

ICON OF THE SEAS: THE LARGEST CRUISE LINER IN THE WORLD¹

Professors Michael Taylor and Michael Moorhouse wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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“The Icon of the Seas will be the largest cruise ship ever built, able to accommodate almost 10,000 people; that’s 7,600 passengers and 2,350 crew members,” said Andrew Gonzalez, a senior analyst at ELP Equities, a Florida-based research firm. ELP Equities managed a global equities fund, and it was considering purchasing shares in Royal Caribbean International (Royal Caribbean), a publicly traded firm and the owner of the Icon of the Seas (Icon). Gonzalez, who was updating his team of six research associates on the cruise industry’s latest developments, continued: “But Icon will be launching in an unstable economy and an industry that’s still recovering from the pandemic. How will Icon differentiate itself in the market?”

The cruise industry had suffered two separate disasters in the past 10 years. First, in 2012, the Costa Concordia struck a rock formation in the Tyrrhenian Sea, causing the ship to partially sink, and resulting in the death of 32 passengers and crew. Many consumers began to question the safety of cruising.² Then, eight years later, a worldwide disaster – The COVID-19 pandemic. Following the outbreak of the virus in 2020, the Diamond Princess ship and its passengers were held in quarantine for two weeks; the story dominated the global news and brought-to-life the seriousness of the virus to the general public.³ Compared to other activities, cruising was thought to be especially prone to the spread of COVID-19. Governments around the world responded by closing their ports, forcing the cruise lines to suspend their operations until July 2021.⁴

By January 2023, the cruise industry was starting to bounce back. Worldwide passenger counts were growing but were still 27 per cent lower in 2022 than 2019.⁵ The U.S. economy was also uncertain. Coming out of the pandemic, inflation had begun to surge. The combination of inflation and rising interest rates caused consumer spending power in the United States to drop by 7 per cent in 2022.⁶

Gonzalez knew he needed to learn more about Royal Caribbean’s strategy for launching the Icon amid the uncertainty of the industry and the broader economy:

We want to set up a meeting with a marketing director from Royal Caribbean, to discuss what customer segments Icon will be targeting. But before we meet with them, I want our team to look at the cruise industry for 2023 and beyond, and come to our own conclusions on how the ship *should* be positioned.

THE CRUISE LINE INDUSTRY

Before commercial air travel was available, the only way to travel overseas was to take a passenger liner. Since then, the cruise industry had matured from its focus on a method of transportation to offering a full range of entertainment options throughout the trip. In 2022, the cruise industry served 20 million passengers worldwide⁷ (down from the high of 27.5 million in 2019) and was worth US\$19 billion.⁸ More than half of global passengers — 12 million — were from the United States. The strong affinity that Americans had for cruising likely started in the 1970s and '80s as a result of a popular television series, *The Love Boat*.

Industry estimates varied, but the most recent large-scale survey suggested that one quarter of Americans had ever taken a cruise. Projecting this same percentage to the current year means that approximately 83 million Americans, from a total US population of 333 million, had taken a cruise at least once.⁹ Of this group, 85 per cent said that they would cruise again in the future, a six percent increase from pre-pandemic levels.¹⁰ This prompted analysts to project that the cruise market would increase to 35 million passengers per year by 2026.¹¹

The typical cruise consumer was in their mid to late-forties, had a household income of \$114,000, had a postsecondary education, and was accompanied by a spouse and children under 18.¹² Consumers purchased a cruise for various reasons, some of which included the opportunity to sample different destinations in one short trip; the security of traveling in groups; the fact that travel from port to port occurred at night (reducing the need to take time during the day for travel); and reduced complications because they did not need to move from hotel to hotel. The most popular destinations were the Caribbean and the Bahamas although other destinations like Europe and Alaska were gaining in popularity.¹³

Consumers typically selected cruising as an option after seeing or hearing about cruises taken by their friends or family or in response to the cruise industry's advertising. People tended to take pictures or videos of their vacation to share their memories on social media sites like Instagram.¹⁴ In the course of showing off their trip, vacationers often commented on the cruise operator. The cruise industry's advertisements, usually seen on television or online, typically portrayed families enjoying a meal together, relaxing by the pool or dancing at one of the onboard clubs.

While cruises were available to fit almost any budget or agenda, the average cruise lasted 7 days¹⁵ and cost an average of \$2,202 per person.¹⁶ The majority of cruise passengers (70 per cent) used travel agents to book their vacation. Compared to consumers of non-cruise vacations (37 per cent), cruise passengers were almost twice as likely to use an agent¹⁷. Travel agents were valued for their experience and knowledge, and for their ability to help their clients in the case that something went wrong during the vacation¹⁸. Agencies such as the Flight Centre and Expedia Cruises usually carried a full range of cruises by several operators including Royal Caribbean, Norwegian Cruise Lines, Carnival Cruise Lines, Disney Cruise Lines, Princess Cruises, Holland America, Viking, and Azamara.

