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## THE IMPACT OF GLOBALIZATION ON SUPPLY AND DEMAND IN THE CRUISE INDUSTRY

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**Abstract:** The paper investigates how globalization processes have reshaped the de-territorialisation of capital, labor and the tourist destination. The fact that cruises as a form of tourism supply are not tied to just one destination has contributed to a more rapid development of globalization processes in the cruise industry. The growth in demand and the economy of scale have caused the appearance of gigantism. Ships have become floating hotels or destinations similar to on-land resorts, and the ports visited have become part of the program offered onboard. Today, ships that carry few thousand people including passengers and crew, and offer a multitude of facilities, can be viewed as a global microcosms, considering that the passengers and crew come from various countries around the world. The multinational atmosphere onboard is frequently marketed as part of the cruise experience. This is further strengthened by the fact that a ship does not usually sail under the flag of its country of domicile, but rather under a flag of convenience that allows the company to lower considerably their running costs and access to global laborforce markets. Today, cruising is worldwide, demands show high growth rate, new markets are emerging, new cruise regions are developing, and the profile of cruise passengers is changing. Multinational companies cover almost all cruise regions, and the sector is dominated by three corporations that control more than 75% of the market.

*Key words:* cruise markets, globalization, cruise ships, gigantism, flags of convenience.

### INTRODUCTION

Globalization processes are present worldwide in many fields, in the economy, culture, politics and society. Political-institutional factors influenced the progress of globalization, such as trading policies, control of capital, regulation of ownership rights, immigration limitations, corruption controls, a stable monetary system, etc., and

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economic-technological factors, such as innovations in transport, progress in communications, and so on.<sup>2</sup> The intensification of globalization processes was helped by the modernization of information technologies, which allowed the uninterrupted flow of information, primarily the development of computers and telecommunications. The modern business of many tourist companies is also globally oriented. Tourist trends are taking on increasingly more global features, competition is increasing, new tourist destinations are developing, integration processes are stronger between economic entities, and tourist companies are becoming larger and therefore more capable of conquering new markets.

Globalization is an extremely complex notion for which there is no universally accepted definition, as definitions reflect the various evaluations of global changes. However, the definition that best suits the situation in the cruise sector is given by A. J. Scholte who sees globalization as “de-territorialization – or... the growth of supra-territorial relationships between nations”, or as “a group of processes that turn the world into one place, changing the meaning and the significance of distance and national identity in world scales”.<sup>3</sup> The development of cruise tourism offers a clear manifestation of how global economic restructuring both reflects and promotes new forms of the deterritorialization of capital, labor, and touristic place itself.<sup>4</sup> The powerful development of business centralization makes more difficult the entry of new and independent operators, which gives the cruise market an oligopolic character. This paper investigates and analyzes the influence of globalization processes on supply and demand in the world cruise industry.

## 1. THE IMPACT OF GLOBALIZATION ON THE DEVELOPMENT OF NEW GENERATING MARKETS AND CRUISE REGIONS

Cruise tourism has become a mass phenomenon and increasingly more passengers worldwide are choosing this form of vacation. In comparison with international tourism, the world cruise industry is showing pronounced dynamic growth. In the early 80s, cruising noted slightly less than two million passengers, which at the time represented only 0.7% of world international arrivals. The number of passengers – tourists on cruises from 1980-1999 increased by 385% or 8.7% on average annually<sup>5</sup>. At the start of the twenty-first century, the trend of growing demand continued, and in 2005, there were 14.47 million cruise passengers, accounting for 1.8% of world international arrivals. Considering that there were 9.72 million cruise passengers during 2000, then the number of passengers increased by almost 50% (Table 1) in the period from 2000-2005. According to forecasts, 16 million cruise passengers are expected by the year 2010.<sup>6</sup>

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<sup>2</sup> Grguric, I., „Globalization, Growth, Inequality and Poverty“, *Financial Theory and Practice*, No. 2, Institute of Public Finance, Zagreb, 2004, p. 236

<sup>3</sup> [www.globalizacija.com/com/doc\\_sr/s0013glo.htm](http://www.globalizacija.com/com/doc_sr/s0013glo.htm); 30.03.2007

<sup>4</sup> Wood, R.E., “Caribbean Cruise Tourism: Globalization at Sea”, *Annals of Tourism Research*, Vol. 27, Issue 2, Elsevier Science Ltd., Amsterdam, 2000, p. 350

<sup>5</sup> Ban, I., “Tourist Cruising in the World”, *Modern Traffic*, Vol. 21, No. 1-2, Institute of Transport Sciences, Zagreb, 2001, p. 20

<sup>6</sup> Shipping Statistics and Market review, Vol.47, No.7, Institute of Shipping Economics and Logistics (ISL), Bremen, 2003, p. 10.

