



Carnival[®]

Marketing Audit Spring 2014



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Executive Summary

Market Situation Overview

Carnival Cruise controls 22 percent of the \$37 billion annual cruise industry. Carnival's key strength is its house of brands that include luxury cruise lines such as Princess Cruises, Holland America, Costa Cruises, and P&O Cruises. The company can use this strength to cater to different customer segments. This diverse brand portfolio helps Carnival Corp. strengthen its position as a leader in the industry.

Carnival Cruise Lines has adopted a cost leadership strategy that enables the company to compete on price - an advantage that its major competitors, Norwegian Cruise Lines and Royal Caribbean Cruises Ltd., have been unable to match. This strategy is effectively attracting a price-conscious consumer. However, a "cheap" cruise ticket can also generate negative perceptions with regard to safety and customer service. The biggest challenge facing Carnival Cruise Lines is the string of recent accidents of the Costa Concordia and the Carnival Triumph negatively impacting the company's reputation. Carnival needs to help ease public concerns about cruising and restore Carnival's reputation.

Vision Overview

Our vision to improve Carnival's market position is to create a new product line called, "Carnival Mini". This program includes short weekend cruises that will minimize the major threats facing the industry including:

- Negative attitudes towards the cruising industry
- Americans have been working too much to enjoy the leisure of a cruise
- Rising costs from new environmental regulations will likely increase the cruise prices

Key Recommendations and Plan of Action

We recommend that Carnival Cruise Line take advantage of the growing demand for cruise services by adding new ships to their fleet. We believe Carnival Mini will increase the demand for cruising particularly among consumers with a busy lifestyle and coastal residents seeking a short weekend getaway. Therefore, Carnival should increase the number of smaller ships to their fleet opposed to adding a fewer number of larger ships. These small ships will fulfill the increasing demand for the cruising experience to be enjoyed by more people.

Cruise vacations at shorter distances from the coast line will increase the general population's perception that cruises are unsafe when going out into deeper waters with more potential for ship disasters to occur. Furthermore, shorter distance cruising over an extended weekend would likely be less expensive to the typical consumer.

In conclusion, Carnival Cruise Line can introduce a new way for consumers to experience a cruise vacation over a long weekend that is conducive to the busy lifestyle of many Americans, and is priced lower than traditional week long cruises. The Carnival Mini program will also increase the brand equity of the company.



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Chapter One

Macroenvironment

Economic Trends in the Industry

Environmental/Natural Resource Issues Facing the Industry

Science/Technology Trends in the Industry

Political/Regulatory Issues Facing the Industry

Cultural/Social Trends in the Industry

Conclusion

An aerial view of a cruise ship deck. The deck is filled with people, lounge chairs, and yellow umbrellas. A large red funnel is visible in the background. The ship is sailing on the ocean under a cloudy sky.

The macroenvironment is the first step to identifying opportunities and threats of the cruise industry. This chapter investigates some key issues including demographics, economic, environmental, social, cultural, and political trends.

A. Entertainment, Travel, and Tourism Industry

Carnival is a cruise line company that is categorized in the leisure, vacation, and tourism industry. Carnival's slogan is Fun for All, All for Fun and their company mission statement 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 (Mission). Cruises are like floating resorts where guests can enjoy luxury and entertainment while moving towards their multiple destinations. The international market for cruising was about 18.3 million tourists in 2010. This industry is characterized by high-levels of market concentration with a few companies, such as Carnival Corporation and Royal Caribbean Cruises who account for about 70% of the market (Rodrigue). Carnival now caters their cruises to fit the family-friendly theme because at one point their cruise was known as a "party ship" and they wanted to get rid of that reputation. With the focus on family, Carnival completed its transformation from its "party ship" reputation to a full-fledged fun ship for a family-friendly environment (Carnival).

B. Demographics

There are many different types of demographics that can affect an industry. Listed below are the major trends that affect the cruise industry and a plan of action that can be followed in order to overcome the trends that will negatively affect the cruising industry.

Trends

We have identified three key trends in demographics that are impacting the cruise industry. These trends include aging baby boomers, increase in consumer spending, and technological change.

Aging Baby Boomers

As the baby boomer generation begins to retire and pursue travel or other luxuries, their impact on the travel industry should provide a steady stream of income for the next few decades (The Influence of Baby Boomers on Travel and Hospitality). Retirees have proven more interested in going on cruises than any other age demographic because the pace is slow, there are no set events, and it allows a person to see new sights without having to plan for hotels and transportation (The Influence of Baby Boomers on Travel and Hospitality).

Increase in Consumer Spending

As consumer spending increases, domestic and international travel spending is likely to increase as well, bolstering demand for cruise and travel franchises. This drive is expected to rise slowly during 2012 and is a potential opportunity for the industry (Waterman). In 2012, consumer spending is anticipated to grow an additional 2.0%, driving industry revenue growth (Waterman).

Technological Change

Travel franchises face significant competition for their share of household disposable income from technological change (e.g. the internet and interactive cable TV) and from other areas of leisure and recreation. This factor makes the Cruise and Travel Agency Franchises industry one of the least protected and most highly competi-



tive industries in the world. With technology rapidly infiltrating homes, more consumers have access to online shopping. Online travel agencies, not included in this industry, have increased their presence and revenue over the past five years. This has taken business away that normally would have gone to cruise and travel agencies, including franchises. This has restricted industry revenue growth in the past five years. Furthermore, it has reduced profitability because brick-and-mortar travel franchises have had to reduce prices to compare with lower prices offered on the internet. As a result, industry profit has fallen from 7.7% of revenue in 2007 to an expected 7.5% in 2012 (Waterman).

Actions Being Taken

Two decades ago, you could only go on a cruise ship to the Caribbean or to the Mediterranean. Today, the options for a cruise ship are immense—any continent in the world offers some type of cruise for its customers, as a forty-billion dollar industry looks to capitalize on the boomer generation (*The Influence of Baby Boomers on Travel and Hospitality*).

Although competition from online travel agencies has risen over the past five years, in the wake of the recession, uncertain consumers looked to purchase from establishments they perceived to be more stable. More of these perceived secure establishments were brick-and-mortar franchises rather than brick-and-mortar travel agencies that were not franchised. This is because there is a large number of each brand of franchised business, as opposed to a fewer number of each brand of non-franchised establishments. As a result, the industry thrived during the majority of the past five years, mitigating any losses from online threats (Waterman).

C. Economic Trends

The main economic trend that we see in the cruise line industry is their ability to survive almost anything while maintaining a strong economic trend. This is mainly due to the value that they were able to provide to their consumers before, during, and after the economic recession.

Past Economic Recessions

The cruise line industry had steadily increasing growth until the recession of 2009 hit the country and drastically affected many companies. The cruise industry reported revenues of 35.1 billion for the year 2009, which was a 12.8% decrease from the previous year. The recession impacted the economy by causing a large increase in unemployment that caused disposable income to decrease per capita by 3.6%. This was a major threat to the cruise industry was that people were no longer making as much money as they used to and they could no longer have the extra spending money to go on vacations.

Despite this being the worst economy the travel industry has seen, they saw an opportunity in the midst. They knew that people would still want to go on vacation and cruises but just could not afford it so they reacted to the threat by lowering ticket prices in order to keep their ships booked and still pull in revenues. During this time the cruise industry was able to help the economy as a whole by remaining profitable and retained over 310,000 jobs. The travel and tourism industry has always seemed to do well despite external forces and have been outperforming the national economy for at least a decade before the recession hit. Using this strategy the cruise industry had 13.44 million people cruise in North America, alone that was a 4.8% increase from the previous year.



Recovering Economy

During the recession of 2009 unemployment rates peaked at an outstanding 10% but since then the economy has slowly started to recover. Unemployment rates have dropped to a current 6.6% which is not quite at the 5% level pre-recession but still brings hope of a full recovery. The unemployment rate is still high enough where Carnival is unable to reach the revenue levels they were at previously but are on the slow path to reach them. As the cruise line industry soared past the economic downfall they were able to slowly raise prices and in turn, individual revenues. In the past year alone they reported over 24 million people to go on a cruise, which is nearly double what they had during the recession. With the economy on the recovery employment levels have also started to increase bring up income levels by 2.5% annually and has given people the opportunity to have leisure spending money for travel and cruise vacations.

D. Environmental and Natural Resource Issues

Three major environmental concerns of the cruise line industry are sewage treatment, air pollution, and water quality.

Outlook for Natural Resources

The Environmental Protection Agency estimates that passengers aboard a typical cruise ship during a 7 day cruise will generate 21,000 gallons of sewage, one ton of garbage, 170,000 gallons of wastewater from sinks, showers, and laundry, and up to 6,400 gallons of oily bilge water from the ship's engines.

According to federal data analyzed by Friends of the Earth, cruise ships dumped more than 1 billion gallons of raw or poorly treated sewage in the ocean last year. There are little regulations in place to govern where and when sewage can be simply dumped in the ocean. Current laws mandate that wastewater must be treated before it's dumped only if the ship is within three nautical miles from land. Otherwise, ships are allowed to dump raw sewage directly into the ocean. Sewage pollution exposes humans to dangerous diseases such as diarrhea, hepatitis, and bacteria. Additionally, high levels of nitrogen and phosphorous caused from raw sewage can be harmful to aquatic life.

Sewage isn't the only thing being dumped into the ocean. Cruise ships will incinerate between 75 - 85% of the garbage accumulated daily. The practice of incinerating garbage contributes to air pollution and smog in coastal cities as well as on the ocean. In 2008, the Maritime Pollution Prevention Act banned cruise ships from dumping plastics in the ocean. Dumping solid waste of other materials is permissible as long as it has been shredded into small pieces. Fortunately, hazardous waste, such as batteries, paint, and other chemicals are supposed to be disposed of in onshore facilities.

Time taken for objects to dissolve at sea	
Paper bus ticket	2-4 weeks
Cotton cloth	1-5 months
Rope	3-14 months
Woollen cloth	1 year
Painted wood	13 years
Tin can	100 years
Aluminium can	200-500 years
Plastic bottle	450 years

Source: Hellenic Marine Environment Protection Association (HELMEPA)



Cruise ships are a large consumer of diesel fuel. This particular type of diesel is called bunker fuel and it is reported to be the dirtiest type of fuel in the world. It has very high levels of sulfur. Long exposure to pollution caused by bunker fuel has been known to cause respiratory illnesses such as asthma as well as heart disease and cancer. To minimize these negative effects, some major port cities have required ships to cease burning fuel while the ship is docked and plug into electrical hook-ups from shore.