Travel agencies operated both online and in retail outlets. Potential customers who walked into an agency would usually see advertising signage (pop-up cardboard displays and posters) in the office. The bright brochures for the various cruises were usually kept side by side, on a wall, arranged by region or type of cruise (e.g., Caribbean/Mexico, Hawaii, South America, Europe, Alaska, exotic cruises, or river cruises), then by operator and trip type. At least two dozen different cruise brochures were usually within reach. While some customers wanted a particular cruise — and were able to single it out by name — most asked the travel agent for a recommendation. Typical questions from customers included the following:

- We are interested in a Caribbean cruise — do you have any recommendations?
- We are looking for a seven-day cruise in the Mediterranean that includes Greece and Turkey.

- We want to go away for a few days on a relaxing cruise. What's new in the market?
- We have a limited vacation budget — what are the best values in the market today?

By striking up a conversation with their customers, travel agents could quickly narrow down the set of cruises to just a handful. Travel agents generally earned a commission of 12 to 20 per cent of the \$1,522 average ticket price per person¹⁹. For cruise line operators, almost 70 per cent of revenues came from the sale of the ticket.²⁰ Other revenues came from onboard spending, casino and bar purchases, shore excursions and the spa. Operating cruise ships was similar to operating a large hotel: the operation had many fixed costs, and ongoing operating costs were high. Unlike airlines, which looked for capacity utilization in the 80 percent range, cruise lines aimed for utilization of more than 92 per cent. Ideally, utilization would reach 104 percent, which was possible because some passengers shared rooms or brought along their children.²¹ Cruise lines paid the expenses of running the ship, financing the fleet, and for all corporate expenses. For a list of revenue and expense items for a typical cruise liner, see Exhibit 1.

The top three cruise lines were Carnival Cruise Lines, Royal Caribbean, and Norwegian Cruise Lines.²² All three lines were part of publicly traded firms. The companies had a wide variety of ships focused on different cruise experiences, in different parts of the world. In early 2023, much of the buzz in the industry was about the impending launch of the Icon of the Seas in January 2024.

THE ICON OF THE SEAS

The new ship was the first of what Royal Caribbean had named the Icon-class cruise ships. The Icon would have 10 percent greater passenger capacity than the largest cruise ships currently in existence, Royal Caribbean's Oasis-class ships. For perspective, the Icon was estimated to cost US\$2 billion to build versus US\$1.4 billion for each Oasis-class ship.²³ Jason Liberty, president and CEO for Royal Caribbean, stated:

With each new ship, we raise the bar in the travel industry while enhancing what our guests know and love. From the moment they step on board, every experience is specifically designed to give them the best vacation anywhere on land and at sea. With Icon of the Seas, we've taken this to a new level.²⁴

The current plan for the completion of the Icon ship would see it designed to have different “neighborhoods” within its 20 decks²⁵:

- The plans included a glass-enclosed “Aquadome” with wraparound ocean views, restaurants and bars, and an aquatheatre featuring a transforming pool and state-of-the-art projection for the cruise line's signature water shows.
- A redesigned “Royal Promenade” and “Central Park” would serve as primary places for people to meet, and would be filled with retail stores, outdoor-style dining, and real trees and other plants in a large landscaped outdoor garden.
- A sprawling entertainment zone would include thrilling water rides and a skywalk suspended 150 feet above the ocean.
- To relax, guests could choose from one of the ship's 7 pools including a serene infinity-edge pool and the cruise line's first swim-up bar at sea.

The Icon had the ability to offer a wide variety of accommodations, from contemporary berths to luxurious, fully furnished, three-story condominium-style rooms, with views of the sea. Gonzalez turned to Alex Callahan and Julia Regan, the two associates who had been working on the analysis. They started to discuss the Icon and the cruise market in general.

- Callahan: When the Icon launches it will have nearly 10 percent more capacity than the largest cruise ship currently in existence. It will have berths for 7,600 guests. I see in this news article that it will cost \$2 billion and have room for 40 bars and restaurants and eight different neighborhoods.²⁶ This is literally a resort by itself. One reviewer even wondered — out loud, of course — why the ship needed to leave port at all. It is such a massive ship. Yet the industry hasn't fully recovered from the pandemic. Although passenger counts are growing, the total passengers carried globally last year was still well below the pre-pandemic numbers. Is this the right time for Royal Caribbean to launch Icon?
- Regan: Well, the planning for Icon seems to have started seven years ago.²⁷ Back in 2016, the economy had been growing for seven consecutive years after the great recession. Fortunately for Royal Caribbean, 80 percent of the cost of the ship is debt-financed and the debt is guaranteed by FINNVERA, the Finnish government's export credit guarantee agency.²⁸ Royal Caribbean seems to be taking advantage of the lack of good news in the market — most companies delayed or cancelled their ship orders during the pandemic — to drum up interest in Icon.²⁹ It is benefiting from unprecedented coverage. Everyone is talking about it. There seems to be an opportunity to brand Icon as the biggest ship ever but what happens if a competitor decides to build an even bigger ship? The “biggest ever” crown might only last three to four years, which is how long it takes to order and take delivery of a new ship. There seem to be quite a few other ships planned to launch in 2024 [see Exhibit 2], but none the size of Icon.³⁰
- Callahan: But even if someone builds a bigger ship, Icon would still be one of the biggest ships. On a related topic, because it is so big, it can only dock in a handful of shore locations. On the other hand, Icon is so large and has the potential to hold so many amenities that passengers may be content to just explore the ship.
- Regan: If that's the case, Icon can earn extra revenue per passenger if it keeps some or all of the monies otherwise going to shore excursions.
- Callahan: That's right. And on the cost savings side, the Icon is the first in Royal's Caribbean's fleet to use liquified natural gas, which is 24 per cent more fuel-efficient than the marine diesel fuel used by the Oasis class.³¹ Also, the number of crew members who are not in customer service positions will likely stay similar to a smaller ship. Increasing the berths by 10 percent seems to yield cost savings, if the ship is filled.
- Regan: Which leads me to wonder what the positioning of the ship should be. Given the size of the ship, is it destined to compete in the contemporary and premium markets [see Exhibit 3]? Or is it still possible for it to target the exclusive, specialty or luxury markets?
- Callahan: First, we're not even sure what the segments look like. But we'll get to that later. Yes, it is possible that a portion of rooms can be designed for higher-end segments. But how many should be higher-end? Will higher-end customers want to take a trip on this ship? For the mid-end target, it may be possible for the ship to earn a premium per passenger, at least for the first few trips, due to the fact that it is the largest ship and is new. But on the other hand, with the current economy, will passengers be willing to pay?
- Regan: Should the company consider a special promotion with its travel agents, or should it position the ship alongside its other offerings? If Icon can earn a premium, it might make sense to offer some of that extra revenue as an incentive to travel agents. But the company has to be careful that Icon is not promoted at the cost of lowering utilization at its other brands.

