



Cabin fever

Smooth times ahead for the cruise industry

Whichever way you look at it – there's plenty of room for growth in the cruise industry. Currently, the number of tourists worldwide who book cruise vacations stands at around 13.4 million, representing about 1.8% of the total world travel market, as estimated by the World Tourism Organisation.

Even in the US, which is still the largest cruise industry market, only around 16% of the total population has experienced a cruise and only 8% of them have done so in the past three years. Focus right in on the industry's target market in the US, and

analysis shows that only 34% have ever been on a cruise and just 17% in the past three years.

Far from being disappointed at this current level of market share, the industry fully recognises the opportunities ahead as operators expand into new types of cruises (including the niche budget option); set their targets on different demographic groups; and, head for new waters.

There are also several major factors that will give cruising an advantage over the hotel and flight combination.

Cruising's all-inclusive packages are increasingly seen as a more satisfying alternative to land-based holidays, and also offer a wide appeal to the vacation market due to the many choices offered.

Still the largest

North America is still the largest source market and it continues to demonstrate significant growth. This is because cruise vacations have developed into a more widely accepted alternative to land-based holidays, giving the industry the chance to maximise the potential of a satisfied customer base.

Also, the net capacity – passenger capacity on available cruise ships – has risen considerably with the delivery of new ships; thereby creating good supply for a vacation alternative that is in high demand. With fewer ship deliveries planned for the next few years, this capacity growth is set to decline; but this will be good news for cruise operators. With less capacity and an increase in demand, operators will be able to raise prices and enjoy higher revenue yields.

In 2004, more than 9 million North American passengers took a cruise, representing an 11% increase since 2003. Figure 1 shows how the numbers of passengers have increased in the past 25 years.

The one million mark

Europe is widely accepted as the world's largest vacation market, but Europeans are not as keen on cruising as their counterparts across the Atlantic. Estimates put cruises at less than 1% of the European

travel market, compared to an 8% slice of the market in North America. Holidaymakers in the UK are the exception. Here, ocean-going passengers rose to almost 7% and passed the one million milestone for the first time in 2004. If this figure was used as a comparison rate for the last seven years, it would equate to an increase of almost 100%; or 300% over the past decade.

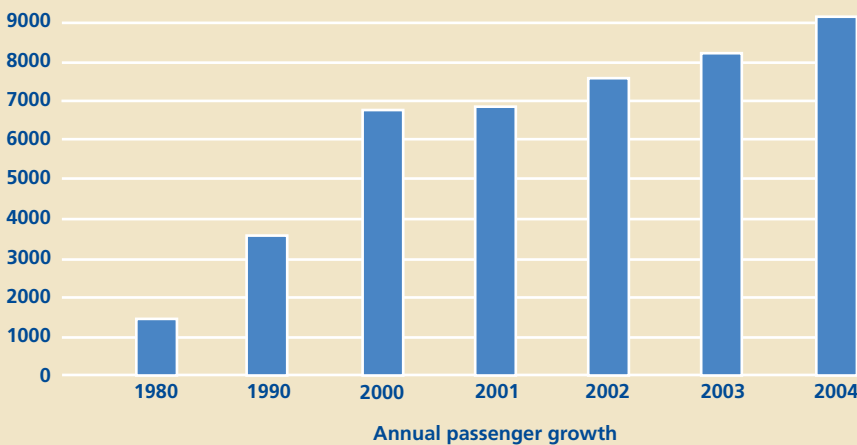
It is predicted that a 7% average growth rate will be sustained for the UK through to 2010¹, when it will start to slow down. Passenger numbers are expected to rise from the 1 million mark to over 1.5 million in five years, almost 2 million in 2015 and more than 2.2 million by 2020. Figure 2 shows how the market has shaped up since 1974.

Going East

When operators consider which areas of the world have the most potential, all signposts point East. The region offers two enticing prospects – first, in terms of new ports of call for western cruise ships, and second, as a source of potential customers.

