BUS 478 D200

Carnival Corporation: It’s time to sink or swim

Carnival Corporation & plc Case Synopsis

Professor: Jerry Sheppard
Date received: 6 November 2013

Presented by:

Alex Chen
Connie Zhao
Nikki Zurkoski
Ruby Wu

FIRM HISTORY

Carnival Cruise Line was founded in 1972 by the late Ted Arison in Miami, Florida. The flagship brand began operations with a single ship, the *Mardi Gras*, with a one-way trip from Miami to San Juan. The founder's entrepreneurial spirit and pioneering vision drove the growth of the company in the leisure travel industry after a merger in 2003, Carinval Corporation & plc (CC) was formed. With twelve of the most highly recognizable brands in North America, the United Kingdom, Germany, Italy, and Australia, the company has the highest brand presence in the cruise line industry (Carnival Corporation, 2006).

CURRENT SITUATION

Mission

The company's stated mission is:

> *To take the world on vacation and deliver exceptional experiences through many of the world's best-known cruise brands that cater to a variety of different geographic regions and lifestyles, all at an outstanding value unrivaled on land or at sea.*

Goals and Objectives

The company's objective is to be the leading vacation company in the world. Carnival Corporation aims to achieve this by offering both quantity, in the form of a wide range of holiday and vacation products to a broad customer base, and quality, in the form of an exceptional vacation experience well worth the price.

Current Products & Services

Carnival Corporation & plc operates a fleet of 100 ships, with new ship deployments beginning in Spring 2014 in several key markets. Carnival has a portfolio of the most recognized cruise brands in geographic areas accounting for 85% of the world's cruise passengers and attracting 10 million guests annually (Carnival Corporation, 2006). Carnival's strong brand recognition and presence has contributed to its success as one of the largest vacation companies in the world and will allow for continued growth through expansion into new regions.

Performance

Carnival Corporation suffered major disappointments in the 2012 year, including a 3% reduction in revenue and 32% drop in net income, likely caused by unfortunate events such as the Costa Concordia incident, where 32 passengers died during a cruise. As Carnival Corporation is the global industry leader, this tragedy negatively impacted the whole industry; passengers became more cautious about taking cruise vacations (Euromonitor International, 2013). Lowering prices did not do much to buffer the declining profitability of the European market. Carnival Corporation also had a 3.3% return on assets in 2012, compared to the 5% level it was hovering around from 2009 to 2011 (Marketline, 2013). Recently, the company is trying to connect with people new to cruise vacations by emphasizing the added enjoyment of taking a cruise compared to vacations on land.

GENERAL ENVIRONMENT

Global

According to Cruise Industry News Annual Report, the total number of cruise fleets is expected to grow at an average rate of 2.2 per cent per year from 2013 through 2021. Passenger numbers will also grow from 19.5 million in 2011 to 23.6 million by 2021 (Cruise Industry News, 2013). This forecast indicates that the cruise industry is a growing market in the next decades. The market will also become more competitive since more players will enter into the market due to globalization.

Demographic

The target customers for cruise companies are likely old and wealthy couples with high disposable income or families with children who are willing to spend money for adventure on the open sea. Misconceptions about the cost of going on a cruise prevent many households with low incomes from buying into the idea. As income distribution is different across nations, monitoring the income distribution worldwide is essential for companies.

Economic

As the economy is in recession, people would likely not have enthusiasm and enough money to spend on a cruise vacation. High inflation rates will increase the cost of operation and also affect the exchange rate for foreign currency. The change in foreign currency rates would affect the purchasing power of cruise passengers when they arrive at foreign destinations. Disadvantageous rates would significantly influence the consumer decision making process when individuals consider going on a cruise.

Political/Legal

The increasing number of global tourism activities combined with growth of the cruise industry has led to a serious issue of security and safety (Dowling, 2006). Political instability in a national government increases the likelihood of terrorism activities near regions such as Somalia. Pirates consider cruise ships as an easy target to hijack and will demand high ransoms for passengers (Dowling, 2006). Passengers lives are at risk if their requirements are not met, endangering Carnival Corporation's operations. Taxation policies in different countries would also affect company profits.

Sociocultural

People from different cultures have different demands for their travel options. People in developing countries will likely perceive cruise vacations as unneeded luxuries while those in developed nations consider cruise vacations affordable, leading to most cruise lines operating in the Western hemisphere. **Technological Segment**

Internet technology plays an increasingly important role in global commerce. Consumers can easily book their cruise trip on company websites by themselves, rather than see a travel agent. Cruise companies need to constantly invests in technology to add more functions on their ships, creating a convenient and enjoyable experience for their customers while increasing the safety level of their ships.

