



The shipping forecast

The year 2011 has been challenging for the cruise industry, with world events and economic sluggishness making cabins difficult to fill. **Gregg Michel** from Crystal Cruises and Norwegian Cruise Line's **Kevin Sheehan** discuss the lessons learned from a tough year and their hopes for the one to come.

For the cruise industry, the past six months paint a confused picture. Quarterly results have been good, in some cases very good. Norwegian Cruise Line's Q2 figures released in early August saw a profit increase of 29% year-on-year, driven by the success of the *Norwegian Epic*. Other iconic launches, such as the *Allure of the Seas*, have had a similar effect on their operators' margins and have reflected positively on the entire industry.

Despite this success, however, a subdued undertone is detectable. Unrest in the Middle East and the tragic events in Japan have had a negative effect, not just on those markets directly, but on consumer demand generally. This hasn't been helped by prevailing macroeconomic conditions in the US and Europe, where financial and job insecurity has put many people's holiday plans on hold.

According to Gregg Michel, CEO of Crystal Cruises, such events have meant the need to adopt a more direct marketing approach. As well as offering increasingly competitive fares, the company has looked to leverage the strength of its most loyal

customers in attracting new business. In June it launched the Crystal Society Referral Programme, under which a priority member who recommends Crystal to a friend who then makes a booking is rewarded with a cash gift.

“A lot can be done to reduce operating costs and increase efficiency without affecting the guests' experience.”

“Customers are still booking, and there has been a noticeable late-season trend, but there is no doubt that the situation in the Middle East has affected consumer patterns,” Michel says. “While the year has been somewhat successful, we've had to fight and be very aggressive in sales and marketing. Our referral programme is a rich plan. It is based on the premise that the best sales people are our past guests.”

Long-term strategy

Kevin Sheehan, CEO of Norwegian Cruise Line, acknowledges the same external

difficulties. He believes, though, that his company's long-term approach to improvement has allowed it to weather the storm to some degree.

“The industry is performing well, if not as well as we expected a few months'

ago,” he explains. “But I think that we are operating in a slightly different scenario to many others. Four years ago, we were underperforming from both a revenue and pricing standpoint. Since then, we have been undergoing a transformation process to move the company from good to great. Because we are moving towards where we really want to be, there is a lot of opportunity and a lot of efficiency savings to be made.”

Norwegian Cruise Line was buoyed up by the performance of its *Epic*, the third-largest cruise ship in the world, and one of



Gregg Michel, CEO of Crystal Cruises.

a handful of megaships constructed over the past three years. In Sheehan's view, the economic benefits of such grand vessels, and their obvious popularity with guests, mean this trend will become entrenched over 2012, and probably for some time to come.

"There will always be a market for smaller ships; every guest has different preferences and wants a variety of experiences," he says. "But the economics of larger ships brings great advantages. The price of fuel is high and the industry has long had trouble moving real pricing up. The *Carnival Dream* and the newly announced *Royal Caribbean* are the same size as the *Epic*, so I think we're consistent with what the market is looking for."

A line such as Crystal, with fewer, smaller vessels and a greater premium on luxury is not likely to embrace that trend any time soon. It has, however, been able to make savings in other ways.

"As a smaller company, we are going to have a hard time achieving the efficiencies that some of the larger lines enjoy," Michel explains. "But there are plenty of things we can do. We've brought in a lighting expert and carried out a complete audit of both ships. We are now emitting more power-efficient light that gives off less heat. This means less air-conditioning is required, which is a significant cost issue on ships."

Increasing efficiency

Possibly the most burdensome source of expense, and one that will continue to be a drain for the foreseeable future, is the cost of bunker fuel. While no alternatives



Kevin Sheehan, CEO of Norwegian Cruise Line.

seem likely to emerge or become economically viable in the next year, methods and technologies of increasing efficiency are being developed all the time. Although some of these seem relatively low-impact, Michel believes they can make a big difference in the long term.

"This is a constant effort, and one that is very difficult to consider over a one or two-year period," he explains. "When we dry-docked the *Crystal Serenity* in May, we repainted the hull with very slippery, silicon-based paint. This alone saves 3-4% of fuel consumption. Then it is incumbent upon us to keep the hull and propellers clean, and fit the most efficient potted-propulsion systems. A lot can be done to reduce operating costs and increase efficiency without affecting the guests' experience."

This idea of the guest experience, what it is, and what it should be, is an interesting one. Back onshore in the hotel industry, design-led brands, many of which are aimed at a more tech-savvy guest, are proving highly influential. The baby boomer crowd, while undoubtedly a key market segment, is being challenged by a younger demographic with different wants and requirements. Sheehan is certainly mindful of this trend at sea, but sees the need to follow it as part of a wider strategy of making cruising more inclusive.

"I think the *Norwegian Epic* was the first step towards exactly that," he explains. "It's a ship that's looking to broaden the reach of consumers, part of which means catering for the tastes of Generation Y. But families are still important, and many of these younger,

tech-savvy singletons will start families. It's really just about attracting a bigger, more diverse audience. In any given year, we are only reaching about 3% of the US population, and a considerably smaller percentage in Europe. We need to jump-start that."

Michel, while acknowledging these changes, doesn't see them as having a dramatic effect on Crystal's business. Although that doesn't mean the company isn't looking to adjust to new behavioural trends and guest demands.

"The mainstay of our business is baby boomers," he explains. "Young baby boomers are only around 46 years old, so that demographic still offers great opportunities. But we like to be able to give our guests choice. We are putting on more seven-day cruises for those people with a lower pricing point or for those who have the money but just don't have the time. We are also looking to introduce more overnights, especially at the beginning of the cruise. Our turnaround ports are always star destinations – Barcelona, Istanbul, Monte Carlo. Guests increasingly want to see these points, rather than just embark from them."

Spreading the net

For both companies, the overarching aim has been and will continue to be promoting the concept of cruising among a wider audience. Crystal Cruises will look to better target travel agents, many of whom have yet to catch on to the appeal of a sea-borne holiday. Sheehan views 2012 as a crunch year for Norwegian Cruise Line, the culmination of a longer transformation process.

"The year 2012 has been a focus for me since 2008," he says. "We've been positioning ourselves for a real breakout year. I feel our marketing has been confusing in the past. People in the industry knew what freestyle cruising was, but if you were seeing a mainstream commercial in the US you would say, 'What the hell does that mean?' Next year will be about better communicating our story in a clearer, more exciting format."

While economic uncertainties remain, and no-one can account for the effect of world events, 2012 looks like it might be a good, if unspectacular, year for the wider industry. And this, in many ways, is just what is needed. ■