The increasing number of cruise passengers has also had an effect on business strategies of cruise companies, and on the internationalization of their business. Cruise companies are expanding to foreign markets in order to reduce business risks, to attract as many passengers as possible and to achieve an economy of scale. They shift ships from one region to another, and particularly in those regions planned on being new markets. In this manner they can: avoid bad political circumstances or other disadvantages in a certain region, enrich and widen their program, offer new itineraries to their loyal clients, simultaneously conquer new generating markets and contribute to the popularization of cruising on new markets and to the development of ports. The ship has become a tourist destination that travels from destination to destination, and is therefore a unique example of the deterritorialization of the tourist destination itself.

**Table 1:** International arrivals and the number of cruise passengers in the world, 1980 – 2005

Year	Tourist arrivals in mil.	Annual growth rate (%)	Cruise passengers In mil.	Annual growth rate (%)
1980 – 1985	285,9 – 327,2	2,3	1,8 – 2,8	7,7
1986 – 1990	338,9 – 458,2	6,2	3,3 – 4,5	6,4
1991 – 1995	463, 9 – 565,5	4,0	4,92 – 5,67	2,9
1996 – 2000	596,5 – 681,3	2,7	6,5 – 9,72	8,5
2001 – 2005	680,3 – 802,0	3,3	9,92 – 14,47	7,8
1980 – 2005	285,9 - 802,0	6,6	1,8 – 14,47	13,9

Source: Compiled and calculated from Yearbook of Tourism Statistics, WTO, Vol.1, Vol. 2, 47. ed., Madrid, 1995.; Yearbook of Tourism Statistics 1995. – 1999. Vol.1, 53. ed., Madrid, 2002., Tourism Highlights, 2001., First edition, WTO, Madrid, 2001., Ban, I., The World Cruise Market (II), Economic Thought and Practice, Vol. 7., No. 1., Faculty of Tourism and Foreign Trade, Dubrovnik, 1998, p. 31; Contribution of cruise tourism to the economies of Europe, prepared by G.P. Wild (International) Limited and Business Research & Economic Advisors, February 2007, p. 5; UNWTO World Tourism Barometar, Vol.5,No.2, June 2007, www. unwto.org (11.08.2007)

Without regard to the flag or the company's country of domicile, ships can sail in regions where the cruising season prevails. New regions, where demands are being directed, are starting to compete strongly with leading regions that realize half of the world cruise business. The number of cruise passengers from Europe and other regions of the world are on the rise. The share of North America, as the leading generating market, dropped from 81,30% in 1991 to 68,83% in 2005 while the share of the European market rose from 14,23% to 22,81% in the same period (see Table 2). Of the remaining regions, the Australian market shows the greatest growth, where the number of cruise passengers doubled (from 75,000 to 158,000 passengers) in the period from 2001 – 2004.<sup>7</sup>

<sup>7</sup> Peisley, T., "The Future of Cruising – Boom or Bust? A Worldwide Analysis to 2015", Seatrade Communications Ltd., Essex, 2006, p. 109

**Table 2:** International demand for cruises (in million passengers)

Region	1991	%	1995	%	2000	%	2005	%
North America	4,00	81,30	4,40	77,60	6,88	71,59	9,96	68,83
Europe	0,70	14,23	0,97	17,11	1,95	20,29	3,30	22,81
Rest of the world	0,22	4,47	0,30	5,29	0,78	8,12	1,21	8,36
<i>Total</i>	<i>4,92</i>	<i>100,00</i>	<i>5,67</i>	<i>100,00</i>	<i>9,61</i>	<i>100,00</i>	<i>14,47</i>	<i>100,00</i>

Source: Compiled from Worldwide Cruise ship Activity, World Tourism Organization, Madrid, 2003, p. 27; Contribution of cruise tourism to the economies of Europe, prepared by G.P. Wild (International) Limited and Business Research & Economic Advisors, February 2007, p. 5

The development of “fly-cruise”<sup>8</sup> packages allowed geographically distant markets to become reachable, as the ports of embarkation came closer to the large and distant city centers. On the other hand, due to the fear of terrorism, more embarkation ports are developing closer to the passenger’s domicile in each cruise region. The development of regional embarkation ports affects the growth in demand by local residents for cruises, and globalization processes make these ports more accessible by customers worldwide. Passengers are demonstrating greater interest for cruises along the Mediterranean and in other distant and exotic regions, as shown in Table 3.

## 2. A CHANGE IN CRUISE PASSENGER PROFILE

The growth in tourist trends, which are taking on global features, leads to changes in customer behavior and demand. The rise of living standards allows people to have increasingly more available resources and increasingly less free time, which are the two main prerequisites for joining tourist flows.<sup>9</sup> The change in tourist demands, influenced by globalization, can also be seen through:<sup>10</sup> a strong segmentation of tourist markets towards a population’s age and social features; more frequent travel (more frequent use of holidays, which means more, but shorter holidays annually); a greater number of travels undertaken occasionally between annual short-trip travels; an increase in the demand for more creative and interesting tourist products; and the more frequent reservation of “last-minute” holidays.

