment, for wide vessels, a constraint of a single ship at any one time applies. For these reasons advance booking is essential. After all, a cruise liner operates to a timetable which demands that it enters and exits the Canal at a particular time or otherwise its whole programme is thrown out. There is little scope to make up much lost time. Transits are booked years ahead, not months or weeks ahead. This replicates the need for detailed planning for the whole voyage well before a season begins. Popular ports of call also tend to be very busy, with ships from several lines often in port on the same day. Some obtain the good or best berths; others have to anchor offshore and tender passengers in. Some berths, of course, are only suitable for smaller ships. Again, with embarkation and disembarkation ports such as Port Lauderdale, Miami, San Juan and Vancouver, several ships can be turning round on the same day. To maximize occupancy it is typical for a cruise ship to disembark its passengers during a morning and then set sail on the same evening with a whole new set of passengers. At this time, the ship tends to take on all the food it will require for the voyage.

Alaska

While Alaska is an American state, it is not adjacent to any other state of the union: Canada separates Alaska from Washington State. The attraction, fundamentally, is the glaciers, which are more easily seen and appreciated from the sea – the Inside Passage – than from the land. Distances are long in Alaska and no road hugs the coastline. It is necessary to keep travelling inland and then returning to the coastal towns. In addition, the cruise ships now sail very close to the 500 foot (150 metre) high glaciers and the shore, allowing people on the higher decks to appreciate their mass – and also to hear the dramatic noises as large masses of ice break off and float away. Seaplane and helicopter tours from the various ports of call allow closer viewing and, for some, an opportunity to land and walk about. Consequently, Alaskan cruising saw a 140% growth during the 1990s.

Wildlife provides an added bonus. Whales swim south for the winter but return to Alaska for the summer months; different varieties, such as grey, killer and humpback whales, can often be seen quite close to the ships. Porpoises, sea otters and particularly sea lions are also clearly visible at times. Generally, the sea will be calm through most of the summer months; the ships rarely sail far from the coastline. The weather varies, but the bitter cold of winter gives way to comfortable temperatures. There can be rain; Ketchikan is the wettest place in North America.

The appended map (Appendix 5) shows where the cruise lines, in particular Princess and Holland America, have designed extensive programmes of pre- and post-cruise tours in Alaska and Canada to enhance the holiday experience. Inland Alaska, for example, includes Mt. McKinley, at 20,320 feet (6195 metres) the tallest mountain on the continent; the Canadian Rockies are also easily accessible for both coach and rail tours. Most Alaskan cruise holidays will begin with people being flown into either Seattle or Vancouver. From there they can easily be transported to Anchorage (to begin a southbound cruise), Calgary or Banff in Canada, or Fairbanks to begin a tour.

Alaska also has a history for the tour guides to exploit. One hundred years ago, the Gold Rush was in full swing; the first discovery had been made in 1861. Prospectors came up the coast to towns such as Skagway and Haines and then ventured inland, which was only possible at certain times of the year and on steep and dangerous trails, such as the legendary 33-mile (53-kilometre) Chilkoot trail into the Klondike.The nineteenth-century buildings still stand, largely unaltered, in some of the towns; and there are other remains, such as narrow gauge railways which cling to mountain sides.

The most popular add-on involves a trip between Anchorage and Fairbanks, in the heart of Alaska, where visitors can visit a gold mine and cruise down a river on a paddle steamer. Demonstrations of dog mushing highlight the relative inaccessibility of much of the country during the winter months. The journey from Anchorage to Fairbanks is by train. Princess owns eight Ultra Dome double-decker, high-visibility railcars for the 'Midnight Sun' route. Princess' coaches have the widest domed windows ever built for a rail car and provide panoramic views of the mountain scenery. The journey is broken in Denali National Park, where visitors are only allowed if they use park transport. Wildlife trips to spot moose, caribou, Dallsheep and grizzly bears are provided.

Princess has built two luxury lodges in Denali Park. Open for five months of the year, these lodges contain 440 rooms between them and employ 260 people. Visitors can extend their stays to make use of a wide range of organized sporting activities such as kayaking, salmon fishing and river rafting. Princess has a third lodge, on the Kenai Peninsular close to Seward, the port which serves Anchorage. This lodge is open for ten months a year and provides 77 jobs. Again it is designed to provide short breaks for those who enjoy the 'great outdoors'. The other areas of Alaska can be incorporated, including Prudhoe Bay, famous for two things: it is the base for the Alaskan oil industry, and one end of the Alaskan oil pipeline, which runs above the land to Valdez, east of Seward on the southern coast. To protect the tundra (permanently frozen ground) and not inhibit wildlife movement the pipeline is on raised mounts. It is also visible near Fairbanks.

