

Lorenzo Gui, Ph.D.
Venice International University (VIU)
Isola di San Servolo, 30100, Venice,
Italy

Izvorni znanstveni rad
Original Scientific Paper

UDK / UDC: 338.48:656.614.2(100)

Primljeno / Received:
8. studenoga 2010. / 8th November 2010

Odobreno / Accepted:
13. prosinca 2010. / 13th December 2010

GEOGRAPHICAL EXPANSION AND CONSOLIDATION OF GLOBAL CRUISING

ŠIRENJE I JAČANJE SUSTAVA KRUŽNIH PUTOVANJA PO ČITAVOM SVIJETU

ABSTRACT

Modern cruising is a relatively young business started about 40 years ago in the US. Since then major cruise lines have shown a clear tendency toward international expansion through horizontal and vertical integration of an increasing number of cruise related services. The strategic analysis of lead firm choices can inform about the factors leading to the observed globalization of cruise value chains.

After discussing about the global governance strategies of major industry players, in the last part of the paper it is highlighted how the evolution of cruise suppliers and concessionors is somehow mirroring the one of their principal buyers/concessionaires.

The rise of global suppliers is not limited to the onboard operations. Increasingly this trend of geographical expansion and consolidation is concerning also the provision of onshore and destination oriented cruise services. This fact in part contradicts the traditional claims about a dual structure (incoming SMEs vs. outgoing travel "giants") characterizing international tourism supply.

Key words: *cruise industry, globalization, global value chains, governance.*

SAŽETAK

Suvremeni sustav kružnih putovanja je relativno novi posao koji se prije nekih četrdesetak godina pojavio najprije u Americi. Već otada vodeći brodari koji drže linije za kružna putovanja pokazuju jasnu sklonost ka ideji širenja tih brodskih linija na međunarodnom planu putem horizontalne i vertikalne povezanosti većeg broja uslužnih djelatnosti vezanih za brodove za kružna putovanja. Strateškom analizom izbora vodećih tvrtki možemo doći do čimbenika koji vode ka globalizaciji lanaca vrijednosti kružnih putovanja.

Nakon rasprave o strategijama globalnog upravljanja većine subjekata uključenih u održavanje kružnih putovanja, u zadnjem se poglavlju ovog rada ističe kako širenje ponude za kružna putovanja i koncesionanata na neki način oslikava i način širenja njihovih glavnih kupaca/koncesionara.

Porast broja ponuda brodova za kružna putovanja na globalnom planu nije ograničen samo na pružanje usluga na brodu. Ovaj trend širenja i jačanja sustava kružnih putovanja sve se više i više odnosi i na ponude usluge na kopnu kao i na one na brodovima za kružna putovanja koji plove prema određenim odredištima. To je u izvjesnoj mjeri u suprotnosti s tradicionalnim zahtjevima za dvostrukim ustrojem (dolazeći "SME" protiv odlazećih putujućih "gigantata") koji karakterizira međunarodnu turističku ponudu.

Ključne riječi: *kružna putovanja, globalizacija, lanac globalnih vrijednosti, upravljanje.*

1. INTRODUCTION

The cruise industry offers a particular vantage point to understand the evolution of global tourism, and for many observers it represents a symbol of 'mass-industrialization' in leisure activities. Undoubtedly this industry is markedly capital-intensive and characterized by very high fixed costs for operators, who seek high volume and repeat bookings to fill their capacity (Sinclair and Stabler, 1997). The industry is also characterized by aggressive acquisitions, internationalization strategies and corporate concentration (UNWTO, 2008). In the tourism production system is difficult to find another industry that presents such a challenging relation between local and global, uniqueness and standardization, and such a complex array of players directly contributing to the final product.

The global scope of the cruise industry is growing with signals of a change of focus away from its prime source market (North America) and major destination (the Caribbean). To fuel the long-term expansion of the industry, practically all the industry players appear firmly committed to grow alternative source markets and develop new destinations. However, differences in the integration and externalization of cruise-related services between major international cruise lines, other independent cruise lines and tour operators, point out diverse positioning strategies throughout the cruise value chain. In the next paragraphs the global value chains approach (GVC) will be employed as a powerful heuristic and interpretative tool for the study of the international cruise production system (Gereffi and Kaplinsky, 2001; Sturgeon, 2008).

In the paper it is argued that the observed spatial features of cruise global value chains can be better understood considering the global location strategies of leading firms. Indeed Ghemawat's global strategies (2007), i.e. adaptation, aggregation, and arbitrage, constitute a useful analytical support and the cruise industry provides interesting examples of implementation.

After discussing about the global governance strategies of mayor cruise companies, in the last part of the paper it is highlighted how the evolution of cruise suppliers and concessionaires is somehow mirroring the one of their principal buyers/concessionors (co-evolution). Similarly to what has happened, for example, in the auto-

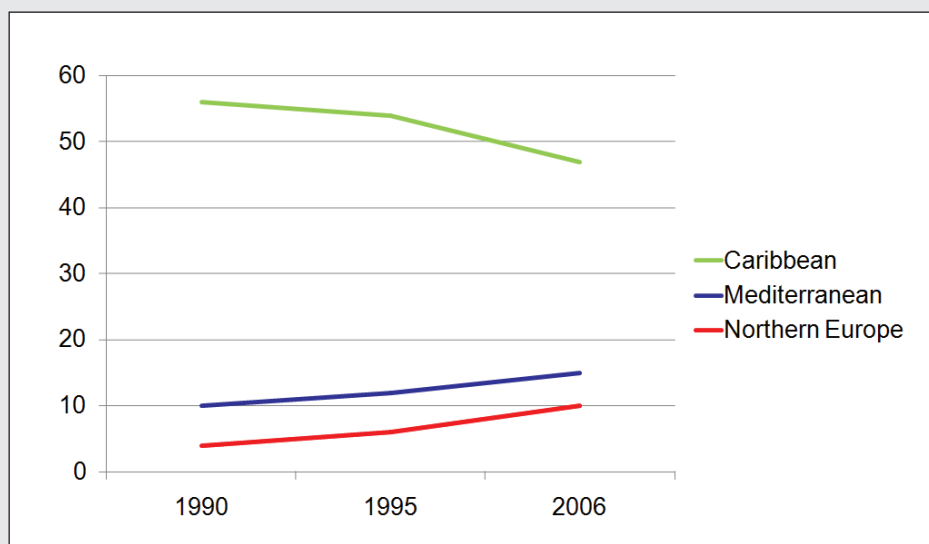
motive or electronics industries, the largest suppliers have become global suppliers/concessionaires, carrying out multinational operations and providing different services to a wide range of lead firms. This rise of global suppliers is not limited to the onboard operations. Increasingly the trend of geographical expansion and consolidation is concerning also the provision of onshore and destination oriented cruise services.

2. GEOGRAPHY AND GLOBALIZATION STRATEGIES OF CRUISE COMPANIES

The rising geographical expansion of the cruise industry is showing important signals of a change of focus from North America and the Caribbean to the development of alternative source markets and new destinations. Available data about the overall deployed capacity (total bed-days) by world regions confirm a progressive decline in the relative importance of the Caribbean and an increased emphasis towards other areas of the globe, such as the Mediterranean basin and Northern Europe (Fig. 1).

Redeploying some of their ships from the North American market to Europe, Latin America and Asia, the major American cruise lines are working to reduce their traditional dependence on North America for sourcing passengers and the Caribbean for attracting them. Figure 2 provides an immediate visualization of the increasing attention that leading American brands, like Royal Caribbean International and Celebrity Cruises, are paying to the Mediterranean.

In the last ten years (1998 to 2008) demand for cruising, besides doubling from 7.79 million passengers to 16.36 million, has been progressively globalized, as shown by the increased relative share of the total international (i.e. non-North American) cruise demand, that from 30% in 1998 reached 37% in 2008 (table 1). Furthermore, figures provided by major cruise companies estimate for the period 2008-2012 a compound annual growth rate of 3.5% for North American lower berths sourcing, while a growth rate of more than 10% for International lower berths sourcing. Unsurprisingly then, cruise companies are more and more engaging in global operations to penetrate untapped markets and diversify their customer base.

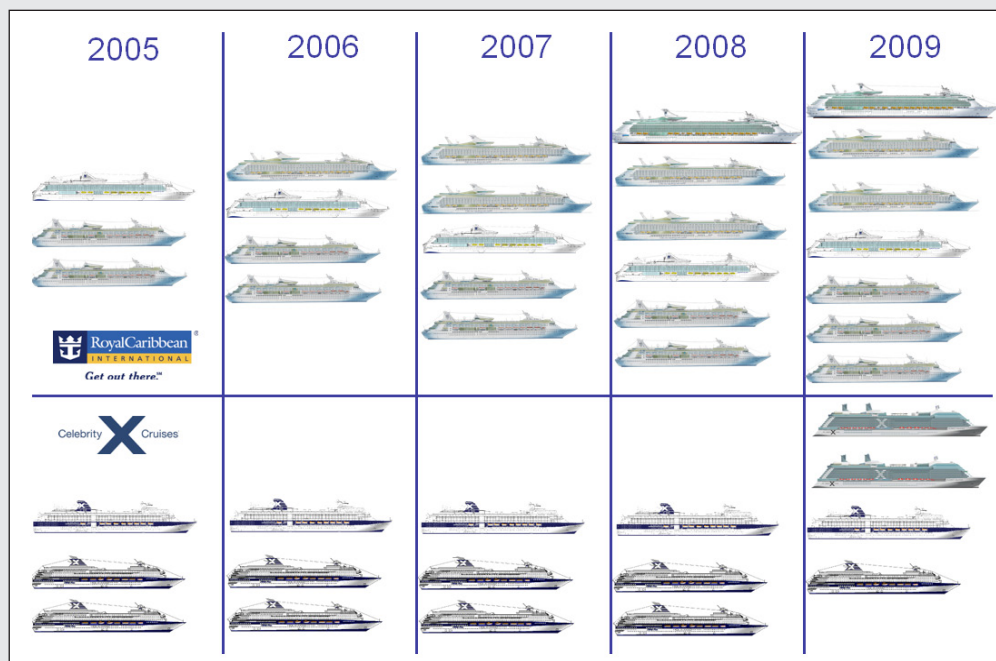


Slika 1. Iskoristivost putničko-smještajnih kapaciteta po regijama svijeta, 1990.-2006.
Figure 1 Deployed capacity (in %) by world regions, 1990–2006

Izvor: Soriani et al., 2009. / **Source:** Soriani et al., 2009

The geographical diversification strategy pursued by major American cruise lines has year after year expanded their international passenger ticket revenues, i.e. revenues generated by sales in countries outside of the United States and Canada. In the case of Royal Caribbean Cruises group, international revenues has

been approximately 24%, 37% and 40% of total passenger ticket revenues in 2006, 2007 and 2008, respectively (RCCL, 2008). Carnival Corp. also presented a similar trend, with international revenues growing from a relative share of 35% in 2006 to a remarkable share of 45% in 2008 (Carnival, 2008).



