

Huge Cruise Ships Prepare for Launch but Face Uncertain Waters

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ABSTRACT

Towering 20 stories above the sea and nearly as long as four football fields, Royal Caribbean Cruises Ltd.'s newest vessel cost \$1.4 billion to build and is about a third larger than any other cruise ship now plying the seas. [...] with its 13 retail shops, 21 pools and 24 restaurants, the ship offers the most outsized example of the cruise industry's bet that huge ships with amenities like multistory cabins and 300-foot water slides will help buck slack demand.

FULL TEXT

PORT EVERGLADES, Fla. – Oasis of the Seas will make quite a splash Saturday when it embarks on its inaugural seven-day cruise in the Caribbean with some 5,400 passengers aboard.

Towering 20 stories above the sea and nearly as long as four football fields, Royal Caribbean Cruises Ltd.'s newest vessel cost \$1.4 billion to build and is about a third larger than any other cruise ship now plying the seas.

And, with its 13 retail shops, 21 pools and 24 restaurants, the ship offers the most outsized example of the cruise industry's bet that huge ships with amenities like multistory cabins and 300-foot water slides will help buck slack demand.

But Oasis, and several other super-sized ships that will launch soon, face stiff head winds. Cruise lines have been able to fill their ships during the recession, but only by offering steep price discounts. Yields – the amount they make on each passenger – are down about 15% this year amid a broad drop in consumer spending. Travel agents say they see signs of a turnaround in 2010 cruise bookings, but fourth-quarter demand has remained very soft. And while big cruise-ship companies are still booking profits this year, helped in part by lower fuel costs, their margins have shrunk.

Even some competitors say Royal Caribbean may have gone too far in the size race. Micky Arison, chief executive of Carnival Corp., the world's largest cruise company, says his company looked at building a similarly sized ship earlier this decade but decided the profit margins weren't sufficient. There's a market for bigger ships, he says, but one as large as the 225,000-gross-ton Oasis risks having the feel of "a huge mall."

Still, Carnival is also bulking up. It launched the 3,650-passenger, 130,000-gross-ton Carnival Dream in September, and it announced this week that it has ordered another similarly sized ship costing \$750 million. And the No. 3 player, NCL Corp.'s Norwegian Cruise Line, is spending \$1.2 billion for the 4,200-guest, 150,000-gross-ton Norwegian Epic, which is slated to start service in the summer.

But Norwegian is hedging its bets. While it's going ahead with the 4,200-passenger Epic, it canceled an order last year for a similarly sized sister ship. "You have to be on the cutting edge, not the bleeding edge, of innovation," says Kevin Sheehan, NCL's chief executive. He believes cruise prices won't climb back to 2008 levels for another

three years.

As more big ships are launched, the Cruise Lines International Association estimates North American capacity will grow 8% in 2010 and an additional 5% in 2011. Even Italian-owned Silversea Cruises, which specializes in small, ultra-luxury ships, is launching one later this month that can handle 540 passengers, or nearly a third more than its next-largest vessel.

Consumers' wallets were thicker in late 2005, when Royal Caribbean, the world's second-largest cruise company by market share, decided to take the plunge with Oasis, and, a year later, to add Allure of the Seas, an identically sized sister ship, which will join the company's rapidly expanding fleet late next year.

But industry executives say they have to take the long view: Ships take about three years to build and have life spans of 30 years or more. "At some stage in [Oasis's] life we're going to have big ups and big downs. This is probably a bigger down than we ever imagined," says Richard Fain, Royal Caribbean's chief executive, but, he adds, he has no regrets. "I think Oasis of the Seas will be one of the highest returns on investment our industry has ever seen," he says.

Indeed, Oasis has had strong early bookings and initial double-digit percentage-price premiums over smaller rivals, according to industry trackers. Room rates for Oasis's inaugural voyage ranged from \$1,649 a person based on double occupancy for a 149-square-foot interior stateroom to \$16,659 for the 1,524-square-foot Royal Loft Suite with an 843-square-foot balcony.

The ship offers a casino with gaming tables and nearly 500 slot machines, a 1,380-seat theater for Broadway-style productions, an exercise center with nearly 200 machines and twin 40-foot-high rock-climbing walls, a skating rink, and seven "neighborhoods," including one called Central Park that has more than 12,000 plants and trees. "This is as close as the industry has gotten to a Las Vegas resort," says cruise-industry consultant Rod McLeod of McLeod.Applebaum &Partners.

But the sheer size of Oasis also poses logistical challenges. Few ports are equipped to handle it, restricting its itinerary. If Oasis were to ferry passengers to land by smaller boats, "it would look like Normandy at D-Day," Mr. McLeod says.

Credit: By Mike Esterl

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