Holland America also offers rail trips in panoramic coaches. Dedicated Princess and Holland America coaches are coupled together on the same train. Both companies own fleets of luxury coaches, Holland America also owning the Gray Line coach concession in Alaska. In addition, this leading rival owns the 15 Westmark hotels in Alaska.

Table 7 lists the ships offering Alaskan cruises in 1998. Princess has some 30% of the market. Cruises are offered for a minimum of 18 and a maximum of 20 weeks between May and September each year; there is capacity for some 30,000 passengers each week.

The main Princess ships are *Regal Princess*, which provides seven-day cruises from and to Vancouver, and *Crown*, *Dawn* and *Sun Princess*, which sail from Vancouver to Seward (seven days) and back again all through the summer. By staggering the changeover days, Princess can fully exploit its rail and lodge capacities. *Sky Princess* includes 11 day round trips from San Francisco in its itinerary.

The impact of the cruise industry on the Alaskan economy has clearly been significant. In 1995, Princess alone contributed an estimated $120 million. This is made up of supplies bought in, wages, and spending by passengers and ships' crews while onshore. Jobs have been created; the capital investment in lodges, hotels and trains has opened up the market for other tourists, independent of the cruise industry. Princess, like the other cruise lines, recognizes the critical importance of waste management and environmental protection in Alaska and in other ports of call around the world. When several cruise lines disembark thousands of passengers every day in a small town on the isolated Alaskan coastline or a small island in the Caribbean, the potential for them to damage the environment and infrastructure clearly exists, but they introduce real relative wealth. They are invariably welcome visitors!

Some final issues

New hull technology and innovations in propulsion

Table 7 Ships cruising the Alaskan coastline in 1998

Line	Ship	Capacity	
Carnival	*Jubilee*	1486	
Celebrity	*Century*	1740	
	Mercury	1870	4984
	Zenith	1374	
Clipper	*Yankee Clipper Yorktown*	138	
	Yorktown	1214	
Crystal	*Harmony*	940	
Holland America	*Maasdam*	1266	
	Nieuw Amsterdam	1214	
	Noordam	1214	7720
	Ryndam	1266	
	Statendam	1266	
	Westerdam	1494	
Norwegian	*Norwegian Wind*	1758	2510
	Norwegian Dynasty	752	
Princess	*Crown Princess*	1590	
	Dawn Princess	1950	
	Island Princess	640	8920
	Regal Princess	1590	
	Sky Princess	1200	
	Sun Princess	1950	
Royal Caribbean	*Legend of the Seas*	1808	3808
	Rhapsody of the Seas	2000	

systems are allowing the newest ships to travel more rapidly through the water without any additional passenger discomfort. Not only does this offer potential cost reductions, it means that the balance between time at sea and time in port is changed. Cruise durations could be shortened; the potential for earning more revenue from passengers could be increased.

But are there any constraints to the growth possibilities?

The large, new, modern ships are clearly popular with passengers, and arguably essential to drive future growth in the industry. The largest ones are too large not only for the Panama Canal, but also for many ports. Across the Caribbean, piers are being extended to accommodate them. Other destinations around the world, anxious to attract the cruise liners and the revenue that they bring, will need to invest in infrastructures. Moreover, as cruising becomes more popular, the congestion at the most popular ports of call must increase. Some destinations can only cope with a certain number of people in any one day; after all, the cruise boats all want to disernbark people early in the morning and have everyone back on board for an evening sail. Similarly, the roads can become very congested as people travel around. Bermuda, where visitors cannot hire cars, is transformed around Easter when the cruise ships start coming from New York, and it stays very busy all through the summer as each ship tends to stay for three days or so and provide what amounts to floating hotel accommodation.

Because major US shipyards are subsidized if they produce vessels for the military, only four shipyards, all of them in Europe, are experienced in building luxury cruise liners. The largest is Fincantieri at Monfalcone in Italy, which is contracted to build for Carnival, Princess and Disney. Kvaerner Masa-Yards (Turku, Finland) is building the new and very large Royal Caribbean ships; Chantiers de l'Atlantique (St. Nazaire, France) is committed to Celebrity. The other is Meyer Werft at Papenburg in Germany. The capacity of all four is fully booked for the next three years. One might wonder why no British yards build these ships.

