



## Volatile Times Fuel Cruise Concerns

Concerns about volatile fuel prices (down since the Japanese disaster but still way up over recent levels) were voiced by delegates at the annual Cruise Shipping Miami Conference this week.

The industry is reminded once again by recent worldwide events that cruises are a fossil fuel-dependent industry, both in terms of operating the ships and getting people to the ships. For example, Carnival Corp. lowered expectations for the year, citing fuel costs among factors, and they even cited higher fuel costs as one of the reasons for their sudden decision to pull out of Mobile, Al., later in the year.

Also, higher oil and gas prices reduce consumers' discretionary income, which hurts the cruise biz indirectly.

### Royal Hedges Bets

But if there's a silver lining, it's that the industry is somewhat prepared this time around. For instance, Royal is well positioned for huge spikes in fuel costs: "We currently have fuel hedges covering 58% of our forecast consumption in 2011 as well as 55% and 30% for 2012 and 2013, respectively," reported CFO Brian Rice during Royal's most recent earnings call.

And the industry is more energy efficient than back in 2005, when gas prices hit more than \$4 a gallon. For instance, Royal Caribbean, on their most recent earnings call, reported an amazing 20% increase in fuel efficiency.

"Our hedging program is one element of our efforts, but, really, the most important element for long-term success is the strong focus on reducing the absolute amount of energy we use," said Chairman/CEO Richard Fain. "Over the last five years, we have reduced the number of gallons of fuel we use for every day a guest is onboard by 15%. And that's going to grow 5% in 2011."

Fain added that 15% or 20% is an enormous difference to Royal's bottom line and to the environment. "To put that in perspective, if we have the same rate of fuel consumption in 2011 as we had in 2005, we would use 330,000 more tons of fuel that we are actually using, and it would cost us more than \$175M for the year."

### To Surcharge or Not to Surcharge?

Agents are worried about possible fuel surcharges, even though Carnival Corp. has emphasized this is not a desirable option. The general view is clients might not be as accepting of fuel surcharges this time around, since it's not as unexpected. "I feel it would be a critical error to react too quickly and add on a fuel surcharge," says Gary Silverstein, Mann Travels/American Express, Charlotte, N.C. "It will only create hesitation among those considering travel and could cost more in the long run."

Silverstein and other agents say it would be a smarter move to just raise the base rates, which would, of course, also help agents by increasing the commis-

sionable portion of the cruise fare.

One agent argues: "The public may or may not push back with fuel surcharges, but every commodity is going through the roof now. There's no surcharge for commodities like food or raw materials, though those must be impacting cruise lines--they become part of the fare. Why should fuel be excluded from everything and then added as a noncommissionable, which is one more push back to agencies in terms of ability to make money?"

### Fuel Assessments And Predictions

Not surprisingly, fuel prices were among the topics discussed by cruise industry leaders during the State of the Industry session at the conference on Tuesday.

"Fuel costs are ratcheting up to levels that we have not seen since back in the summer of 2008," said Holland America Line President/CEO Stein Kruse. "We all remember the toll it took on the economy back then."

Kruse said if fuel prices at this current level are sustained, it will choke off economic growth, but he expressed optimism that they will not persist at the current high levels. "I believe a lot of what we're seeing with fuel prices is [due to] global concern and fear," he said. "I believe the prices of fuel will go down as fast as they came up once calm is restored."

Kruse does not downplay the potential long-term problem, but he believes the issues at play now will work themselves out: "Invariably, geopolitical issues we're seeing are creating anxieties. We know retail and leisure-type products do better in climates of calm and certainty, so clearly there are a lot of issues there. But again, I remain very optimistic....that these issues will settle down."

## Over The Edge At Princess

Princess has revealed details of its upcoming 141,000-ton ship, to be called *Royal Princess*.

Key design features include a SeaWalk on the top deck, with a glass-bottomed enclosed walkway extending almost 30 feet beyond the edge of the vessel, some 128 feet above the sea. SeaWalk will be on the ship's starboard side. On port side will be a SeaView bar, described by Princess as a "similarly unique cantilevered bar."

The 3,600 pax ship debuts in Spring 2013.

## Conroy On Luxury Retail Trends

Regent Seven Seas President Mark Conroy observes that the disparity in profitability per sale among contemporary, premium, and luxury cruises is impacting the way many agents are approaching the sale of all segments.