<sup>8</sup> A cruise sold with flights to and from embarkation/disembarkation port included in the price

<sup>9</sup> Croatian Tourism Development Strategy 2010, Final version, Sept. 18, 2003., p. 8 (www.mmtpr.hf, 11.04.2007)

<sup>10</sup> Weiermair, K., „Tourism as a Determinant of European Economic Development and Economic Integration: Problems and Prospects“, *Tourism*, No.11-12, Institute for Tourism, Zagreb, 1993, p. 236.

**Table 3:** Cruise ship deployment by region (in bed/days)

	1993		2005	
	bed/days ('000)	Share (%)	bed/days ('000)	Share (%)
Caribbean & Bahamas	14.398	44,3	35.847	42,0
Panama canal	1.626	5,0	2.719	3,2
Mexican Riviera	5.582	17,2	5.759	6,7
Alaska and west coast	2.323	7,2	6.850	8,0
East coast and Bermuda	1.420	4,4	2.537	3,0
<b>Total North America</b>	<b>25.349</b>	<b>78,1</b>	<b>53.712</b>	<b>62,9</b>
Mediterranean	3.005	9,2	14.657	17,2
North Europe	1.853	5,7	5.923	6,9
<b>Total Europe</b>	<b>4.858</b>	<b>14,9</b>	<b>20.580</b>	<b>24,1</b>
Asia - Pacific	479	1,5	4.639	5,4
Hawaii	969	3,0	2.907	3,4
South America and Antarctica	280	0,9	1.569	1,8
World cruises	368	1,1	1.340	1,6
Middle East and Indian ocean	170	0,5	665	0,8
<b>Rest of the world</b>	<b>2.266</b>	<b>7,0</b>	<b>11.120</b>	<b>13,0</b>
<b>Total world</b>	<b>32.473</b>	<b>100</b>	<b>85.412</b>	<b>100</b>

Source: Compiled and calculated from Ban, I., The World Cruise Market (II), Economic Thought and Practice, Vol. 7., br. 1., Faculty of Tourism and Foreign Trade, Dubrovnik, 1998, p. 44; Lloyd's Cruise International, Issue 70, Informa Publishing Group, London, August/September 2004, p. 42; Lloyd's Cruise International, Issue 71, Informa Publishing Group, London, October/November 2004, p. 23; Lloyd's Cruise International, Issue 75, Informa Publishing Group, London, June/July 2005, p. 18; Lloyd's Cruise International, Issue 83, Informa Publishing Group, London, October/November 2006, p. 24 i 34; Lloyd's Cruise International, Issue 84, Informa Publishing Group, London, December 2006/January 2007, p. 23; Lloyd's Cruise International, Issue 85, Informa Publishing Group, London, February/March 2007, p. 58; Lloyd's Cruise International, Issue 86, Informa Publishing Group, London, April/May 2007, p. 34.

Globalization influences constant change in the demand for cruises. The cruise passengers are changing, particularly their geographic and socio-economic profile, their motives for travel, there is less demand for long and expensive cruises, and a growth in demand for short cruises that last only a few days and offer various activities, entertainment and lots of interesting events. There are more and more young passengers, who go on cruise for relaxation, as a get-away from daily routines, for socializing, and for getting to know regions visited during the cruise, etc. Classic cruises that last longer motivated by peaceful sailing in a luxurious ambience, visiting

ports and sightseeing the cultural-historical sights of towns visited, are being pushed aside by elaborate programs and by completely different passengers who want to be well entertained in a short period of time for a relatively small amount of money.<sup>11</sup>

**Table 4:** Demographics of cruise passengers from North America, according to 1996 and 2006 surveys for CLIA

	1996	2006
<b>Gender</b>		
Female (%)	47,0	51,0
Male (%)	53,0	49,0
<b>Age (%)</b>		
25-39	34,0	30,0
40-59	35,0	48,0
60 +	31,0	22,0
Average	49	49
<b>Annual income (%)</b>		
20 000-39 999 US\$	26,0	-
40 000-59 999 US\$	33,0	22,0
60 000-99 999 US\$	25,0	39,0
100 000 + US\$	16,0	39,0
Average (US\$)	66 000	104 000
<b>Marital status</b>		
Married (%)	75,0	83,0
Single (%)	25,0	17,0

Source: Peisley, T., *The North American Cruise Market*, Travel & Tourism Analyst, No.4., Travel & Tourism Intelligence, London, 1998, p. 9 (according to CLIA 1996); CLIA The 2006 Overview, [www.cruising.org/press/overview%202006/2006OV.pdf](http://www.cruising.org/press/overview%202006/2006OV.pdf); 09.09. 2007

In the early 70s, cruise passengers were on average 65 years old.<sup>12</sup> This average dropped in 1985 to 58 years<sup>13</sup>, and nine years later (1994) to 50 years.<sup>14</sup> In the last ten years (1996 – 2006), the percentage of older 60+ passengers dropped from 31% to 22%, while the percentage of young passengers increased. The most numerous passengers were from 40 – 59 years old, with an increase in percentages from 35% to 48%. There are less singles, and a greater number of married couples (Table 4). According to the CLIA National Market Profile Study 2006, 79% of passengers most frequently go on cruise with a partner, 24% are accompanied by friends, and 20% by other family members.<sup>15</sup>

<sup>11</sup> Ban, I., "Changes in the Cruise Market and Their Impact on Sea Ports", *Modern Traffic*, Vol.19., No.1-2., Institute for Transport Sciences, Zagreb, 1999, p.57.

