

Norwegian Cruise Line

SI482 - Final Presentation

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Industry profitability is above average despite strong pressure from buyer power and rivalry



Threat of Entry

- Extremely **high capital requirements** in order to purchase ships and maintain large workforce
 - Average price for a cruise ship is **\$1 billion**
- Lack of access to ports** make it difficult to access popular vacation spots



Power of Suppliers (Ship-Builders, Developers, Equipment/Food/Amenities Suppliers, Port Access)

- Ship Suppliers designing the ships/technology are in **limited supply** leaving them some power over cruise lines
- Ship Supplier C4 = 89%
- No threat of forward integration**



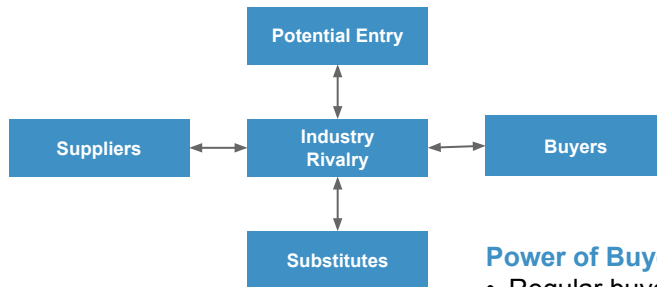
Threat of Substitutes (All-Inclusive Resort)

- Low switching costs:** it is very easy for customers to choose a different vacation method without extra cost
- Weak substitute** price-to-value performance ratio and experience differentiation:
 - Cruises are cheaper** than all-inclusive resorts



Extent of Rivalry (Carnival, MSC Cruises, and Royal Caribbean)

- Highly concentrated industry** C3 = 70%
- High industry growth rate** (CAGR 2022-2026) of 16.04%

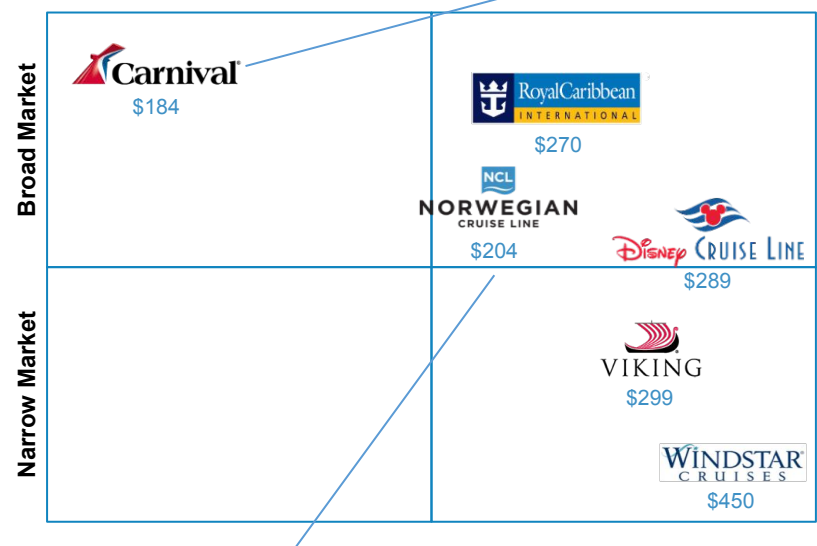


Power of Buyers

- Regular buyers in this industry have **strong customer loyalty** to cruising
 - About **50% of the cruisers choose credit** over a refund during COVID
- Low switching costs:** consumers can easily pick a different cruise line with little effort/money
- High customer price sensitivity;** 2016, CLIA released a report in which price was ranked second as the most important driver for booking a cruise vacation

Industry Analysis Shows Us That Norwegian Cruise Line is “Stuck in the Middle”

Carnival provides an all-encompassing cruise experience for a broad consumer base at an affordable price-point



Norwegian focuses on “freestyle” cruising provides a unique cruise experience with an emphasis on over-the-top hospitality