He explains the difference in historical terms. "When I started with luxury cruises in the early 1980s, agents basically made their overhead with air," he recalls. "The extra cream on the cake was luxury tours and cruises. In the next decade, the cruise industry started growing at the time that airline commissions went away. So while



## Conroy

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the agents weren't making as much on air, they were able to continue business."

### Today's Luxury Food Chain

But stepping forward, he says, the profit scene has morphed to the point where some sellers cover overhead with basic cruises and make their real profits selling upscale cruises and tours. "Agents used to be able to make some money on three, four, and seven-day cruises," he notes. "It's hard to do that with today's individual sales margins unless you produce huge volume."

So, he says, many agents frustrated by the amount of money they were making selling basic cruises have stopped promoting that segment and are now moving their pitches towards higher-end products.

Alternatively, says Conroy: "Some [agencies] have taken the strategy of promoting [lower cost cruises] and staying in it, because this is where they're finding customers in the right part of the life cycle to be able to bring them up to either the better accommodations on those mass and premium ships or luxury."

Either way, it's helping luxury lines, as more agents are promoting their products.

And, he adds, there is promise for the long-term. "Part of it has to do with the economic times," he says. "Three years ago, you'd have trouble getting somebody fresh out of college to consider going into the travel business. But today, it's a different story. There are travel businesses successfully recruiting young teams. A lot of the consortia and marketing partners are working to convince their members to bring in younger staff."

### Luxury Distribution Challenges

As for issues of current concern, he cites the relationship between cruise lines and small home-based agents: "One challenge I think the whole industry faces with the home based model is, who's producing?"

He says that individual agents don't typically receive direct sales support from the line, because it's hard to identify who they are, but they would benefit from it.

"What happens at most cruise lines is that we pay attention to headquarters of groups, but we have to rely on them to communicate our message to the member," he says. "The more engaged the headquarters is with us, the more engaged the member tends to be."

Even so, Regent feels a need to reach out more to individual members. "Since smaller agents aren't getting sales support from us, we've hired six people to start doing outbound telemarketing to agencies giving us less than \$20,000 per year," reports Conroy. "We've already seen some good activity."

The big picture, Conroy asserts, is that cruises are

one of those businesses where 20% produce 80% of the business. "But in order to stay full and make the numbers work, we have to take care of the smaller agents that give us one or two bookings a year," he says.

### Closing The Sales Loop

It's all part of an overall strategy of attacking from all sides to get the business. "I'll get criticized from agents and sometimes our past guests, because we talk to them all the time," says Conroy. "So I'll tell them, 'It's because you book, so it's hard not to do that.'"

He refers to it as a closed circle. "Every piece of mail we send out to our past customers is labeled with the last agent who they booked through," he says. "That's something that Michelle [Morgan] at Signature pushed us hard on."

Technically, it wasn't easy to do, but Regent persevered. "We've seen now that it helps the response rate," says Conroy. "Again, it completes the circle. Also, when we get the mail out, we send notices out to make sure agents know that we are mailing."

Regent hasn't gotten to the point where they can tell each and every agent exactly who is receiving Regent's mailings. "But now, at least, when we get ready to do a new mail campaign, we'll send a PDF of whatever we're mailing out to some of the organizations," he reports.

That, he says, closes the loop with the agent and the cruise line in dealing with the customer. "At least the agent knows what's going on when a customer calls in saying, 'I want that special with a safari,'" notes Conroy.

The long-term goal would be to notify each agency of all passenger mailings and "someday ask the agent who handled the customer within the agency to follow up on the mailing. Again, it kind of closes the loop."

On the luxury side, he concludes, support of the agent is integral. "At the end of the day, these customers are hard to find, and if you don't take care of them, they have plenty of options."

### Counterpoint: Independent ShoreEx

While agent readers appreciated Norwegian CEO Kevin Sheehan's recent straight talk on distribution issues, many e-mailed in to disagree with his critical view of agents who sell independent shore excursions.

Here's a representative comment from Alan Rosen, Sand & C Travel, Boynton Beach, Fla.: "It is obvious why smart agencies do that.....to make money! If the cruise lines paid a reasonable commission for shore excursions, we would be happy to promote their product. Instead, our clients want us to spend time with them selecting excursions that we don't make a penny on. Do Mr. Sheehan and his company promote products that they cannot profit from? Of course not!"