Pricing of Cruise Line Industry

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Agenda

1. Introduction
2. Industry Analysis
3. Pricing Strategies
4. Data Analysis
5. Recommendations

The cruise ship's planned route

1. Anchorage/Seward, Alaska
2. Ketchikan, Alaska
3. Dutch Harbor, Alaska
4. Nome, Alaska
5. Ulukhaktok, NWT
6. Cambridge Bay, Nunavut
7. Pond Inlet, Nunavut
8. Illulissat, Greenland
9. Sisimiut, Greenland
10. Nuuk, Greenland
11. Bar Harbor, Maine
12. Boston, MA
13. Newport, Rhode Island
14. New York, NY
Why Cruise Lines?

- Shares attributes with hotels/resorts, airlines & theme parks
- Fastest growing travel market segment
- Cruise product is uniquely diversified
  → Distinctive pricing strategies
The Industry
History

● 1818: first scheduled service for travel with concern for passenger comfort
● 1830’s: steamships carried mail and passengers
● 1844: P&O Cruises sailed customers to Mediterranean
● 1850-1900’s: solely carried passengers & evolved to “ornate hotels”
● 1912: Titanic sinks resulting in increased regulation
● Later 1900’s: WWI and II halted cruise success
● 1960’s: modernized cruise ship to what we see today
Background

- Deep sea and inland/coastal cruise ships sail to various ports
- Majority of industry revenue from passenger ticket sales
- Most cruise lines offer all-inclusive packages
- Large cruise companies own many cruise lines
  - Average Cruise 6-8 days
- Additional Costs
  - Use of port facilities
  - Fuel
  - Maintenance
Services and Amenities Provided

- Casual and formal dining
- Health clubs
- Live entertainment
- Casinos and night-clubs
- Retail stores
- Water slides
- Room service

Depending on market segment
Organization of Cruise lines

Brand Characterization

- Contemporary
- Premium
- Luxury
Industry Challenges

- New to cruise
  - The way cruises are perceived creates a barrier to entry
    - Costly
    - Room Quality
    - Food Quality
    - Better Alternatives
    - Safety
  - Negative press and boat accidents deter consumers

Consumers

- Larger cruises hold 2000-3000 customers
- Typically 50 yrs old, above average household income
- Popular among families and retirees

Figure 6: Likelihood of Booking A Cruise for the Next Trip by Age
Major Players

- Carnival Cruise Line
- Princess Cruises
- Holland America Line
- Seabourn
- Costa Cruises
- Royal Caribbean
- Celebrity Cruises
- Pullmantur Cruises
- TUI Cruises
- Norwegian Cruise Line
- Oceania Cruises
- Regent Seven Seas Cruises

Other Players: MSC, Disney, Viking
Carnival Corporation

- World’s #1 Cruise Operator
- 44.3% Market Share
- 10 Cruise Lines and about 100 ships
- Revenue: $16.39 Billion in 2016
- 86,800 Employees
- “The Fun Ships”
Royal Caribbean Cruises

- 21.9% Market Share
- 40 ships to about 500 ports
- Revenue: $8.50 Billion in 2016
- 66,100 Employees
Norwegian Cruiseline Holdings

- 9.1% Market Share
- 12 ships with 12 different ports
- Revenue: $4.87 Billion in 2016
- 30,000 Employees
- Freestyle Cruising
Disney Cruise Line

- 3% market share
- Revenues of $995 million in 2016
- 4 cruise ships in fleet
- Considered a segment of Disney Parks
  - Utilize Disney characters in advertising
- Family emphasis
Perception Map

Luxurious

High Price

Low Price

Family

Royal Caribbean
Celebrity Cruises
SilverSea
Disney Cruise Line
Carnival
MSC Cruises
NCL Norwegian
Industry Revenue
$17 Billion
Top Destinations

Global cruise industry deployment market share in 2016, by region:

- Caribbean: 33.7%
- Mediterranean: 18.7%
- Europe (without Mediterranean): 11.7%
- Asia: 9.2%
- Australasia/New Zealand/Pacific: 6.1%
- Alaska: 4.1%
- South America: 2.7%
- All Other: 13.8%

Cruise Line Basic Technology

- Need to improve sales, reservation efficiency, and operational efficiency
- Use software and IT systems
- Investing in consumer-facing technology
  - Smartphones
  - Wristbands
  - Facial recognition
Regulation