Trends & Dynamics



Implementing Environmental Innovations



COVID-19



Changing Target Demographic

Total Industry Impact





Environmental Standards

- Announced commitment to pursuing **net 0 greenhouse gas emissions** by 2050
- **Reduce carbon footprint** by reducing fuel consumption and increasing energy efficiency
- **Reduce fuel consumption**/capacity/day by **17%** from 2008 - 2019
- **49%** of new ships will run on **natural gas**

Safety Standards

- Robust and comprehensive **SailSAFETM** health and safety program
- **Ownership** of ports, private islands and excursions
- Public health **training** and **summits** for all crew members
- **Culture onboard**: employees pass high-quality care to passengers
- **Top WTP** driver for customers

Example of Environmental Innovation: Exhaust Gas Scrubber System



State-of-the-art Water Membrane Filtration Unit

Lightweight in-line scrubbers installed 1/engine offering a water cleaning mechanism to **reduce sulfur** and **particulate emissions**



Reduce Air Emissions and Environmental Footprint

Commitment towards short and long-term greenhouse reduction targets, **future-facing strategy**



Target Niche Market

Growing interest from **Millennials** and **Generation Zers** that support climate change



Industry Leader

Highest standard of excellence in environmental protection practices

Norwegian Cruise Line's 2012 BI System Implementation

Financial Data



The new BI system **elucidates and authenticates financial data** in its ERP system, allowing business users to **analyse detailed transaction data**

Ship/Inventory Data



NCL uses analytics to **monitor its food/drink inventory** aboard its cruise ships, **identifying trends and hedging waste**. This has also allowed NCL to engage in **inventory planning and forecasting**

Guest Data



NCL currently uses analytics to **segment and better understand its guests**. NCL intends to harness the ability to use the system to **predict which guests and prospects are most likely to go on a cruise** in the near future

Post-Implementation Benefits

- **6% cost reductions on purchasing** due to improved inventory planning and forecasting
- **Better configuration of packages** based on analysis of spending patterns
- Improved validation of financial data for **faster checkout experiences**
- Allowed for **reassessment of casino asset spend** and floor layouts

Arguments Against Implementation

2017 Data Breach

- Breach of Travel Agent database containing **29,969 records**

Post-implementations

- The Technology, Environmental, Safety and Security (TESS) committee
- The Security Operations Center (SOC)



Post-Implementation Expected Benefits

- **2% annual decrease in fleet wide fuel consumption** of boilers
- **Increase in the percentage of treated wastewater** compared to untreated sewage discharge
- Anticipated **offset of three million metric tons of carbon dioxide equivalent** over a 3 year period
- Anticipated decrease in the total volume of sludge offloaded fleetwide by 5% compared to 2018, by 2023

Environmental Initiatives

- NCL is focused on the **incremental improvements** of **sustainability features** on their ships (e.g. Waste and energy management systems)
- Directs attention to the **environmentally conscious concerns of Millennials** to attracts the **growing market of younger travellers**

Where is NCL Headed?

- NCL's current strategy is to **focus on ESG strategies** to draw in **younger cruisers**
- Hard to say whether it contrasts/contributes to the **“luxury” cruising experience**
- NCL's **debt heavy position** makes it hard for the overhauling of strategic initiatives which explains its **incremental investments into operational efficiencies**

Image Source

Sail & Sustain 2021 ESG Report

Norwegian Cruise Line Holdings Ltd. Sail & Sustain 2021 ESG Report.

https://d1io3vog0oux5.cloudfront.net/_fb5f74a90630152ce20197d0d03c75c1/nclhlttd/db/1166/11264/file/NOR002_07132022_ESG+Report+Design+2021_FINAL_2.pdf (accessed Dec 9, 2022)