The fuel consumption by cruise ships is no small amount. At a cruising speed, a typical large cruise ship uses between 11,000 – 11,500 gallons of fuel per hour. Multiply that by the hours at sea for a typical week long cruise then multiply that figure by the hundreds of cruise ships around the world.

Initiatives Underway

Unfortunately, there are no viable alternatives to this fuel in the near future. The best-case scenario would revolve around tighter regulations for the way the oil is processed for fuel or perhaps up-and-coming greener energy solutions such as solar power or wind power (hoist the sails!).

The International Maritime Organization (IMO) is an agency of the United Nations specializing in the prevention of marine pollution. The IMO has put in place several regulations for the protection of marine life and the environment. These regulations cover the areas of oil pollution, sewage, garbage, air pollution, chemical pollution, and the dumping of waste.

On a daily basis an average cruise ship emits as much sulfur dioxide as 13 million cars and more soot than 1 million cars. It is a common practice in this industry to run the diesel engines even when a ship is docked to provide electrical power to the passengers and the crew.

2013 Cruise ship report card					
Cruise line	Sewage treatment	Air pollution reduction	Water quality compliance	Change from 2012	2013 final grade
Disney Cruise Line	A	B	A	▲	A
Holland America Line	B+	C	A	▲	B
Princess Cruises	B-	B-	A	▼	B
Norwegian Cruise Line	A	D	A	▲	B
Celebrity Cruises	A	D	N/A	▲	C+
Royal Caribbean Int'l	A	F	N/A	▲	C
Carnival Cruise Lines	F	C-	A	▲	C-
Cunard Cruise Line	A	F	N/A	▬	C-
Seabourn Cruise Line	A	F	N/A	▬	C-
Regent Seven Seas Cruises	C+	F	B	▼	D+
Silversea Cruises	F	F	A	▬	D
Oceania Cruises	B	F	F	▼	D-
MSC Cruises	D	F	N/A	N/A	F
P&O Cruises	D-	F	N/A	▬	F
Costa Cruises	F	F	N/A	▬	F
Crystal Cruises	F	F	N/A	▬	F

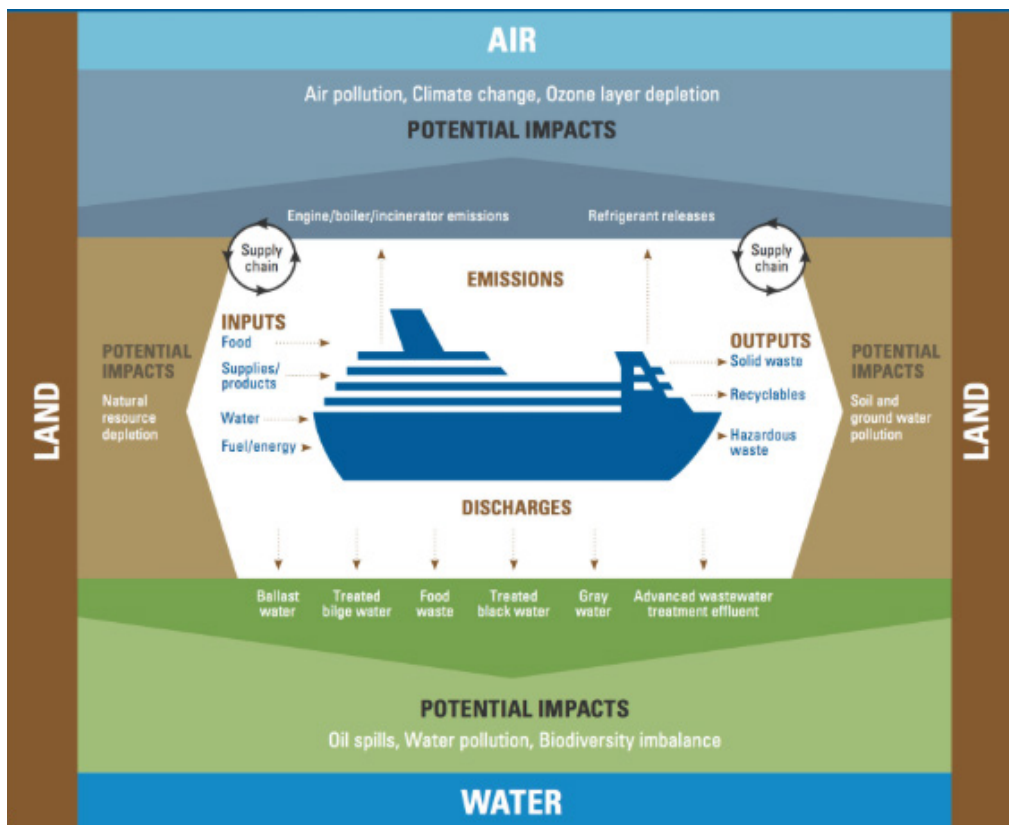
Visit our website at www.foe.org/cruise-report-card for an explanation of our grading system, to learn more about the environmental efforts of individual cruise ships, and to find out what actions you can take to make cruise lines clean up their act.

Friends of the Earth, a group dedicated to environmental issues, publishes an annual environmental report card ranking the top cruise lines on the issues of sewage treatment, air pollution reduction, and water quality compliance. While this report card doesn't seem to deter vacationers from cruising on the high seas, Friends of the



Earth hopes to raise awareness and encourage smarter decisions regarding cruise line to choose when planning a vacation.

Industry Players' Impact on the Environment



Carnival has sustainability initiatives in place to address the major environmental issues. These initiatives include designing their ships for greater fuel efficiencies, maintenance, and minimizing fuel use and engine emissions.

Having an adequate supply of clean water is a major challenge facing cruise lines. According to Carnival Cruise Lines, 73% of the water consumed on its ships is produced onboard from seawater using a desalination and purification process. The remaining amount of water is purchased from ports when the ship docks.

E. Science and Technology Trends

New advanced technology has given opportunities for the cruising industry to be safer and has also made it easier for cruise lines to connect directly with consumers instead of going through intermediaries.

Innovations

Modern cruise ships use very advanced technological systems on board for just about every aspect of the cruis-



ing experience. This technology includes systems such as GPS navigation, engineering and power, radios and communication systems, fire response systems, and automatic man-overboard (MOB) systems. For the benefit of the environment, systems such as the Advanced Wastewater Purification System (AWWPS) and the Marine Sanitation Device (MSD) are in place treat the sewage and wastewater on the ship before it is discharged into the ocean. The technology available today is designed to make the cruise vacation experience as safe and luxurious as possible.

A cruise is typically viewed as a luxury vacation; however, cruise lines may not be focusing on the right priorities. For example, one cruise line is installing “virtual balconies” in interior staterooms on their ships that project a live feed from cameras to those patrons that don’t have a port access or a balcony. While this type of technology does enhance the perceived value of the cruise ship, there is no utilitarian value associated with “virtual balconies”. These resources are allocated to increase the safety of the environment or the security of the passengers and crew on board.

Automatic man-overboard (MOB) systems are theoretically designed to detect any person going overboard. The idea is simple enough; using lasers, sensors, and cameras, the system should automatically sound an alarm and alert the bridge when a passenger or crew member goes overboard. However, the technology is not perfect, salt from seawater can build up on the sensors and lenses, not to mention, birds or random debris can set off the alarms as well.

Most cruise lines, including Carnival, have not yet implemented this technology. Why? Perhaps the reason being more costs involved for the cruise lines with no profits. It is reported that Disney cruise lines has a MOB system in place. That is certainly considered a competitive advantage for Disney over other cruise lines.

Opportunities and Threats

New advancements in technology such as the MOB System can provide opportunities for the cruising industry that may portray a better safety image to consumers. Major threats from the cruising industry come from the consumers. Lawsuits are a typical response from passengers (or their families) in the case of going overboard. In January 2014, 5 people went overboard on various cruise ships. This is typically rare. Some cases may be contributed to too much alcohol from the ship’s bars, few can be contributed to suicides. In any case, these incidents affect the cruise lines and have a negative impact on the industry.

Lastly, the internet has given cruise lines the opportunity to sell their vacation packages directly to the consumers. It has allowed cruise lines to connect directly with their target audience as opposed to going through an intermediary such as a travel agent. The traditional travel agency is becoming obsolete and is being forced to adopt the methods of differentiating itself from the cruise lines. In other words, the internet has been ‘cutting out the middle-man’ and making it more convenient for both the cruise lines and the consumers to connect.

F. Political & Regulatory Issues

New political and environmental regulations could raise the costs for cruise lines thus impacting the consumers with higher cruise ticket prices. Recent incidents have brought safety concerns to the surface; both safety for the cruise passengers and crew as well as environmental safety.



Regulations

The Concordia incident in January 2012 created awareness of safety and environmental regulations with water activities. While some oil was lost in the Concordia incident, great efforts were put forth to clean and restore the damage. After Concordia, the company's internal efforts have been driven to improve the safety and security on the ship for all passengers. They started this process with a comprehensive audit to review the emergency response procedures across all of the company's cruise lines. The company is also improving efforts across all brands to establish and improve policy standards on health for the passengers and environment while on board. While the company is working on these internal improvements, they have also recruited the efforts of external experts to enhance the credibility of the effort.

The International Convention for the Prevention of Pollution from Ships (MARPOL) works for the prevention of pollution of the marine environment by ships from operational or accidental causes. MARPOL has created strict limitations on sulfur emissions in specific Emission Control Areas (ECAs). These areas are required to use fuel containing no more than 1% sulfur content. Starting January 2014, the area which extends approximately 50 miles off the coasts of Puerto Rico and the US Virgin Islands will also become an ECA. More ECAs might be established in the future, and the ECA sulfur content limit might further reduce. As these restrictions grow in efforts to protect the marine environment, alterations will need to be made to keep Carnival's fleet up to date.

Opportunities and Threats

Another threat that might affect Carnival's profitability is the new tax regulations announced by the US. In 2009 a measure to address offshore tax avoidance closed the loophole that enables companies to avoid US and foreign taxes by shifting income to subsidiaries based in offshore tax havens. Because of their overseas status, incorporated in Panama and the UK, Carnival comes under the Section 883 of the Internal Revenue Code (883). This exempts from taxation earnings of a foreign ship when the earnings are derived from the operation of a ship documented or registered under the laws of a foreign country, if the foreign country grants an equivalent exemption to US citizens and US domestic corporations. This exemption only applies to international shipping operations that begin or end in the US (Carnival Corporation).