- Callahan: That would depend on which route the Icon should be focused on and, to a lesser extent, the length of its regular trips [see Exhibit 4]. For example, should Royal Caribbean default to placing Icon on a Caribbean route just because the region accounts for the largest percentage of trips [see Exhibit 5]? Or should it mix up its routes and move Icon around to developing routes in Europe and Asia? Certainly the interest in Icon seems to be worldwide. Why not alternate its routes so that every market has a chance to purchase cruises on it? This way, if consumers know that the Icon will be making only a limited number of trips in one market, the chances of those trips selling out should be higher.
- Regan: But this rotation strategy is contrary to what the industry practice is — to leave the new and refurbished ships in North America and push older ships to developing markets. Is there even enough demand in the developing markets?
- Callahan: One option would be to use Icon as part of Royal Caribbean's marketing plans to gain awareness in developing markets. Whether that will succeed or not will depend on how the ship looks inside. With thousands of rooms and so many different neighborhoods, there could be an opportunity to design a bit of everything in the ship. It could have themes for young families, for the budget traveler, all the way to exclusive areas for high-end customers. It could have a mix of architectural styles. It could be a ship of the world, literally.
- Regan: Wouldn't that be diluting the effectiveness of the experience? Having a little of everything in one ship could reduce its distinctiveness. I think it would be better to stick to a single theme, with slight variations to accommodate other customer target groups. We did collect some information on current industry capacity and segments to help us with the task [see Exhibit 6].
- Callahan: Homing in on even a handful of target groups is not as easy as it sounds. In our search of how the industry segments itself, we came across analyst reports, cruise industry blogs, the cruise industry association's research and various other news reports. There does not seem to be an accepted method by which customers are segmented. For example, one source describes customers in terms of the cost of the experience they're looking for: *Contemporary*, which is, if you read the specifications, another way to say "budget" and *Premium*, which is "affordable luxury," and so on. Another source looks at the market in terms of psychographic profiles [see Exhibit 7] but does not estimate the size of each segment - we estimated the sizes based on our experience. Before we go any further, we should determine how we will look at the customer segments.
- Regan: As part of the customer segmentation, we also have some research on the key features that cruise customers look for when they consider purchasing — or not purchasing — a cruise [see Exhibit 8]. Perhaps we should start with these features as the basis for our segmentation?
- Callahan: Actually, I was thinking of using cost per cruise as the basis [see Exhibit 9]. I wonder which approach would be more appropriate. The top competitors seem to have different advertising slogans and themes — I wonder what segments they're going after [see Exhibit 10].
- Gonzalez: I want to contact Royal Caribbean tomorrow morning. We will have a day or two to complete this analysis. I think you should be able to come to tomorrow's briefing with a cruising market segmentation analysis and an idea of the customer segments the Icon can target. We also need to build a marketing recommendation based on those segments' needs.

EXHIBIT 1: FINANCIAL ANALYSIS FOR A TYPICAL CRUISE LINER
(Worldwide, across all cruise lines)
(Average per passenger for a median 7.0-day cruise)

Revenue

Ticket	\$	1,522	69.1%
Onboard spending			
Casino & Bar	\$	374	17.0%
Shore excursions	\$	136	6.2%
Spa	\$	68	3.1%
Other onboard spending	\$	102	4.6%
Total spending	\$	2,202	

Expenses

Corporate operating costs	\$	267	12.1%
Shipboard payroll	\$	242	11.0%
Agent commission	\$	293	13.3%
Depreciation & amortization	\$	233	10.6%
Ship fuel costs	\$	168	7.6%
Food supplies	\$	117	5.3%
Other (Port fees etc.)	\$	226	10.3%
Onboard operating costs	\$	315	14.3%
Total expenses	\$	1,862	
Profit (before taxes)	\$	340	

Source: Created by the case authors based on "Financial Breakdown of Typical Cruiser," Cruise Market Watch, accessed May 10, 2024, <https://cruisemarketwatch.com/financial-breakdown-of-typical-cruiser>.