Slika 2. Razmjestaj brodova za kružna putovanja brodarica RCI i Celebrity Cruises po Mediteranu
Figure 2 Mediterranean ship deployment of RCI and Celebrity Cruises

Izvor: Bayley, 2008. / **Source:** Bayley, 2008

Tablica 1. Razvoj i globalizacija potražnje za kružnim putovanjima (1998.-2008.)**Table 1** Growth and globalization of the demand for cruising (1998-2008)

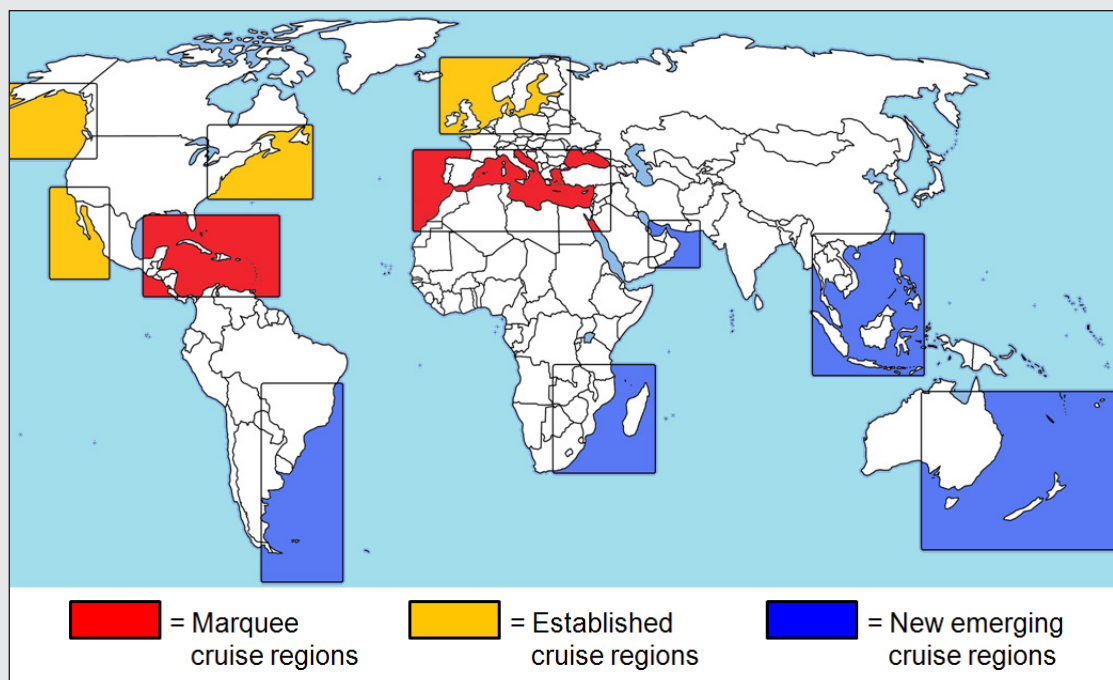
Region	1998	2003	2004	2005	2006	2007	2008
<i>Million Passengers</i>							
N.Am.	5,40	8,23	9,14	9,96	10,38	10,45	10,29
Europe	1,71	2,74	2,80	3,16	3,46	4,08	4,50
RoW	0,68	1,05	1,13	1,21	1,29	1,37	1,45
Total	7,79	12,02	13,07	14,33	15,13	15,90	16,24
%N.Am.	69,3	68,5	69,8	69,5	68,6	65,7	63,4
%Europe	21,9	22,7	21,4	22	22,9	25,7	27,7
%RoW	8,7	8,7	8,6	8,5	8,5	8,6	8,9

Izvor: Europsko vijeće za kružna putovanja (2009.) / Source: European Cruise Council (2009)

In order to expand and diversify their mix of itineraries, cruise lines are exploring new emerging destination regions that in prospect could also become important source markets (Fig. 3). Cruise analysts are especially stressing the potential for Asia (and China in particular) to develop into both a major source market and a leading cruise destination (Peisley, 2010). Although currently Asia makes up only 5 per cent of the world cruise market, the region is waking up with its wealthier population now looking at different holiday options and so global players are starting to consider it as a major engine for future industry growth (Huang, 2009).

In the effort to provide not only a geographical description of the chain's extent, but also an explanation of the observed spatial features of cruise value chains, it appears proper to focus the analysis on the global location strategies of firms. To this purpose the generic global strategies proposed by Pankaj Ghemawat (2007), i.e. adaptation, aggregation, and arbitrage, constitute a useful analytical support and the cruise industry provides interesting examples of implementation.

Adaptation. Through adaptation a company recognizes that significant differences across

**Slika 3.** Glavna odredišta za kružnja putovanja širom svijeta**Figure 3** Main destination regions of global cruising

Izvor: prikaz razradio sam autor / Source: author's elaboration

countries exist and therefore implement different strategies for adjusting to them. The key strategic issue here regards how much of a specific business model has to be adjusted to the local tastes of a particular foreign market (to achieve local responsiveness). In the cruise industry, customers can be segmented with regard to their different lifestyles and budgets, but also considering the specific cultural characteristics of each national source market and adapting to the various languages, tastes and behavior of different nationalities. Adaptation issues are indeed very important in global cruising and it is not surprising that American companies in their foreign expansion firstly entered in the UK and Western Europe, i.e. the natural extensions of the North American market in terms of culture (and language for UK), history and economy (similar purchasing power).

There are two possible strategies for adapting to the cultural differences of passengers.

The first one is to develop global brands, internationalizing and adapting the service-offering in order to achieve a multicultural atmosphere that could be offered to a great variety of customers. Costa and MSC Crociere for example, despite being marketed as Italian style cruises, are offered to a very international client base. In order to deal with a multicultural clientele and several different languages at the same time, the crew has to speak fluently often up to five languages and be familiar with the diverse customs of each of the different nationalities on board. Furthermore, linguistic obstacles are avoided organizing entertainment shows universally understandable (magicians, singers and dancers) and seating guests in linguistic blocks in the restaurants with waiters who speak their language (UNWTO, 2003). Royal Caribbean International and Celebrity Cruises represent other good example of global brands.

The second option for adapting to cultural differences is the creation of national brands, i.e. brands that are specialized in serving specific nationalities, cruising mainly with Spanish, Germans, British or North American guests for example. In this case, languages, on board activities, food and beverages and restaurant opening hours reflect specific national customs and preferences. Example of national brands custom-tailored to specific markets are Pullmantur and Ibero Cruceros for the Spanish market, TUI Cruises for the German market,

and CDF Croisières de France, which is targeted at passengers primarily in France.

Mayor cruise groups are developing both global and national brands.

In order to sell and market global cruise brands to an increasingly multicultural customer base, major companies are expanding their local commercial presence in foreign markets. The establishment of commercial offices in different foreign markets can improve the ability to better understand the customs and preference of different nationalities, inspiring new responses to the cultural challenge of serving a globalized customer base. The cruise group Royal Caribbean Cruises (RCCL), for example, in order to increasingly sell and market its three global brands (Royal Caribbean International, Celebrity Cruises and Azamara Cruises) to passengers outside North America, has established its own commercial offices in the United Kingdom, Germany, Norway, Italy, Spain, Singapore, China, Brazil, and Australia (RCCL, 2008).

As regards national brands, mayor cruise groups are not missing out the opportunity to enhance local responsiveness and adaptation through brands custom-tailored to specific markets. The shortest way to add to their fleet a brand custom-tailored to a specific market is through international mergers and acquisitions of already established national brands. Both Carnival Corp. and RCCL have been involved in this type of mergers and acquisitions. Carnival in 2003 merged with P&O Princess Cruises, joining forces in this way with the largest cruise operator and best known cruise brand in the UK offering a distinctly British cruise experience to its UK cruise guests. Aida Cruises represents another example of a national brand, tailored to the German-speaking market, operated by Carnival Corporation. RCCL responded in 2006, completing the acquisition for approximately \$558.9 million of Pullmantur, the largest Spanish cruise line mainly targeted to the Spanish-speaking world (RCCL, 2008). Beyond international mergers and acquisitions, the major cruise players have also started new national brands custom-tailored to specific markets, often through joint-ventures with tour operators established in those markets. Probably the best example is the joint venture agreement between Royal Caribbean Cruises (RCCL) and TUI AG to create in 2009 TUI Cruises, a new cruise brand targeted at the cruise market in Germany. Ibero Cruceros

represents another interesting case of a national brand creation: this brand has been established in 2003 through a joint venture agreement between Carnival Corp. and the Spanish travel company Orizonia Corporation in order to especially cater to the Spanish market, with Spanish speaking officers and crew as well as Mediterranean and Spanish style food and entertainment.