Opportunity for Platform Play - The Ocean Medallion

Carnival's Ocean Medallion



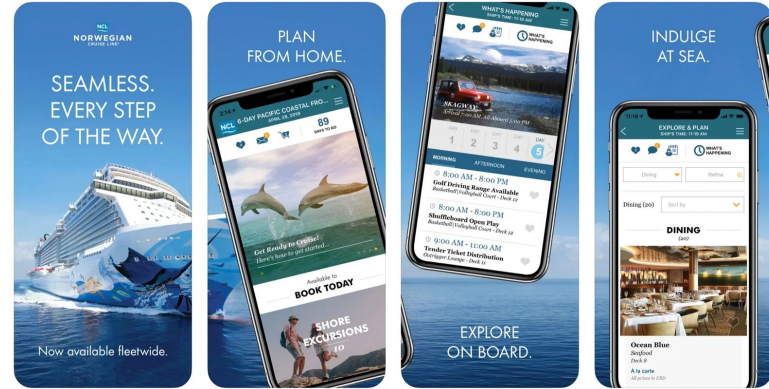
Features

- Touchless Embarkation
- Tracking of passengers and parties
- Easy opening of staterooms
- Enhanced discoverability of products
- Easy onboard purchasing
- Casino integration

Considerations

- Boasts a **99.5% adoption rate**
- **Asset heavy implementation:**
- 7,000 sensors
- 4,000 interactive digital portals
- 2-4 data centers
- Investment into wearables

The Norwegian Cruise Line App



Features

- Preview and plan onboard amenities and programs
- Check your **Latitude Rewards** points and learn about tier benefits
- Easy onboard purchasing
- Group chat messaging

Considerations

- Carnival's Ocean Medallion offers all of Norwegian's existing functionalities
- Current inability to stimulate network effects

Currently

Destinations:

- **470 destinations**
 - Carnival offers **700 destinations**

Amenities:

- Sports courts, gym, live shows, casino
 - **Carnival offers the aforementioned and more unique ones (flowrider, rollercoaster)**



Potential Solutions / Improvements

Destinations:

- Add more destinations to target niche markets
 - **South Africa** - Cape Town, Mossel Bay, Port Elizabeth
 - Wildlife, **adventurous activities**

Amenities:

- Offer **more unique activities**
- Build a data-tracking platform like Carnival's "Ocean Medallion"
 - **Track customers' interests**
 - **Suggest new trips/activities**



Final Recommendations



Double Down on Environmental Initiatives

Global Climate Crisis



86% of adults under 30, having grown up with the climate crisis and consider sustainability important

Recent Decline in Demand



Cruising **lags** in environmental sustainability initiatives

Niche Market Segment



Appeal to the new **eco-conscious customer** becoming **industry leaders** in terms of environmental sustainability

1. Implement greater comprehensive green innovative technologies onto ships e.g. advanced wastewater technology and dual fuel
2. A smaller cruise design, limiting carbon emissions and fuel disposal allowing them to reach their 2050 goal sooner

Potential Risks



Extremely High Costs



Minimal WTP Boost



Low Revenue Potential



No Exclusivity in Ship Construction

Establish a Comprehensive Hub to Stimulate Network Effects



Opening the Door to Third-Party Vendors

- NCL should consider opening its application to third-party vendors to stimulate **cross-sided network effects**
- The prospect is highly enticing given how **differentiated products from different port destinations**/countries are across NCL's 120 port destinations
- This also facilitates **increased discoverability**, which encourages users to engage with the application in order to explore more unique offerings

Leveraging Data

- NCL should invest in a **recommendation algorithm** that leverages financial and habitual data accrued from guests to offer **more personalized offers and recommendations** to guests for **amenities, activities, on-board products, and off-shore products**
- Ties in with NCL's **luxurious** and more personalized product proposition, **encouraging more transactions**

Vertical Integration will Lead to Higher Profit Margins

Current Strategy: outsource excursions to other companies to run while they are on land