EXHIBIT 2: 2023-2024 SHIPBUILDING SUMMARY

2024 New Build Ships		Est. Date	Passenger Capacity
Princess	Sun Princess	Q1	4,300
Explora Journeys	Explora II	Spring	922
TUI Cruises	Mein Schiff 7	Spring	2,900
Cunard Line	Queen Anne	Q2	3,000
Silversea	Silver Ray	Q2	728
Royal Caribbean	Utopia	Q2	5,714
TUI Cruises	Unnamed	TBA	4,000
Viking Ocean	Unnamed	TBA	930
Disney	Disney Treasure	TBA	2,500
Ritz-Carlton	Ilma	TBA	456
TOTAL			25,450

Source: Created by the case authors based on "Growth of the Ocean Cruise Line Industry," Cruise Market Watch, accessed May 10, 2024, https://cruisemarketwatch.com/growth/#google_vignette.

EXHIBIT 3: NORTH AMERICAN CRUISE LINE CATEGORIES, RATES AND DESCRIPTIONS

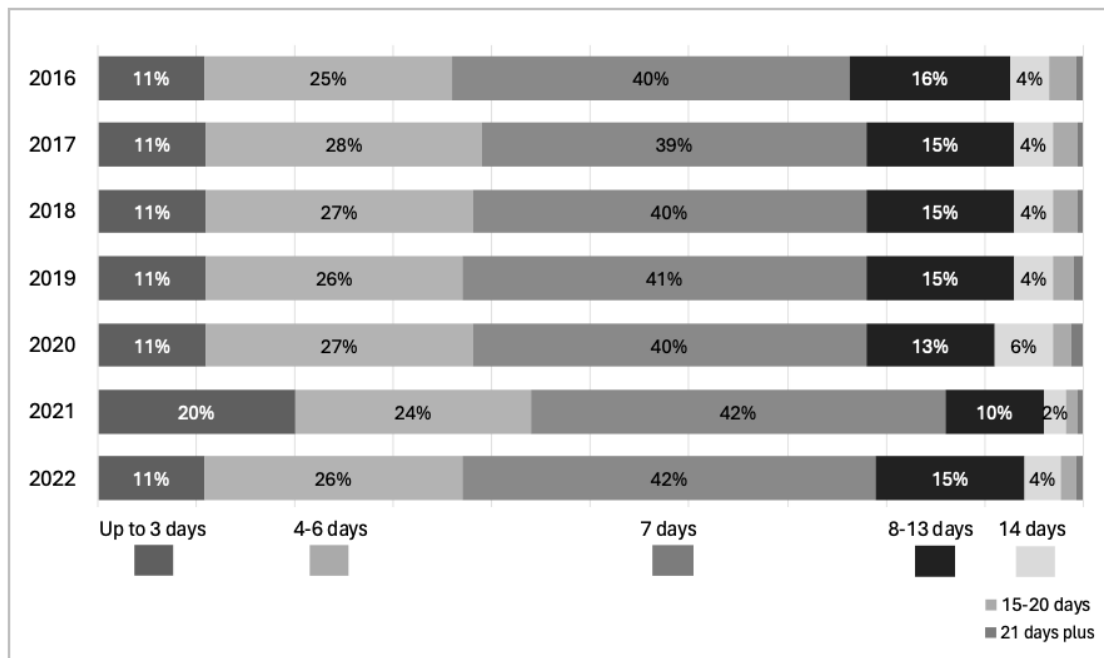
Ticket Price Rates (per person per day)*	Description	Competitors
Contemporary \$100–\$200	Value-packed vacations exceeding or rivaling any land-based vacation. These mainstream cruises offer a comprehensive and amenity-filled vacation, inclusive of accommodations, meals, and entertainment, in a casual environment. Newer or extensively renovated ships offer modern design and comforts , together with lots of open deck and pool space, organized activities, sports, beauty and fitness centers, libraries, shops, lounges, major “Vegas” style or “Broadway” productions, night life, dancing, music and comedians. Both sit-down (with some formal nights) and buffet-style meals available.	<u>Carnival Cruise Lines</u> – a fun, casual, value-oriented cruise line appealing to the young at heart of all ages. <u>Norwegian Cruise Line</u> – intimate modern ships offering many activities, but in an intimate environment focused on Freestyle Cruising. <u>Royal Caribbean International</u> – an excellently run, activity-filled, value-oriented cruise line with a casual yet sophisticated atmosphere.
Premium \$150–\$400	Up-scale cruises for those demanding premium-quality vacations. Beautifully appointed and decorated ships are designed to offer greater space and comfort for each passenger in a semi-formal environment. Multimillion-dollar art collections, themed lounges/theatres/and public areas, and a detail-oriented staff and crew create an experience of elegance and pampering far removed from any stress or worries. Participate in activities, games, shows and fitness, or simply relax to refined service and quality food and dining . Priced inclusive of accommodations, meals and entertainment, premium cruising’s value still exceeds or rivals the best packages offered by upscale hotels and resorts.	<u>Azamara Club Cruises</u> – an intimate atmosphere, out-of-ordinary destinations and a more personalized experience. <u>Celebrity Cruises</u> – a premium, semi-formal, value line with excellent food, service and attention to detail. <u>Holland America Line</u> – a premium, elegant, classic cruise line with a semi-formal and yet relaxed atmosphere. <u>MSC Cruises</u> – true to their slogan, “Beautiful. Passionate. Italian,” MSC Cruises offers European charm and Italian elegance. From the genuine warmth of the Italian officers to Italian-inspired décor and flavors of Mediterranean cuisine, guests enjoy a truly European experience. <u>Princess Cruises</u> – a premium cruise line focusing on passenger choice in dining, entertainment, activities and accommodations.