<sup>12</sup> Worldwide Cruise Ship Activity, World Tourism Organization, Madrid, 2003, p. 41.

<sup>13</sup> Hobson, J. S.P., "Analysis of the US Cruise Line Industry", *Tourism Management*, Vol.14, Issue 6, Elsevier Science Ltd., Amsterdam, 1993, p. 456.

<sup>14</sup> Peisley, T., "The North American Cruise Market", *Travel & Tourism Analyst*, No.4., Travel & Tourism Intelligence, London, 1998, p. 9 (according to CLIA research 1994)

<sup>15</sup> CLIA The 2006 Overview, [www.cruising.org/press/overview%202006/2006OV.pdf](http://www.cruising.org/press/overview%202006/2006OV.pdf); 09.09. 2007

As a consequence in the change of passenger profile, there was less demand for long and expensive cruises, and greater demand for short cruises lasting only a few days, offering various activities, entertainment and interesting events for less money (Table 5).

**Table 5:** Demand for cruises by length of cruise – North American market

Lenght of cruise (days)	Passengers (000)		2005/1980 %
	1980	2005	
2 – 5	347	3,364	869,5
6 – 8	846	5,171	511,2
9 – 17	221	1,338	505,4
18+	17	36	111,8
TOTAL	1,431	9,909	592,5

Source: CLIA The 2006 Overview, www.cruising.org/press/overview%202006/2006OV.pdf; 09.09. 2007

The greatest interest shown by the North American market is for cruises lasting from 6 to 8 days. Short cruises, from 2-5 days, followed by 6-8 day cruises, show the highest growth rate in the period from 1980 to 2005. There is a drop in the demand for lengthy and expensive travel. Their share, measured by the number of passengers, dropped from 16.6% (1980) to 13.9% in 2005, the share of cruises lasting 6-8 days from 59.1% to 52.2%, while the share of cruises lasting 2-5 days increased from 24.3% to 33.9%. The passengers on short cruises are significantly different from those on long cruises.

**Table 6:** Cruise ship passengers by length of cruise

On short cruise passengers tend to	On a longer cruise passengers tend to
<ul style="list-style-type: none"> <li>• Be younger</li> <li>• Have more modest incomes</li> <li>• Have less education</li> <li>• Be more likely to work full-time</li> <li>• Be interested in a mass-market destination, like the Caribbean</li> <li>• be new to cruising</li> </ul>	<ul style="list-style-type: none"> <li>• Be older</li> <li>• Have higher incomes</li> <li>• Be more educated</li> <li>• Be more likely to be retired or semiretired</li> <li>• Be interested in a more exotic destination, like South America</li> <li>• Have already experienced cruising</li> </ul>

Source: Mancini, M., Cruising, A guide to the Cruise Line Industry, Delmar Learning, New York, 2004, p. 16

The cruise passengers are partially different from non-cruise vacationers. Research shows that 63% of cruise passengers want to go back to the region they encountered during the cruise. In comparison to other tourists, most are satisfied with the various activities and entertainment, accommodation amenities, holiday safety, and even 69% are satisfied with the value for money (as compared to only 31% of tourists in resorts on land).<sup>16</sup>

<sup>16</sup> Perucic, D., "Marketing Contributions to the Sea Cruises Development in the Secondhalf of the 20<sup>th</sup> Century", *Economic Thought and Practice*, University of Dubrovnik, Dubrovnik, 2006, p. 168, according to: CLIA, The Overview Spring 2004.

### 3. THE IMPACT OF GLOBALIZATION ON SUPPLY

The process of globalization on the cruise market is clearly evident in the supply. The cruise fleet is on the rise, there are increasingly more large ships that can carry more than 3,000 passengers, most cruise ships are being registered under favorable registries in order to avoid the legalities of national legislation, there is a strong development of business centralization, etc.

The appearance of gigantism in the cruise industry was primarily conditioned by economic reasons and the dynamic and continuous growth in demand. In 2006, the cruise fleet had 318,000 lower berths, and 12,219,000 gross tonnage (gt).<sup>17</sup> The number of lower berths over the last twenty years (1986 – 2006) increased more than three times (from 95,000 to 318,000 berths), and the average capacity increased by 85% (from 638 to 1,184 berths).<sup>18</sup>

The size of cruise ships changed significantly in the period from 1985-2006. The number and size of ships continues to grow. In 1985, 98.6% of cruise ships had a gross tonnage of up to 50,000, and in 2006, this percentage drops to only 60%. In 1985, only one ship had over 70,000 gt, and there were no ships over 100,000 gt. In 2006, ships with over 70,000 gross tonnage accounted for 31.2% of the total world gross tonnage. The first ship with over 100,000 gt was built in 1996 (Carnival Destiny). Their number increased on a yearly basis, in 2000, there were 6, in 2006, there were 24 ships of over 100,000 gt (table 7).

