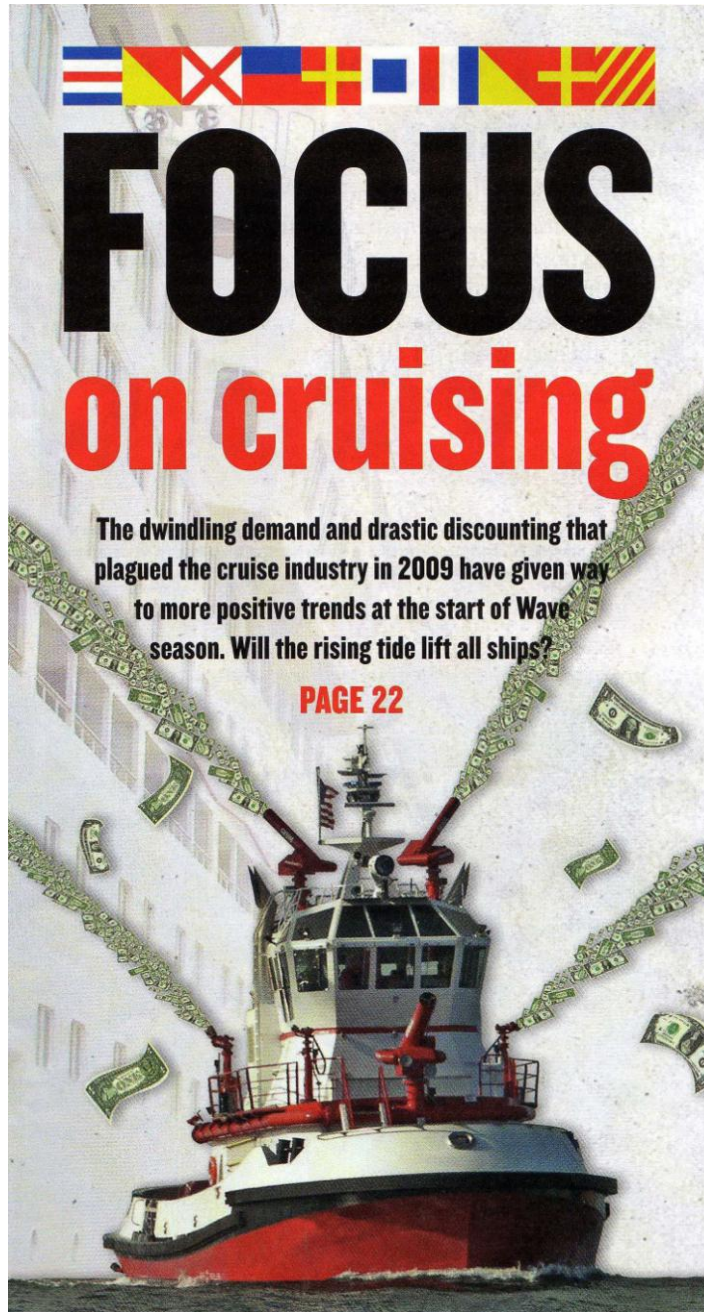


# TRAVEL WEEKLY

THE NATIONAL NEWSPAPER OF THE TRAVEL INDUSTRY



# FOCUS on cruising

The dwindling demand and drastic discounting that plagued the cruise industry in 2009 have given way to more positive trends at the start of Wave season. Will the rising tide lift all ships?

PAGE 22

# TRAVEL WEEKLY

THE NATIONAL NEWSPAPER OF THE TRAVEL INDUSTRY

TRAVEL WEEKLY  
FOCUS ON  
CRUISING

## Rising tide Will it lift all cruise lines?

The dwindling demand and drastic discounting that struck the cruise industry in 2009 have given way to more positive trends at the start of Wave season.

By Johanna Jainchill

**A**t Virtuoso's regional meeting in New York in late January, agents confronted Crystal Cruises' Bill Smith with an issue he had not addressed in a long time: waitlists.

"They had clients wait-listed on this sailing and that sailing, and they were saying, 'What do you think? Are they going to clear?'" said Smith, Crystal's senior vice president of sales. "It was funny, because we haven't had that conversation in about 18 months."

Smith was pleased to report that booking volume at Crystal is up about 30% so far this year, and that sailings as far out as the end of 2010 are sold out.

"Travel agents have to understand, if you have clients that look for holiday cruises you better get them booked, because they are not going to be [available for long]," he said.

Executives and travel agents around the cruise sector have voiced similar notes of optimism recently about 2010. While some of the optimism is cautious, much is confident, with some flatly predicting that 2010 will be a comeback year for cruises.



Bill Smith  
Sr. Vice President,  
Sales  
Crystal Cruises

Executives at Oceania Cruises and Regent Seven Seas Cruises have numbers to support their confidence: By Dec. 31, Oceania had booked 85% of its capacity for 2010, up from 61% at the end of 2008; Regent had booked 72% of its 2010 capacity, up from 56%.