EXHIBIT 3 (CONTINUED)

Luxury \$400–\$1,000	For those demanding the finest quality in all respects , luxury cruise ships rate among the best vacations among any resort in the world. A formal atmosphere with nothing but the most refined, white-gloved service. Appointed and decorated with the finest quality and care, these ships offer spaciousness, comfort, luxury and choice, while exploring exotic ports around the world.	<u>Cunard Line</u> – For over a century and a half, the iconic ships of Cunard have been defining sophisticated ocean travel. They have always been The Most Famous Ocean Liners In The World. <u>Regent Seven Seas</u> – with an almost one-to-one crew-to-passenger ratio, the line prides itself on its attentive staff and personalized experience. <u>Oceania Cruises</u> – offers the warm, friendly ambiance onboard, mid-sized ships with gracious staff attending to your every need with highly personalized service. The ratio of 400 staff members to no more than 684 guests has distinct advantages, including the finest cuisine at sea, impeccably served in open-seating restaurants. <u>Paul Gauguin Cruises</u> – Luxury cruise experience uniquely tailored to the unparalleled wonders of Tahiti, French Polynesia and the South Pacific aboard m/s Paul Gauguin, the renowned, award-winning, 5-star-plus, luxury cruise ship built specifically to discover these emerald islands.
Exclusive Luxury \$700–\$1,000	The exclusive luxury vacation experience. Offering the finest of all quality, in an exclusive yacht-like environment of only 100–400 guests. A formal atmosphere served by a meticulous staff which knows your name and notes your individual tastes to assure you of the most personalized service and the ultimate vacation.	<u>Seabourn Cruise Line</u> – a luxury line with six-star quality service, yet with all the amenities and choice of modern cruise ships. <u>Silversea Cruises</u> – an award winning six-star luxury cruise line with unmatched, all-inclusive value; Silversea has been voted “World’s Best” by the readers of <i>Condé Nast Traveler</i> (nine times) and <i>Travel & Leisure</i> (seven times).
Specialty Varied rates	Small group cruises with specific themes. Destination oriented, European, Family Market Cruises, Motorsail, <i>Caribbean Cruises Italian Style</i> . Rates vary.	<u>Windstar Cruises</u> – a luxurious yet casual and unregimented cruise line sailing just 148-310 pampered guests on each of three exclusive motor-sail vessels.

*Approximate average starting cruise-only fare, based on double occupancy, excluding airfare, port charges and taxes.

Source: The Cruise Web, “Types of Cruise Lines,” available at <http://www.cruiseweb.com/CRUISELINE.HTM>, accessed March 1, 2011.

EXHIBIT 4: AVERAGE LENGTH OF CRUISE, 2016-2022

Source: Cruise Lines International Association Inc., CLIA 2022 Global Market Report available at <https://cruising.org/-/media/clia-media/research/2023/2022-1r-clia-001-overview-global-final.ashx>, and CLIA 2018 Global Passenger Report available at <https://cruising.org/-/media/research-updates/research/clia-global-passenger-report-2018.ashx>, accessed May 10, 2024.

EXHIBIT 5: GEOGRAPHICAL DESTINATION, 2019-2022 PASSENGERS IN '000S

Destination	2019	2020	2021	2022
Caribbean-Bahamas-Bermuda	11,983	2,986 (-75% ▼)	1,727 (-42% ▼)	9,004 (422% ▲)
Central & Western Mediterranean	3,211	225 (-93% ▼)	707 (215% ▲)	2,629 (272% ▲)
Northern Europe	1,708	52 (-97% ▼)	454 (779% ▲)	1,561 (244% ▲)
Alaska	1,215	(-100% ▼)	121	1,162 (864% ▲)
NA West Coast/Mexico/California/Pacific Coast	1,165	231 (-80% ▼)	211 (-9% ▼)	1,137 (440% ▲)
Eastern Mediterranean	1,226	30 (-98% ▼)	288 (855% ▲)	1,133 (293% ▲)
Asia & China	3,978	643 (-84% ▼)	656 (2% ▲)	946 (44% ▲)
Australia/New Zealand/Pacific	1,178	366 (-69% ▼)	12 (-97% ▼)	482 (4042% ▲)
Panama Canal/South America	807	484 (-40% ▼)	95 (-80% ▼)	421 (341% ▲)
Canary Islands	496	180 (-64% ▼)	133 (-26% ▼)	341 (156% ▲)
Other	304	53 (-82% ▼)	84 (57% ▲)	326 (287% ▲)
Africa/Middle East	515	267 (-48% ▼)	38 (-86% ▼)	264 (595% ▲)
Canada/New England	302	(-100% ▼)		233
Transatlantic & World Cruise	393	45 (-89% ▼)	28 (-37% ▼)	226 (703% ▲)
Baltics	594	(-100% ▼)	141	217 (54% ▲)
Exploration Destination	187	11 (-94% ▼)	37 (226% ▲)	138 (273% ▲)
Hawaii	243	43 (-82% ▼)	(-100% ▼)	137
Not Identified	168	151 (-11% ▼)	21 (-86% ▼)	33 (58% ▲)

