



Making It Work At NCL

New ships and new product innovations have made NCL considerably more meaningful in today's cruise business than when Star Cruises bought the line in early 2000, and with the advent of the line being half-purchased by Apollo Management, there's a new influx of energy, input, and, probably most importantly, cash. NCL will be given tools to digest all the growth and changes it has ushered in during the past seven years. As one industry veteran put it: "NCL has been a work in progress forever and hasn't really turned the corner yet. What they need to do is digest what they're doing and make it work."

There are signs that could be happening now, as Cruise Week correspondent Art Sbarsky reported while enjoying the December christening in New York for Norwegian Gem, the latest in NCL's building spree.

Held in the ship's showroom, the christening was as untraditional a naming as it gets, fitting for a line that emphasizes nonconformity. Forsaking the usual pomp and ceremony, this was more like an awards party. The tone was set with Faux-Security, a.k.a. Dem Boyz Step Team, performing some high-energy dance numbers. Then the audience was treated to a very unusual invocation, more like a revival speech, filled with many references to blessings amidst a very spiritual overtone.

The 2,394-guest ship was packed, mostly with agents sampling the various wares, including nightly entertainment, such as the ship's Second City improv team. During the day, agents were successfully encouraged to visit various public rooms with a mock scavenger hunt.

While the line's President & CEO Colin Veitch did deliver some sales messages, his main function was to introduce the finalists in NCL's "It Girl" campaign to find a christener (the winner was a very frequent NCL cruiser). Veitch also starred in an enjoyable film short spoofing James Bond that will be used promotionally by the line.

One point emphasized during Veitch's speech was the dwindling average age of NCL's fleet, which they now tout as the youngest in the industry. It's a valid claim, as the fleet averages just over six years per ship (six years and 11 days to be exact, based on the month of launch); that's about three months per ship younger than Princess (six years and 84 days).

It's a point worth emphasizing, because NCL formerly employed some of the oldest ships in the business as its core--not just one or two kept around to experiment on new ports, as is the case with its competitors.

Freestyle 2.0: Partnership 2.0

The most important change is the upcoming Freestyle 2.0 initiative. This fleetwide program of improvements includes a dining upgrade; enhanced stateroom amenities; new activities; and additional recognition, service, and amenities for balcony, suite, and villa guests.

So what does a \$50 million investment in food mean? When that translates to a 20% increase over current spending per person per day, it means a lot--lobster in at least one alternate restaurant every night of the cruise and the main dining rooms on multiple days; signature dishes in each dining venue; alternative restaurants open for lunch on sea days; expanded room service menu; a major hardware investment to implement NCL's "action station" buffet restaurant concept; and further back-of-house refinements for the reservations process.

Among the other changes being rolled out in coming months are an educational, entertainment, and lifestyle program called "NCL U," a new health and wellness program, and improvements to the pool deck experience (including quiet zones/times and treats such as Evian spritz and cold towels).

And with a program titled Partnership 2.0, NCL is introducing a travel partner initiative that should help solve some of the issues agents have had over the years in dealing with the line. Overall, the program is going to provide faster payment of group commissions and quicker solving of problems with the establishment of a fully-empowered resolution desk. Judging from a steady stream of complaints Cruise Week has received regarding NCL's problem resolution, this step is overdue.

The resolution desk will be staffed seven days a week and will be headed up by a 20-year NCL veteran.

Other Partnership 2.0 features will include more training for res agents, better and more efficient credit card policies, and the processing of commissions and other partners' payments electronically.

From Competitors to Complementers

The executive combination at newly formed Prestige Cruise Holdings is clearly a good combination from Apollo Management's perspective; they get the cruise industry experience an outside private equity firm needs. Frank Del Rio heads up the combined group of Regent Seven Seas and Oceania, while, on an individual brand basis, Mark Conroy heads up Regent, and Bob Binder is president of Oceania. As an example of the type of experience Conroy brings, he started in the business way back in the 1970s, working in the mailroom for NCL and then climbing the ranks mainly through sales and marketing posts before reaching the top position at Regent during his 15-year tenure with Carlson.

With Conroy reporting to Del Rio, retailers are wondering if Conroy is happy having a boss now. "Everybody has a boss," replies Conroy. "Frank and I have different personalities, and we have been rivals for quite awhile. Would I like to run the company by myself? Maybe. But at the same time, it's nice to work with people who understand the business."