"We are very, very happy," said Richard Sasso, CEO of MSC Cruises USA. "We saw a heavier load than normal in December and thought, maybe Wave will come in with a nice little kicker. And it did."

Agents and executives point to several reasons the cruise industry is doing well even as the economy continues to struggle and some areas of travel remain soft.

The factors most cited are pent-up travel demand; the decision by cruise lines to continue marketing aggressively during the worst of the recession; and the ability of travel agents to change business tactics to adapt to the new consumer.

This is not to say the industry has rebounded entirely. Yields are still way down from 2007, for both agents and cruise lines. "Clearly we are not back to pre-recession demand level, but we are pleased to see yield recovery under way," Royal Caribbean Cruises Ltd. CFO Brian Rice said during the company's fourth-quarter earnings conference call on Jan. 28. "As of today, our booked load factor and average per diems are ahead of the same time last year."

Smith said that yields were still depressed for the Crystal product, and that because they rolled out 2010 pricing



Richard Sasso  
CEO  
MSC Cruises USA



AMERICA'S  
VACATION CENTER.  
Avoya Travel



AMERICAN  
EXPRESS  
Travel  
Representative

# TRAVEL WEEKLY

THE NATIONAL NEWSPAPER OF THE TRAVEL INDUSTRY

while trying to stimulate 2009 demand, some prices are 20% lower compared with last year.

"Over the last three years we haven't increased the yields," he said. "But our objective was to get that value message out there, that it's a great price and a great value."

"But," he added, "I guarantee you that prices will go up in 2011."

The cruise industry's decision to drop prices to historically low levels last year was one that cut deep into both cruise line and travel agent profits. But it kept the ships full, and the architects of those decisions say it has paid off.

"We've been able to keep the transactions going; the industry is at 103% occupancy," said Sasso, who is also chairman of CLIA's marketing committee. "We had to sell it much cheaper, and our 2009 yields were primarily affected by that pricing. We don't like it, but it provides better value than the year before and brings more people into cruising."

"Now we have stable prices again, and the machine is stronger," he said.

### The Wave is back

Signs that bookings and prices are improving are most obvious now, during the industry's Wave season.

Wave's importance over the last decade has generally declined as the cruise booking curve has become steadier throughout the year.

The 2010 Wave season, however, has taken on some unexpected prominence as a barometer for recovery.

"The industry has not been as reliant on the Wave as it used to be," Sasso said. "But this season's Wave looks good and might be an indication of what will happen in the next 18 months."

RCCL executives mentioned positive Wave season results several times during the recent earnings call.

2010 "is looking much stronger than many thought possible only a short time ago," RCCL CEO Richard Fain said during the company's earnings call. "We are expecting good yield growth despite the continued poor economy. Wave season is off to a strong start with good volume and even higher pricing."

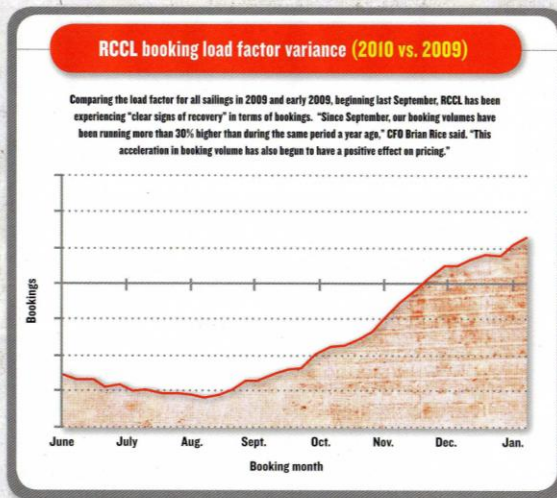
Rice said during the same call, "Each of the last three weeks has generated record booking volumes for us at pricing that is running ahead of the same time last year."

Rice said that current pricing is still being influenced by a weak economy but that the line is in a better position to "control discounting and even take some measured price increases."

Sasso also said that MSC was in a position to eschew big discounts. "We are seeing signs of recovery," he said. "The booking window is getting wider, pricing is a little more stable and the ships are filling long before you need to go to crazy, distressed, last-minute tactics."

### Agents catch the Wave

Travel agents have also said Wave is showing major signs



are stronger than they have been to all destinations.

"I'm careful not to say it is a good year yet, just a much better start than last year."

Adler is among many agents who spent last year adjusting their businesses to ride the economic tides.

"Our focus on 'talking' to customers during the slowest periods helped solidify their loyalty, which is benefiting us now that they are more comfortable with their discretionary spending," he said.

Cruise Planners CEO Michelle Fee said that one year ago, the group realized it was unable to pull from trends as they typically had during Wave season.

She said they created marketing tools to adjust to the protracted booking curve. They educated their agents on using social media tools and creating digital marketing campaigns. They encouraged agents to call consumers on a regular basis. Recognizing consumers' lack of confidence in holding onto their jobs, they implemented a job-loss cruise insurance campaign.

of an improved 2010.

Brad Anderson, co-president of America's Vacation Center, said that Wave 2010 has been "nothing short of remarkable."