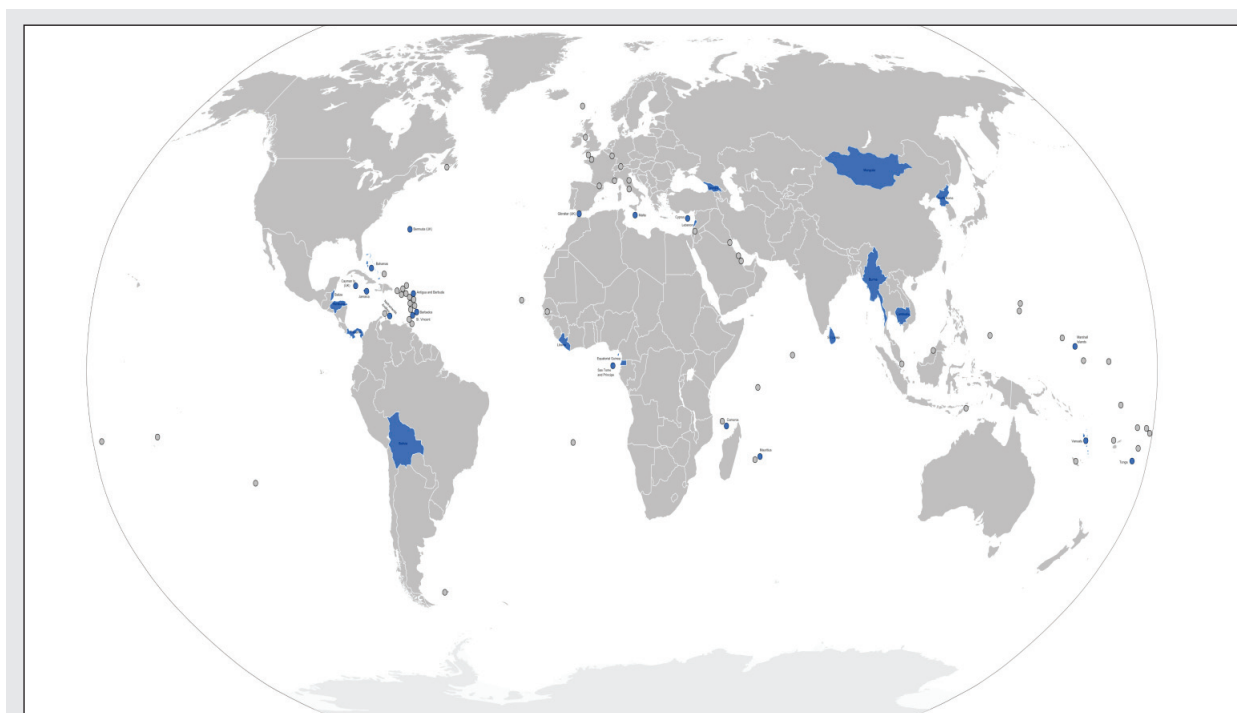
Coherently with the need to specifically tailor and adapt the product to the different identifiable geographic and economic markets, within major cruise groups each brand and its operating team enjoy considerable managerial autonomy.

Aggregation. Through aggregation strategies a company strives to overcome differences across borders, keeping standard the globalizing business as much as possible to maximize economies of scale and scope. Aggregation is normally realized by cross-border groupings of different sorts: global business units or product divisions, regional structures, global accounts, functions, platform, and so on. In the cruise in-

dustry, due to the relevance of scale economies, aggregation strategies are very important and are often closely linked with decisions about the vertical integration of value chain activities. In the decision to vertically integrate a certain cruise-related function/activity, the possibility to aggregate it across different (global or national) brands stands out.

Indeed, despite the decentralization and considerable managerial autonomy of each cruise brand tailored to different national markets, multi-brand cruise groups aggregate certain common functions and facilities in order to obtain greater economies of scale and exploit synergies. Examples of aggregation regard common procurement activities, to consolidate group's purchasing power, common reservation systems, shared regional commercial offices, shared data centers and shared port facilities (Carnival, 2008).

Arbitrage. Exploiting differences instead of similarities is the essence of arbitrage, "the strategy of differences" (Ghemawat, 2003: 78). In-



Slika 4. Države koje je odbor ITF-a (Međunarodne federacije sindikata transportnih radnika) proglasio državama pogodovne zastave

Figure 4 Countries declared FOCs by the ITF's Fair Practices Committee

Antigua and Barbuda, Bahamas, Barbados, Belize, Bermuda (UK), Bolivia, Burma, Cambodia, Cayman Islands, Comoros, Cyprus, Equatorial Guinea, French International Ship Register (FIS), German International Ship Register (GIS), Georgia, Gibraltar (UK), Honduras, Jamaica, Lebanon, Liberia, Malta, Marshall Islands (USA), Mauritius, Mongolia, Netherlands Antilles, North Korea, Panama, Sao Tome and Principe, St Vincent, Sri Lanka, Tonga, Vanuatu

Izvor: ITF (Međunarodna federacija sindikata transportnih radnika), www.itfglobal.org

Source: *The International Transport Workers' Federation*, www.itfglobal.org

deed national variations entail not only constraints to cross-border operations, but also opportunities to be exploited in the search for economies of international specialization. The cultural, administrative, economic, and geographic differences that remain among countries provide significant scope for international arbitrage that is much more than just leveraging on cheap capital or cheap labor. Ghemawat (2003) suggests four main types of arbitrage: administrative, economic, geographic, and cultural. Administrative arbitrage involves the exploitation of differences among countries as regards taxes, regulations, institutional protections, etc. Economic arbitrage involves the exploitation of differences among countries as regards the prices of products, costs of labor, capital, raw material, knowledge and other inputs. Finally geographic arbitrage regards the exploitation of geographical differences, while cultural arbitrage involves the exploitation of country-of-origin effects. Interestingly, in the cruise industry we find significant examples of all these different arbitrage strategies: cruise lines have always acknowledge the potential of playing the spread internationally.

Administrative arbitrage. Major cruise lines pursue many forms of administrative arbitrage.

In order to gain significant tax advantages, corporate incorporation in tax haven countries is a common industry strategy, implemented by all the three leading cruise groups (Clancy, 2008). Despite being headquartered in Florida, Carnival Corporation is formally incorporated in Panama, while its major competitor, Royal Caribbean Cruises, is incorporated in the Republic of Liberia. Furthermore, Star Cruises, the number three player headquartered in Hong Kong, used to be incorporated in the Isle of Man until 2000, when it was relocated as an exempted company with limited liability to Bermuda, a country that does not levy income tax on foreign earnings.

Besides incorporation strategies, cruise companies benefit from another form of administrative arbitrage very common in the maritime world: the use of flags of convenience (FOCs). According to the International Transport Workers' Federation (ITF) a ship with a flag of convenience is a ship that flies the flag of a country distinct from the country of ownership: "cheap registration fees, low or no taxes and freedom to employ cheap labor are the moti-

vating factors behind a shipowner's decision to flag out" (ITF¹). FOCs represent a very diffuse practice in the cruise industry: in the year 2000, 61.6% of the total cruise ship capacity was registered in just three FOC states (see fig. 4), i.e. Bahamas, Liberia and Panama (Wood, 2006). Frantz reported estimations that Royal Caribbean used to save approximately \$30 million a year in the US taxes by registering its ships in Liberia and Norway (Frantz 1999). Furthermore, FOC registers often do not enforce minimum social standards. Avoiding the labor regulations in force in most industrialized countries, the labor savings ensured by FOCs are enormous and the same is true for environmental regulations. In his book, "Selling the Sea", Bob Dickinson, former president and CEO of Carnival Cruise Lines, explicitly explained the importance of flags of convenience for the cruise industry: "many countries, including the United States, Norway, and Britain, have strict regulations concerning unionized labor which severely constrain the ability of a ship to staff with an optimal crew mix, and almost invariably create a higher labor cost than a free-market environment. So-called "flag-of-convenience" countries, do not have these constraints (Dickinson and Vladimir, 1997: 66-67).

Finally, playing off different ports of call, to obtain lower port use fees and better cruise ship facilities, represents another form of administrative arbitrage strategy that has been implemented (especially in the Caribbean) by certain cruise lines. To avoid being played off one another and to offer a more complete product to prospective cruise lines, some ports are actively committed to form cooperative networks with neighboring ports.

Geographic (destination) arbitrage. In Ghemawat's conceptualization (Ghemawat 2007), geographic arbitrage regards basically taking advantage of geographic distance and climate differences among countries: in this view the great general trading companies of the past, whose business was based on relocating products between distant markets, were essentially geographic arbitrageurs. In tourism, however, geographic arbitrage can be understood in a different way that is exploiting the peculiar features of a destination and its (cultural, natural, climatic, artistic, etc) "distance" from the

¹ Retrieved on the 8-11-09 from the ITF web site: <http://www.itfglobal.org/flags-convenience/sub-page.cfm>.

source country of tourists. What we can call “destination arbitrage” involves indeed taking advantage of the authentic specialness of a destination, its local assets and attractions, and the unique experiences it can offer.

In the cruise industry, of course, the offer of itineraries, with compelling destinations, constitutes a crucial part of the cruise marketing. Cruise lines are always looking for new ports of call, because tourists are interested in exploring new destinations and engaging in new experiences. In particular, premium, luxury and adventure cruises emphasize more destination-focused and exotic itineraries to ports which are inaccessible to bigger ships. The constant search for authentic destination experiences and ports that are not overly congested by tourists represents an important driver of the increasing globalization of cruise operations. Furthermore, the more a destination provides opportunities for outstanding shore excursions, the more cruise lines will profit selling onboard guaranteed destination tours: “the lack of continued availability of attractive port destinations for our cruise ships could reduce our net revenue yields and net income” (Carnival, 2008: 33).