**Table 7:** Cruise ships by size

Ship size (gt)	1985			2000			2006		
	No ships	No-% share	gt-% share	No ships	No-% share	gt-% share	No ships	No-% share	gt-% share
1.000 – 15.000	84	57,1	29,9	83	34,2	8,1	71	26,4	4,3
15.000 – 30.000	51	34,7	46,8	64	26,3	17,7	52	19,3	9,3
30.000 – 50.000	10	6,8	17,2	37	15,2	18,2	39	14,6	2,5
50.000 – 70.000	1	0,7	3,0	20	8,2	15,3	23	8,5	11,1
70.000 – 100.000	1	0,7	3,1	33	13,6	31,9	60	22,3	39,6
100.000 +	-	-	-	6	2,5	8,8	24	8,9	23,2
Total	147	100,0	100,0	243	100,0	100,0	269	100,0	100,0

Source: Compiled and calculated from Ban, I., Vrtiprah, V., Gigantizam in Cruise Shipping, Proceedings of the 12th IGWT Symposium «Quality for the XXI st Century», Vol. II. The Poznan University of Economics Publishing House, Poznan, 1999, p. 1037; Shipping Statistics and Market Review, Volume 44, No. 7, Institute of Shipping Economics and Logistics (ISL), Bremen, 2000; Shipping Statistics and Market Review, Volume 50, No. 7, Institute of Shipping Economics and Logistics (ISL), Bremen, 2006. p.33.

<sup>17</sup> Shipping Statistics and Market Review, Volume 50, No. 7, Institute of Shipping Economics and Logistics (ISL), Bremen, 2006., 32.

<sup>18</sup> Calculated according to Shipping Statistics Yearbook 1989, ISL, Bremen, 1989, p. 78. and Shipping Statistics and Market Review, Volume 50, 2006, op.cit., p. 32.

The dynamic growth in the demand for cruises in the latter half of the 80s encouraged ship owners to invest in the construction of newer and larger ships. This was made possible by the revenues realized and the profits made precisely with the new ships and their numerous facilities, which thanks to their variety and abundant offer onboard attracted an increasingly greater number of passengers and additional revenues.<sup>19</sup> The companies increased the number of berths on the market and enriched their supply with the introduction of newer and increasingly larger ships.

The main reason for building increasingly larger ships is the economy of scale, as this kind of ship can accommodate more passengers at lower transportation costs (fixed and variable) per passenger (transport unit), and can offer cheaper travel packages, as well as achieving greater revenues and profits. Specifically, increasing the capacity of the production unit leads to a growth in productivity or a growth in contributions considering the scale and drop in average production costs.<sup>20</sup> In the cruise industry, the economy of scale is best expressed and seen as a growing economy of scale<sup>21</sup> which can be shown by the fact revenues grow above what is proportional according to the money invested in a new, larger capacity ship.<sup>22</sup>

The order book for new ships, where the average capacity of new ships on order is 2,636 berths, supports the claim that the cruise market is introducing increasingly larger ships. The data from the order book show that mainly leading cruise corporations invest in large ships, and that the price per berth decreases with the growth in the ship's capacity. In 2009, Royal Caribbean International, the owner of presently the largest ship in the world, Freedom of the Sea (160,000 gross tonnage and 3,634 lower berths), will introduce to the market an even larger ship whose capacity will be 5,400 lower berth and 220,000 gross tonnage. Only Pearl Seas Cruises and Seabourn Cruise Line, according to the order book, are building ships with lower capacities, as they are not oriented towards mass tourism, rather they are positioned in the luxury segment of the market.<sup>23</sup>

However, larger ships increase business risks, as the greater amount of invested capital assumes a high occupancy level of available capacities. Companies resolve the risk of filling capacities with aggressive marketing and the transfer of ships to regions where there is a high season. As compared to hotel industry that changes rates according to season, ship operators change cruise regions and itineraries.<sup>24</sup> Considering that ships can be transferred from one region to another, companies can resolve the problem of seasonality, which is characteristic for most cruise regions. In this way, they retain the same prices year round. The world has become a global destination, for today, all regions are included on cruise itineraries.

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<sup>19</sup> Ban, I., "The World Cruise Market (II)", *Economic Thought and Practice*, No.1, Faculty of Tourism and Foreign Trade, Dubrovnik, 1998, p. 18.

<sup>20</sup> Benic, Dj., *Basic Economics*, 3<sup>rd</sup> Revised and Expanded Edition, Skolska knjiga, Zagreb, 2001, p. 680.

<sup>21</sup> Growing economies of scale occur when a rise in all inputs leads to more than proportional growth in production levels (Samuelson, P. A, Nordhaus, W., *Economics*, 14.ed., MATE, Zagreb, 1992, p. 111.)