One final question: where is the next area of the world to benefit from an infusion of cruise passengers? Cuba is talked about, but there is an American embargo. The Indian Ocean is by-and-large undeveloped. Greece and her islands must be a possibility: until recently, only Greek-registered vessels have been allowed to offer round trips in Greek waters. There are cruises around the South American coast, but the seas can be very inhospitable at certain times of the year. Australia and New Zealand are relatively unexploited, but the long flights to and from the ship can be a major deterrent.

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See also the websites of the major cruise lines.

Appendices

Appendix 1. Activity at the leading ports of embarkation and disembarkation (1998)
Appendix 2. Profiles of US cruise passengers

Reproduced with permission from publications of the Cruise Lines Industry Association, New York.

Appendix 3. Grand Princess
Appendix 4. Examples of advertisements for P&O and Princess Cruises
Appendix 5. A cruise map of Alaska

Reproduced with permission from publications of P&O and Princess Cruises.

P&O Group http://www. p-and-o.com
Princess Cruises
http//www. poprincesscruises.com

Questions

1. What are the key strategic issues involved in the international passenger cruise industry?
2. How competitive is the passenger cruise industry? What opportunities are there for creating and sustaining competitive advantage?
3. What are the competitive strategies of P&O and Princess and how successful/well placed are they?
4. What do you think are the key human resource issues – given that this is a distinctive people-driven service business?
5. What do you feel that P&O Group's future strategy for the two cruise lines (brands) should be?

Appendix 1 1998 CLIA destination analysis summary report – all cruises

Port of embarkation	Number of cruises	Berths available	Days in market	Total bed-days	Average per diem	Total market potential	% of total berths available
Acapulco	43	62,612	443	641,604	334	214,551,324	0.96%
Amsterdam	29	14,851	307	166,866	375	62,568,790	0.23%
Anchorage	5	4750	50	47,500	453	21,517,500	0.07%
Athens (Piraeus)	329	170,860	2155	1,077,017	335	360,359,379	2.63%
Auckland	12	8489	155	107,777	503	54,200,480	0.13%
Bali	7	1248	72	12,752	607	7,735,672	0.02%
Bangkok	17	4816	146	57,440	371	21,283,936	0.07%
Barbados	43	10,424	340	90,520	479	43,389,024	0.16%
Barcelona	93	104,699	742	929,549	360	334,666,846	1.61%
Bombay	9	3269	131	50,449	429	21,659,817	0.05%
Boston	60	65,072	437	482,896	294	141,841,296	1.00%
Buenos Aires	21	16,010	280	225,792	418	94,277,540	0.25%
Cairns	5	1764	64	23,536	651	15,328,028	0.03%
Cannes	17	3402	119	23,814	320	7,619,150	0.05%
Charleston, SC	5	510	35	3570	387	1,381,590	0.01%
Civitavecchia (Rome)	78	43,687	737	512,813	395	202,594,563	0.67%
Copenhagen	46	23,626	452	235,174	483	113,476,626	0.36%
Genoa	108	106,516	952	905,934	254	229,749,090	1.64%
Hamburg	16	1792	112	12,544	259	3,248,896	0.03%
Hong Kong	10	7159	133	99,583	464	46,162,052	0.11%
Honolulu	68	66,940	540	554,228	318	176,463,926	1.03%
Istanbul	96	43,898	897	453,284	433	196,265,686	0.68%
Lisbon	32	11,377	405	137,794	527	72,598,522	0.17%
London	52	60,778	643	746,752	418	312,317,504	0.93%
Los Angeles	305	502,520	1721	2,716,462	236	639,955,239	7.73%
Manaus	5	2766	73	38,756	411	15,913,688	0.04%
Miami	752	1,392,744	4348	8,047,488	239	1,923,191,816	21.42%
Mombasa	6	3034	99	45,746	500	22,855,470	0.05%