Cultural arbitrage. According to Ghemawat (2003) cultural arbitrage involves the exploitation of cultural differences, i.e. the exploitation of country-of-origin effects in product marketing (e.g. French wines, German cars, Persian carpets).

In the cruise industry the potential of cultural arbitrage is well acknowledged. Costa Crociere and MSC represent two very good examples. Indeed, the marketing of Costa Crociere for the North American market emphasizes the Italian origin of the cruise line: “each of Costa’s ships has been designed in the style and traditions of Italy”². Even more explicit the marketing of MSC for the North American market, that points at the European charm and Italian style of its ships as one of the main reasons to book a MSC cruise:

“Our fleet’s godmother, screen legend Sophia Loren, is the embodiment of who we are – beautiful, passionate and Italian. From the genuine warmth of our Italian officers, to our Italian-inspired décor and Mediterranean flavors of our

signature La Cucina Italiana cuisine, our guests enjoy a truly European experience.”³

Economic arbitrage. In the cruise industry international economic arbitrage is particularly evident in the recruitment of on board employees. These workers sometimes have to work seven days a week for six months at a time, with few hours off. While shipboard officers are primarily sourced from Italy, the UK, Holland, Germany and Norway, i.e. countries with a long tradition of maritime operations knowledge and experience, the remaining crew positions are filled by persons from all around the world (Carnival, 2008).

In order to exploit existing international differences in the cost of labor force for the labor-intensive hotel and restaurant operations, an increasing share of the required crew is now commonly hired in low-wage nations, especially in Asia, Eastern Europe, and Latin America. In a single cruise ship of Carnival or Royal Caribbean it is not uncommon nowadays to find crew employees coming from more than 40 countries (Wood, 2000). However, the Asian crew is particularly appreciated: “the Balinese are hard-working and consider it an honor to be in the service industry” (Upchurch 1995:201). Filipinos and Indonesians are becoming the nationalities with the greatest representation on board cruise ships: in Indonesia Carnival even established its own training school for crew recruitment (Clancy, 2008).

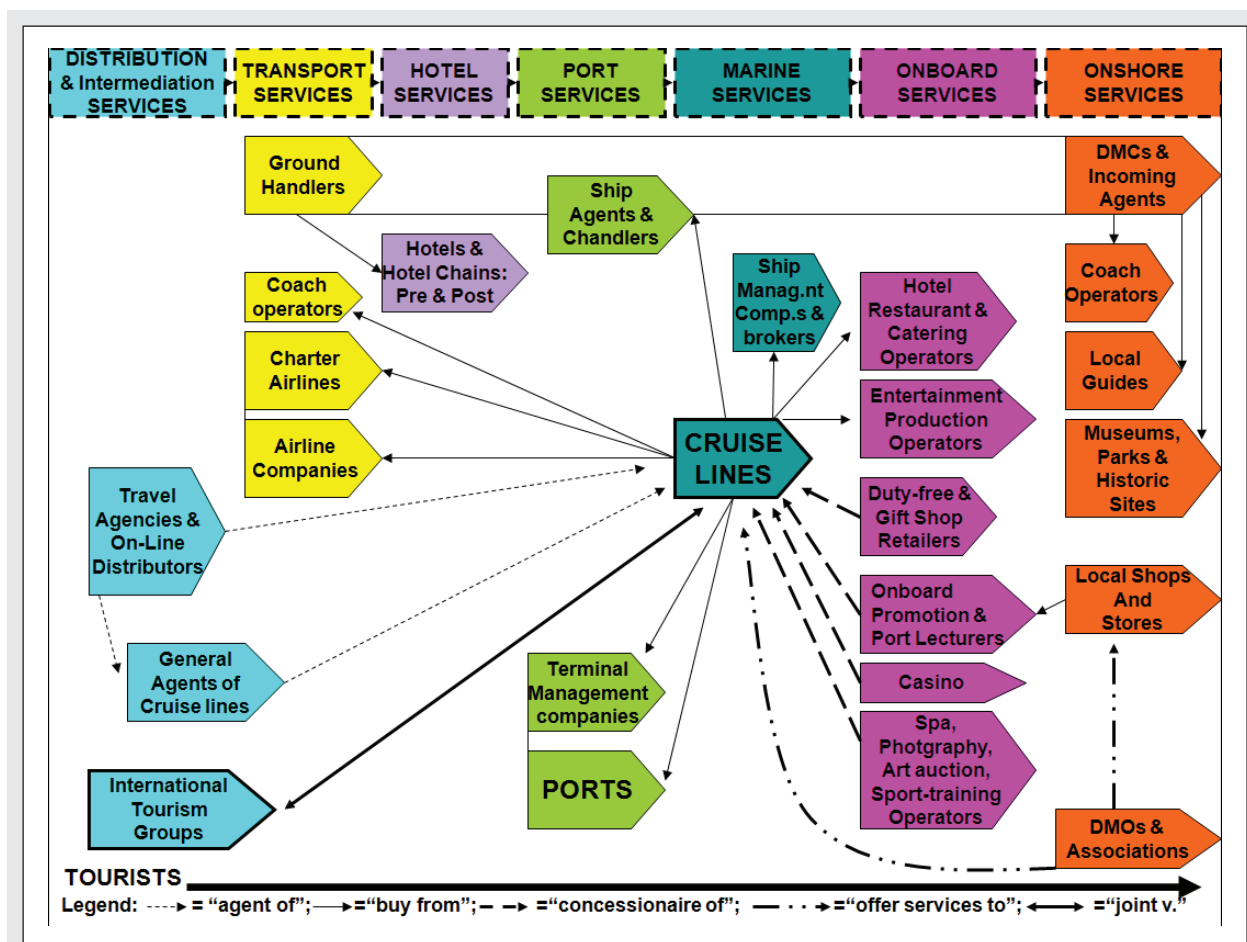
The effective implementation of the described global strategies contributed to the continuing dynamism of the industry. As a result today the cruise industry is one of the most exciting growth category in the entire leisure market and, despite the recent global economic slowdown, industry operators feel quite confident about future development.

3. DIFFERENCES IN THE INTEGRATION AND EXTERNALIZATION OF CRUISE-RELATED SERVICES

To fuel the long-term expansion of the industry, almost all the industry players appear firmly

² Retrieved on the 9-11-09 from the Costa Cruises web site for North American guests: <http://www.costacruise.com/B2C/USA/Shopping/Ships/Default.htm>.

³ Retrieved on the 9-11-09 from the MSC Cruises web site for North American guests: http://www.msccruisesusa.com/mscdistinctions/default.asp?page_id=8062.



Slika 5. Globalni lanac vrijednosti kružnih putovanja (funkcionalna klasifikacija)
 Figure 5 Cruise Global Value Chain (functional classification)

Izvor: prikaz razradio sam autor / Source: author's elaboration

committed to grow alternative source markets and destinations. This expansion, however, is characterized by different governance strategies between major international cruise lines, other independent lines and tour operators, pointing out diverse positioning throughout the cruise value chain.

The full range of service activities that consumers normally buy, searching for a cruise experience, is very articulated and is normally supplied by different actors. Cruise lines are the key actors and represent the “heart” of the industry.

The identification of the main sequence of economic activities and functional roles in cruise services can result quite complicated, because of the complexity of the offering and the variety of players that contribute to the final experience. In general, global value chains are depicted separating stages/activities according to the presence of discrete and clearly defined

tasks that can be performed by distinct organizations. Specific service tasks that can be outsourced and are often engaged by discrete firms will be then grouped together. For an accurate mapping of the cruise service chain of activities, actors and relationships, I mainly relied on the information provided by the industry operators interviewed⁴.

Figure 5 shows the result of the research effort to figure out the logical succession of service (outsourcable) activities and functions that characterize the cruise production process. In the figure are also highlighted the different actors involved and the main type of relationships that link them. Various maritime actors not traditionally included in the tourism sector, like

⁴ This characterization, as many of the insights that follow, has been greatly informed by semi-structured strategic interviews with the CEOs and other executives of leading international firms, contacted during a three year research period (2008-2010) on the global cruise industry.

port authorities and ship agents, play a relevant role in the chain.

Let's now look deeper at the different identifiable groups of service activities and actors that normally participate in the provision of the cruise product.

Distribution and Intermediation Services. The Distribution and Intermediation section of this service chain contains marketing, promotion and sales activities. Travel agents normally represent the final link to consumers, i.e. the distribution link, and act as information brokers, providing the consumer with relevant information and booking facilities. They sell cruise vacations on behalf of lines, earning a commission. Cruise lines can commercialize and promote their cruises to travel agents directly or through general agents that act on behalf of lines on specific markets.

Transport Services. The Transport section of the cruise chain groups all the services arranged to carry passengers from their home to the base ports and the cruise ships. In the case of flight & cruise packages, cruise lines have to buy air services from regular airline companies or charter airlines (often controlled by big tour operators). In some cases cruise lines offer also a coach bus service from main cities close to the embarking ports, normally contracting these services from specialized coach operators. Cruise ground handlers are specialized companies that manage embarking and disembarking services (vessel turnaround operations): they meet and greet passengers at airports, provide porter services and offer coach transfers to the cruise ship.

Hotel Services. The Hospitality section of the cruise chain groups all the accommodation services for supplying pre- and post-cruise hotel stays for passengers. Cruise lines, often through their contracted ground handlers, can make contractual agreements with independent hotels or hotel chains. In the case of agreements with big international tourism groups, accommodation services are normally provided by hotels that are part of these groups.