In that regard, Conroy has respect for what Del Rio



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has accomplished at Oceania. "He launched Oceania in '03--the worst year in our history," says Conroy. "He launched it with very little capital at a time when people didn't want to go to Europe. Yet against the winds and odds he made it a success, cobbling together an interesting group of people and over a four-year period taking it from nothing to being worth \$800 million dollars. Even take the debt away, it's over \$400 million."

There has been talk of considerable payouts to key execs at both Regent and Oceania when Apollo stepped in, and Conroy doesn't dispute that big bucks can make a happy camper. "Speaking selfishly, for myself and the team, the private equity guys want you to participate in the ownership of the company, and that's exciting," he says.

Symbiotic Relationship

Between Oceania and Regent, a complementary working relationship is envisioned.

"There are a lot of things we can learn from Oceania," says Conroy. "Our average yields are quite high; their occupancies are amazing--it's hard to average 100% occupancy in the premium and luxury segment."

When keeping the brands separate, the trick is cooperating where the guests won't notice it. "When it comes to the guest experience, you'll see us with two different brands, but if I'm buying tomatoes, why shouldn't we buy them together?" says Conroy. "With accounting, does anyone care who signs the commission check?"

Conroy reports that when Apollo looked at the different models in the marketplace, they concluded: "The model everyone sees as working well is the Carnival model. Basically, to a certain extent they cooperate, yet compete, in the marketplace."

But make no mistake, the presence of Apollo Management is a different model than anything seen in the cruise industry to date. One question is will the cruise investments get the attention they need from this rapidly growing private equity firm? This month, for instance, Apollo is finalizing a \$17 billion deal (along with Texas Pacific Group) to purchase Harrah's Entertainment. Conroy points out the cruise investment is too sizeable to neglect: "Between Oceania and us, they've invested somewhere \$2 and \$3 billion; that's not very small. They see an opportunity in the business, which has basically been an oligarchy of Carnival and RCL."

Like others, Conroy points out it's not Apollo's goal to be a long-term investor. "They stay in their business as long as they need to get the kind of return they need," he says. "Typically, their funds are three to five years, sometimes up to seven years. They were in Vail Resorts

a little bit longer. Assuming Frank, Bob Binder, and I do our jobs, in three-four years they may be exiting this business to do something else. Hopefully, by then we'll be much stronger; maybe even public."

New Ships

Apollo's vision is one of growth, and that's O.K. with Conroy: "They're expecting a lot in return, and that puts a bit of extra stress on the system, but they provide a platform to grow. A challenge of this business is if you're not growing, you risk disappearing."

The dollar's plunge is seen as limiting new ship orders for U.S. companies like Apollo. But Conroy sounds optimistic about growth: "We've had a couple of meetings with yards," he reports. "Typically, such as when we ordered *Voyager*, we locked in the exchange rate at 84 cents. Now when we order a new ship, we probably wouldn't lock in the exchange rate."

Where Apollo adds value is on the financing side. "They're world experts in financial engineering," says Conroy. "Carnival is known for having great longevity and consistency with its leadership, and they've also been ahead of the curve in financial engineering. They were doing leases when no one understood leases, sovereign debt financing, and so forth. Apollo bring elements to us in creatively financing shipbuilding."

Conroy expects the next generation ship to hold 700-800 people, not much different from current Regent ships. However, it won't be a repeat. "The standard suites will be larger than our current suites--somewhere around 450 square feet, so the standards will be like the penthouses on *Mariner*," says Conroy. "There will be things like a magradome, since the world has decided it's O.K. to cruise in places where it's not always warm. Also, if you think we have a big spa now..."

The coming ship size is expected to be around 60,000 tons, up from 50,000 tons for *Mariner*. "Specifics depend on who we order from," says Conroy. "It's 30 months from the time you place the order; by mid-year we should be in a position to order a ship, so we could receive it in 2011."

News Shorts

⇒ Once again, **cruise stocks** underperformed on the stock market this past year. The Dow Jones Industrial increased by 6.4% (the S&P 500 was up 3.5%), while Carnival Corp. dropped more than 12%, and RCL dropped about 2%.

⇒ PhoCusWright's most recent research finds that 18% of cruises sold in the U.S. are sold direct. "Intermediaries represent the remaining 82%," reports spokesperson Lorraine Sileo, adding, "This **cruise direct** push has been taking place under the radar."