Source: Cruise Lines International Association Inc., CLIA 2022 Global Market Report, available at <https://cruising.org/-/media/clia-media/research/2023/2022-1r-clia-001-overview-global-final.ashx>, accessed May 10, 2024.

EXHIBIT 6: WORLDWIDE CRUISE LINE PASSENGER CAPACITY

Cruise Line	Ships	Capacity	Segment
Carnival	26	86,846	Contemporary
Princess	16	47,000	Premium
Costa Cruises	12	40,084	Contemporary
AIDA	11	23,298	Contemporary
Holland America	11	19,840	Premium
P&O Cruises	10	31,433	Contemporary
Seabourn	7	3,082	Luxury
Cunard	4	9,690	Luxury
Total	97	261,273	
Royal Caribbean	27	102,696	Contemporary
Celebrity	15	34,796	Premium
Silversea	13	5,320	Luxury
Total	56	142,812	
Norwegian	19	56,341	Contemporary
Oceania Cruises	7	6,438	Premium
Regent Seven Seas Cruises	6	4,146	Luxury
Total	32	66,925	
MSC Cruises	22	79,289	Premium
Hurtigruten	15	6,961	Contemporary
Ponant/Paul Gauguin Cruises	13	2,792	Luxury
Lindblad Expeditions	12	1,140	Destination
SunStone	12	2,025	Destination
American Cruise Lines	9	1,040	Luxury
Viking Cruises	8	7,400	Luxury
TUI Cruises	7	17,682	Premium
Windstar	6	1,542	Luxury
Disney	5	11,008	Premium
Marella Cruises	5	9,312	Contemporary
Azamara	4	2,800	Premium
Fred Olsen	4	4,977	Contemporary
Hapag Lloyd	4	2,500	Luxury
Virgin Voyages	4	11,080	Premium
ALL OTHER	45	40,498	
Total	175	202,046	
Grand Total	360	673,056	

Sources: Created by the case authors based on "2024 Worldwide Cruise Line Passenger Capacity," Cruise Market Watch, accessed May 23, 2024, <https://cruisemarketwatch.com/capacity/> ; "The Cruise Family Tree," Cruising.org, accessed May 23, 2024, <https://cruising.org/-/media/clia-media/traveltrade/europe/new-to-cruise-selling/othermedia/the-cruise-industry-family-tree---final> ; "Cruise Line Types," All Things Cruise, accessed May 23, 2024, <https://allthingscruise.com/cruise-line-types-figuring-out-what-the-different-categories-mean/>.

EXHIBIT 7: CUSTOMER SEGMENTATION – PSYCHOGRAPHIC

CUSTOMER SEGMENT	Estimated % of total market by trips
Explorers – The segment we love to love. These folks take four or more vacations per year, have disposable incomes and take longer cruises, exotic cruises and cultural learning cruises. Education and social causes are important to them. So are making friends and socializing. It's a smaller and more saturated segment, but one that is lucrative and important to satisfy to retain their business. This group also represents future opportunity, as more couples become empty nesters and retired upscale consumers.	20%
Admirals – These folks have selected their preferred cruise provider and seek a traditional experience. They tend to ritualize their travel experience and don't usually experiment unless their favorites start to become stale or so radically different that the attributes they admired become unrecognizable. Great cruise consumers, they tend to be older and a good, loyal customer base but offer less opportunity for growth.	10%
Marines – This desirable yet elusive segment is made up of upscale, motivated and active young professionals. They are most likely to snorkel, parasail, surf and rock climb. Whether new or experienced cruisers, they are always auditioning better ships. They are intellectually curious, media-involved, and they perceive value in not only the appearance of being active but also the reality of learning and being challenged. Cruise companies can grow well in this segment. They are the logical target for active ship design strategies as well as expanding digital and social media marketing.	10%
Little Mermaids – This segment is made up of upper-middle-class families. They are experiencing an increase the pace of daily activity and a crunch for time. With every non-working moment devoted to family errands (stopping at the Home Depot to pick up an attachment for the air pump for the kids' pool or running to Target for a new basketball for the son's friend's birthday party), they are looking to maximize leisure activity as a family experience that includes opportunities for real quality-bonding.	10%
Escapers – This is a desirable segment and probably the core of the cruise market. They are just looking to get away. All-inclusive is just fine. No complications, no worries. From their point of view, after having spent a hectic year in the rat race with traffic jams, bad-tempered people and an abundance of things that need to be done, they have earned the pleasures of doing nothing but sitting by the pool, seeing a few sites and relaxing. They are somewhat price-sensitive but will always find the money for the trip they deserve.	30%
Souvenirs – These folks have jobs (not careers) and lives (not lifestyles). Because the exact line isn't as much a priority for them as price, their cruise habits skew toward just taking a trip more than specific destinations or activities. Lacking intense interest in the world outside, they are primarily focused the internalized experience of the moment. They tend to take a cruise vacation only when there's a "really good deal" that everyone's talking about.	10%
Adrift – There is a group of people in every society who are disconnected from travel commerce, not curious about what's going on in the world and not likely to possess the disposable income. They would consider a cruise very infrequently and sporadically. This segment is a realistic target for the attention of breweries and bait shops — not cruise line marketers	10%
Total	100%