<sup>22</sup> Ban, I., "Changes in the Cruise Market and Their Impact on Sea Ports", op.cit., p. 58.

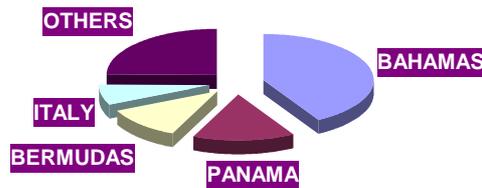
<sup>23</sup> <http://www.cruise-community.com/Search/nb.asp;09.07.2007>

<sup>24</sup> Toh, R. S., Rivers, M. J., Ling, T.W., "Room Occupancies: Cruise Lines Out-Do the Hotels", *International Journal of Hospitality Management*, Vol. 24, Issue 1, Elsevier Science Ltd., Amsterdam, 2005, p. 123

#### 4. FLAGS OF CONVENIENCE

The result of globalization in the cruise sector is the use of the so-called Flag of Convenience (FOC), which enables cruise companies to reduce substantially their running costs. This is not a new phenomenon, as some processes, which in theory we now consider to be the results of globalization, has occurred in practice even before. As with the case of cargo ships, most cruise ships are registered in favorable registries. The reasons are economic ones, as the ship operator can benefit from less stringent shipping regulations and lower taxes which strengthen their competitiveness and enables the sale of cruise package at lower prices.<sup>25</sup> The larger ships have up to 1,000 crew members from more than fifty various countries. For example, on one of the ships belonging to the Princess Cruises line sailing the Mediterranean, there were 2,054 passengers from 54 countries and 980 crew members from 64 countries.<sup>26</sup> Today, most cruise ships sail under the Bahamas, Panama and Bermuda flags (56.1% ships and 67.8% gross tonnage) (Figure 1).

**Figure 1:** Cruise fleet by major flags 2006 (% - gt )



Source: Shipping Statistics and Market Review, Volume 50, No. 7, Institute of Shipping Economics and Logistics (ISL), Bremen, 2006, p. 32

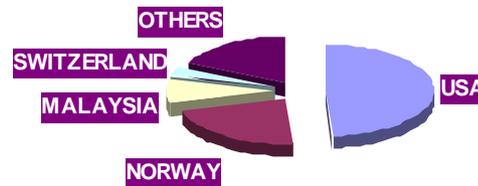
There is an obvious disproportion between the country of domicile and the registry where the cruise ship belongs. Leading countries, according to the number of ships and capacities, have practically no ships under their own flags. For example, the USA, a leading country of domicile, which accounts for 33% of ships and 48.5% gross tonnage (Figure 2), has only 3 ships under its own flag, representing only 2.1% of the total gross tonnage.<sup>27</sup>

<sup>25</sup> Ban, I., "The World Cruise Market (II)", op.cit., p. 22.

<sup>26</sup> Gibson, P., *Cruise Operations Management*, Butterworth Heinemann, An Imprint of Elsevier Inc., Oxford, 2006, str. 96.

<sup>27</sup> Shipping Statistics and Market Review, Volume 50, op.cit., p. 32

**Figure 2:** Cruise fleet by countries of domicile 2006 (% - gt)



Source: Shipping Statistics and Market Review, Volume 50, No. 7, Institute of Shipping Economics and Logistics (ISL), Bremen, 2006, p. 33

The use of a flag of convenience can create problems for the cruise operator in cases where the cruise starts and ends in the same country, and the cruise ship does not sail under the flag of the country that has the embarkation and disembarkation port, regardless of whether it is a national company. The reasons for this are the regulations which do not allow cabotage<sup>28</sup>, or transport of foreign flag ships between national ports. The European Union took steps towards the elimination of such regulations in 1999, by eliminating the monopole of all its members in cabotage. The government of Australia did the same in 1998 by removing the limitations in the cabotage traffic of cruise ships sailing under foreign flags, which contributed towards the rapid development of cruising and tourism on the Australian continent in general. However, this issue still exists in the USA, considering that regulations still exist by which ships registered outside the USA are forbidden the transport of passengers between two American ports without having first stopped temporarily at a foreign port. When passed, the law was meant to protect American ships from foreign competition in cabotage transport, and today it is absurd, considering that American economy only carries great losses.<sup>29</sup> It was precisely this problem that drove the Norwegian Cruise Line Company to establish the NCL America Branch with a fleet of three ships (Pride of Aloha, Pride of America and Pride of Hawaii), which sail under a US flag so that they can freely sail through the Hawaii Islands.

## 5. THE INTERNATIONALIZATION OF CRUISE COMPANIES

The process of business consolidation has been present through the history in the cruise industry. The purpose was to enter international markets, first within the region of activity, and then to distant regions, in the search for new attractive destinations, and new generating markets. Partnerships are made with other cruise companies, hotel companies, travel agencies, transportation companies, and so on. The

<sup>28</sup> Word deriving from the French *caboter*, which means to sail from cape to cape (Worldwide Cruise Ship Activity, World Tourism Organization, Madrid, 2003, p. 191.)