Appendix 1 1998 CLIA destination analysis summary report – all cruises

Port of embarkation	Number of cruises	Berths available	Days in market	Total bed-days	Average per diem	Total market potential	% of total berths available
Monte Carlo	31	9244	270	94,952	564	53,507,680	0.14%
Montreal	5	4080	50	40,800	470	19,167,920	0.06%
New Orleans	107	78,489	774	554,987	202	112,331,014	1.21%
New York	151	177,200	1141	1,398,326	347	485,042,192	2.72%
Nice	27	7716	203	57,364	666	38,180,616	0.12%
Osaka	1	1214	14	16,996	374	6,356,504	0.02%
Papeete	48	10,194	360	87,856	763	67,026,920	0.16%
Port Canaveral	310	699,546	1127	2,593,416	239	620,836,472	10.76%
Port Everglades/Ft. Laud.	341	513,600	2916	4,185,940	307	1,286,069,712	7.90%
Quebec	6	578	71	6834	218	1,486,650	0.01%
Rio De Janeiro	18	13,480	236	183,318	273	50,095,232	0.21%
San Diego	9	15,686	100	174,754	258	45,106,204	0.24%
San Francisco	5	5018	219	177,840	499	88,703,650	0.08%
San Juan	473	751,822	3213	5,136,910	250	1,282,731,742	11.56%
Seward	75	106,768	543	757,528	394	298,182,452	1.64%
Singapore	31	9709	356	125,247	515	64,554,267	0.15%
Southampton	18	32,350	140	255,200	505	128,949,600	0.50%
St. Thomas	44	5608	316	40,288	510	20,560,076	0.09%
Stockholm	13	2210	108	19,384	554	10,737,476	0.03%
Sydney	10	9259	143	132,979	450	59,780,629	0.14%
Tampa	131	127,518	809	786,090	221	173,339,037	1.96%
Tokyo	1	184	15	2760	568	1,567,680	0.00%
Vancouver	296	446,312	2176	3,243,918	399	1,294,509,720	6.86%
Venice	117	126,540	908	945,842	343	324,289,226	1.95%
X – Misc. Asian Port	14	6892	165	92,910	526	48,880,856	0.11%
X – Misc.Caribbean Port	201	136,664	1490	973,228	223	217,405,526	2.10%
X – Misc. European Port	609	257,434	6489	2,892,463	204	590,830,337	3.96%
X – Misc. Mediterranean Port	26	4260	180	29,588	392	11,606,828	0.07%

Appendix 1 1998 CLIA destination analysis summary report – all cruises

Port of embarkation	Number of cruises	Berths available	Days in market	Total bed-days	Average per diem	Total market potential	% of total berths available
X – Misc. Mexican Port	6	5704	55	62,574	261	16,347,210	0.09%
X – Misc. Port	154	64,245	1599	613,992	459	281,644,862	0.99%
X – Misc. US Port	301	134,202	2204	914,404	291	266,120,968	2.06%
Grand total	5848	6,503,339	44,978	45,046,328	296	13,323,122,708	

Appendix 2 Profile of cruise prospect segments

	Family folks	Want-it-alls	Adventurers	Comfortable spenders	Cautious travellers
Demographics	40 years old 38% college grad 89% married $48K avg income	42 years old 37% college grad 70% married $53K avg income	44 years old 65% college grad 60% married $56K avg income	44 years old 56% college grad 76% married $64K avg income	50 years old 49% college grad 66% married $40K avg income
Psychographics	Family orientated Practical Down-to-earth Budget conscious Satisfaction w/ basics Cautious Happier with simpler things	On the way up Workaholic Fashionable Trendy	Independent minded Ready to try new things Willing to take risks Well-travelled Intellectual Cultured	Physically active Successful Sports-orientated Well-travelled Cultured Fashionable	Cautious Not physically active Happier with simpler things
Vacations in past 3 years	Avg Number = 3 Avg Days = 6 Avg per diem = $115 5% took int'l vacation 43% stayed at resorts 67% trvl w/ children	Avg Number = 3 Avg Days = 9 Avg per diem = $157 21% took int'l vacation 49% stayed at resorts 38% trvl w/ children	Avg Number = 4 Avg Days = 8 Avg per diem = $140 24% took int'l vacation 42% stayed at resorts 25% trvl w/ children	Avg Number = 5 Avg Days = 7 Avg per diem = $154 23% took int'l vacation 59% stayed at resorts 45% trvl w/ children	Avg Number = 3 Avg Days = 7 Avg per diem = $130 8% took int'l vacation 42% stayed at resorts 29% trvl w/ children
Vacation activities	Swimming **Less interested in:** – dining in fine restaurants – cultural activities – gambling – nightlife	Shopping Dining in fine restaurants Nightlife **Less interested in:** – hiking	Cultural activities Hiking **Less interested in:** – Gambling – Golfing	Dining in fine restaurants Sunbathing Nightlife Gambling Golfing Skiing Tennis	Fewest activities
Intent to cruise	35% likely/next 5 yrs 26% hot prospects	46% likely/next 5 yrs 37% hot prospects	33% likely/next 5 yrs 24% hot prospects	39% likely/next 5 yrs 30% hot prospects	19% likely/next 5 yrs 14% hot prospects
Perceived barriers to cruising	Expense Not for children	Not highest quality	Lack of freedom Not enough to do	No major barriers	Unfamiliar experience