Port Services. The Port section of the cruise chain groups all the services provided to offer logistic support and receive cruise ships and their passengers in ports, including terminal facilities management, customs procedures, and the provision of harbor-pilot and tugboat services.

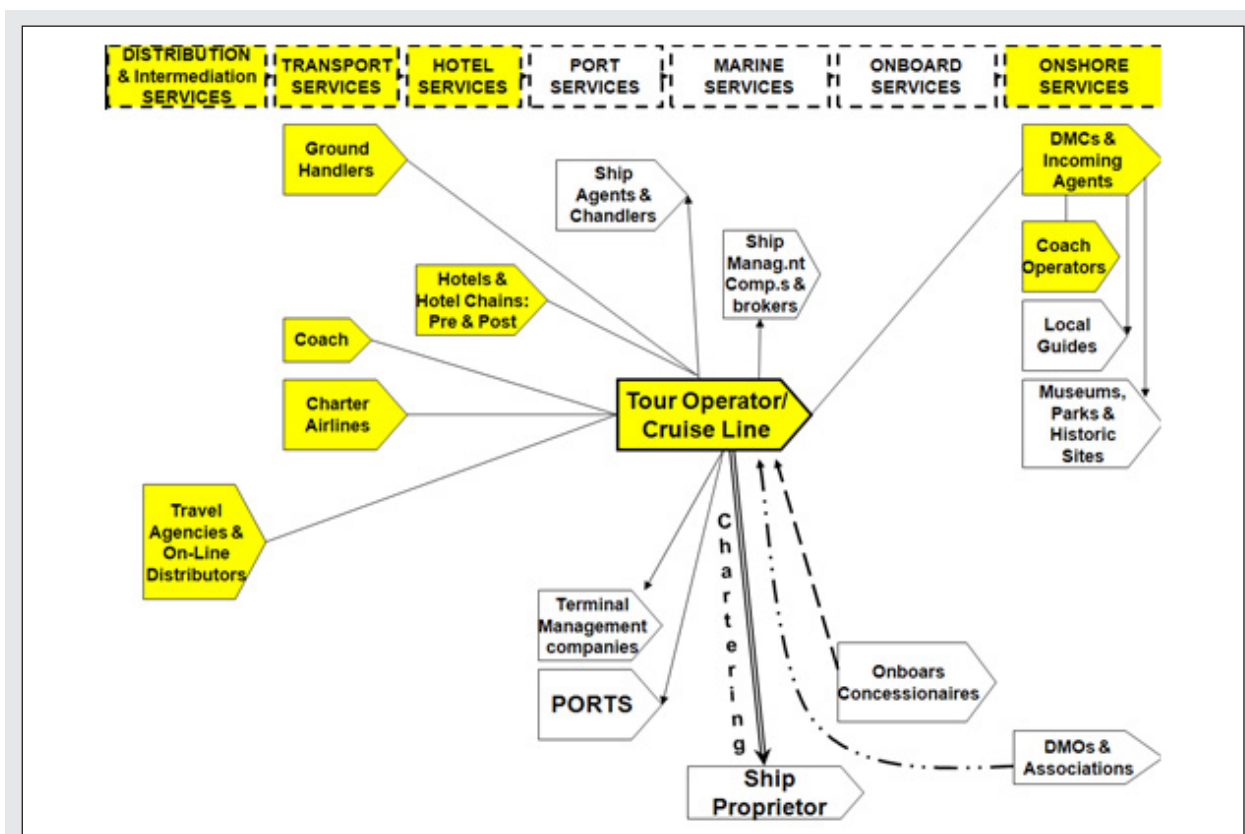
Marine Services. The Marine section of the cruise value chain groups all the technical operations, deck, engine and navigation activities necessary for the passenger vessel to cruise. These activities are generally carried out directly by cruise lines, but in some cases these ship management services have been outsourced to specialized ship management companies. Ship management can involve, besides navigation, many other aspects of ship operation. Sometimes ship management companies provide also hotel management services as part of the same offering.

Onboard Services. The Onboard section of the cruise value chain groups all the amenities, entertaining activities and personal services offered to guests on board the ship during the cruise vacation. Typical concessionaires that operate on cruise ships are: duty-free and gift shop retailers, casino operators, spa/salon operators, photographers, art auctioneers, sport/fitness trainers, and sometimes onboard promotion and port lecturers. Port lecturers are employees of on board promotion companies that promote retail merchants in ports of call throughout the world: retail merchants can pay a commission or fee for this service, i.e. to be recommended onboard by lecturers.

Onshore Services. Within the section of the value chain labeled "onshore services" are grouped all the services provided to cruise passengers at ports of call. These services include transportation from the port to the city or other touristic areas, sightseeing and shore excursion programs, catering, and ashore shopping. It is important to highlight the crucial role played by municipal authorities, local councils, destination management organizations (DMOs), local tourism boards and associations. They are fundamental actors for the promotion of the destination and the port's hinterland, providing tourism information and coordinating local actors and initiatives.

In discussing about the outsourcing of more or less ancillary activities in the cruise industry (value chain governance), it is useful to distinguish between major international cruise lines (the "big four", i.e. Carnival, RCCL, Star/NCL, and MSC), other independent smaller cruise lines and tour operators entering in the cruise business.

Tour operators (or International Tourism Groups) have been particularly important in



Slika 6. Model turoperatora, lanac vrijednosti vertikalno integriranih kružnih putovanja
 Figure 6 The tour operator model, vertically integrated cruise value chain

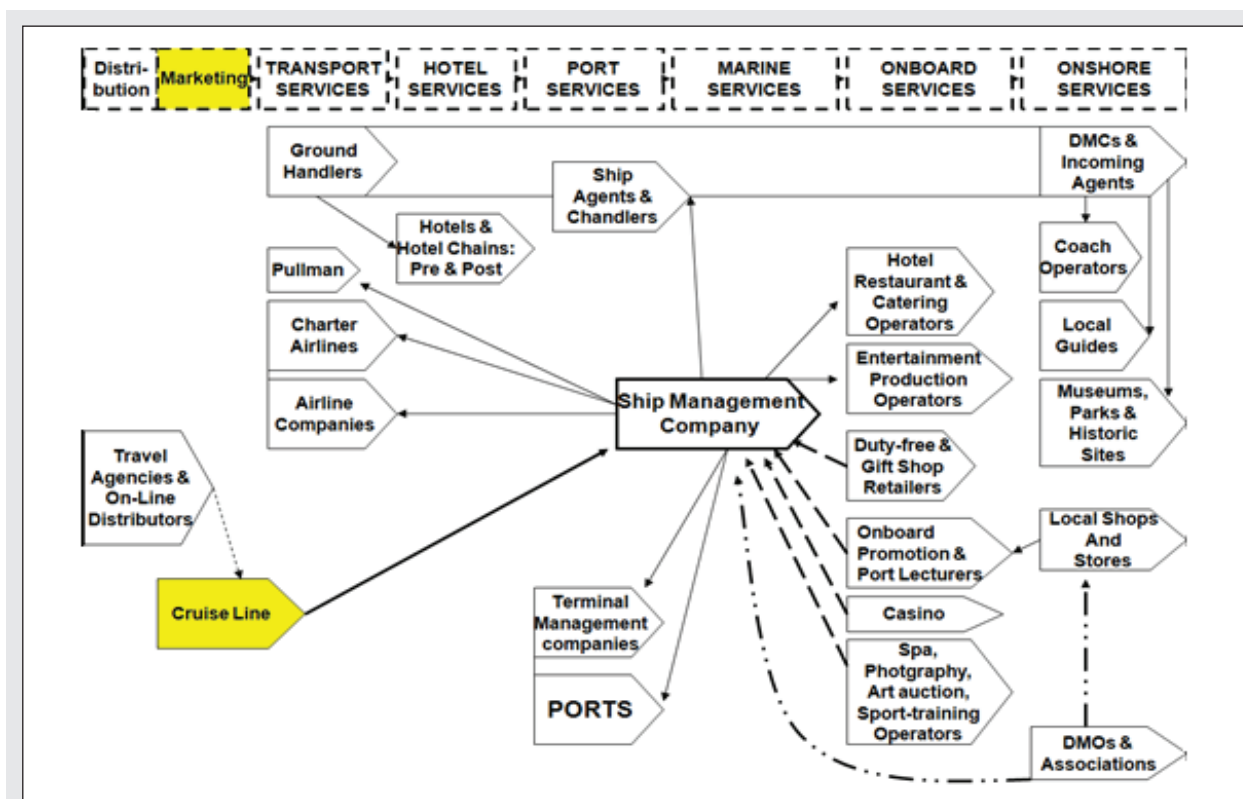
Izvor: prikaz razradio sam autor / Source: author's elaboration

the development of the cruise business in the European market, in particular in UK and Germany. In UK tour operators like Thompson Travel Group (TUI UK) and First Choice represent paradigmatic cases of the re-entry of tour operators into the cruise business in the 90s. A very important feature that distinguishes the European tour operator model from the “big four” model is the fact that normally the ship owner and the cruise line are not the same: so these operators charter the ships they use from other cruise lines and ship proprietors. The management of the ship can then be outsourced to a ship management company or carried out in-house.

Starting from the ‘80s, major tour operators began the process of a vertical integration in order to enhance their control over all the elements in the value chain, so as to decrease prices and increase profits. Controlling most of the elements in the value chain, tour operators could provide very convenient packaged fly-cruise products. Traditionally, a tour operator involved in the cruise sector is made up of the following five elements: the tour operator itself

(the parent company), an airline charter company, a cruise line, one or several hotel chains and a network of travel agencies. Tour operators managed to gain a place in the cruise industry thanks to: the ability to offer better prices through vertical integration and economies of scale, their focus on specific source markets, and the ability to adapt to specific national tastes and preferences. Figure 6 shows a typical integrated cruise value chain controlled by a tour operator. As evident from the figure, the tour operator model is highly vertically integrated, with strategic control on distribution, transport, hotel and onshore services. However, the fact that the ships are not owned represents an important weakness, as compared principally to the “big four” model.