G. Cultural and Social Trends

As attitudes towards the cruising industry are struggling as publicity with social media increases the awareness of past disasters. Lifestyles are becoming more dependent on technology as lives become busier and busier. Changing values and beliefs become a possible threat of the family friendly cruise lines.

Attitudes Toward The Industry

"Cruise operators are forever battling negative public attitudes," says Roger Blitz from the Financial Times magazine. With the opinion that is most commonly held that cruise



ships are boring or for old people who are retiring, may be the least of the tourism industry's worries. "Since the Costa Concordia tragedy in January 2012, which claimed the lives of 32 passengers after the ship ran aground off Tuscany, they have battled the additional and more threatening perception that a cruise holiday can be perilous," explains Blitz.

Executives across the industry met in London to compare and contrast on how publicity is affecting each of them, showing that it is not only Carnival that is suffering (Blitz, 2013). "We were still feeling our way back to pre-2008 levels before things got substantially more difficult," said Adam Goldstein, president and chief executive of Royal Caribbean International.

Social Media

"Once the brand perception took a hit post-Triumph, we felt the strongest and most credible voice to convey what a cruise experience is truly like is the voice of the guests," Mr. Berra said. Levere explains that Carnival invited 10 active Instagram users who had a particular interest in food and family to take a cruise and shoot photos. These photos were then posted live on carnival.com/momenttracker. The cruise line also asked former passengers and employees to submit photos and videos, via Facebook and Instagram, that they had taken on Carnival cruises. Carnival received more than 31,000 pieces of content.

Pete Johnson, a co-executive creative director of the Boston office of Arnold Worldwide, explains, "we wanted to have a more emotive message to let viewers see Carnival as a place where they can experience deep moments with family, friends and loved ones. We wanted to tell the story from cruisers' point of view, to be as authentic as possible" (Lever, 2013).

Mr. Berra said that this campaign was to be aimed at outgoing, engaged, optimistic people, as well as decision-making moms. This makes sense as mothers are usually the ones who want to capture memories with their families and who also have a big say in the vacation decision-making process.

Carnival's Facebook page now is full of photos from people's experiences. The page also has 2.6 million likes, which is more than Disney Cruise Lines and Royal Caribbean. As of today, there are 33,656 people talking about this which may indicate positive or negative conversation. However, the page seems to be doing well, updating regularly, and encouraging their followers to comment.

Social media is an opportunity for the cruising industry because they are able to market all the good experience that everyone is having. Levere explains that the timing of the new campaign was not coincidental. Mr. Berra said the campaign was "designed to accelerate recovery in advance of the wave season in the first quarter of 2014," the first quarter of the calendar year when Carnival typically receives about 30 percent of its annual bookings (Lever 2013).

Changing Consumer and Business Lifestyles

In a world of constant change, technology has become a constant companion in today's busy lifestyles. We are constantly monitoring and checking Facebook and email for all of our social and work updates because of our on-the-go lifestyle. The effect that technology has on the travel industry is significant. Before most people go on a trip, they check ratings, blogs, and other sources online to check for credentials from other people. Before the in-



ternet, hearing about vacation spots was purely word of mouth and advertising. Now, we can see real live pictures and hear stories about people's vacations. This helps out travelling agencies when people have good experiences and can basically advertise for them. However, the downside is the opposite. If someone has a bad experience, the whole world can know about it. This poses a threat to the vacation industry because of the extent of the internet. Everyone can hear about disasters all over the world in a click of a button.



Changing Values and Beliefs

“Apparently, cougars put on more of a party than the Fun Ships can handle, “ explains the Edmonton Journal. Cougars (older women) and cubs (younger men) who court each other have become a group that would like to take their values and move them onto a ship. This singles group apparently promotes cruises and other social events, but was turned down by Carnival on their second time around. “Nearly 300 cougars and cubs sailed on a very successful group cruise on-board the 2,052-passenger Carnival Elation in December” said Rich Gosse, executive producer of CougarEvents.com and chairman of the Society of Single Professionals. However, when the travel agent tried to set up another Carnival trip, the Miami cruise line wouldn't take the booking (Edmonton Journal, 2010).

“We have decided not to have any future groups on our ships booked on this theme.” Carnival spokeswoman Jennifer de la Cruz said. She insisted that “there were not any particular issues on board” during the December cougar cruise.

Stewart Chiron, a Miami cruise expert and chief executive of CruiseGuy.com, said, “Cougar cruises simply don't fit Carnival's family image. The line markets itself around the idea of “fun,” and has shed the hard-partying image of early days” (Edmonton Journal, 2010).

Another issue that has been arising in today's news is homosexuality. There is a website called Cruising With Pride, which features all the cruises that are chartered for gay and lesbian singles/couples. One of the cruise companies listed is Royal Caribbean, other entries didn't give a specific cruise line. The site also explains that there is a brand new ship specifically for the gay world called “Divina.”

Today, homosexuality is bringing some people together to form groups who would like to spend their leisure



time on vacation together. This could change the way different tourism companies do business. Companies will have to decide if they will welcome or shut the door on homosexuality groups who would like to have a vacation spot to themselves for a trip. There are many outcomes to both sides. Lifestyles today that are leading away from family-friendly fun pose a threat to Carnival's marketing because of their strong family values.

H. Conclusion

One opportunity that Carnival has is the younger target audience that they are focusing on. With their successful focus on social media methods like Facebook and Instagram they are connecting to areas that the target audience responds to. By involving the consumers in contests and showing customer experiences (via Facebook and Instagram images in Carnival marketing campaigns) it draws excitement and a feeling of involvement for the customer.

One of the largest threats in need of attention is the attitude of cruise lines being "perilous" or unsafe for patrons and the environment. Recent history has provided some people with the idea that a cruise is not the ideal vacation because of this uncertainty. Special attention needs to go into these misconceptions to provide people with a secure emotion towards cruise line vacations.



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Chapter Two

Competitive Environment

Market Life Cycle

Customers/Buyers

Competitors

Suppliers

Potential Entrants

Competitive Substitutes

Stakeholders, Influencers, and Shapers

Conclusion

The cruise industry is in the mature stage of the market life cycle. Carnival Cruise Lines is in the mature product cycle but continues to expand by adding new cruise ships to their fleet. Demand for the products has seen a slightly upward trend since the most recent recession.

The industry level analysis of the competitive environment reveals a high threat from buyers and competitors, a moderate threat from competitive substitutes, stakeholders, and influencers, and a low threat from suppliers and potential entrants. Each section goes into further details about the six industry forces that have an impact on Carnival Cruise Lines and the cruise industry.

A. Market Life Cycle

The cruising industry is considered to be in the mature stage in the market life cycle because of the large market, flattening sales, and high competition. The marketing programs are appropriate in that differentiated and specialty cruises are in play for several marketing segments, such as homosexuals, singles, families, and children interested in Disney.

Product Life Cycle Stage

Carnival is classified in the maturity stage. Senior lifestyle and leisure analyst, Fiona O'Donnell, says, "The cruise industry is the fastest growing travel segment and is expected to continue its expansion through added capacity. However, global per passenger revenues have remained essentially flat from 2008-13, which begs the question of whether growth is sustainable, and how cruise lines will ensure that demand—and revenues—will keep up with the increasing supply." When the market is large, sales are flattening, the competition is high, the business focus is customer retention, and the design focus is support, the company gets classified into the maturity stage.

Opportunities for this industry structure are: 1) refine current products, 2) improve service, and 3) process innovation. Carnival can take advantage of this by improving their level of service and finding new innovative ways to make the cruise experience more memorable.

Marketing Programs

Any Royal Caribbean cruise will likely include many gay and lesbian passengers due to the size of the line's big ships. Active individuals enjoy the choices onboard. Surf simulators, rock-climbing walls, and ice-skating rinks are available on board. Parents are attracted to the kids and teens programs that will keep their kids busy for the day.

On Celebrity Cruises there are talks by visiting experts from Smithsonian Journeys. These are tailored to the cruise region, whether it be archaeologists, art historians, marine biologists, or anthropologists. Celebrity iLounge staffers lead classes on digital photo enhancement, Web site creation, travel blogging, and environmental programs feature talks on energy generation and recycling by the ship's officers.

Disney Cruise Line's four ships are family-friendly. They offer a Walt Disney Theater, which resembles a plush Broadway house, and the Buena Vista Cinema, which features Disney flicks. Studio Sea is styled like a television sound stage and offers G-rated floor shows.

Carnival has raised their marketing budget in order to retain their customers after the incident of the Triumph and Concordia. Their current ad campaign "Moments that Matter" features the positive moments that can be enjoyed while on a cruise, this strategy is very appropriate as they are directly combating the negative publicity that they have been receiving.

B. Customers/Buyers– Bargaining Power

In this section we will discuss our key target market which is the consumer. We will also discuss our findings on the ratings that consumer's have given the cruising industry in the past.



Key Target Markets

Carnival's key target market is the consumer. The company's ratings have suffered in comparison to the competition in some areas, so adjustments will need to be made to accommodate the customer's feedback. With the high bargaining power of the buyer, it is important to make these adjustments as early as possible.

Ratings on the Industry

A report by J.D. Power 2013 has found that while customer satisfaction with cruise lines is high, nearly one in five customer's experience a problem while on their cruise. This report was based off of seven key factors: service, stateroom, food, embark/debark, entertainment, cost, and excursions.

Graded on a 1,000 point scale, most companies averaged at 824 points. Disney Cruise Line ranked highest with a score of 871, with particularly high scores in entertainment and food. Royal Caribbean International ranked second with a score of 838, and Holland America Line third at 835, both were boosted up with their quality of service scores. Among the five brands ranking above the report average were Royal Caribbean International and Celebrity Cruises; both owned by Royal Caribbean Cruises Ltd. Carnival Corporation's had some successful ships with Holland America Line and Princess Cruises both above the report average, and Carnival Cruise Lines ranking below the report average, coming in last out of the eight cruise lines studied.