This chart is based on statistically significant differences from the norm for all cruise prospects.

	Total	Family folks	Want-it-alls	Adventurers	Comfortable spenders	Cautious travellers
Age						
25–39	46%	57%	49%	42%	46%	25%
40–59	41%	39%	41%	45%	37%	49%
60 or older	13%	4%	10%	13%	17%	27%
Average	43	40	42	44	44	50
Median	41	38	40	42	41	48
Marital status						
Married	75%	89%	70%	60%	76%	66%
Not married	25%	11%	30%	40%	24%	34%
Household composition						
Have children under 18	47%	70%	38%	31%	41%	25%
Adults only	53%	30%	62%	69%	59%	75%
Average	3	4	3	3	3	2
Median	3	4	2	2	2	2
Education						
Some college or less	51%	62%	63%	35%	44%	51%
College graduate or more	49%	38%	37%	65%	56%	49%


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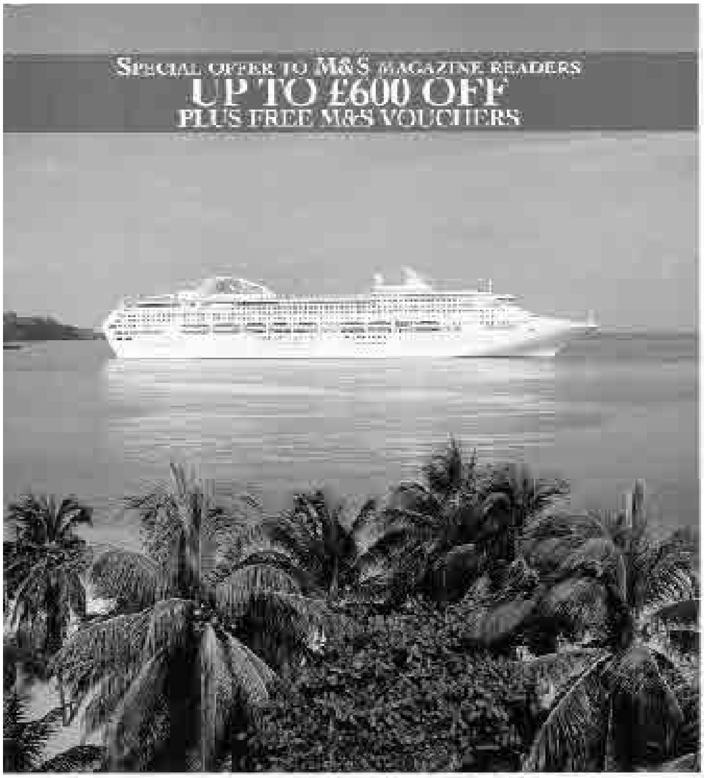

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Set sail for sun-dappled Caribbean islands next spring aboard one of the most spectacular ships afloat – P&O's highly acclaimed Dawn Princess. Close your eyes and you can almost feel the tropical sun on your back, the sea breeze in your hair and the sense of freedom that only being on a cruise can give you.

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Dawn Princess

TROPICAL BLEND

Day	Port	Arrive	Depart
Sat	Fly LONDON to SAN JUAN (Puerto Rico). Transfer to Dawn Princess and embark		11pm
Sun	At Sea		
Mon	BARBADOS	7am	8pm
Tue	ST LUCIA	7am	5pm
Wed	ST MAARTEN	8am	4pm
Thu	ST KITTS	8am	4pm
Fri	ST THOMAS (U.S. Virgin Islands)	7am	4pm
Sat	SAN JUAN (Puerto Rico)	6am	11pm
Sun	At Sea		
Mon	ARUBA (Dutch Antilles)	7am	4pm
Tue	LA GUAIRA (Venezuela) for Caracas	8am	4pm
Wed	GRENADA	Noon	6pm
Thu	DOMINICA	7am	5pm
Fri	ST THOMAS	8am	4pm
Sat	SAN JUAN Disembark. Day at leisure with use of hotel facilities. Fly overnight to LONDON	6am	
Sun	LONDON	Arrive pm	