Independent minor cruise lines. These are cruise lines that do not belong to any of the large cruise groups (Carnival, RCCL, Star/NCL) and tend to manage much smaller fleets. They are often new companies, tend to show greater financial fragility and in many cases do not own the ships they use. They mainly compete in the luxury segment, operate smaller



Slika 7. Model samostalnih brodara s manjim brojem brodova za kružna putovanja, vertikalno razjedinjeni lanac vrijednosti kružnih putovanja

Figure 7 The independent minor line model, vertically disintegrated cruise value chain

Izvor: prikaz razradio sam autor / Source: author's elaboration

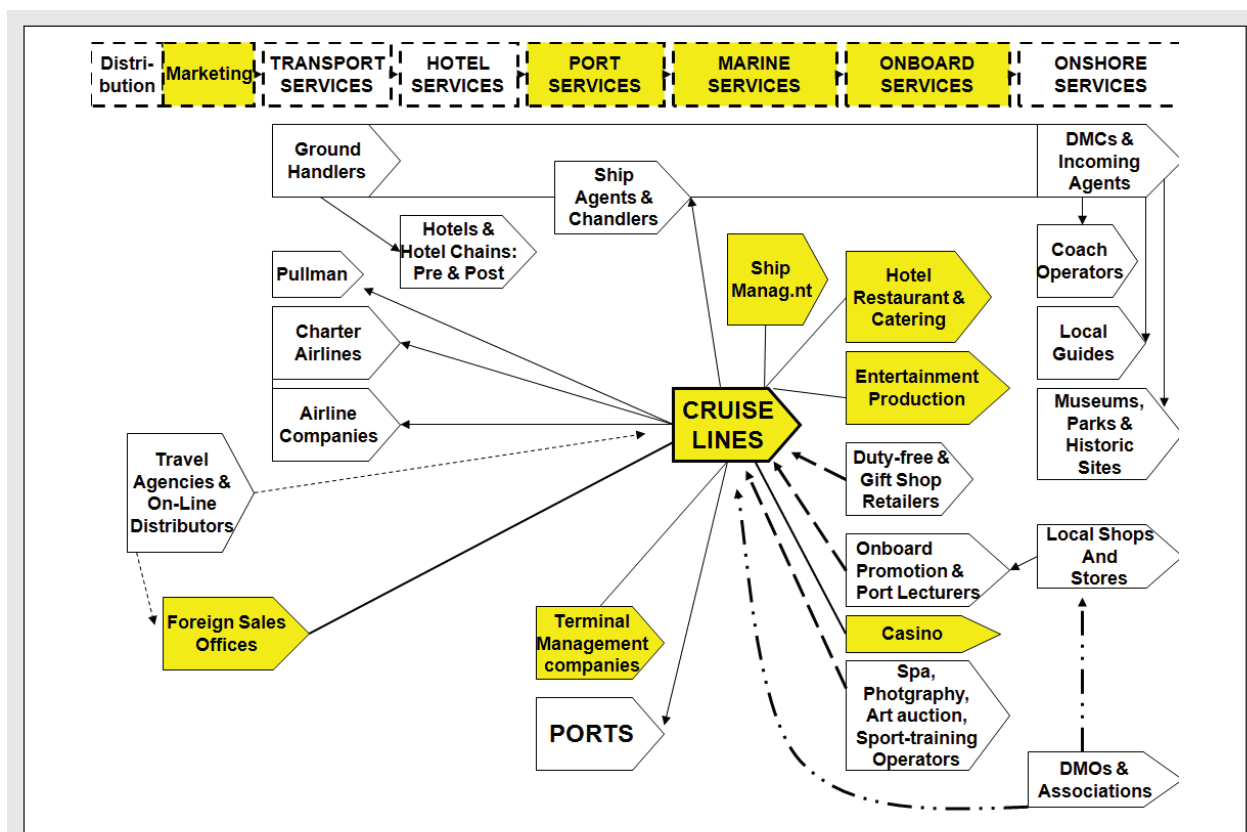
ships and can call at ports where larger ships cannot enter. Furthermore, these lines, like Clipper cruises, Disney cruises, or Silversea cruises, tend to focus on specific market niches.

These lines show the highest levels of externalization through outsourcing. Because of the few ships operated, without the possibility to reach a certain scale these lines are “forced” to rely on external suppliers even for ship management or hotel operations. Through outsourcing, these lines manage to decrease the complexity of their business model, minimize the investments and enhance their flexibility. On the contrary, larger and older cruise lines that already reached a certain scale can do by themselves, staffing their own in-source marine and hotel crews.

Oceania Cruises represented an extreme case of service externalization. In fact this luxury cruise line, founded in 2002, exploits three cruise ships chartered from Cruiseinvest LLC, but outsources all the operations. All the hotel and catering operations are supplied by Apollo Ship Chandlers, a specialized ship catering operator, marine operations are managed by V-

Ships, a ship management company, and all the distribution is provided by travel agencies. Oceania limits itself to the marketing function, looking then more a marketing company than a real cruise line. Figure 7 shows this extreme case of vertical disintegration.

Major international cruise lines. The cruise industry is highly concentrated with three major groups (Carnival, RCCL, Star/NCL) controlling about 75% of the world supply of berths. Carnival Corporation, that acquired P&O Princess in 2002-2003, Royal Caribbean Cruises and Star Cruises, are multibrand companies with an important presence in all major cruise markets (USA and Europe). These lines developed an aggressive strategy of horizontal integration, entering into new markets and niches through important acquisitions of established cruise lines around the world. In this group of major international cruise lines (the “big three”), the Italian MSC cruises should be also included, because of its impressive growth in the last years. Furthermore, it is estimated that in 2011 MSC will become the fourth major world operator (the “big four”), with a market share around 5% (UNWTO, 2008).



Slika 8. Tipičan lanac vrijednosti glavnih međunarodnih brodskih linija za kružna putovanja
 Figure 8 Typical value chain of the major international cruise lines

Izvor: prikaz razradio sam autor / Source: author's elaboration

Major cruise lines do not need to charter, because they own their ships. They present a rather vertically integrated value chain, but many important services are still provided by external operators.

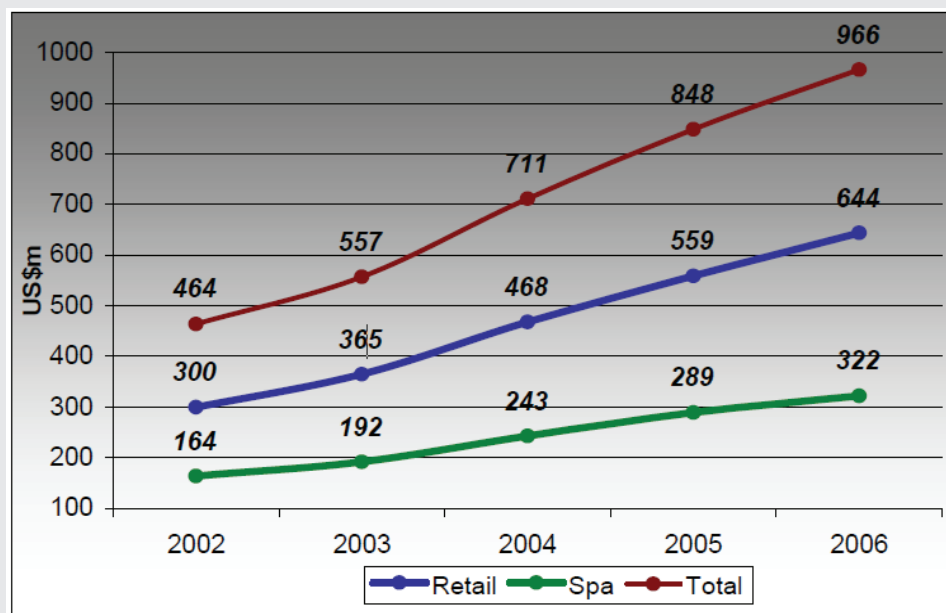
Distribution, transportation and accommodation services are normally externally provided by travel agencies and international representatives (general agents), airlines, and hotels (for pre- and post- stay). Port services are normally provided by ship agents and port authorities, although in some cases major cruise groups (like Carnival in Barcelona) obtained concessions for the management of important cruise terminals. Marine operations are performed in-house, as well as many onboard services like hotel & catering operations, entertainment and sometimes the casino. The other onboard services (gift shops, spas, photos, etc) are usually provided by concessionaires. Onshore services (shore excursions) are normally outsourced to local incoming agencies and tour operators, although in Alaska and in the case of the private islands owned by cruise lines in the Caribbean, most of the onshore services are directly con-

trolled by the cruise lines. Figure 8 shows the typical value chain of one of the major international cruise lines.

The analysis clearly shows that major cruise lines are very well positioned in the maritime part of the value chain, while tour operators tend to control the distribution and onshore touristic part of the chain. The lack of proprietary ships, however, weakens the tour operators' position. Market dynamics appear firmly in the hands of the established major cruise lines, whose decisions will determine the future directions of the whole cruise industry.

4. THE RISE OF CRUISE GLOBAL SUPPLIERS AND CONCESSIONAIRES

The cruise industry is characterized by an extremely concentrated firm structure: about 4 large groups (Carnival, Royal Caribbean, Starcruises, MSC) clearly dominate the market. The major cruise lines have enhanced the global reach of their operations, entering in new



Slika 9. Svjetsko tržište za maloprodajnu i Spa koncesiju na brodu
Figure 9 The Global Market for OnBoard Retail and Spa Concessions

Izvor: IRN istraživanja, 2007. / Source: IRN Research, 2007

markets, and showed a tendency toward vertical integration with the bundling of more value chain activities under their direct control. Significantly the evolution of major cruise suppliers and concessionaires is somehow mirroring the one of their principal buyers/concessionors (co-evolution).