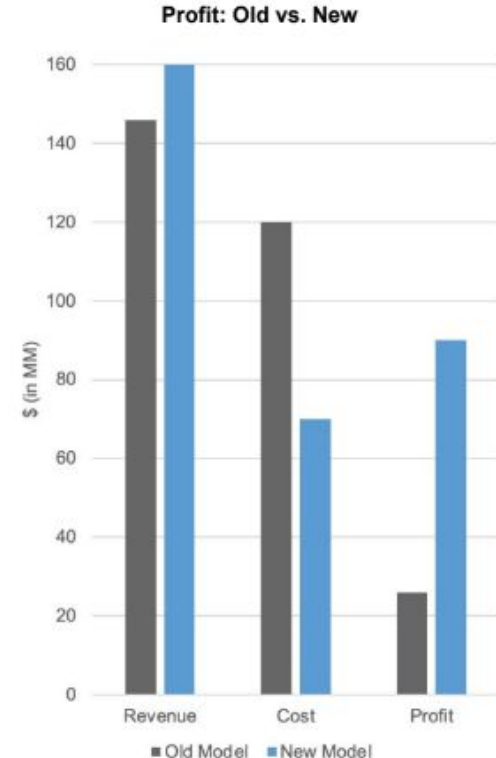
- They have **minimal involvement** in the process other than sending the meeting location to the customers
- Excursions have their cost that they offer to outsiders, and **inflated prices** that cruise lines must pay
- If we can **bypass this margin** that cruise lines must pay, we may be able to **recover lost profit**

Ensuring Passenger Safety increase WTP

- **Safety is top passenger concern**
 - By **owning excursions**, we can ensure that we have utmost safety standards enforced across all ports and excursions

Maximizing Passenger Enjoyment on Excursions

- They risk other companies jeopardizing their customers' experience, which is out of their control
- We can ensure that passengers are going on excursions that are **tailored to their activity level and interests**



Expand Ports and Services in the African Region



Strong Growth



- Fairly **undiscovered** (0.4% of cruise destination activity)
- Ships booking into ports of Cape Town increased from 60 to 90 (**+50%**) from 2020 to 2021
- Cruise revenue in SA is expected to show a CAGR of **12.26%** (2022-2026)
- **370,000** potential cruisers captured
- Translates to **\$577 MM** in revenue

Better port terminal and infrastructure capability



- Africa invested **\$13.9 billion** on new port terminal
- The barrier of entry is **weaker** and welcomes international cruise lines

Good Presence in SA



- No major competitor dominating the market
- **Cheap prices** attract customers
- Norwegian = \$158/night vs. Azamara cruise line) = \$237/night

Government in favor of cruise tourism



- “Help the economy of Africa and job creation”
- Cruise ships carrying 2000 passengers result in spending value of R2.2-million/day (\$152K USD)
- For every 12 tourists visiting South Africa, one job is created! A win-win situation

Thank You! Questions?



Appendix for WTP Recommendation

Old Model

Allow other third-part excursion providers to capture profits from Norwegian customers

New Model

Capture Norwegian customer profits on and off the ship

Market Size	<ul style="list-style-type: none"> Ship Size: 4,000 50% leave the ship and go on excursions at any given port 2,000 potential customers 20 businesses on port that work with cruise 	<ul style="list-style-type: none"> Ship Size: 4,000 50% leave the ship and go on excursions at any given port 2,000 potential customers
Revenue	<ul style="list-style-type: none"> AVG excursion cost: \$200 Annual revenue = \$200 per customer * 2,000 customer = 400,000 per port per day □ \$146MM 	<ul style="list-style-type: none"> Avg Excursion Cost: \$200 80% of those who leave the ship go on a paid excursion Annual revenue = \$220 * 2000 people = \$0.44MM/port/day □ \$160MM
Cost	<ul style="list-style-type: none"> \$140 goes to Excursion Provider Annual cost = \$140 per customer * 2,000 customer = 280,000 per port per day □ \$120MM 	<ul style="list-style-type: none"> Wages: \$0.5MM Rent: \$0.5 MM Overhead: \$0.5 MM Inventory: \$1MM Other: \$1MM 20 Businesses/Excursions on Port Annual cost = \$3.5MM/per excursion □ \$70MM
Profit	<ul style="list-style-type: none"> ~\$26MM Yearly with no payback period needed 	<ul style="list-style-type: none"> Rough calculations point to ~\$90MM dollar profit excluding increased operating costs Even if we have a 10% increase in operation cost for two years, we would only be in a loss for 5-6 years before recouping profit