Echoing Smith's comments, he said his major concern at this point was that space was filling so quickly.

"In the pit of my stomach I'm afraid we're going to run out of vacation product before consumers are done buying," Anderson said.

For this year's Wave season, transaction volume at AVC is up 30% over the same time last year, and agency revenue is up almost 50%.

The revenue factor is an important sign to many cruise sellers who spent a year facing some times nonexistent commissions as cruise prices tumbled to as low as \$25 per day.

At CruiseOne and Cruises Inc., agents have reported that, for the year to date, revenues are up 40%.

CruiseBrothers.com in Cranston, R.I., said that the average per-person cruise booking was up about \$100 compared with one year ago. Gross sales were up 45%, while commissions had climbed 33%.

"I'm not sure if it is Wave or just people being thankful that 2009 is over," said Anthony Adler of Cruise and Resort Inc. in Sherman Oaks, Calif. "Our sales are triple what they were last January. ... Cruises

It has paid off.

"December 2009 was a strong month for Cruise Planners agents in terms of purchases, and it seems January is following suit," Fee said, adding that December sales were up 40%.

Many agents also focused on selling more expensive products, as the three- and four-day cruise prices fell far too low to yield any real commission.

"The [noncommissionable fees] on the low end of the spectrum on lower price points are a significant issue and a deterrent for us wanting to market those products," said Anderson. "We are focusing on the longer vacations in the higher categories. Instead of an inside cabin, we are selling the balconies on a seven- to 10-day cruise."

"More than ever, we are booking expensive cruises, the \$10,000-to-\$15,000 cabins," said CruiseBrothers.com CEO Steven Gelfuso, who said an agent had that day booked a \$15,000 Holland America Line cabin. "Years ago there weren't many suites on a ship; now there are thousands to sell. Not many agencies have the experienced agents that know what they are doing like we do."

### Land, ho!

His agency also started to focus more on land.

"Cruise Brothers is doing land," he said. "We are actively promoting it for the first time. We are serious about it."

Anderson also talked about an increased focus on land products.

"In addition to selling cruise products with a good yield and rate of return, we do a lot of land," he said. "The escorted tours are generating very high commissions."

Cruise lines also adjusted last year and gambled on the

See **CRUISE** on Page 26



Brad Anderson  
 Co-president  
 America's Vacation  
 Center



Michelle Fee  
 CEO  
 Cruise Planners



AMERICA'S  
 VACATION CENTER.  
 Avoya Travel



Travel  
 Representative

# TRAVEL WEEKLY

THE NATIONAL NEWSPAPER OF THE TRAVEL INDUSTRY



## CRUISE

Continued from Page 23  
idea that they weren't reaching consumers even if they weren't spending money.  
Carnival Cruise Lines CEO Gerald Ca-

hill said last year that though it would be tempting to cut back on marketing during the down economy, it would backfire long-term.  
"When I was on the corporate side, I would have said, 'Slash the marketing bud-

get,'" Cahill said last March, referring to his years as Carnival Corp.'s CFO. "Since I moved over to the cruise line, I seem to have changed religions. I think it's the biggest mistake you could make to cut marketing in this current environment."

Kevin Sheehan, CEO of Norwegian Cruise Line, took his post at NCL just as the economy was collapsing.

His team engaged in the tactic of using the low price points to attract both first-time cruisers and veteran cruisers who in the past might have preferred other brands. NCL

said it also engaged in rigorous cost-cutting while enhancing the product.

"We took more costs out than the other guys, and we loaded the ships up," Sheehan said. "It played out well. We put a razor focus on revenue management."

Better revenue management allowed NCL's prices to eventually creep up, Sheehan said.

"We had been dropping prices three to four weeks prior to a sailing, and since you are only as good as your weakest competitor, they had to drop pricing too," he said. "We're not the only one that did that, but we did it more than the other guys."

"With rigorous revenue management and base-building, we've been able to minimize that. That has helped all of us get pricing up."

### Longer lead time

One of the most important indications of a healthy cruise selling environment is the booking curve, which contracted alarmingly during the last 18 months.

"It's back at that very healthy level," Sheehan said. He said as of early February the average was 148 days, about 17% above the same time last year. During the worst of the recession, he said, it was at 92 days.

Industry insiders attribute that to both

**The industry's decision to drop prices to historically low levels last year cut deep into profits, but it kept the ships full.**

consumer confidence and pent-up demand, much of it a result of the industry's continued efforts to market their product and value proposition.

"When you have what happened a year and a half ago, 90% of the people are still employed," Sasso said. "But that 90% of people, for the next month, thought they were next. When they psychologically realize, 'I didn't lose my job, I'm not unemployed, I have cash flow,' they say, 'I need to take my vacation.'"

Sasso and the other executives always come back to the value of cruising being the industry's main draw.

"As the consumer moves away from being paralyzed as they were last year, they start to look at where they want to vacation," said Sheehan. "The most compelling value proposition is a cruise."



Kevin Sheehan  
CEO  
Norwegian Cruise  
Line