Departures on the following Saturdays:

[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
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The Grand Plaza, Dawn Princess

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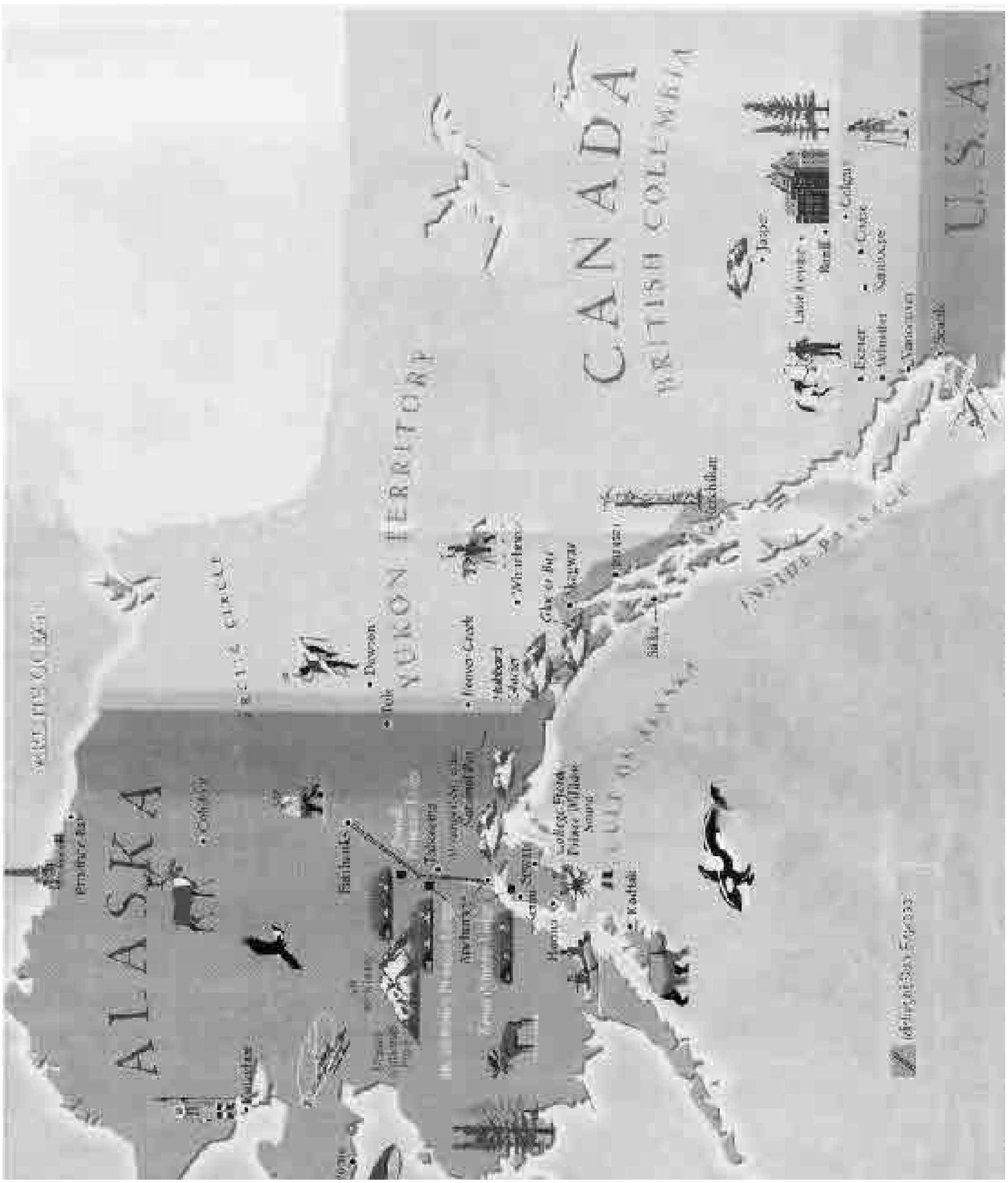
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