

Long Term Prospects of Cruise Industry

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According to Grace (2008), the history of cruise ship dates back to 1844 following the advent of pleasure cruises. Ships previously were primarily concerned with the sea transport of cargo and mails, but gradually the concept of carrying passengers took shape with the introduction of steamships. By the year 1850s and 1860s, ships were now solely catering for transportation of passengers, the quality of expeditions increased with the introduction of luxuries like deck space, entertainment and electric lights on board. Improvement of amenities in ship spurred interests among passengers to take cruises, marking the beginning of a birth of the cruising industry.

Grace (2008) notes that Mark Twain in 1867 made the first maiden cruising trip that originated from America, and later documented his experience in the book “Innocent Abroad.” Later on, the British Medical Journal encouraged the public to take a pleasure voyage for curative purposes. These together with transatlantic travels spurred the practice of cruising. Modern cruise ships, according to Grace (2008), emerged in 1960s. Cruise ships were packaged as “fun ship”, an image that was cut by their casual environment, luxurious amenities and on-board entertainment.

Therefore, cruise ships were designed to give passengers a rich expedition experience and not the conventional role of ships, transporting passengers to a particular destination. One of the characteristic of cruising is that passengers do not have a specified destination, but rather travel for pleasure in round trips. This rich pleasure filled travel experience has emerged to be a multi-billion industry. According to ICE (2013) in the year 2011 cruising revenue accounted for \$29.4 billion, collected from 19 million passengers who enjoyed the cruising experience. At present cruising, forms a major part of global tourism. Murray (2005) observes that in the past 20 years, the cruising industry has enjoyed tremendous growth; however, going into the future, a

slowdown may be inevitable due to varied challenges. This essay seeks to evaluate critically the long-term prospects of the cruise industry.

Profile of the Cruising Industry

According to Mitchell Duplessis Project (2009) there are four major cruising conglomerates dominating the global cruise industry. The largest cruise player is Carnival Corporation, which controls over 47% of the global berth capacity. The Royal Caribbean Cruises controls 23% of total berth capacity worldwide. Norwegian Cruise Line or Star cruises controls 9% of total berth capacity worldwide. MSC Cruise controls 6% of the global total berth capacity. The other 15% of the global total berth capacity is controlled by smaller cruise operators. Loper (2005) observes that the Caribbean Region accounts for the largest cruise capacity placement and the most popular region with cruise passenger, accounting for more than 50% of all cruise passengers in the world.

ICE (2013) observes that the cruise industry has experienced unrivaled growth in the past four decades to be marked as the fastest growing segment of the travel and tourism industry. The ICE (2013) estimates that since 1964 to date the cruise industry in the United States of America, for example, has witnessed 2,100 percent growth. Mitchell Duplessis Project (2009) observes that the cruise industry has over the years grown from a modest sector into one of the fastest growing sectors of the tourism industry in the entire world. The report further states that the cruise industry was once small and localized, but the exponential growth has spurred the industry into a sophisticated, multibillion-dollar industry, with the industry continuing to offer expensive and assorted services to vacation consumers. The exponential growth in the cruise industry is reinforced by the increasing fleet of new ships. ICE (2013) observes that in the 1980s only 40

cruise ships were built; in 1990s, the numbers doubled to 80 new debut ships; and from 2000 to present over 100 new ships have been introduced in the industry. The exponential growth in cruise industry has been also beneficial to economies by spurring tourism. For example, in the United States of America, ICE (2013) estimates that the cruise industry total economic benefit totaled \$35.7 billion in the year 2006. The industry also generated close to 348,000 jobs and direct spending by cruise crew, line and passengers peaking \$17.6 billion. Increased cruising travel has fuelled vacation experience among travelers with cruise ships being fitted with innovative, sophisticated and excellent onboard amenities and facilities. For example, ICE (2013) highlights that modern cruise ship are fitted with internet cafes, cell phone access, surfing pools, themed restaurants, spas, bowling alleys, health facilities and other facilities that are land based. Despite the luxurious experience that passengers of cruise ship are treated to, cruise liners are tailored for a diverse demographic mix; for example, the average age of cruise passenger in a United States cruise liner is 46 years with an average annual household income of over \$93,000.

As ICE (2013) observes, the growth of cruise travel industry has spurred growth in leisure tourism that is cruise tourism. According to Murray (2005), cruise tourism has witnessed tremendous growth in the last two decades in tandem with the tremendous growth that has been witnessed in the cruise industry. World Cruise Industry Review (n.d) point out that in the past decade cruising has gained prominence among tourists, rising to become one of the fastest growing segments of the global tourism industry. This is because cruising has been viewed by tourists as a value for money holiday option. Murray (2005) tabulates that passenger numbers from the year 1980 have on average grown at a rate of 8.1% per annum. Murray (2005) estimates that over 100 million passengers have taken a 2+ days cruise in deep water, with the highest

passenger numbers having been generated in the last five years alone. This has been achieved against the backdrop of a slump of global economies that started in the year 2007-2008. The Global Financial Crisis has adversely affected and posed a bleak future for many industries and sectors, alike.

Future Outlook for Cruise Industry

The Global Financial Crisis that hit the global economies caused the worst recession after the Great Depression of 1930. Many industries, as a result, were brought to their knees as consumers tightened spending, focusing spending on essentials only. Adverse economic effects on industries were pronounced in developing countries, with unemployment reaching double figures. Growth in cruising, which is travel for leisure, was expected to plummet as most of cruising passengers and companies are based in developed countries, which were worst hit by economic recession. According to Mitchell Duplessis Project (2009) majority of cruise passengers originate from North America, Europe and South America. Given that these were the worst hit areas by the economic recession and still are reeling from the financial crisis and the Euro zone Crisis, it was usual to project a sluggish year for the cruising industry.