<sup>29</sup> Ban, I., "The World Cruise Market (II)", *op. cit.*, p. 24.

benefits of partnerships are derived from the following conveniences:<sup>30</sup> standardization of the tourist supply; common promotional activities; sales through a joint reservation system; development of brand identity; better use of available capacities and human resources; lowering of production costs; more efficient research of the tourist market; development of joint procurement, marketing and other departments; strengthening of competitiveness; successful positioning on the market. A small number of large companies dominate today with their capacities and financial powers.

One of the ways for large cruise companies to grow and to enter a foreign market was by joint investment and direct foreign investment. There are examples of joint investment of cruise companies and tour-operators, ie. in 2002, the Royal Caribbean Cruises Ltd. Group and the First Choice Holidays Tour Operator established the Island Cruises Company.<sup>31</sup> The Carnival Corporation has announced a merger with the Iberojet Cruceros Company, which is part of the largest Spanish tourist corporation Orizonia. The new company will operate under the name Iberocruceros, and will target the Spanish market.<sup>32</sup> Hotel companies are also joining the mass cruise market, for instance, the Radisson hotel chain decided to "test" its waiters on its own cruise ship.<sup>33</sup> The main objective in mergers is to create a unit that will be able to satisfy the tourist demands, using an adequate level of coordination between all parties, and to realize greater profit from this form of business.

Foreign direct investment is also a significant factor in the corporate strategy for entry on foreign markets. There are numerous examples of mergers and acquisitions of cruise companies with an already formed brand image and good knowledge of local markets and economy but no chance of market survival under the harsh competitive conditions. Such processes in the cruise market had already started in the early 70s, when the British cruise company P&O, due to a decline in demand from the European market, turned towards North American market and purchased the American Princess Cruises Company in 1974.<sup>34</sup> In the mid-90s, these processes intensify with the entry of American companies on the European cruise market. For example, in 1997, the Carnival Corporation became the 50% owner of the Italian company Costa Cruises (table 8). In 1998, it purchases the British Cunard Line and in 2000, the remaining 50% of the Costa Cruises. The biggest step was the merger with the British company P&O Cruises, the third in size in the world,<sup>35</sup> which already owned Aida Cruises, specialized for the German market, and the Princess Cruises brand for the North American market. The Royal Caribbean Cruises Group, second in size in the world, made similar moves. It entered the European market by becoming the owner of the Greek Celebrity Cruises in 1997. In fall of 2006, it took over a Spanish national operator Pullmantur S.A.<sup>36</sup>, and strengthened its position in Spain and in Europe.

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<sup>30</sup> Vrtiprah, V., Pavlic, I., *Economics for Managers in the Hotel Industry*, University of Dubrovnik, Dubrovnik, 2005., p. 235.

<sup>31</sup> Lloyd's Cruise International, Issue 73, Informa Publishing Group, London, February/March 2005, p. 9

<sup>32</sup> [www.cruise-community.com/Headlines.asp;05.09.2007](http://www.cruise-community.com/Headlines.asp;05.09.2007)

<sup>33</sup> Morrison, A. M., *Hospitality and Travel Marketing*, third edition, Delmar, New York, 2002, p. 263.

<sup>34</sup> Cartwright, R., Baird, C., *The Development and Growth of the Cruise Industry*, Butterworth Heinemann, Oxford, 1999, p. 38.

<sup>35</sup> Shipping Statistics and Market Review, Volume 46, No.7, Institute of Shipping Economics and Logistics (ISL), Bremen, 2002, p. 9

<sup>36</sup> [www.cruise-community.com/Headlines.asp;31.08.2007](http://www.cruise-community.com/Headlines.asp;31.08.2007)

Many cruise companies expanded their business by acquiring other operators with experience in a different market segment. The original brand name were frequently retained as they often carry with them considerable customer loyalty. The last decade has seen a powerful growth in the number of mergers and acquisitions in the cruise industry.

**Table 8:** Examples of mergers and acquisitions in the cruise industry (state 2003)

Year 1996.	Kloster renamed NCL (Norwegian Cruise Line)
Year 1997	Carnival Corporation buys Costa Cruises (50%) Royal Caribbean Cruise Group merger Celebrity Cruises Epirotiki and Sun Line forms Royal Olympic Cruises (ROC).
Year 1998.	Carnival Corporation buys Cunard Line Louis Cruise Line buys majority of Royal Olympic Cruises-a (ROC)
Year 1999.	Carnival Corporation buys Seabourne NCL (ex. Kloster) buys Orient Line
Year 2000.	Carnival Corporation buys Costa Cruises (100%) P&O Princess Cruises buys Aida Cruises Star Cruises buys NCL
Year 2001	-
Year 2002	Carnival Corporation merger P&O Princess Cruises

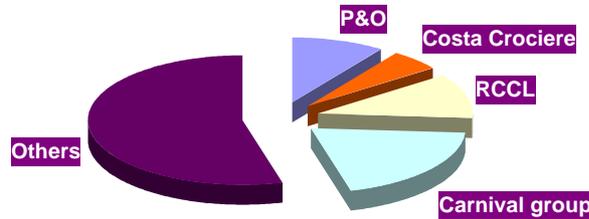
Source: Bjornsen, P., The growth of the market and global competition in the cruise industry. Paper presented at the Cruise and Ferry Conference, Earls Court, London, 2003, according to Gibson, P., Cruise Operations Management, Butterworth Heinemann, an imprint of Elsevier Inc., Oxford, 2006, p. 13.