Source: case writers and Cruise Market Watch, "U.S. Cruise Market," Cruise Market Watch, accessed July 5, 2010, <http://www.cruisemarketwatch.com/blog1/market/>.

EXHIBIT 8: SURVEY OF CRUISE PARTICIPANTS AND VACATIONERS

TNS, a research firm, interviewed 2,426 U.S. residents. Participants who had cruised before were categorized by the type of cruise they took: a Destinations cruise; a Luxury cruise (the most expensive); a Premium cruise (between Luxury and Contemporary) or a Contemporary cruise, which was the typical cruise offered by the three industry leaders.

When asked how cruise vacations compared to other vacations, the interviewees responded by marking off as many attributes as were relevant. For example, 78 percent of all respondents in the Premium category believed that cruise vacations, compared to other vacations, were "luxurious."

CRUISE VACATIONS COMPARED TO OTHER VACATIONS

	Cruiser Types			
	Destinations	Luxury	Premium	Contemporary
Being pampered	79%	80%	87%	78%
Chance to visit several locations	79	76	84	79
Fine dining	71	70	81	74
Luxurious	57	67	78	69
Unique & different	58	67	72	68
Get away from it all	63	76	78	70
High quality entertainment	42	63	74	70
Hassle-free	58	74	78	71
Variety of activities	67	54	69	69
Easy to plan and arrange	33	59	69	66
Romantic getaway	37	44	62	55
Exciting and adventurous	46	50	60	61
Explore vacation area/Return later	58	57	65	65
Fun vacation	50	59	64	58
Good value for the money	54	59	67	62
Cultural learning experience	46	44	51	44
Reliable	33	46	63	55
Safe	25	44	57	49
Comfortable Accommodations	29	35	48	41
Good activities for children	28	13	17	28
Participate in sports you enjoy	17	17	24	26

DEGREE TO WHICH ATTRIBUTES INFLUENCED LAST VACATION

	Cruiser Types			
	Destinations	Luxury	Premium	Contemporary
The destination	9.3	8.3	8.9	8.7
The price	7.4	7.2	7.4	7.4
Best opportunity to relax and unwind	7.3	7.2	7.1	7.2
Fit my vacation schedule/days available	5.6	5.8	6.5	6.5
Offered a unique experience	7.6	7.2	7.2	7.0
The convenience	6.6	6.7	7.0	6.8
The particular hotel/resort property or cruise ship	7.5	6.8	7.1	6.7
Good programs for children and family	2.1	3.4	3.6	3.7

Note: Data is based on a 10-point scale where "10" is "most influence" and "1" is "did not influence at all"

Source: TNS 2008 from CLIA

EXHIBIT 8 (CONTINUED)

REASONS FOR HAVING TAKEN A CRUISE, BY AGE AND INCOME

BY AGE

	All %	18-34 %	35-54 %	55+ %
I enjoy the multi-destination aspect of a cruise	66	63	66	70
I like the all-inclusive aspect	66	66	72	62
I enjoy the diverse entertainment/facilities	62	69	59	57
I love the ocean/ships	61	63	65	57
To gamble	27	31	30	21
To interact with like-minded people	23	27	16	24
I like the structured environment	23	42	16	10
To interact with people of my own age	19	30	13	15
It is a perfect way to spend a honeymoon	16	29	17	3
Other	15	6	18	20

BY INCOME

	All %	< \$50K %	\$50K-100K %	\$100K+ %
I enjoy the multi-destination aspect of a cruise	66	63	67	70
I like the all-inclusive aspect	66	61	65	74
I enjoy the diverse entertainment/facilities	62	62	61	61
I love the ocean/ships	61	53	66	66
To gamble	27	27	31	21
To interact with like-minded people	23	21	24	23
I like the structured environment	23	29	22	14
To interact with people of my own age	19	19	25	12
It is a perfect way to spend a honeymoon	16	16	18	12
Other	15	16	12	17

