



## Cuba: People to People Updates

On the cruise supply side, there's really not much new on the Cuba developments per the U.S. market, even as the date for Fathom's launching approaches. Over the holidays, Carnival Corp. reported Fathom "has helped generate over 20 billion media impressions" but didn't say anything new about changes regarding Cuban authorities permitting the program.

During the Q & A portion of Carnival Corp's earnings call, no questions were even asked about Cuba despite the island nation being in the headlines that same general time period with news that the U.S. and Cuba reached a deal to once more operate commercial flights between the two countries.

On the retail side however, an interesting development: In December 2014 Al Ferguson, Legendary Journeys, was privately told that a change for Cuba would be coming from the State Department and it would change how American's could visit the island.

So early last year his company approached Celeystal Cruise Lines (a Greece company) that had been doing Cuban cruises for Europeans and Canadians in the winter, departing from Havana.

"We discussed doing sailings under an all-inclusive 'People To People' program, not boarding in Havana [Americans can't fly there except by charter] but rather in Montego Bay," says Ferguson.

Legendary Cruises organized specialized cruises that depart every Friday from December 18 to April 8 (17 sailings), designating 14 of them under its main brand Legendary Journeys and three sailings under its gay niche brand ALandCHUCK.travel.

## Cuba Cruise Components

The cruise program included air to Montego Bay from across the USA, pre/post stays in Jamaica, a People to People program managed by Celeystal and the People to People operator, a beverage package, educational shore excursions, onboard Cuban People to People programs, and more.

"We have Legendary Journeys tour managers that live aboard the ship for the 17 weeks to manage our groups. For our gay groups we have gay guides that supplement the People to People program in Cuba.

"We marketed this program quietly as we did not want to risk conservative negative response here in Florida, so our program was highly driven by very targeted social media," says Ferguson.

So how is it working? "The program has been incredibly successful as we have had 4000 guests," replies Ferguson. "The three gay departures were promoted as 'The first gay cruise in the world to Cuba' and have received worldwide gay media attention."

## A Whole New Cruise World

More and more, rampant cruise capacity growth in China is seen as having an impact on the North American cruise market. "With so much capacity moving to China, the North American cruise market (i.e capacity available for sale by US agencies) is likely shrinking," points out one top seller this week.

China growth is not exactly a new concern, but developments in the past weeks have accelerated the issue. For instance, after Carnival Corp. detailed its timetable for the arrival of its ships on order, UBS actually reduced its estimate of North American cruise capacity moving ahead.

"CCL's 4-ship order with Fincantieri is part of the previously announced order with the Italian shipbuilder back in March 2015," pointed out UBS' Robin Farley. "...[So] it actually represents a reduction in supply in our N. America supply estimates because we had previously assumed the new ships would go to N. America and Europe."

That's because with China in the picture, assumptions based on industry trends and logic to-date can all be tossed overboard.

## Shifting Ships: It's Happening Now

Carnival Corp. CEO Arnold Donald provided numbers during the earnings call when noting that industry capacity is expected to increase by 33% this year in Asia and 19% in Australia. To put that in perspective, Carnival Corp's overall capacity is growing by 3.5% in 2016; for North America/Europe capacity growth is under 2%.

For China specifically, the capacity increase cited is 60% for Carnival Corp in 2016, on the heels of 50% capacity in 2015.

Based on recent announcements it could expand even more. After all, it appears there is room because CFO David Bernstein pointed out that even with the growth, China still represents only 5% of the business.

During the earnings call, Arnold Donald called China "a very great market, a strong future market, a contributing market today to the bottom line and to our whole approach on developing relative scarcity around the world.

"So the capacity growth that you see for us, a lot of that goes to China—and similar for some of the other companies in the industry as well. And so that constrains the capacity growth in the other markets.

China also helps in a different way: creating new to cruise. "We have been approaching 11 million individual guests a year and probably 3.4 million of those are new to cruise," said Donald. "It used to be 2.7 million. A large portion of that number is driven by China and that big expansion in 2014 of capacity in the Caribbean."