However, Gibson and Papathanassis (2011) observe that the cruise industry has asserted itself as a major sub-sector of the travel industry having experienced relentless growth even during the economic downturn in recent years. Mintel (2012) observes that the cruise industry was able to overcome effects of economic recession to register double-digit growth in volume and value, with the sector recording 41% in volume and 57% in value between the year 2006 and the year 2011. CLIA (2008) observes that in recent years the international cruise industry has been growing at an average annual growth rate of eight percent, with the European cruise business

being the world's fastest growing cruise markets. Dennis (2008) asserts that the Global Financial Crisis will not dampen the steady growth rates; the German cruise market is expected to expand by 18%; The United Kingdom, which is the second overall cruise market in the world, is expected to hit two million passengers by the year 2012. Ironically, the Euro zone Crisis that has dampened growth in other European industries seems not to shake the European cruise market. Cooper and Hall (2008) state that analysts and shipbuilders concur that the European cruise market is lucrative and a lot needs to be done in terms of building more additional capacity to meet and satisfy the growing demand. The exponential growth in the European Cruise market despite the financial crisis affecting the Euro zone and the economic slowdown in the United Kingdom is an indication that the growth witnessed in the past 20 years in the cruise industry is sustainable.

World Cruise Industry Review (n.d) observes that year 2008, year 2009 was characterized by sluggish economic activities and as a result posed grim predictions for tourism, and leisure business, however, analysts and experts in the cruise industry remained optimistic about the industry's future prospects. World Cruise Industry Review (n.d) reports that the Passenger Shipping Association (PSA) expects passenger numbers in the coming decade to reach 30 million, after allowing for a slowdown in Europe and other cruise markets. An observation echoed by the Cruise Lines International Association (CLIA), which states that the growth being experienced in the cruise industry is sustainable despite the uncertain economic environment, underpinning the resilience of the cruise industry. Impressive growth is expected to continue into the future, which is a paradox because consumers are increasingly tightening their spending; as a result, they are spending less on cruising because it is a luxury. Therefore, from an Economics

paradigm, it is expected that the cruise industry will experience a downturn as consumers cut back on luxuries. Nevertheless, in some quarters, this is not the case as some cruise operators record impressive growth rates. For example, the Australian cruise industry experience strong growth rates in the year 2011-2012 compared the year 2010-2011. According to CDU (2012) expenditure in the cruise sector increased by 48.1 percent and passenger visits by 30 percent.

Though cruise operators in Australia are recording double-digit growth rates, CLIA (2009) observes that the North American Market is experiencing a slow down in global cruise activity, in terms of both passenger numbers and expenditure, due to adverse macroeconomic conditions affecting North America. World Cruise Industry Review (n.d) clarifies that the cruise industry is experiencing mixed fortunes with some cruise operators posting growth while some experience subdued growth in the year 2011. However, macroeconomic instability being experienced in the United States of America, geopolitical uncertainty in the Middle East and Tsunami earthquake in Japan and Europe has adversely affected consumer demand and markets, forcing operators to adopt direct marketing approaches. Royal Caribbean cruises, which controls 23% of total berth capacity worldwide, according to World Cruise Industry Review (n.d), experienced a significant drop in bookings in the month of September. The World Cruise Industry Review (n.d) reports that Dingle, who is the chairman of the European Cruise Council and CEO of Carnival UK, believes that going forward; though big cruise operators will report robust profits in the year 2009, the performance will be below the 2009 due to increasing downward pressure from the worsening macroeconomic conditions facing Europe and the United States of America. Similarly, World Cruise Industry Review (n.d) report that Zamora, who is the global cruise sector leader at Deloitte, concurs that despite the impressive growth witnessed in past years, the

slowdown in the crisis industry is inevitable because no sector of the economy is immune to recession. However, Zamora believes that the cruise industry will emerge from the recession due to its resilience as evidenced by the Post 9-11 terror attacks, and the value for money holiday proposition.

The global economic slowdown, which was experienced in 2007-2009, partly affected growth rates of the cruise industry, however, the growth rates are sustainable in the long term. This is due to the resilience of the industry's business model. The cruise industry is in its nascent stage having gained prominence in the year 1980, and therefore, due to its novelty it continues to elicit interest among millions of people. A case in point is the industry's ability to generate 40% of total passengers in the last five years. Cruising operators offer incredibly diversified products that cater for a mix of demographic mix, enhancing customer satisfaction and fostering customer loyalty. Another factor that will contribute to the sustainable growth rates in the long term is the growth of the European market. The European market, though facing economic challenges, continues to experience impressive growth in passenger numbers.

Conclusion

The cruise industry over the past 20 years recorded impressive growth rates averaging 7.4% annually. As a result, cruising industry has spurred cruising tourism, which is a part of the global tourism industry. However, the impeccable growth rate of the cruise industry has been threatened by the recent economic downturn that has resulted in increased unemployment levels and reduced consumer-spending powers. Consequently, posing grim outlook for tourism and leisure business, so is cruising industry. Nevertheless, the cruising industry withstood the shocks to

record modest growth rates, despite the harsh economic environment, which shows the industry's ability to sustain high growth rates in the long-term.

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