Source: Mintel/Greenfield Online

EXHIBIT 9: NORTH AMERICAN CRUISE LINES' COMPETITOR SEGMENTATION BY KEY CRUISE CHARACTERISTICS

CUSTOMER SEGMENT	GENERAL CHARACTERISTICS	CRUISE LINES
First Class Cruise Lines	Large ships Pax capacity 2,000–3,500 people Small cabins Good food Family friendly Fitness/Sports-oriented 3- to 7-night itineraries 3- to 4-star service Price point \$–\$\$\$ Keyword: Quantity	Carnival Cruise Line Costa Cruise Line Disney Cruise Line Mediterranean Shipping Company (MSC) Norwegian Cruise Line Royal Caribbean International
Premium Cruise Lines	Medium-sized ships Pax capacity 1,500–2,000 people Large cabins Fine dining Family friendly, but more adult-oriented Spa-oriented 7- to 14-night itineraries 4- to 5-star service Price point \$\$–\$\$\$\$ Keyword: Quality	Azamara Cruise Line Celebrity Cruises Holland America Line Oceania Cruises Princess Cruises
Specialty Cruise Lines	Very small ships Passenger capacity 100–300 people Mixed cabin accommodations Mixed dining options Not suitable for most families Few fitness or spa options 3- to 20-night itineraries 3- to 5-star service Price point \$\$\$\$–\$\$\$\$\$ Keyword: Adventure	Amadeus Waterways Cruise West Delta Queen Steamboat Co. Star Clippers Uniworld Viking River Cruises Windstar Cruises
Luxury Cruise Lines	Small ships Pax capacity 300–800 people Huge cabins or all suites Gourmet cuisine Not family-friendly Spa-oriented 10+ night itineraries 5- to 6-star service Price point \$\$\$\$\$ Keyword: Exclusivity	Cunard Line Regent Seven Seas Cruises Seabourn Sea Dream Yacht Club

Note: Pax = passenger

Source: "First Class and Premium Cruise Lines," *Cruise Plannrs*, accessed March 1, 2011, <http://www.cruise4lovers.com/page/5046-Cruise%20Line%20Market%20Segmentation>.

The table was updated by the case writers on May 23, 2024 to remove the cruise lines that are no longer in service.

EXHIBIT 10: TOP THREE COMPETITORS IN THE U.S. CRUISE LINE MARKET**Carnival Cruise Lines**

Tagline	Fun For All. All For Fun
Theme	The FUN Ships - In a nutshell... we're all about fun vacations at sea and ashore!
Destinations	While we're best known for Caribbean cruises, we sail to other exotic and amazing destinations like Mexico, Alaska, The Bahamas, Europe and Hawaii. Additionally, Carnival Cruise Line Australia offers cruises from Sydney and Brisbane to New Zealand and the Pacific Islands.
Selling Features	We feature day and nighttime entertainment like stage shows, musical performances, deck parties, casinos and more. (Like what? Like waterslides!) We invite our guests to come as they are, and we make everyone feel right at home with comfy staterooms, attentive service, casual and elegant dining, plus a variety of bars and gathering places indoors and out.

Norwegian Cruise Lines

Tagline	Freestyle Cruising
Theme	Freestyle Cruising is all about giving you the freedom of choice to have your style of vacation. Relax or be adventurous. Eat a burger or filet. Dress up or go casual. And never have a fixed schedule or restriction to slow you down. It's your vacation, so make sure it's exactly what you've been daydreaming about.
Destinations	Alaska, Bahamas & Florida, Bermuda, Canada & New England, Caribbean, Europe, Hawaii, Mexican Riviera, Pacific Coastal, Panama Canal, Weekend Cruises
Selling Features	Freestyle Dining No set dining times, no assigned tables, a relaxed dress code and more restaurants than days in the week on every ship, so you can enjoy whatever you're hungry for, whenever you're hungry. Freestyle Fun Pools with slides, videogames on two-story screens, modern fitness centers, expansive spas, fun kids and teens programs, wine tastings, an always-exciting casino and more Freestyle Accommodations From the largest suites at sea to our Balcony Staterooms, we have the widest selection of accommodations at sea, including more family-friendly interconnecting rooms than anyone else.

Royal Caribbean

Tagline	Come Seek the <i>Royal</i> Caribbean
Theme	You're on the ocean, but this is not a cruise. It's an adventure filled with robot bartenders, the world's longest overwater zip line, and more incredible culinary discoveries than you ever thought possible. On our ships, you have to see to believe. This is not the Caribbean. This is the <i>Royal</i> Caribbean. #ComeSeek
Destinations	Over 250 destinations including the most popular destinations in Bermuda and the Caribbean, Europe, Canada and New England, Alaska, South America, Asia, Australia and New Zealand, and Royal Caribbean's own private island in the Bahamas (CocoCay).
Selling Features	Offering <i>more</i> in each cruise – including a private island, innovative ships, additional amenities such as a day spa, many industry-firsts like rock-climbing walls and surf simulators, to the fastest internet at sea.

Source: "About Us," *Carnival*, accessed May 23, 2024, <https://www.carnival.com/about-carnival/about-us>; "Norwegian Cruise Line," *Wikitravel*, accessed May 23, 2024, https://wikitravel.org/wiki/en/index.php?title=Norwegian_Cruise_Line&mobileaction=toggle_view_desktop; "Royal Caribbean International Invites all Adventurers to Come Seek," *Royal Caribbean Press Center*, accessed May 23, 2024, <https://www.royalcaribbeanpresscenter.com/press-release/1200/royal-caribbean-international-invites-all-adventurers-to-come-seek/>, https://www.facebook.com/royalcaribbean/about_details.

ENDNOTES

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