- International, national, state, and local regulations
- United Nations’ International Maritime Organization standards must be met
  - Environmental Standards
- International Convention for the Safety of Life at Sea
Industry Opportunities

Industry Growth and Innovation
Low Market Penetration
Aging Population
Technology Improvements
Natural Gas Fuels
Pricing Strategies
Branding and Price Determinant Features

- Cruise firms take good care of their brands since it affects their image.
- Branding is important; helps in reaping new business.
- Three different economic characteristics that determine pricing strategies for cruise businesses including:
  - Inelasticity - cruise ship services are perishable and thus cannot be stored.
  - Heterogeneity - the cruise product is made up of a number of constituents that enable the cruising experience to be unique for every customer.
  - Complementary – a host of aspects come up together to constitute the cruise experience.
Third Degree Price Discrimination

• A form of price discrimination premised on the notion that an organization sets prices that will accommodate the customer.

• Companies have a broad knowledge of consumer demographics and therefore charge fares that enable everyone to consume the services.

• Firms are capable of predicting the elasticity of demand for the different consumer groups.

• The 3rd degree price discrimination strategy depends on a firm’s capability to isolate the business segments.

• Where separation of business segments is impossible, then the service or product can be transferred.
Customer segmentation

• Low price elasticity of demand allows flexible and premium pricing strategy

• Attributes exemplify 3rd degree price discrimination among groups of depending on race, gender, geography, etc.
2nd Degree Price Discrimination

• Is a two-tier pricing strategy

• Cruise firms unable to differentiate between the many types of customers

• First purchase-ticket gets on the cruise ship

• Added purchases during the vacation times

• Customer selects the amount of service they would consume with the posted prices
Temporal Pricing as a Form of 2nd Degree Price Discrimination

• Demand depends on the consumer’s disposable income, leisure habits, and the firm’s marketing efforts.

• Temporal pricing enables consumers to self select while consumers’ disposable income and leisure habits determine their inclination toward the purchase of the cruise product.

• Higher disposable income encourages greater chance of consumption, and thus willingness to pay.
Seasonality

Carnival Cruise’s Monthly Fare Trend

https://www.carnival.com/cruise-deals/cruise-deal-finder.aspx?dateFrom=042017&dest=M&numAdults=1&numChildren=0&port=LAX&useSuggestions=true&roomType=IS
Inter-Temporal Pricing

• Consumer demand becomes more inelastic as departure date nears.

• This allows cruise lines to increase their fares.

• Immediately before the departure time, cruise lines try optimize capacity, resulting in last-minute price reductions.
Overbooking Strategy

- Occurs mostly during peak seasons
- Customers increase once vacation season set in
- For the cruise line industry players, the more the ship gets crowded, the more enjoyable the business environment becomes
- Repeat business or clients
- No business travelers
- Long booking hours with large numbers of third party bookings such as through travel agents
Reaching Max Capacity

• Capacity constraints exist within the cruise industry; they necessitate the adoption of the tier-value pricing to balance the risks and benefits of booking limits set for the various customers

• The critical ratio, \( \frac{C_u}{C_o + C_u} \), underscores cost of underage and overage

• The underage cost represents the loss due to not protecting enough rooms while overage cost represents the cost of protecting too many rooms
The Effects of Overbooking

• The underage and overage dilemma represents a constant struggle within the cruise industry toward profit maximization.

• Last minute cancellations hinder the potential to achieve full capacity whereas overbooking poses the risk of denying services to consumers.

• The solution: ensure capacity > demand.
References


Analysis
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SHIP Norwegian Sky
Comparing Prices: 7 night trips in January 2017
Survey

- 50 responses
- Ages 18-22
- Asked 5 questions concerning cruises
  - 72.7% have never been on a cruise
Why have you never been on a cruise?

- Better alternatives: 37.5%
- Too expensive: 29.2%
- Not interested: 25%
- Safety Reasons: 8.3%
On your first cruise, what is most important when choosing which Cruise to go?

- Cruise Destination: 66.7%
- Baseline cost of Cruise: 16.7%
- Room Quality: 8.3%
- Add-on excursions/activities: 8.3%
Recommendations
Recommendations - Investment

- Differentiate brand to compete with established players
Recommendations - Industry

- Promote environmentally friendly efforts and positive attributes to attack misconceptions and fears
- Expand port opportunities
- Gather consumer information to price exactly at willingness to pay
Questions?