

CRUISE VACATIONS

are Hot ...Even if the Economy's Not

by Bob Sharak

At two major travel industry conferences in March – cruise3sixty and Seatrade – cruise line executives expressed strong optimism about sales in the coming months despite increasing concerns nationally about the economy. They had reason to be confident about what can only be described as a robust, diversifying industry.

CLIA member lines carried 12.6 million passengers in 2007, another year of strong growth. In 2002 the total was 8.6 million and, over the last 20 years, the industry has grown at an average of 7 percent annually. By 2012, the CLIA fleet will increase by another 36 new ships, an investment of more than \$22 billion, bringing the total of new ships introduced since 2000 to over 120. Ten new or reintroduced vessels will join the fleet this year alone. But, despite the increase in capacity, CLIA lines have consistently enjoyed an annual occupancy average of more than 100 percent with 2007 coming in at 105%.

In addition to the investment in new ships, the cruise industry continues its global reach. CLIA lines have expanded their operations to Europe – in some cases even creating new regional brands – as well as in South America, Australia and the Pacific and are venturing into such emerging markets as the Middle East, India and Africa. The eastern Mediterranean and the Adriatic as well as northern Europe and the Baltic are proving to be among the most popular of the newer itineraries. And it's not just ocean cruises that are catching the attention of consumers. CLIA's most recent members are small ship operators offering coastal and river cruises in Europe and North America, companies that are marketing not only to their traditional base of seasoned travelers but to families and groups as well.

So, CLIA members are well into 2008 at this point, with aggressive plans for growth still in place and forecasting another very strong year. Since March the economic news has not gotten any better but the cruise industry continues to be optimistic it can weather whatever storm is coming. Why?

First of all, because it has before. The industry has, more than once, proven to be what we like to call “recession resilient.” Certainly its record of capacity growth matched by 100 percent occupancies over a period of time that has included several economic downturns are proof of that. And, there are good reasons for that success.

The industry has been extremely adept at creating product – new ships, innovative itineraries, new destinations and continually evolving shipboard experiences – that not only reflect the tastes and lifestyles of today’s vacationers but actually help drive them. More than any other segment of travel, the cruise industry has been able to offer an extraordinarily broad range of vacation experiences that respond to today’s consumers’ demand for choice, variety and convenience. It is also worth noting, that the cruise product is movable; within limits the industry has the flexibility to move its product in relation to market conditions, taking advantage of strong markets and minimizing risk in weak ones. It’s much harder to move a hotel to a hotter market than a cruise ship.

A case in point is the 2007 and 2008 increased deployment in Europe. Providing American vacationers a quality European experience while insulating the increased valuation of the Euro and selling cruise vacations to Europeans in Euro’s takes advantage of today’s currency valuations.

Another reason for optimism is market penetration, or lack thereof. The cruise industry has, and continues to take advantage of market opportunity. While the number of cruisers has grown tremendously, it is important to note that only 17 percent of the U.S. population has taken a cruise; this is a market that is waiting to be penetrated. CLIA member lines continue to expand their market presence through television and print advertising that focuses on attracting a broader range of customers, notably young travelers, families and first timers. As

overall consumer awareness of the variety of cruises available increases, more and more vacationers will be drawn to the experience. New cruisers are the key to future success and, with a relatively low market penetration thus far, there is good reason to believe that creative marketing will continue to grow the customer base.

The cruise industry also has the benefit of very high customer satisfaction, probably the highest of any segment of the travel industry. This serves to generate equally high levels of repeat business, with the large majority of cruisers telling us they will cruise again; 50 percent of them eager to try different brands. Obviously, this should not be, and isn’t, a question of share shift among cruise brands but a building of the business industry-wide by converting land-based vacationers to cruisers.

Distribution systems are essential to any industry’s success and the cruise industry has carefully nurtured one that works extremely well. Cruise sales come from many channels, including direct sales, online travel agencies, meeting and incentive markets, tour operators and others, but up to 90 percent of our business is done through travel agencies. Almost 16,000 agents are members of CLIA. This distribution system works. Selling a cruise involves transportation, lodging, dining, destinations, recreation, entertainment and more. The key to a satisfied customer is finding the right cruise experience to match his or her interests, tastes and budget. Which is why CLIA invests heavily in training and certifying our agent members to be knowledgeable experts in selling cruises. It’s a win-win situation: the cruise lines have a cost-effective, efficient sales distribution system and travel agents have a livelihood. Between now and 2012, for example, the increase in capacity of the CLIA fleet alone represents potential incremental commissions of \$300 million.

In the final analysis, probably the most important reason the cruise industry is

optimistic that it can sail through whatever economic storms may be ahead is value. Ask most consumers what they like best about cruising and value almost always tops the list. And this applies at all price points, from luxury cruises to three-day samplers. The inclusive nature of cruise pricing plays a big part but less tangible factors are also important, including the convenience of packing and unpacking only once; having a “home away from home” for the duration of the trip; not having to worry about flight reservations or getting from one city to the next; comfort and security; having the opportunity to explore several countries or destinations in one vacation. North American home ports for cruises are within driving distance of 75 percent of the population. These all figure into the value proposition. Currently, one of the greatest values is a European cruise. With the dollar so weak against the Euro, and cruises paid in dollars, there may be no better way to see the Continent, and CLIA member lines are obliging by significantly increasing their capacity in the Mediterranean, northern Europe and elsewhere to enable travelers to take advantage.

In summary, the cruise industry is not recession proof; almost no industry is. But it has repeatedly demonstrated its “recession resistance” through economic downturns, even times of war. With the near future promising more new cruise ships, exciting destinations and innovative shipboard faculties and experiences plus a vast market just waiting to be penetrated, an efficient distribution system and, most of all, an offer of incomparable value for the consumer, it would appear that everything is in place to ensure strong results for 2008 and beyond. ■

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