Emissions from cruise ships of sulfur oxides (SOx), which cause acid rain and soil degradation, have a huge negative impact on the environment and people's health (Haifeng, 2013). The resulting environmental concerns has led to government intervention in some part of the world (Euromonitor International, 2013).

INDUSTRY ENVIRONMENT

Bargaining Power of Suppliers: Moderate

Since Carnival Corporation is currently one of the largest cruise companies, it has relatively high bargaining power over its suppliers for fuel, ship construction and repair, and food and beverages, and pressure suppliers to offer the products at a lower price (Carnival Corporation & PLC, 2012). However, fuel is generally a consolidated industry with a limited number of suppliers, limiting Carnival Corporation's influence in the industry. To curb buyer pressure, ship manufacturers create high switching costs in the form of tailored designs (Levin, Jones & Slade, 2012).

Bargaining Power of Buyers: Low

The increased access to information for customers via newspaper, TV, and the Internet has diluted the power of travel agents and consequently, consumers themselves; travel agencies cannot demand lower prices with less purchase volume (Jainchill, 2012). Additionally, customers are widely distributed around the world and cannot establish a unified presence capable of minimizing Carnival's influence as the largest cruise provider in the world (Levin, Jones & Slade, 2012).

Threats of New Entrants: Low

Carnival Corporation has strong relationships with a variety of suppliers and a solid reputation for attracting customers, which will be challenging for new entrants to access and replicate. Any new entrant will require intensive capital investment for ships and labour, which create significant barriers to entry. Still, there are numerous new entrepreneurs and companies trying to enter the emerging Asian-Pacific markets (Yi, Day & Cai, 2011).

Threat of Product Substitutes: Moderate

Market research conducted by Cruise Lines International Association (2011) indicates that the two highest rated vacation experiences are cruisers (45%) and all-inclusive (43%), which generate the highest levels of extreme satisfaction. Although consumers may choose an all-inclusive vacation at a resort offered at a cheaper price, cruise ships are continuously improving their amenities to create a differentiated vacation experience.

Intensity of Competitive Rivalry: High

The cruise line industry is highly concentrated with two major players – Carnival (with 51.6% of market share) and Royal Caribbean (with 25.6% of market share) (Cruise Market Watch, 2011). After a series of incidents that happened earlier this year, the majority of cruise line companies had to slash prices in the face of decreasing market size and consumers choosing “safer” vacations (USA Today, 2013). The combination of undifferentiated services, low consumer switching cost, and high exit costs, contributes to high intensity of rivalry.

COMPETITOR ANALYSIS

Carnival Corporation's two main competitors globally would be Royal Caribbean Cruises Ltd. and Norwegian Cruise Line, which, unlike its rivals, experienced an increase in net income during the 2011 to 2012 period (Euromonitor International, 2013).

Royal Caribbean Cruises Ltd.(RCC)

Out of the three, Royal Caribbean Cruises Ltd. experienced the sharpest drop in net income during the past two years. Several scandals that hurt its reputation, including an incident in March 2013, where over a hundred people suffered food poisoning on a cruise (Euromonitor International, 2013). Subsequent declining booking volume led to a tenth of the firm's European operations being eliminated. In response to decreased consumer confidence, Royal Caribbean Cruises has moved into China and other parts of the Asia Pacific to diversify and mitigate the impact of decreased profit margins from its main markets (Euromonitor International, 2013). In recent campaigns, the company highlighted abstract concepts such as adventure on the open sea to entice consumers who may have misconceptions about cruise affordability and upgraded its technology (Euromonitor International, 2013).

Norwegian Cruise Lines Ltd. (NCL)

Out of the three market leaders, Norwegian Cruise Lines Ltd. was the only one to experience a growth in net income in the 2011 to 2012 period, though it suffered a 2% drop in passengers transported. Focusing on its tangible offerings, the Norwegian Breakaway offers novelty attractions that include a five-story water slide in its new Aqua Park (Euromonitor International, 2013). The Norwegian Epic information portal, coupled with the Norwegian iConcierge, an app introduced in 2012, allow passengers easy access to bookings, and services and event information. To comply with new anti-pollution regulations applicable to Canada and the US in 2015, ECA 2015, the company will be using scrubbers to lower sulphur emissions (Euromonitor International, 2013). Once ECA 2015 is in effect, many cruise line companies will not be able to afford the premium on low-sulphur fuel and will likely have to leave the US and Canadian markets, which comprise a significant part of global demand. NCL is likely using technology as an opportunity to gain an advantage over its much larger rivals, who are also struggling with ECA compliance.