This study also found that overall, 18 percent of passengers across all cruise lines revealed that they experienced at least one problem on their cruise. This averages out to 1.8 problems per passenger. The 61 percent majority that did not experience any problems while cruising say they "definitely will" take another cruise with the cruise line they most recently used. However, if two or more problems occur while on their cruise experience, customer's likelihood of taking another cruise with the same company drops dramatically by 33%.

"Many cruise lines in the report have very high levels of passenger satisfaction, well above the report average; however, for more than a year, the overall industry has been dealing with a lot of negative news affecting customer perceptions, expectations and trust," said Ramez Faza, senior account manager of the global travel and hospitality practice at J.D. Power. "To raise the bar, the industry must focus on meeting the needs of the nearly 20 percent of passengers who experience a problem with their cruise line experience. Cruise lines need to understand the causes of customer dissatisfaction and determine what will motivate them to come back."

"To retain existing customers or acquire new customers, cruise lines need to be extremely sensitive to the price point that is most comfortable for customers, while providing the highest level of service possible," said Faza. "It's all about perceived value for customers." The primary reason for choosing a particular cruise line is price (53%). However, among customers who say they "definitely will not" or "probably will not" return for another cruise, cost is the driving factor. On average one person pays is \$1,628. When the number of people in the traveling party increases to two or four, prices average \$2,330 for the group. Among customers who say they "definitely will" return, service is the key reason for their decision.

Buyer Decision Making: Bargaining Power of Buyers-High

Carnival's consumers have very high bargaining power, especially because of the competitive nature of the in-

dustry. With Carnival's lines already ranking lower on important factors like customer satisfaction, it won't take much for customers to find better deals with other lines. It is very important to take recent feedback from customers and make necessary adjustments and improvements to the Company's cruise lines.

C. Competitors – Rivalry Threat Level: High

The major competitors to Carnival include Royal Caribbean, Starwood Hotels, Marriott, and Wyndham. The competitiveness between all of the brands are significant in that they are substitutes for lodging on vacation. The difference will be on the level of luxury and customer service people are willing to pay for.

Major Competitors

Royal Caribbean Cruises Ltd.

Global Cruise Vacation Company

With Carnival as number one, Royal Caribbean Cruises Ltd. is the world's second largest cruise company causing it to be a significant competitor to Carnival. Royal Caribbean owns six brands, Royal Caribbean International, Celebrity Cruises, Pullmantur, Azamara Club Cruises, and Croisières de France. Together, these brands operate a combined total of 41 ships globally with approximately 455 destinations worldwide.

Some of the strengths of Royal Caribbean include their extensive array of activities onboard, such as simulated surfing, swimming pools, sun decks, beauty salons, exercise and spa facilities, ice skating rinks, in-line skating, basketball courts, rock climbing walls, miniature golf courses, gaming facilities, lounges, bars, Las Vegas-style entertainment, cinemas, shopping, dining and an entertainment boulevard. Their customer service rating makes Royal Caribbean threatening to Carnival. Royal Caribbean ranked #2 in 2013 and Carnival #7 according to ABC News (2013, Brown). Royal Caribbean will introduce five more ships by the end of 2016, increasing the fleet to a total capacity of approximately 105,000 berths.

Starwood Hotels and Resorts Worldwide, Inc.

Luxury Full-Service Hotels and Resorts

According to Worldscope-International Company Profiles, Starwood Hotels & Resorts Worldwide, Inc. is a hotel and leisure company. Their brands include St. Regis, The Luxury Collection, W, Westin, Le Meridien, Sheraton, Four Points, Aloft, and Element. This company is global, making it competitive in that you could stay at one almost anywhere in the world. If the customer is looking to travel abroad for an extended amount of time, Starwood may be threatening to Carnival in that they are a luxurious hotel on land. People may rather stay somewhere on land due to sickness or for a more at-home feel.

Marriott International, Inc.

A Leading Lodging Company

According to Worldscope-International Company Profiles, Marriott International, Inc. is a diversified hospitality company. It is a lodging company with more than 3,700 properties in 73 countries and territories. It operates and franchises hotels, including Marriott, The Ritz-Carlton, JW Marriott, Bulgari, EDITION, Renaissance, Autograph Collection, AC Hotels by Marriott, Courtyard, Fairfield Inn & Suites, SpringHill Suites, Residence Inn,



TownePlace Suites, ExecuStay, and Marriott Executive Apartments brand names. Marriott could be a threat to Carnival because of its well known and trusted name. Staying at a hotel that people know may be more comfortable than staying on a ship that could sink. The global locations of the Marriotts is also a potential threat.

Wyndham Worldwide Corp.

Franchises Hotels in the Upscale, Middle and Economy Segments

According to Worldscope-International Company Profiles, Wyndham Worldwide Corporation is a hospitality company. It operates in three segments of the hospitality industry: lodging, vacation exchange and rentals and vacation ownership. Its brands include Wyndham Hotels and Resorts, Tryp by Wyndham, Ramada, Days Inn, Super 8, Landal GreenParks, Novasol, Hoseasons, cottages4you, and James Villa Holidays. Wyndham could be a threat because of their prices. People who want to cut costs on their vacation may choose to stay in a cheap hotel rather than pay the money for a cruise ship.

D. Suppliers – Low/Moderate Bargaining Power

There are many different suppliers for the tourism/vacation industry. The Tier 2 suppliers of cruise companies are food drink manufacturers, equipment manufacturers, lubricant manufacturers, ship suppliers manufacturers, energy suppliers, and port facilities. The Tier 1 suppliers were accommodation prior and after the cruise, transportation of passengers from their place or residence, excursions, port services providers, shopping, and dining. The bargaining power for suppliers is low moderate due to the fact that there are many potential suppliers for cruise companies (Waterman).

Raw Materials, Components, and Suppliers

Deciding on suppliers is not particularly based on cost; it is also based on ability to provide supplies of good quality and reliability. Supply risk has a huge impact on this as well.

Figure 7: Supply Chain Complexity in the Cruise Company

		Leverage items		Strategic items							
		3 <i>Ship's Electronic Equipment (3)</i>	3 <i>Machinery Equipment (6)</i>	3 <i>Hotel Consumables (4)</i>	3 <i>Ship repairs (6)</i>	3 <i>Lubricants (3)</i>	3 <i>Internet and Information Technologies (1)</i>	3 <i>Coach Services (1)</i>	3 <i>Tourist Agencies (1)</i>	3 <i>Insurance Services (1)</i>	3 <i>Classification Societies (1)</i>
Profit Impact	High										
	Low	Non-critical items		Bottleneck items							
		3 <i>Cabin Stores (4)</i>	3 <i>Food Beverage (6)</i>	3 <i>Fuel Supplies (3)</i>	3 <i>Tools (4)</i>	3 <i>Pilot Services (7)</i>	3 <i>Towage Services (7)</i>	3 <i>Port Services (7)</i>	3 <i>Financial Services (3)</i>		
		Low				High					
		Supply Risk									

In Figure 7, it discusses profit impact vs. supply risk and whether it is low or high based on different items involved in a cruise company.

Electronic Equipment

The tourism/vacation industry relies on electronic equipment in order to power the ship. Suppliers of electricity have an upper hand on the tourism industry because there are not many substitutes for electricity. There is a lot of electrical equipment that needs to be supplied to cruise ships. There needs to be a navigation system, autopilot, a communication system, lighting, speed logs, and electronic chart displays. This includes a very small number of suppliers that fit in that particular category. Suppliers have high bargaining power in this situation because cruise lines don't have many options to choose from so suppliers can charge the price they want.

Machinery Equipment

The machinery equipment is essential to a cruise ship's success. This can range from the engine powering the entire ship to the currency changers used by passengers. Cruise ships can't go without machinery equipment and there are no substitutes for them so suppliers have high bargaining power because cruise lines need these supplies and they will pay the necessary amount in order to get this equipment. The industry's high capital intensity is largely due to the costs involved in ship acquisition and maintenance. The cost of new builds depends on the type and size of the vessel, but prices can easily exceed \$100 million. Carnival Corporation nearly has 100 cruise ships to its name and the cost of maintaining and repairing these fleets increases capital intensity.

Fuel

The major industry purchase is fuel. Rapidly rising oil prices in 2008 increased this cost for operators. Many operators imposed fuel surcharges on top of normal prices in order to recoup the high expenses. (Waterman) Cruise ships have no alternative source of energy so suppliers that help in the manufacturing process for cruise lines hold more bargaining power than others. Fuel is another necessity when it comes to cruise ships or else the ship won't function. If the suppliers could improve technology enough to where cruise lines could run on another form of fuel, they would have more bargaining power than others as well and the fuel suppliers wouldn't have as much bargaining power.

Transportation Services

This industry offers transportation services for freight and passengers. The industry offers services between US ports and to ports outside of the United States as well as the Great Lakes.

Employees

Although industry operators typically face high costs associated with ships, industry operators also spend about 10.3% of industry revenue on labor. Wages costs vary by segments, with cruise ships potentially having over a 1,000 crewmen, while freight ships only have a couple dozen if not less. However, companies operating on routes between US ports have high wage costs (Waterman).

Employees include maintenance workers, crewmembers, servers, cooks, janitors, a captain, and this list adds up. Labor costs are a monumental part of the costs for cruise lines. Over the five years to 2013, capital intensity has increased. Plummeting demand for industry services caused by the recession severely reduced revenue. Consequently, companies cut employment and wages in order to maintain profit margins. As a result, the number of



ships entering service has continued to climb, despite insufficient demand to fully utilize this supply. (Waterman)

Bargaining Power of Suppliers

The bargaining power of suppliers is low to moderate because of the many different suppliers available for cruise companies. Cruise ships need electronic equipment, machinery equipment, fuel, and other supplies in order to work.

Innovation is constantly changing the face of cruise lines everywhere. Advances are being made for each component to a cruise ship. The combination of increased demand for industry services with a healthier capacity will lead to increased profit, as companies will be able to charge customers high fees. However, the expected increase in the world price of crude oil can potentially offset some of the rise in margins. As the level of exports and imports rise, the increased volume leads to more demand for ships that can transport the traded goods. In turn, the level of trade is driven by other macro factors, such as domestic and foreign consumption and manufacturing, the relative competitiveness of countries, the cost, capacity and efficiency of US ports and the value of the dollar (Waterman).

E. Potential Entrants: Threat Level: Low

Potential entrants into the cruising industry represents a low threat level because of high barriers to entry such as the exorbitant cost of ship building and construction.