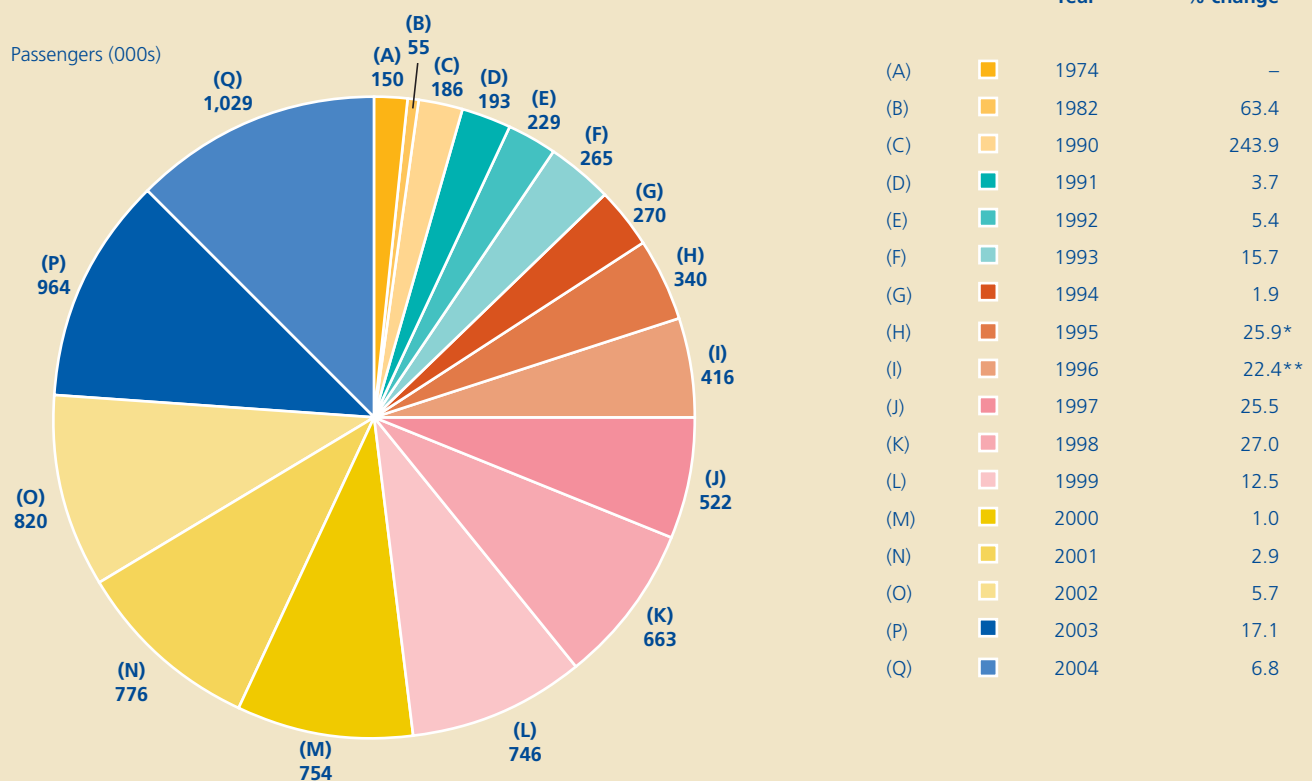
Currently, cruising holds only 0.1% of the total vacation market in Asia, so it is ripe for expansion. Operators regard this market as a sustainable driver of long-term growth

Figure 1 – Average growth rate 1980-2004



Source: UK Passenger Shipping Association (PSA)

Figure 2 – Passengers/percentage change



Note: *Airtours enters market and P&O's Oriana introduced; **Thomson enters market
Source: UK Passenger Shipping Association (PSA)