## **Retail Perspective on Changes**

Some retail leaders have chimed in with suppliers who say the China growth is good for North American market, in part because strong growth patterns are returning to the business overall.

“Although it’s looking like 2016 is going to be a better year and we got a nice run, one of the things is there’s a lot of chatter about new ships and where they are going and the effect of their deployment,” observes Matthew Eichhorst, president, ExpediaCruiseShipCenters.

“Although we’re going to see a couple of ships go to China and into some other new markets, I’m really excited about this. At this point, I think it’s 58 ships which are coming out which is about 9.6 million new beds.”

Supporting his point, both Carnival Corp. and RCI have accelerated growth plans. Indeed, Carnival Corporation alone now has 17 new ships scheduled to be delivered between 2016 and 2020.

“I would say that the industry is going faster than the shift,” continues Eichhorst. “So we’re bullish about the next five years. I love what the industry is doing in terms of investing in the product line. I think the demographics make this industry better than ever. Combined with the good economy, we’re really, really excited.”

### **Impact Of New Product**

He bases his excitement on the depth and quality of new product. “So I think you’re going to see a changing in the mix of global deployment, but I think the growth is going to be faster than that.”

Eichhorst also notes that some of the new product is innovative. “I think the lines that are aggressively making their product appeal to a broader audience are going to really do well in the next five years,” says Eichhorst. “And the ones that are sticking to their knitting, I think they are going to be a little bit challenged. I wouldn’t say I worry about lines, but I would say lines that don’t have a broad appeal are going to struggle.”

He likes it when lines reach out of their comfort zones. “You’re starting to see luxury cruise lines have a family message, which is new. With all this multigenerational focus that’s going on, you’re starting to see more of the younger families really focus on a family cruise product.”

### **Election Year’s Impact On Cruise Biz**

Of course, China and growth are not the sole issues. When we talk to agents, issues that regularly arise are concerns about Europe sales and Costa and rebating and more. There are also an

unusual amount of side issues impacting business in 2016.

One is the election year. Over the years cruise execs have identified the presidential election cycle year as sometimes creating an uncertainty, in part because there’s unusual media attention placed on people who are saying things are bad in the world. Then business bounces back after the elections are over.

“We’re aware of it,” says Eichhorst. “I wouldn’t say we’re concerned. But we have seen it a couple of times, at least since I’ve been in the business. What I would say is that it’s a distraction. We’re going to have some distractions for sure with all of this campaigning and election stuff going on. Overall I think the tailwind will be stronger than the headwind, but I do think it has a toll.”

### **Canada & Currency**

During ExpediaCruiseShipCenter’s annual conference aboard *Ruby Princess*, one of the issues that was talked about was the strong dollar.

“We’ve certainly seen great growth in our U.S. stores, and we’re still seeing good growth in our Canadian stores as well despite the currency issues,” says Eichhorst. “But the Canadian economy is under pressure whereas the U.S. economy does seem to be picking up quite nicely and it’s really fueling our growth.”

So the challenge is not so much Europe sales but location of sellers. “I would say our Canadian stores have seen cancellation rates around the U.S. dollar and that continues to be a concern as far as the exchange rate in the Canadian market.”

### **Retail Growth Issues, Business Cycles**

Internal issues, such as retail growth, tied into bigger industry themes. “We had 30 new stores in 2014, 35 for 2015,” says Eichhorst.

There are more than 200 stores now. “This year we’ll have 4500 enquirers seeking a new franchise,” reports Eichhorst. “So it has been very active, and we’re very selective on who we’re letting in right now. We’re around one-in-a-hundred about who gets through the awards process. The plan is 45 more stores. We’re continuing to add more stores because business has been very good.”

What has also happened is that the overall distribution of new versus mature has changed.

The company had separate tracks during the conference. “We had 14 breakouts that we moved people through depending on their position in the life cycle of being a franchisee. Was it perfect? No. But it worked out well, considering it was our first attempt in this area.”