Barriers to Entry

The primary barriers to entry for the cruise industry are high, including capital resources, international travel regulations, government policies, and human resources – a large crew to support each ship.

Potential Entrants

The most recent major company to enter the cruising industry was Walt Disney Company in 1996. An organization with as much capital as the Walt Disney Company could enter the cruise industry; however, there doesn't seem to be any organizations with that type of power to overcome the significant cost as a barrier to entry.

The Oasis of the Seas built for Royal Caribbean cost \$1,400,000,000 and about three years to build and manufacture. This is the most significant barrier to entry. This particular cruise ship is one of the largest to be built and carries 6,000 passengers and is supported by 2,400 crewmembers.

It would not be easy for potential entrants to overcome these barriers into the cruise industry. Cruise ships are floating hotels on the ocean. Potential entrants into the market could be luxury hotel chains like Hilton International. Hilton International would have the reputation and the capital to get into the cruise industry.

The threat level for new entrants is very low because of the high barriers to entry such as costs involved with building and maintaining ships, the crew that works on the ships, and the government regulations that discourage companies to enter the cruise industry.



F. Competitive Substitutes - Threat Level: Moderate

Our analysis indicates that competitive substitutes present a medium level threat to the industry. Competitive substitutes for the cruising industry include sightseeing, campgrounds, amusement parks and lodging. We discuss each of these below.

Competitive Substitutes for Cruises

Unfortunately the cruise line industry has a vast number of competitive substitutes that under the category of entertainment. Examples of these would include the sightseeing industry, campgrounds, amusement parks, hotels, and bed and breakfasts. According to IBISWorld (2013), these substitutions fall under the “arts, entertainment, and recreation” industry and the “accommodation” industry. If we look at these industries through the eyes of a consumer we can see exactly why they are considered competitive substitutes. The opportunity to go on a cruise ship presents itself to a consumer when they have spare money, time, and desire to go on vacation. However these consumers have a variety of choices in where to go and what to do, some may find that they do not want to spend a lot of money, don’t want to travel, or may just have different traveling priorities. These substitute industries can offer essentially the same services as the cruise industries, for example going to an amusement park will provide family entertainment while it might also be cheaper or closer to home. The strength of the cruise line industry remains in the fact that they can provide all of the services and goods that their substitutes do, but at the same time. There are a lot of factors when considering if a consumer will use a substitute over the cruise line industry.

How much of a threat are Competitive Substitutes?

The “arts, entertainment, and recreation” industry and the “accommodation” industry are threats to the cruise line industry because they are continually growing market with regular new entrants. This has increased the likelihood of consumers using these substitute industries as they may be more available or cheaper. Many of these substitutes for the cruise line industry provide more convenience, price, and quality which entice customers to use them instead. This is a threat to carnival and they must find a way to retain their current customers who may be thinking of switching to a substitute. An individual may want to go on a luxurious vacation but find that using a hotel for lodging and car as travel may provide them with a cheaper alternative to a cruise. Another problem for the cruise line industry is that the people who find that cost is not an issue for them will stay away from cruises as they will find higher quality trips elsewhere. As amount of substitute industries rise along with the ease of creating them the cruise industry will find that their power of price control is dropping.

G. Stakeholders, Influencers, and Shapers - Threat Level: Moderate

Strategy for Concerns

Stakeholders include cruise ship employees, customers, suppliers, investors, environmentalists, travel agents, governments, American Maritime Officers Union, and the coastal regions around the world.

The public relations nightmare of the stranded Carnival Triumph represents a threat to Carnival Corporation. Passengers of the Triumph have filed multiple lawsuits against the company. Regardless of the outcome, which could favor Carnival Corp., this threat has seen a negative impact on Carnival Corp. but not necessarily on the



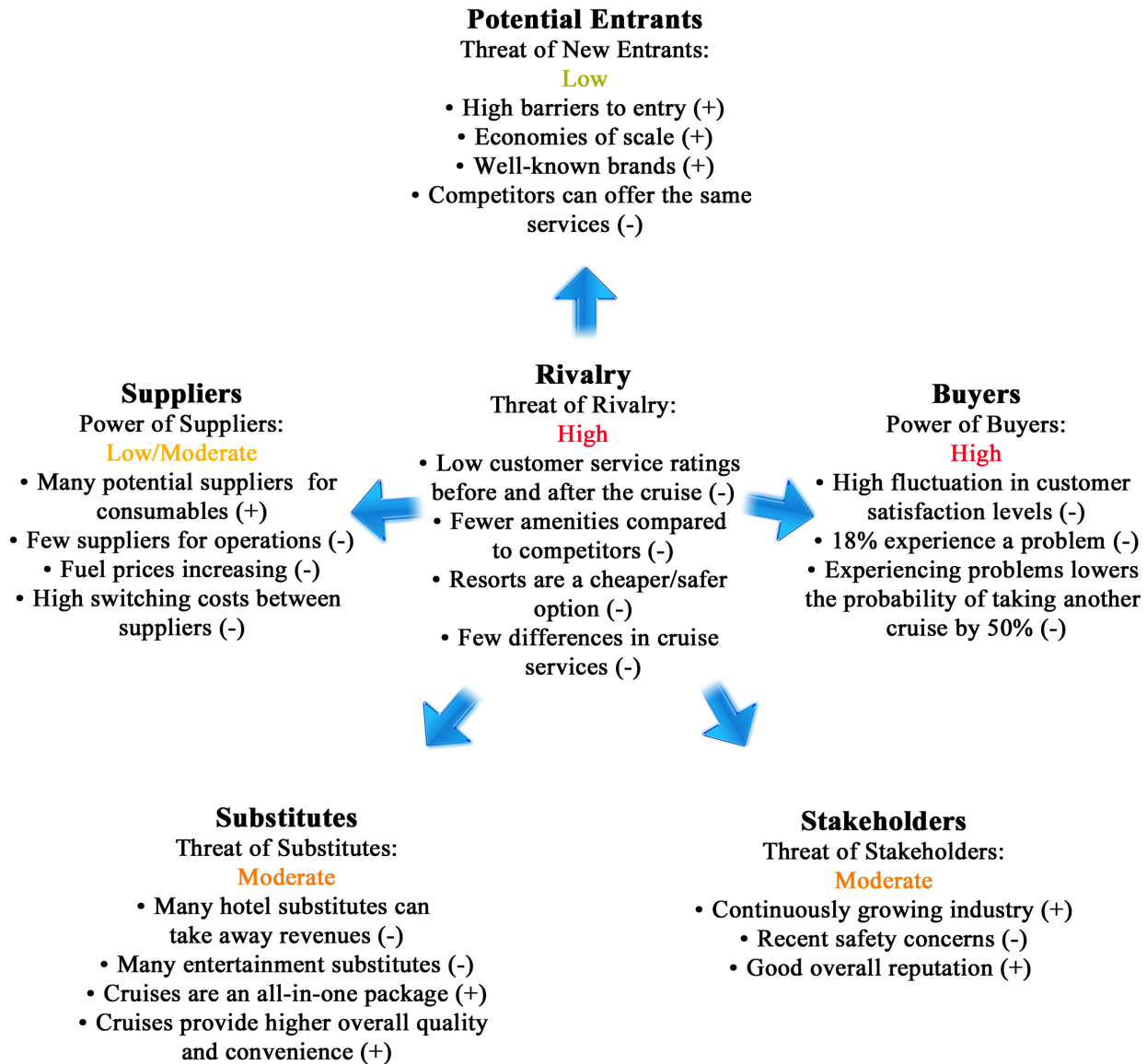
cruising industry as a whole. Furthermore, Carnival Corp. plans to reimburse the United States government for some of the costs associated with rescuing the disabled ship in international waters.

The CEO of Carnival Corp. and a major shareholder, Micky Arison recently sold 5 million shares of the company's stock. This transaction totaled just under \$200 million. While this doesn't seem to be closely related with the negative publicity Carnival Corp. has been receiving recently, investors in Carnival stock can breathe a sigh of relief as the company has slowly started to recover. Carnival stock has been on the upward trend. Industry analysts from Standard & Poors report Carnival's stock a "Strong Buy". Carnival Corp. can take this opportunity to repair their brand reputation.

H. Conclusion

Porters 5 Forces Analysis: Carnival Corporation

(+) Industry Strengths
 (-) Industry Threats



Important Factors

Threat of New Entrants - Low Threat

The threat of new entrants in this industry is low mostly due to the fact that there are large barriers to entry. This is due to the fact that there are massive economies of scale which inhibit new entrants as they will not be able to afford the required resources. Another disadvantage to any new entrant is that they will have to compete against well-known brands that have spent years of marketing to define their image.

Bargaining Power of Buyers – High Threat

The bargaining power of buyers in the cruise line industry is rated at being a high threat as they have the power for it to make or break. Although current cruise customer satisfaction is high, future decreases may cause a substantial loss in profits if buyers no longer desire to go on cruises. This trend may have already started as some people believe cruises to be dangerous since the Triumph and Concoria incidents. It is important for the cruise industry to keep the customer's needs in mind in order to assure them that they will receive the best possible experience.

Threat of Substitutes – Moderate and Rising Threat

The threat of competition in the cruise industry is placed at being moderate and rising. This is mainly due to the vast amount of substitutes available on the market which are continually increasing. The main substitutes for the cruise industry include the accommodation and entertainment/recreation industries. These industries pose a large threat as they have the potential to take customers away and are able imitate and offer services that are similar or the same as ones found in the cruise industry.

Threat of Rivalry – High threat

The threat of rivalry in the cruise line industry is high, statistics from IBISWorld show that the top two companies share 35% of the market (Carnival at 22.2%, Royal Caribbean at 12.8%). This industry's rapid growth rate of 7% per year for the past 20 years has also contributed to the fierce competition between the top cruise lines [Cruise Market Watch]. Rivalry can also come in the form of lodging as this is considered to be a substitute service. The lodging industry has become a threat as it has been around for much longer and is able to offer very similar services and luxury.

Strategy

Carnival's key objectives and strategies for reducing the bargaining power of the most threatening forces in the tourism industry include focusing on the high threat of rivalry and bargaining power of buyers.

