11 Revenue Management in the Cruising Industry

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Learning outcomes

After reading this chapter, you should be able to:

- Understand the key revenue management levers at play in the cruising industry.
- Appreciate the factors that are unique to the sector, in particular itinerary planning.
- See how pricing of cabin grades plays a key role in revenue management.

Introduction

Cruising has been going from strength to strength. The Passenger Shipping Association (PSA, 2012) in its recent *Cruise Review* states that 1.7m of us in the UK went ocean cruising in 2011 - up nearly 60% in five years - with demand for new ships increasing. 18 are to be built between October 2012 and October 2016, valued at $11.6 billion (seatrade-insider, 2012) with increasingly sophisticated innovations being incorporated on board. These include giant outdoor movie screens, rock climbing walls, bowling alleys, zip-wires and surf machines, to mention but a few, and ensure that there is something for everyone in an increasingly diverse product offering for guests of all ages and attitudes. Cruising continues to grow in all parts of the world, with total passengers expected to reach the 20 million mark by the end of 2012 (European Cruise Council, 2012).

However, 2012 has been one of the most challenging years on record and in terms of revenue management, could not have got off to a worse start for the industry. On the night of Friday 6th January – at the beginning of one of the busiest periods in a year for bookings - the cruise ship Costa Concordia partially sank after being inflicted with a 70m gash in its port side hull, during a 7 day Western Mediterranean cruise. The incident had a specific and significant impact on the cruising sector not only in Italy where Costa is based, but throughout Europe and the rest of the world. The industry at large quickly got together to communicate the positive safety record of cruise ships, but with the ship remaining on its side for months, and with recordings of conversations between the coastguard and a captain that appeared to be in shock, it has continued to prove to be one of the public relations challenges of 2012.

In addition, with increasing pressures on fuel and other operating costs, the current recession, and incidents such as Costa Concordia, many cruise lines are facing tougher challenges to succeed in achieving required or expected profits. This is underlined by the Royal Caribbean Cruise Lines 2nd Quarter results, which saw last year's second quarter profits of $93.5 million wiped out as it reported a loss of $3.6 million for the same three months this year, as summarised in the UK's *Travel Weekly* on July 27th 2012 (travelweekly, 2012a). This was reported on the same day and in the same source as All Leisure Group's (owner of Swan Hellenic and Voyages of Discovery) winter half-year losses increasing from £4.2m to £11.2m from the previous year (travelweekly, 2012b). Therefore, managing the revenue line is more critical than ever.

Like other types of holiday offering, such as hotel beds and aircraft seats, excellent revenue management is about understanding behaviours of customers in order to maximise income at the point of departure before the asset becomes 'perishable' (i.e. the ship has departed!). It is not just about charging high ticket prices, because cruise lines are keen for passengers to repeat purchase.

However, the major difference between a hotel and a cruise ship as a holiday option is that a cruise ship can move! A cruise line can take a view as to whether it wishes to continue operating in a particular region, or whether it redeploys a ship – either for all or part of a season – to a different region. In addition, the revenues that many cruise lines achieve on board, or through shore excursions are particularly important in the revenue equation. Therefore, consideration has been given to factors in relation to ships' operations, and not just pricing and sales/distribution issues. As a result, factors influencing revenue management have been divided into two categories with an additional final comment on the implications of the increasing size of new-build ships:

- Shipboard revenue drivers.
    - Itineraries and itinerary planning.
    - On board revenues.
    - Shore excursions.
    - Tipping and service charges.

- Head office revenue drivers.
  - Revenue and sales planning.
  - Ticket pricing and cabin supplements. Discounting versus value adds.
  - Inventory management.
  - Distribution channels.

Shipboard revenue drivers

Itineraries

An itinerary – a planned journey that a cruise ship, passengers and crew undertake – has to satisfy a range of criteria. Not only does it have to visit places that will appeal to passengers who are encouraged to buy the cruise, but has to satisfy a number of economic and operational criteria from a cruise line perspective. Even before the itinerary detail is considered, one must consider the overall sale-ability of the itinerary and the suitability of the home port (where passengers embark). For example:

- Does the cruise combine a mix of key destinations that will entice customers to buy the cruise paying good prices in the first place, with other less well known ports of call that might also 'surprise and delight' along the way?
- Does the home port have: good communication/transport links to train/air; good parking facilities for passengers to drive to and leave their car cheaply and securely; give support to the cruise line that facilitates the smooth movement of thousands of people on and off a ship in a short space of time?

Once the general parameters are considered, then more detail is examined

Key drivers in itinerary planning

Once the main ports have been identified to help sell the cruise initially, further ports that allow a ship to keep to the 'shortest path' without too much deviation can be considered. There are four key drivers in itinerary planning, and in particular whether a port can be included in an itinerary. Generally speaking, there is a trade-off between one driver and another:

- **Shore Excursions (SX)**: Does the itinerary allow for sufficient daylight time to maximise the opportunities for shore-excursion revenue?
- **Port Costs (PC)**: Do the ports visited have both customer and cruise line friendly facilities, and are the charges reasonable?
- **On-board revenues (OBR)**: Does the itinerary allow enough time at sea, so that the cruise line can maximise the on-board revenues from all ships' facilities (e.g. bar, casino, duty-free shopping - shops can only be open when the ship is sailing)