Figure 3 – Global markets for ocean cruise passengers

	2001	2002	2003	2004
North America	6,906,000	7,470,000	8,195,000	9,107,000
UK	776,000	824,000	963,000	1,029,000
Continental Europe	1,130,000	1,296,000	1,709,000	1,758,000
Asia (excluding Japan)	600,000	600,000	500,000	450,000
Japan	200,000	220,000	200,000	200,000
Australia	75,000	116,000	154,000	158,000
Latin America	315,000	312,000	320,000	340,000
Others	190,000	360,000	300,000	315,000
	10,192,000	11,198,000	12,340,000	13,377,000
Year on year increases	+1.2%	+9.9%	+10.2%	+8.4%

Source: Mintel/TTI – From National Regional Cruise Associations

over the next 5 to 10 years, so are adopting a slow and measured approach to development.

Figure 3 looks at the relative size of the major global markets for ocean cruise passengers, giving the annual increase and total percentage.

All-inclusive breaks

Many factors are contributing to today's robust demand for cruise holidays, most notably the growth in an ageing population – always a key target for cruise liners – with stable income.

At the same time, younger consumers are being brought into the picture, mostly through the attraction of budget holidays. Companies offering a budget cruise tend to use different marketing techniques, such as direct mail and promotions linked to local and regional media, and are bringing in a new generation of 'cruisers' looking for an alternative experience.

There is also growing demand for activity-filled packages, which cruise operators are happy to fill – offering escorted tours, health and spa breaks, educational cruises with experts on hand to lead trips ashore, and cruises targeted at different demographic groups.

Today's operators provide a diverse range of choice, from the emerging budget cruise, through to contemporary and luxury experiences, and with the added bonus of being able to offer a different port of call or view from the cabin every day.

Destinations range from the Caribbean to the Mediterranean, and the numerous activities aboard include gaming, theatre, sports activities, art exhibits and auctions. There are also well-equipped libraries for those who prefer a more sedate voyage.

But the big bonus for many cruise holidaymakers is the all-inclusive price, which often provides better value for money. All of these factors have contributed to cruise-based vacations receiving overall satisfaction rates that are higher than comparable land-based alternatives.

Rising fuel costs

Although the future is looking extremely positive for an industry based on such strong foundations, there are a couple of worrying clouds on the horizon. These are the likely increase in fuel charges, and the changing rules on passports in the US. However, the impact of both is likely to be short-term.

The rising cost of fuel is the biggest threat, due to a combination of factors, including market conditions, economic or political instability in the oil-producing regions of the world and the natural disasters, such as the recent hurricanes that have devastated parts of the US.

Forward curves for the type of fuel used by many of the cruise operators have risen in the last few months of 2005, and if fuel costs match the 2006 forecasts, operating margins and profitability in the cruise industry will be hit. The good news, though, is that the cruise industry will not be impacted as dramatically as airline operators. This is because aircraft fuel costs often exceed 20% of revenues and 15–20% of total operating expenses, whereas fuel cost equates to only around 9% of a cruise ship's revenue.

New passport rules

In the future, all travellers going between the Americas, the Caribbean, Bermuda and Panama will need a passport – or a recognised equivalent that establishes

identity and nationality – under the Western Hemisphere Travel Initiative. This is a significant change, as those travelling between these areas have not needed a passport before to re-enter the US, and many US residents that take cruise holidays don't have passports. The changes have been postponed until January 2007, and when they do come into effect, it's likely to knock net revenue by around 2–3% because of the time and expense it will take potential passengers to obtain a US passport.

But, as a passport is valid for ten years, the changes are unlikely to have a long-term impact, especially when the value-for-money proposition of cruise vacations is taken into account.

Overall, the Deloitte team regards the outlook for the industry to be smooth sailing as operators exploit the growing enthusiasm for cruises among a more diverse range of consumers, the opening up of new markets, and the continued expansion of existing ones. ●

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1. Ocean Shipping Consultants, May 2005.