With regard to onboard concessions, Starboard Cruise Services is the world's leading onboard retailer, while Steiner Leisure is the world's leading provider of spa services to cruise lines. The global market for retail and spa concessions on cruise ships was estimated to reach the value of US\$ 966 million in 2006 (IRN Research, 2007). Figure 9 shows how the market has grown rapidly in recent years, more than doubling from 2002 to 2006, and is expected to continue to grow over the coming five years. In 2006, the spa segment generated the

revenue of US\$ 322 million, while the retail segment (duty free and gift shops) was worth US\$ 644 million (IRN Research, 2007).

Besides Starboard Cruise Services (retail) and Steiner Leisure (Spa), the other main players in the global market for onboard retail and spa concessions are Harding Brothers (retail and spa), Dufry and Canyon Ranch (spa). Starboard, a division of LVMH Moët Hennessy Louis Vuitton, currently works with ten cruise lines, has over 700 employees and travel retail stores on 80 ships located worldwide. Steiner Leisure in 2009 served over 130 cruise ships representing 18 cruise lines. Steiner is not working only with cruise ships: indeed it also operates spas services in more than 50 on-land tourism resorts (Steiner, 2008).

In addition to the retail and spa concessions, other global service providers are found onboard

Tablica 2. Udio u svjetskom tržištu za maloprodajnu i Spa koncesiju na brodu (% vrijednosti prodaje), 2006.
Table 2 Market shares of the global market for onboard retail and spa concessions (% of value sales), 2006

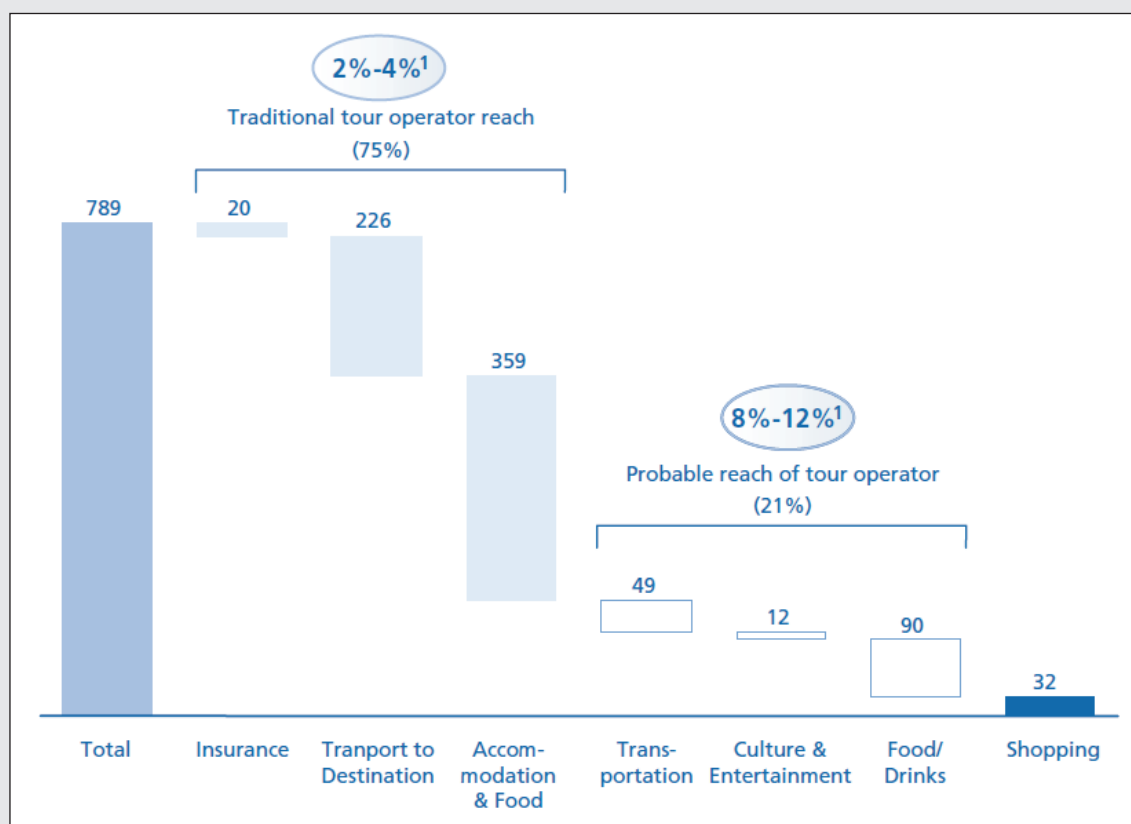
	Total
Starboard Cruise Services	47
Steiner Leisure	32
Harding Brothers	10
Flagship (Dufry South America Ltd)	6
Others	6
Total	100

Izvor: IRN istraživanja, 2007. / Source: IRN Research, 2007

cruise ships, like the photo concessionaire Image that serves over 40 ships, the art auction concessionaire Park West, that sells art pieces on cruise ships internationally, or Casinos Austria International that manages casinos onboard 10 luxury ships. As said, the major cruise lines have internalized the casino activity, as well as the hotel and marine operations, but many independent or minor cruise lines still rely on the services of specialized onboard suppliers. V.Ships Leisure, a division of V.Ships Management, is the largest supplier of management and outsourcing services to the maritime leisure industry, providing services to more than 150 cruise vessels, ferries and super yachts. V.Ships Leisure developed the capabilities to provide integrated deck & engine and hotel management as part of the same service offering. As regard hotel and catering management services, Apollo Ship Chandlers and Ligabue Catering are important global leaders. Apollo Ship Chandlers has a long experience of the industry and has provided its hotel and catering services onboard more than forty cruise ships belonging to fifteen different cruise lines,

while the Ligabue Cruise Division at present manages 14 ships and supplies 3 million meals a year (Ligabue Catering, 2009).

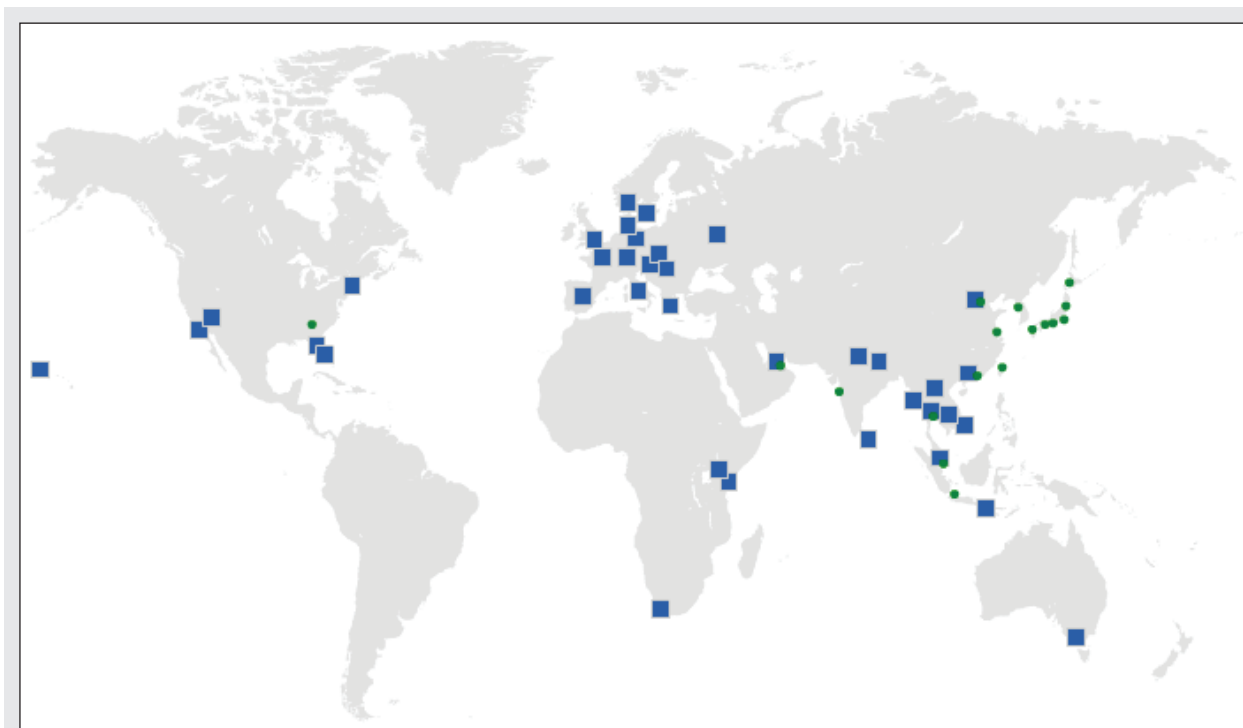
The rise of global suppliers is not limited to the onboard operations. Increasingly this trend of geographical expansion and consolidation is concerning also the provision of onshore services. In fact, the major onshore and port service providers are increasing the number of destination served, creating new international networks. Larger shipping agencies (also named port agents) are indeed starting consolidating, expanding their geographical presence. The shipping agency Medov, for example, started its activity in Genoa, but today can represent and solve any kind of problem related to a vessel's call in any Italian and French port. Medov represents an American lead firm like Royal Caribbean Cruises in all the Italian ports: this fact eases the port operations of Royal Caribbean because the cruise line in this way has to deal with just one point of contact for all its Italian calls. In the cruise industry today, there is a



Slika 10. Raspodjela troškova putovanja njemačkih turista (2003., prosječan godišnji odmor, 12,8 noćenja, u €)
Figure 10 Split of Travel Expenditures of German tourists (2003, average holiday, 12.8 overnight stays, in €)

¹ Estimated EBITA margins.

