



> CONTINUED FROM PAGE 13

## pricing



CRUISE LINES MADE a determined effort to take control of pricing in 2004 and 2005. By and large, they succeeded.

Industry giant Carnival saw revenues grow 14% last year while profits jumped 22%. Smaller rival Royal Caribbean Cruises grew revenues by 8% and profits a healthy 55%. Star Cruises Group, the number three publicly held cruise company, increased sales by 12% and profits by 50%. Privately held MSC Cruises

**"It's not your age that determines product and style expectations, it's your generation. The cruise industry is just starting to grapple with the differences between the generations and the different ways you have to approach them."**

— Phil Goodman, Genergraphics

had its first profitable year ever in 2005, though exact figures were not released.

Early results for 2006 show a similar trend, although sales and profit increases are slower than last year. Retailers and consortia reported a lackluster wave season for 2006, but disappointments are confined to mass market products and the Caribbean. Alaska, Europe, Asia and other destinations remain strong. Pricing

is also strong in the premium and luxury markets. There are a few exceptions, such as softening in the Baltic and demand-driven increases in the Med, but widespread discounting and price cutting seems to be a problem of the past.

What discounting remains may actually be an advantage for savvy retailers. The largest online travel agencies are offering significant shipboard credits for preferred partner cruise lines, noted Ensemble's Lois Shore, which attracts price shoppers. Losing price shoppers lets Ensemble members focus on more profitable clients.

"Productive travel agents don't want shoppers," Shore said, "but it can be hard to tell any client to go away. My best agents say dot com agencies can have the price shoppers because those are their least profitable, most problem-prone customers. It's like cherry picking in reverse, going for the worst customers instead of the best."

But pricing problems are lurking just beneath the surface. Passengers are not baulking at cruise fares, but many are beginning to notice increasing shipboard costs.

In some cases, it's nothing more than complaints and warnings on Carnival-Connections.com, a Carnival website that hosts cruise customer postings as a way to encourage others to take up cruising, or another cruise-oriented website. A common warning is that "all-inclusive" does not include a growing list of products such as soft drinks, pastries and snacks. Other posters warn that passenger laundry facilities are more expensive than similar wash and dry on shore or that popular shore excursions are not only costly but often sold out before the ship ever sails.

Some passengers complain about the endless parade of charges on board, others compare cruise lines and move from Carnival to Royal Caribbean, or vice versa. Other passengers compare pricing and move upscale on the assumption that the final tab will be comparable.

Cruise lines are using onboard costs to distinguish themselves. Carnival, for example, sells a soda card that provides

unlimited soft drinks for a single price. Crystal includes all nonalcoholic beverages as well as onboard activities such as yoga, cooking classes and wine tastings that most premium and contemporary lines charge for. Regent is offering complementary wine and spirits on all cruises starting in 2007. The line already includes alcoholic beverages on its world cruises.

"Their clients asked for it," Shore said. "Passengers want more all-inclusive pricing. To get hit with a big bill when you leave is tough. You expect it at a land resort, but you don't expect that on a cruise ship."

"You have to understand cruise lines' policies and explain them in careful detail to manage your customers' expectations," she said. "The consumer may not know what questions to ask, so this is a great way to position yourself as the expert and build loyalty."

Will the new inventory coming on line in the next few years affect pricing? Don't bet on it.

More than 30 vessels are slated to enter the market between 2006 and 2009. Worldwide capacity is set to increase 75% by 2015, from 350,000 berths currently to 588,000. Plans call for 70% of new deliveries by 2009 into the mass market. Premium cruise lines are building the other 30% to about the same size but slightly lower passenger capacity.

The bigger cruise ships become and the bigger the cruise industry becomes, the more stable the financial side of the business. Economies of scale and more opportunities for onboard revenue from food and beverage, casino, retail, shore excursion, spa and other sources let operators keep ticket prices stable without cutting overall yields or profit growth.

"More inventory lets you offer more early discounts to drive business," Peisley explained. "Onboard revenue is a bonus on top of yield increases."

Short of another 9/11-style attack or a similar unexpected event outside the control of the cruise industry, cruise pricing should continue on an even keel for the next few years. ■

CONTINUED ON PAGE 16 >