Our strategy for reducing the threat of rivalry is implementing a new loyalty program. The current loyalty program allows you to receive more points the more you cruise with Carnival, and the benefits are offered only on board the ship. These incentives are not strong enough to entice customers to come back as the current rewards are not needed to enjoy a cruise. Our new program would increase the incentive for consumers to cruise again



with Carnival by offering points that can be redeemed for discounts on future cruises, on-shore excursions, and the points can be used as cruise cash.

Our strategy for reducing the threat of the bargaining power of buyers is lowering the switching cost from competitors by choosing to travel with Carnival. This could be implemented by giving higher incentives for customers who switch to Carnival from competing cruise lines. These incentives will go towards our loyalty program. The plan for this strategy is to remain to low cost leader of cruise lines while bringing in new customers. Although the upfront costs will increase as Carnival will be losing money on the rewards, it will be compensated through a higher customer base, ensuring that all cruises are fully booked, and increasing the on-board spending.

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Chapter Three

Marketing Strategies and Programs


Strategic Market Position

Product Portfolio Analysis

Competitive Advantage Assessment

Conclusion

Carnival has a competitive advantage not only because of their cost leadership in the cruising industry, but also because of their loyalty to customers. The company has developed a strong mission statement that they strive to keep as they develop new ideas for the company. In this chapter we discuss the overall strategy involved in their marketing as it relates to this mission statement and keeping with the goals of Carnival's company.

An aerial view of a cruise ship deck. The deck is filled with people, lounge chairs, and yellow umbrellas. A large red funnel is visible in the background. The ship is sailing on the ocean.

A. Strategic Market Position

Carnival's competitive strength is their cost leadership advantages. Their cruise line offers the most experience for the least amount out of their customer's wallets. In this section we will discuss the mission of carnival and their execution of that mission.

Mission and Strategy

Carnival holds strong to their current mission statement,

“Our 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.”

Carnival has a reputation for being one of the most affordable cruise line options. They have created a position in their market as the cost leadership company, creating the prices that other big name cruise lines have to try to compete with. This position is at an advantage for them, because they can obtain a large market share of younger cruise goers that are not comfortable investing large amounts of money for their cruise experience. Carnival is also developing a reputation of not only having low prices, but a lot of entertainment and priceless experiences at no additional charge.

Effectiveness of Mission

The current mission statement is very effective in giving a direction to bring Carnival's goals to life. It provides a clear image of what the company hopes to achieve and, more importantly, what they hope to give to the customer. By providing the customer with the “exceptional experiences” at an “outstanding value” it will create positive customer experiences, resulting in repeat purchases. By focusing on a fun, memory-creating experience that can be had on a carnival cruise, the customer will make emotional connections with the brand, which will create positive future interactions.

Effectiveness of Market Position

Carnival's strategic market position is a cost leadership position. Carnival has been very effective at branding itself as a family-friendly bargain cruise line. The strengths of this strategy allow the company to be less affected by the economic recession and to effectively target their consumer base.

The weakness of the cost leadership strategy limits the company's ability to compete with luxury cruise lines. Additionally, Carnival has not been able to fully recover from the negative publicity it received from the incidents on their cruise lines, reinforcing perceptions that a “low cost” cruise company may not be safe or worthwhile.

B. Product Portfolio Analysis

Carnival is the world's largest cruising company, which obligates them to have many products to make their customer's, stay comfortable, fun, and safe. We will also discuss the key objectives of our idea to bring in Carnival Mini to better position Carnival's portfolio.



Key Products

Carnival has 24 themed ships ranging from the Carnival Ecstasy ship to the Carnival Liberty. Carnival has done well in giving specific descriptions for each ship on their website. They have ships to fit the needs of all ages. Carnival's products also include beverages, food, desserts, flowers, cabin decorations, apparel, gift sets, and souvenirs. Carnival runs a website called Carnival Comfort Collection that sells all the linens and bath materials used in their suites and staterooms for customers to purchase and use in their homes as well.

Key Objectives for Product Portfolio

People are becoming busier and are looking for an occasional weekend getaway that's not too expensive. We have come up with the idea of Carnival Mini to remedy this issue in the growing cruise industry because people travel with Carnival knowing they are the low-cost leader. With cruises that are only for the weekend and ships that are half the size of a regular cruise ship, we would be able to provide the price that fits for the customer.

Shorter Duration Cruises

Shorter cruises allow individuals to not have to take any time off work. However, in order for the Carnival Minis to travel for just the weekend, they would have to only be going to ports within the U.S. This can be beneficial for the customer because they won't have to take the time to go through customs and get a passport. Just like with shorter flights, a shorter cruise wouldn't have to provide as much food as a regular cruise. There also would be less maintenance and turn around time.

Smaller Ships

Smaller ships can allow the ship to travel faster and therefore make the trip shorter. Fewer employees would be needed if the ships were smaller as well. Smaller ships that all have the same mechanical make-up would cut the cost of maintenance; therefore, cutting the cost for the customer. With a smaller ship, there are also less people, making the cruise experience a little more exclusive.

Destinations

Some of the destinations Carnival Mini could sail to are San Francisco Bay, Los Angeles, or Seattle where people would be to sail at night to view the skylines. Since the Carnival Mimi wouldn't be going anywhere exotic, the onboard amenities will be more extensive. More luxurious interior and specialty dining could be available.

Long-Term Competitive Advantage

Using the elements from Barney's sustainable competitive advantage, Carnival Mini could prove to be valued by the customer, rare, imperfectly imitable, have no substitutes, and have a complex competitive advantage.

Carnival Mini could be valued by the customer because of the spontaneous spirit it has. These mini cruises would require almost no planning for a busy businessman or woman. Carnival Mini has never been introduced before; therefore these short cruises could be something rare and exciting. Carnival Mini is imperfectly imita-



ble if Carnival chose to patent the 'Mini' idea. There could be substitutes to going on a Carnival Mini, but they wouldn't be quite the same. There are already 3-day cruises, but these are on the bigger ships, making them less exclusive.

C. Competitive Advantage Assessment

In this section we will discuss the competitive strategies that Carnival has in place in relation to the value placed by customers, how rare their products are, how easily their products can be replicated and other related areas.

Supportive Strategies of Competitive Position

Carnival's key strategic policies, resources, programs, assets include their ships, crew, onboard activities, and extensive cruising routes. Additionally, the lack of premium accommodations and other luxuries allow Carnival to cut costs and secure a cost leadership position in the cruising industry.

In order to remain competitive in the cruise line industry Carnival must exploit all of the competitive advantages that it has. The main advantage that Carnival has is the ability to remain the price leader while keeping their guests happy and entertained.

Analysis of Carnival's Competitive Advantage

This section analysis Carnival's competitive advantage according to the guidelines given by Jay Barney. The criteria are that a sustainable competitive advantage must be valued by the customer, rare, imperfectly imitable, have no strategic equivalent substitutes, and have complexity. Each of these criteria will be analyzed.

Valued By Customer

Carnival does an amazing job of meeting their guest's needs, this starts with having the lowest priced cruises available and doing their best to ensure that they will have an enjoyable time. During the cruise Carnival will offer many value adding opportunities including continual entertainment activities and distributing food at all times. Carnival also offers on-shore excursions that guests can sign up for at each stop; these excursions extend the range of the available entertainment while ensuring a safe experience.

Rarity

The entire experience that a guest will go through during a Carnival cruise will be very similar to any that they have with a rival cruise so it is not rare. The main rare advantage that Carnival retains is that people will be able to get this experience for a cheaper price compared to competitors which gives the opportunity for a larger demographic of people to experience this luxury. A customer may be able to book a trip with Royal Caribbean and enjoy the same features of any cruise line, but customers of Carnival cruise will be paying nearly half the price for the same experience.

Imperfectly Imitable

Rivals of Carnival cruise may try to imitate their low prices but may experience major losses if done improperly.



There can only be one low cost leader in an industry and Carnival already has the reputation and brand image of being the most affordable cruise line available which is currently unmatched by any competitors.

Strategic Equivalent Substitutes

Carnival cruise has many substitutes when it comes to luxury and travel which fall under the entertainment, travel, and lodging industries. These are classified as substitutes because they offer many similar experiences of luxury that can be found on a cruise. For example lodging provides the experience of being able to live outside of your house while receiving the benefits of food and entertainment provides an experience of fun. However these substitutes are not considered to be a large threat because the cruise line industry is able to offer all of these services in one big package.

Complexity

Carnival cruise has been around since 1972 and has had over 40 years of experience in the cruise line industry. This experience has given it the opportunity to master the way it provides quality and cheap cruises and cannot be imitated overnight by any company. One way that Carnival keeps their costs low is continually make sure that all rooms are booked which increases the efficiency of their expenses. Carnival has also cut the costs of on board entertainment; an example of this is that they do not use live bands anymore as they do not bring enough value for their costs. Another thing that carnival is known for is having less amenities compared to rival cruise lines, these amenities bring in large overhead costs which reflects on ticket prices. There are many factors that come into place when considering Carnival's low price competitive system which would be viewed as complex by an outsider company but which Carnival has been able to organize and perfect.

Objectives

Carnival has a strong set position in the cruise line industry as being the low cost leader. However with the recent problems many people have been starting to wonder about their safety while onboard a cruise ship and avoid the company. The best method in order to reduce the negative image is to not directly talk about them. Every time Carnival mentions past incidents this is a reminder to everyone that they happened and the negative image will continue to persist. Although Carnival should not directly mention the past incidents they must act quickly in order to retain these potential customers by issuing and promoting new regulations and safety checks so that no more disasters will occur. Carnival also has the strategic opportunity to offer incentives to customers of current rivals in order to entice them to switch.

D. Conclusion

Carnival's strategic market position is a cost leadership position. Carnival has been very effective at branding itself as a family-friendly bargain cruise line. This is the central strength of Carnival. This strategy allows the company to be less affected by the economic recession and to effectively target their consumer base. If Carnival can keep the competitive advantage that they have with cost leadership, they will continue to be effective.