STRATEGIC CHALLENGES

As discussed throughout the synopsis, the negative PR from cruise incidents have drastically diminished company profits. As the company who unintentionally helped sabotage the industry's reputation, Carnival must prove to consumers that it is adequately addressing safety concerns. Carnival faces a risk associated with the fluctuation of fuel prices, and with the ECA 2015 approaching, it will have to find ways to decrease sulphur emissions to acceptable levels to stay in the Northern American market. Furthermore, as Carnival is entering the Asia-Pacific market, differing cultural perceptions and values must be taken into consideration for marketing strategies and service offerings in order to achieve successful market development.

References

Carnival Corporation. (2006). Corporate information. Retrieved from http://phx.corporate-ir.net/phoenix.zhtml?c=200767&p=irol-prlanding

CNN. (2013, June). Carnival Triumph returns to service. Retrieved from http://www.cnn.com/2013/06/13/travel/carnival-triumph-repaired/

Cruise Industry News. (2013, April). Global fleet growth at 2% per year to 2021. Retrieved from http://www.cruiseindustrynews.com/cruise-news/8996-global-fleet-growth-at-2-per-year-to-2021.html

Cruise Line International Association. (2011). 2011 Cruise market profile study. Retrieved from http://www.cruising.org/sites/default/files/pressroom/Market_Profile_2011.pdf

Cruise Market Watch. (2011). 2011 worldwide cruise market share. Retrieved from http://www.cruisemarketwatch.com/home/2011-world-wide-cruise-market-share/

Dowling, R.K. (2006). *Cruise Ship Tourism*. CABI Publishing. Retrieved from http://site.ebrary.com.proxy.lib.sfu.ca/lib/sfu/docDetail.action?docID=10157920

Euromonitor International. (2013). Global cruise briefing: the calm after the storm. Retrieved from http://www.portal.euromonitor.com.proxy.lib.sfu.ca/Portal/Handlers/accessPDF.ashx/Global_Cruise_Briefing_The_Calm_After_the_Storm.pdf?c=05\PDF\&f=F-243941-24037405.pdf&saveAsName=Global_Cruise_Briefing_The_Calm_After_the_Storm&code=yBr48dO0D9o8F3vP6HC9fML0XSk%3d

Jainchill, J. (2012). Agents' share of cruise sales is seen falling: new PhoCus Wright study. *Travel Weekly*, 71(14), p.1. Retrieved from http://go.galegroup.com.proxy.lib.sfu.ca/ps/retrieve.do?sgHitCountType=None&sort=RELEVANCE&inPS=true&prodId=CPI&userGroupName=sfu_z39&tabID=T003&searchId=R1&resultListType=RESULT_LIST&contentSegment=&searchType=AdvancedSearchForm&currentPosition=1&contentSet=GALE%7CA286390830&&docId=GALE|A286390830&docType=GALE&role=

Levin, B., Jones, J., & Slade, T. (2012). Carnival Corporation strategy report. Retrieved from http://economics-files.pomona.edu/jlikens/seniorseminars/likens2012/reports/carnival.pdf

Marketline. (2013). Marketline industry profile: Global hotels, resorts & cruise lines. Retrieved from http://documentslibrary.bvdep.com.proxy.lib.sfu.ca/mapperMarketResearchPDF/fapeedgdlkhgpgaaonecdpdhghljcpmahjajgomkndkkdafpbkahfgkh.pdf

USA Today. (2013). Past incidents still affect Carnival bookings. Retrieved from http://www.usatoday.com/story/travel/news/2013/09/24/carnival-earnings/2860907/

World's Leading Cruise Lines. (2013). About us. Retrieved from http://www.worldsleadingcruiselines.com/about-us.aspx

Yi, S., Day, J., &Cai, L. (2011). Exploring asian cruise travelers' travel experience and perceptions. Retrieved from http://scholarworks.umass.edu/cgi/viewcontent.cgi?article=1245&context=gradconf_hospitality

Wang, H.F. (2013, July). A little clean air to go with that sunshine and sea breeze?. Retrieved from http://www.theicct.org/blogs/staff/little-clean-air-go-sunshine-and-sea-breeze