The dynamics of the sector, buying, selling, merging, separating, entry and exit from large corporations have resulted in increasingly greater concentrations of capacities in fewer large companies. Figures 3 and 4 clearly show the changes that occurred from 1996. – 2006 and the trend of the pronounced domination by fewer groups. In 1996, four leading operators, P&O Princess Cruises, Carnival Corporation, RCCL and Costa Crociere accounted for 45.8% of lower berths and 50% of gross tonnage.<sup>37</sup> Ten years later, that is, in 2006, the concentration level is even greater, so that the 4 leading operators account for 78.5% of lower berths and 80.1% of the total gross tonnage.<sup>38</sup> In the meantime, P&O Princess Cruises and Costa Crociere became part of the Carnival Corporation, and Star Cruises Group and MSC joined the four leading companies.

<sup>37</sup> Shipping Statistics and Market Review, Volume 40, No. 7, Institute of Shipping Economics and Logistics (ISL), Bremen, 1996, p. 4.

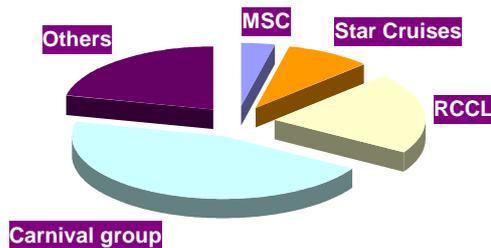
<sup>38</sup> Shipping Statistics and Market Review, Volume 50, 2006, op.cit., p. 9.

**Figure 3:** Market share of the four leading cruise companies 1996 (lower berth - %)



Source: Calculated from the Shipping Statistics and Market Review, Volume 40, No. 7, Institute of Shipping Economics and Logistics (ISL), Bremen, 1996, p. 4

**Figure 4:** Market share of the four leading cruise companies 2006 (lower berth - %)



Source: Calculated from the Shipping Statistics and Market Review, Volume 50, No.7, Institute of Shipping Economics and Logistics (ISL), Bremen, 2006, p. 9

Today, three large corporations dominate the cruise market. They account for 76.9% of the total gross tonnage and 75% of the total number of berths. Two leading global corporations - Carnival Corporation and Royal Caribbean Cruise Lines have over 68% of the total gross tonnage of world cruise ship fleet, followed by Star Cruises with 8.7%. European companies are growing stronger as well, and in 2006, four European companies were positioned among the twelve largest in the world.<sup>39</sup> Transnational corporations represent a great force, as their access to finances, technology and information gives them the strategic power that results in a competitive advantage.

<sup>39</sup> Ibidem

## CONCLUSION

Globalization processes have encouraged the development of the cruise industry, and have in great measure influenced the changes in supply and demand. In the period from 1980 – 2005, the number of cruise passengers increased by more than 8 times, while the international tourist arrivals increased by 2.8 times.

Cruise ships, which today are considered as a complete destination, are a unique example of de-territorialization. They are mobile, which means that they can relocate anywhere, anytime, the crew members come from various countries of the world, and they sail under 'flags of convenience', which allows them to realize greater profits. Without regard to flag or to the company's country of domicile, they sail regions of high season, and they are not tied to any location. Today, cruising is worldwide.

Even though the largest concentration of supply is in the North American region, its share is gradually giving way to Europe and other world regions. Cruise companies, in order to reduce their business risk and to achieve an economy of scale, are developing new markets, attracting new customers, seeking new destinations and new itineraries, etc. The cruise market today has the features of a global market.

The phenomenon of gigantism in the cruise industry is primarily conditioned by economic reasons and the dynamic and continued growth of demand. Only large multi-national groups that control the market have the financial power to invest in the construction of large cruise ships. The construction of increasingly larger ships, the use of flags of convenience and the employment of cheap laborforce from economically less developed countries led to cheaper package prices, directed towards a mass market.

Today, sailing the seas for pleasure has become a mass phenomenon and a greater number of passengers are selecting this kind of vacation. Passengers are changing and their motives for traveling too. The demand for shorter travels is rising, and passengers are younger with lower annual incomes. New generating markets are emerging, particularly those European, due to globalization processes. The concept of cruising for entertainment, pleasure and sailing through interesting regions, which was developed in the USA during the 70s of the last century, has spread to other markets once ruled by the classic cruises, motivated by a desire to discover new destinations.

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