The central weakness of the cost leadership strategy limits the company's ability to compete with luxury cruise lines. Additionally, Carnival has not been able to fully recover from the negative publicity it received from the incidents on their cruise lines yet. In order to overcome these weaknesses, they are overlooking the unfortunate



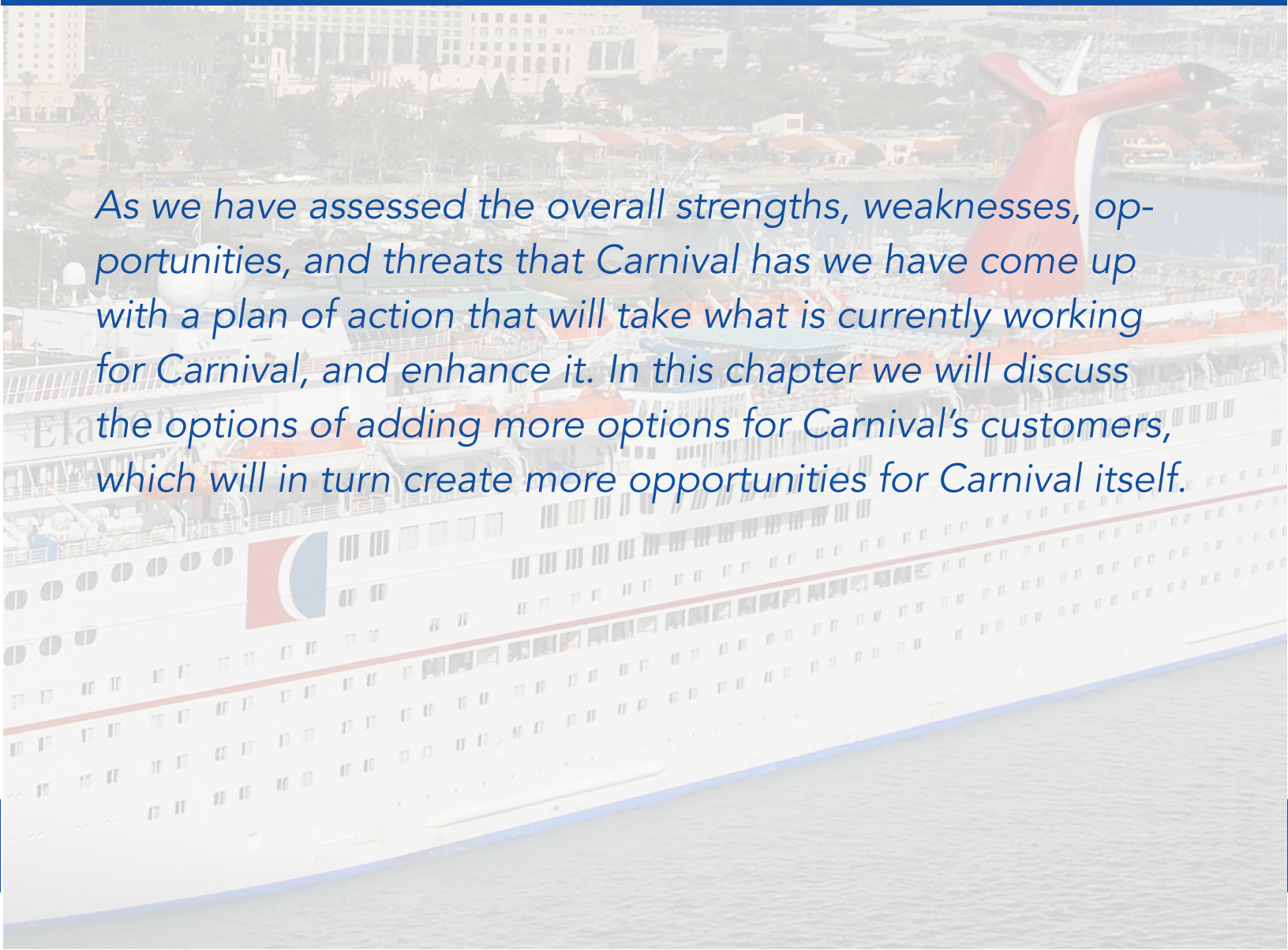
incidents and adding new parts to the ships to make them safer and they have a new marketing campaign starting. In this new marketing campaign, they are revamping their entire business and showing consumers the new improvements they are adding and ensuring everyone that they offer safe vacations to all. These new changes have made a significant difference and will continue to boost the image of Carnival cruises.



Chapter Four

Plan of Action

Summary of Main Findings
Proposed New/Improved Market Position
Strategy
Plan of Action



As we have assessed the overall strengths, weaknesses, opportunities, and threats that Carnival has we have come up with a plan of action that will take what is currently working for Carnival, and enhance it. In this chapter we will discuss the options of adding more options for Carnival's customers, which will in turn create more opportunities for Carnival itself.

A. Summary

Carnival has taken preventative measures such as being adamant in disinfecting their ships to stop the spread of diseases. Carnival should draw away from these disasters and shift focus to how they will improve the cruising experience for their customers. These issues will drive our recommendations in that Carnival Mini will better suit the lifestyles of busy Americans looking for an exclusive, inexpensive weekend getaway.

B. Proposed New/Improved Market Position

Mission Statement

Short-duration cruises are proposed to better-fit busy lifestyles. Businessmen and women along U.S. coasts will be the beneficiaries by marketing Carnival as an exclusive, inexpensive, weekend getaway.

Summary of New Market Position

Carnival Mini could be a smaller version of Carnival's cruise ships that allows for cheaper ticket prices and shorter duration periods. This builds on Carnival's current mission statement because it states that they "cater to a variety of different geographic regions and lifestyles, all at an outstanding value unrivaled on land or sea." Marketing to busy business people with a packed schedule could generate more profits for Carnival.

C. Strategy

Major Objectives for New Vision

Our plan of Carnival Mini will be very effective in getting a larger market of people by creating less stress for the customer. This will help Carnival to overcome some of the threats and weaknesses that were previously identified, but still lends to our current strengths by providing new opportunities.

Scope

We hope that the Carnival Mini plan will help us to grow into new markets by providing customers with more opportunities. This will give customers the ability to take a more spontaneous and smaller cruise, hopefully accommodating more busy schedules. Carnival Mini will help to keep costs low but still keeps Carnival's name of an exciting and fun packed adventure. This will help to address the weakness that we had in substitute activities; for example, this could help catch some customers that might want to fit in a lot of activities or trips in their year's budget.

Our Carnival Mini package will be targeted towards busy customers that want a weekend getaway. Because of the more concise length of time offered by these cruises, they will stay closer to shore and only have one main destination, instead of stopping at many ports along the way. This scope will hone in on our key opportunities by providing more options for our customers, both in dates available and locations offered. This will also help our company's annual revenues by keeping ships on the move more days of the year.

Competitive Advantage



According to the VRIO framework, a competitive advantage can be created if the product/service fits. The Carnival Mini package is valuable because it allows for anyone to join Carnival on an adventure but it actually fits into his or her schedule. It is definitely rare because no other cruise line offers these cruises. The Carnival Mini package will allow Carnival to gain that competitive advantage over other cruise lines because of convenience and the low cost. Customer value will be delivered because they are getting all of the benefits of a cruise like the relaxation and the vacation, but they are able to go without taking time off of work. A weekend getaway is just what customers need to take a timeout from the stress of life and not miss anything from their hectic lives. This is just an example of how Carnival can gain a competitive advantage. They already have the cost leadership advantage and that has definitely worked for the company as a whole. The Carnival Mini package would be a great marketing technique for Carnival in order to enhance the overall Carnival line of services.

D. Plan of Action

Steps to Achieve New Strategy

The two main recommendations that we have for Carnival is incorporating a new technology known as Carnival Mini and bringing in a new type of rewards program in order to gain more customers.

In order to publicize the idea of Carnival Mini, Carnival should begin marketing and advertising this new innovation and how it fits perfectly into their daily lives. The advertisement will be focused directly on potential customers who live close to the ocean and ports.

With Carnival's growth as the cost leader in the cruise line industry it has an opportunity to push promotions in order to obtain new customers from its rivals. In order to start the new rewards system in place Carnival should send out promotions to all of its current customers, customers of rival cruise lines, and to the general public. This new rewards system will decrease the switching costs from rival cruises while drawing current customers to go onto repeat cruises.

Impacts on Marketing Mix

Our strategy for improving our low cost leadership and gaining a higher customer base will be through innovation and promotion. These ideas will help locals of the selected ports understand what Carnival has to offer and why they should take advantage of this new concept. Carnival Mini will be subject to the 4 P's of the marketing mix being product, place, price, and promotion.

Summary of New Set of Marketing Mix Variables & Target Market Segments

The new product of Carnival Mini will attempt to give the full experience of a cruise shortened down to a weekend. The cruise boat itself will be a lot smaller as the planned amount of customers will be less, and it will stay closer to the shore to avoid the dangers of the open ocean. Since the product promotes last minute decisions there will be no need to sign up for the cruise months in advance.

The places that Carnival Mini will be available will be on densely populated shores with a lot of potential customers who will not have to travel far. Another rule that it will have to follow is that it will have to be in a location



of interest in which people will have a desire to go to the destination. An example of this type of cruise would leave from a port in LA and travel down the coast to Ensenada and back.

The price for the Carnival Mini will follow the price of a standard cruise but will be altogether cheaper due to the length and the amount of stops. Since standard cruises charge on a per night and destination basis Carnival Mini will be able to follow these general guidelines.

Promotions for the Carnival Mini will target previous customers, customers of rivals, and potential new customers. It is important to gain the interest of port locals as the concept of the cruise will be to have a cheap last minute weekend getaway and will only draw the interest of those who will not have to travel far.

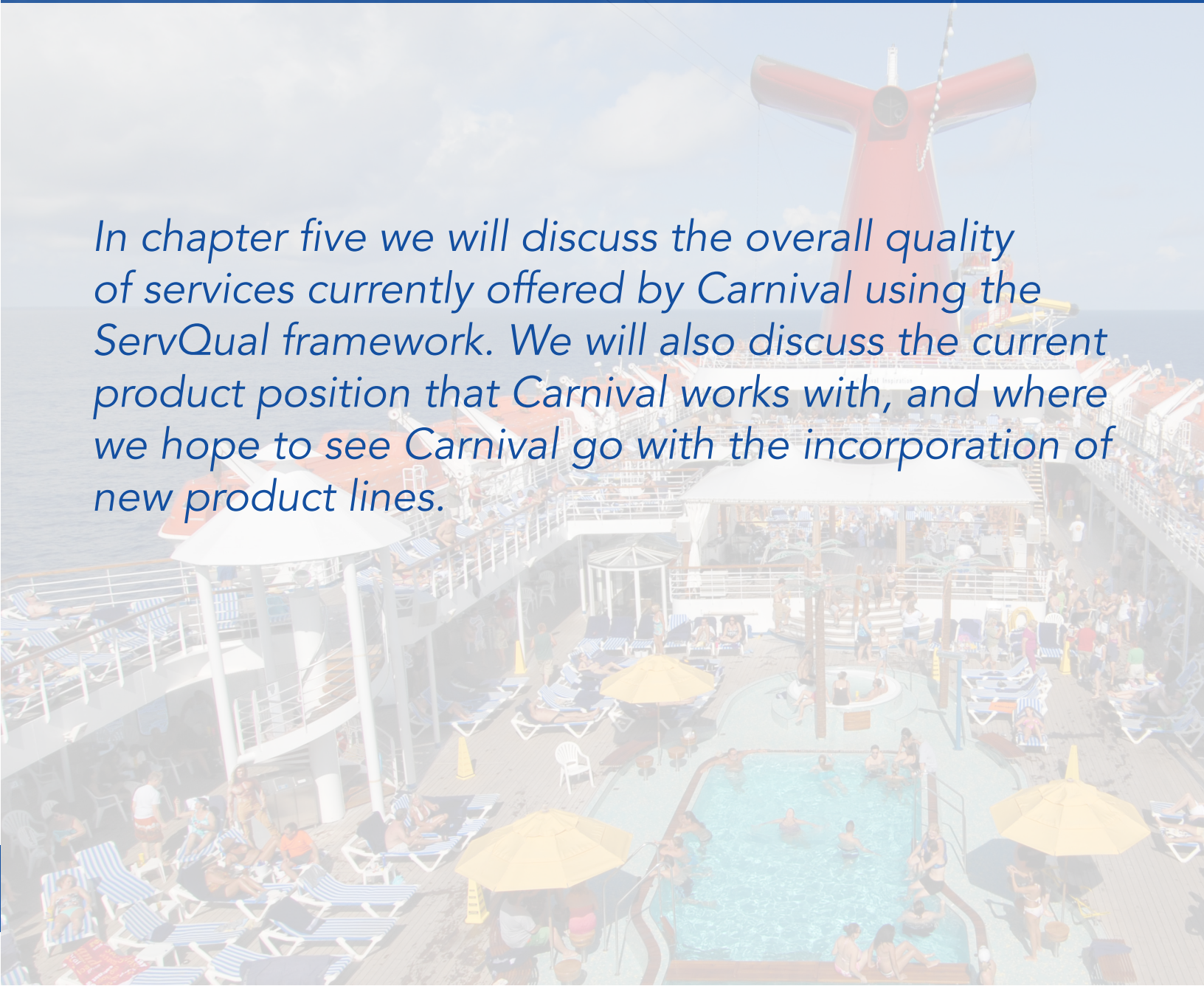


Chapter Five

Product Strategy and Programs

Diagnostic Product Profile
Prognostic Product Analysis
Product Summary

In chapter five we will discuss the overall quality of services currently offered by Carnival using the ServQual framework. We will also discuss the current product position that Carnival works with, and where we hope to see Carnival go with the incorporation of new product lines.

An aerial view of a cruise ship deck, likely from the Carnival brand, showing a large red funnel, a swimming pool, and a lounge area with many people. The deck is filled with lounge chairs, umbrellas, and people enjoying the ship's amenities. The background shows the ocean and a cloudy sky.

A. Diagnostic Product Profile

Carnival Cruise offers a unique experience by offering many products and services before, during, and after the actual cruise experience such as clothing, excursions, and novelty items. In order to keep their customers captivated with their services they must focus on what their customers' value while maintaining low costs.

Primary Services

Carnival's main focus is on the cruise ship experience; the main services offered are food, lodging, relaxation, entertainment, and travel. During the cruise guests have the opportunity to experience all of these luxuries to their full extent. Carnival also has a website in which their customers can purchase cruise products consisting of carnival brand items and bath materials that they used during the cruise for home use. These services and products give everybody an opportunity to experience luxury as they are continually pampered and have the cruise line staff work hard to suit their every need. It is the perfect opportunity for a relaxing or exciting vacation.

Brand Recognition

Carnival's brand name may initially mislead individuals who have never heard of the company before as they may think it to be a circus style entertainment. However the brand name can also be seen as working towards their benefit as it implies entertainment. Their brand label can easily be recognized with the red, white, and blue colors and the iconic funnel. The main problem that Carnival is currently facing is that their brand is not receiving complete respect due to recent well-publicized mishaps and incidents at sea. This is a major problem because if people do not trust the Carnival brand then they have no reason to spend their money on its services. The good news is that this negative image is slowly dying away and with time will not have an effect on the company as long as no future incidents occur.

Quality Framework

In order to assess the quality of Carnival, we will be using the ServQual framework, where there are five dimensions that assist with determining quality for services.

Reliability

Carnival has definitely had some struggles in the reliability dimension. Consumers are hesitant when it comes to Carnival because of the mishaps that have occurred. This has been a major weakness for Carnival but they have made changes to their ships and they've launched an entirely new marketing strategy and they aren't dwelling on the past. This has become a major strength for Carnival because they have released a policy that states if you aren't enjoying your cruise, they will pay for you to fly home. They are working extremely hard on enhancing their reputation and becoming the reliable cruise line that consumers expect and hope for.

Responsiveness

Carnival has been quick to act when something has gone wrong on one of their cruises. They have immediately reimbursed their consumers that were on a ship that broke down and they have taken the necessary actions to ensure the well being of their customers. Carnival has made incredible changes to their company and it will continue



to benefit the consumers. They have gone over and above for their customers and they are continuing to perform wonderfully. They went through a rough patch when their ships were breaking down and this caused their performance to decrease. Now they are making positive changes and creating a family environment and with these changes, they have developed many different attributes that will carry them forward.

Assurance

Carnival's perceived quality has slowly been increasing due to their additions to their ships and their new marketing campaign. Consumers are beginning to see the changes that Carnival has made and their trust in the company is returning. Carnival is on an uphill slant in quality. In the past, this has been a weakness because of the ships that have broken down or sank but it is becoming a strength for Carnival as they enhance their service.

Empathy

Carnival has started offering consumers who aren't satisfied with their cruise a return flight home paid by Carnival. They are empathizing with their customers and working hard in order to satisfy their needs. Carnival is very courteous towards their customers and they are looking to provide security. Carnival is working on knowing their customers and making an effort to understand their needs and rising above their expectations. The Mini package works perfectly with empathy because they are working with the business people of the world who are extremely busy and who aren't able to give up much time in order to vacation.

Tangible

Carnival has many different forms of entertainment and offshore excursions that have created a significant appeal to their cruises. These additional features cause consumers to keep coming back. They have such a variety of entertainment that there is always something to do while on a Carnival cruise. This has been a major strength for Carnival. Other cruise lines provide expensive entertainment and excursions. A weakness for Carnival's features is that it does cost extra to take part in the offshore excursions. This is one catch to Carnival's cost leadership position. But this is a necessary course that Carnival needs to take.

Overall Product Position

Carnival has an overall product position of being one of the most affordable cruise line options. They have created a position in their market as the cost leadership company, creating the prices that other big name cruise lines have to try to compete with but haven't been able to. This position is definitely an advantage for them, because they can obtain a large market share of younger families that are not able to invest large amounts of money for their cruise experience but they would like to go on a vacation. Carnival is also developing a reputation of not only having low prices, but they are providing a lot of entertainment and priceless experiences at no additional charge. Carnival has been very effective at placing their services in this position and it has definitely worked well for them. The Mini package will be a great addition to the different cruises Carnival has to offer. It will cater to those who aren't able to take time away from work and allow them to vacate their lives for a weekend and enjoy the sun, which will add to the empathy dimension of ServQual. The Mini package would also allow them to get away and enjoy the feel of a cruise but also get back to work on time and not take any time off.



B. Prognostic Product Analysis

New Vision

In light of the product diagnostic analysis, the new vision for the organization's product offering is for Carnival to gain more revenue through Carnival Mini. With lifestyles becoming busier, this weekend getaway will fit into hectic schedules. Carnival Mini is differentiated from other cruises in that little or no planning can be involved and no other cruising line has offered such an excursion.

New Objectives

The new product objectives Carnival should pursue are shorter duration cruises and smaller ships.

Having shorter cruises allow the consumers to not have to take time off work because weekend cruises will be available. A shorter duration and U.S. only coasts limit the need of going through the hassle of getting a passport as well.

Smaller ships allow the speed of the ship to increase, which will reach the destination faster. This makes the trip shorter as well. If there is only one type of ship for Carnival Mini's then the costs can be cut. This allows for an affordable luxury.

The branding would be affected by advertising shorter cruises and smaller ships, which may entice busier individuals who enjoy spending time on their weekends taking a break from their day-to-day routines.

Themes could be implemented to differentiate the Carnival Mini more significantly. Concerts at sea with popular bands (similar to a Warped Tour theme), cooking shows with chefs performing while cooking customer's dinners, or television shows could be moved on board the Carnival Mini for the audience to have a more enjoyable vacation.

Key Initiatives

The key product initiatives needed to achieve the new vision and objectives is a thorough market research on how consumers would react to something like a Carnival Mini. Carnival definitely has the resources to make a Carnival Mini, the question is if that is an option that consumers would enjoy. This could be done on their current cruises by leaving an optional questionnaire in the rooms asking a few questions on their opinions of a Carnival Mini.

C. Product Summary

Key Product Recommendations

As discussed, our key product recommendations involve revolutionary cruise options, like our Carnival Mini plan. This would create the need for smaller ships that will have the capability of comfortably taking people in a timely manner to their weekend getaway. Carnival Mini would work well with the existing options that Carnival offers because it would complement the other cruise trips. This will allow Carnival to have a hand in the



traditional cruise industry, plus allowing them to pave the way in this new practice of more compact weekend getaways.

Supporting Our Plan of Action

Carnival Mini will support our plan of action previously stated because it will help the company to gain more customer base in and around coastal cities. If Carnival Mini is successful with customers, it will become a major reason why customers gain loyalty with Carnival. Carnival Mini meets the needs of the evolving world we live in. People are busy, everyone would love to go somewhere but they often do not have the time or the money for a full vacation. Carnival Mini opens more options for these busy individuals. The lower price and reasonable time line can appeal to customers anywhere from young parents, to an overwhelmed manager in a company.