Izvor: Döring and Neuhaus, 2006. / **Source:** Döring and Neuhaus, 2006



Slika 11. Kuoni-jeva svjetska mreža odredišta lokalnih ureda uprave
Figure 11 Kuoni's global network of local destination management offices

Izvor: www.kuoni-dmc.com / Source: www.kuoni-dmc.com

clear tendency, among the onshore service providers, towards the bundling of shipping agency, ground handling and incoming agency services as part of the same offering (turn-key suppliers). The integration of shore-side tourism and port operations is happening either through ship agents diversifying their activities entering into incoming operations, or through incoming tourism agents entering into port agency operations.

Many European leading travel groups (tour operators) are more and more becoming aware of the above-average revenue and profit that could be generated by incoming services, such as airport-hotel transfers, excursions, cultural or sports-oriented trips, shopping opportunities, and meals. Figure 10 shows for example the split of travel expenditures of German tour-

ists for an average holiday in 2003. They spent an average of 20 to 25 percent of their total vacation budget at their destination in places other than the hotel. But what is relevant is that, with respect to the traditional tour operator business, the profit margins in this area (i.e. incoming services) are three to four times higher (Döring and Neuhaus, 2006).

The expansion of the leading travel groups' incoming operations is of course involving also the growing cruise industry. For example Kuoni Destination Management, the incoming division of the Kuoni Group, once realized that its international network of local destination management offices was situated in many of the world's most popular cruise areas, aggressively marketed its professional incoming services to cruise lines. Controlling a global network of intercon-

Tablica 3. Usluge koje nudi Inter cruises

Table 3 Services offered by Inter cruises

FULL TURNAROUND	PRE & POST HOTELS	SHORE EXCURSIONS	PORT AGENCY SERVICES	CREW HANDLING
<ul style="list-style-type: none"> ~ Meet and greet assistance ~ Uniformed Staff ~ Coach Transfer Services ~ Private VIP Transfer Services ~ Airport Porter Service ~ Luggage Truck Services 	<ul style="list-style-type: none"> ~ Hotel Reservations ~ Meet and Greet Airport Assistance ~ European Coach Tour Services ~ Hotel Courtesy Assistance 	<ul style="list-style-type: none"> ~ Varied shore excursion programme ~ Modern air-conditioned motor coaches ~ Tailor-made excursions to guest specification ~ Local official multilingual tourist guides 	<ul style="list-style-type: none"> ~ Immigration ~ Provisions ~ Fresh water ~ Luggage ~ Cleaning ~ Garbage collection ~ Fuel 	<ul style="list-style-type: none"> ~ Visas ~ Hotel reservations ~ Transfers ~ Repatriation ~ Crew excursion

Izvor: www.intercruises.com / Source: www.intercruises.com

nected incoming agencies represents a crucial competitive lever for Kuoni (Fig. 11). Indeed its global presence, covering the major cruise ports of call, permits cruise lines to organize their customers' onshore services all around the world with one and the same partner.

Intercruises Shoreside & Port Services constitutes probably the best example of the rise of cruise global onshore operators. Its case in fact highlights the entry of major travel groups in the cruise incoming business (TUI), the vertical integration of different port and tourism services in the same organization, and the creation of a network of controlled agencies offering incoming and port services at ports of call all around the world.

Intercruises Shoreside & Port Services is part of the TUI Travel PLC Group and was officially launched in November 2003 as a specialized company offering shoreside assistance to cruise lines throughout the world. Today the company is present in more than 50 countries and in more than 360 seaports. The range of services offered comprises ground handling (embarking & disembarking), shore excursions and shipping agency services (Table 3). The company started supplying incoming services, but very soon (between 2004 and 2005) began to offer also port agency services.

Intercruises operates today from the Americas to the Far East, South Africa to Northern Europe as well as in the West Med & East Med, the U.K., Middle East, Caribbean and the Asia Pacific regions. Intercruises has been characterized by a strong organic growth and therefore it supplies most of the cruise incoming services directly through its controlled offices. However, in some ports they may also subcontract local firms for shipping agency or transport services, acting as middle-man with cruise lines and offering a single bargaining contact for multiple destinations.

5. CONCLUSIONS

The geographical diversification pursued by the major cruise lines has year after year expanded their international passenger ticket revenues. The strategic analysis of the location choices can inform about the factors leading to the observed globalization of cruise global value chains. The incorporation of the generic glo-

bal strategies proposed by Ghemawat (2007) into the analysis of global value chains represents a promising path to provide not only a geographical description of the chain's extent, but also an explanation of the observed spatial features. Our analysis showed in particular the importance of arbitrage strategies in global cruising. These strategies tend to be controversial: environmental and labor activists are often claiming that the industry is under regulated. In order to avoid onerous legislation or a public backlash, cruise companies are actively financing economic impact studies to highlight the positive economic contribution of the industry to the hosting economies in terms of employment and business output.

The entry of traditional European tour operators into the cruise business has not essentially changed the dynamics of the industry that is firmly in the hands of the major cruise groups, whose share in the world supply is constantly increasing. The dominance of the major cruise lines does not seem in danger from the entry of tour operators in the industry, also because the importance of operating new and modern ships will be enhanced by the International Convention for the Safety of Life at Sea (SOLAS). There are anyway evident opportunities of collaborative agreements between the major cruise lines and the major tour operator to jointly control all the main stages of the cruise value chain, and indeed some important cases of joint venture are already occurring.

The consolidation and globalization of major onboard service providers is not surprising if one considers the fact that they serve and follow companies (i.e. cruise lines) that are globalizing their operations with aggressive acquisition policies all around the world. Ships are cruising almost everywhere and cruise suppliers/concessionaires have to be prepared to follow the ships. But the rise of global suppliers is not limited to the onboard operations: increasingly this trend of the geographical expansion and consolidation is also concerning the provision of onshore and destination oriented cruise services. This fact in part contradicts the claims about the dual structure (incoming vs. outgoing) characterizing the tourism supply, i.e. on one hand, traditional "destination oriented suppliers" that tend to be small-to-medium-sized enterprises (SMEs), and, on the other hand, the so called "international travel indus-

try” (tour operators, airlines, cruise lines, etc), consisting mainly of large companies with important economies of scale that organize outgoing tourism “packages” for the mass market (Papatheodorou, 2006; OECD, 2008). In the cruise industry today, the recent emergence of onshore global suppliers is somehow changing the picture: no more destination oriented SMEs dealing with maritime giants (i.e. the cruise lines), but destination oriented giants dealing with maritime giants.

The growth of global onshore suppliers like InterCruises is reshaping the competitive land-

scape for the provision of onshore and destination oriented cruise services. The major cruise lines and the major travel groups, in the presence as well as in the absence of explicit joint ventures, are somehow partitioning the value chain between themselves in a game between giants: maritime operations to cruise lines, while onshore tourism operations to major travel groups. The global reorganization of major private companies is weakening the position of minor independent local players, which more and more will have to rely on the mediation of global onshore companies to work with cruise lines.

LITERATURA / REFERENCES

- [1] Carnival Corporation & plc, Annual Report, Form 10-K, 2008.
- [2] Clancy, M., Cruising, to exclusion, commodity chains, the cruise industry and development in the Caribbean, *Globalizations*, 5 (2008), 3, 405-418.
- [3] Dickinson, B., A. Vladimir, *Selling the sea*, in *inside look at the cruise industry*, New York, John Wiley and Sons, 1997.
- [4] Döring F., A. Neuhaus, *Rerouting European tour operators*, Mercer on Transport & Logistics, 21-26, Insights, 2006.
- [5] European cruise council, *contribution of cruise tourism to the economies of Europe*, GP Wild (International) Limited and Business Research and Economic Advisors (BREA), 2009.
- [6] Frantz, D., *Sovereign islands*, (a special report), gaps in sea laws shield pollution by cruise lines, *New York Times*, CXCVIII (1999), 51, 391 (3 January).
- [7] *The value of value chains*, IDS Bulletin, Special issue, 32 (2001),3.
- [8] Ghemawat, P., *The forgotten strategy*, *Harvard Business Review*, 81/11, 2003., 76–84.
- [9] Ghemawat, P., *Managing differences, the central challenge in global strategy*, *Harvard Business Review*, March, 2007., 58–68.
- [10] Huang, R., *Global cruise industry looks to Asia as major growth engine*, *Singapore News*, 03 July 2009.
- [11] IRN Research, *Summary of data on the retail and spa cruise concessionaires market*, IRN Reports 2007, November.
- [12] Ligabue catering, cruise, food & beverage, catering and hotel management on board cruise ships and river vessels, Retrieved on 23 November, 2009, from http://www.ligabue.it/admin/jsupload/Ligabue_CR_03_UK_72dpi.pdf
- [13] OECD, *tourism in OECD countries 2008, trends and policies*, Paris, OECD, 2008..
- [14] Papatheodorou, A., *Corporate rivalry and market power, Competition Issues in the Tourism Industry*, London, Tauris, 2006.
- [15] Peisley, T., *Cruising at the crossroads, a worldwide analysis to 2025*, A Seatrade Research Report, Seatrade Communications Limited, 2010.
- [16] Poggio, A., *The Importance of the travel trade operators in the cruise industry*, World Cruise Tourism Summit, Monday 14th, March, 2005.
- [17] RCCL - Annual report, Royal Caribbean Cruises Ltd, Form 10-K, 2008.
- [18] Sinclair M.T., M. J. Stabler, *The Economics of tourism*, London, Routledge, 1997.
- [19] Steiner- Annual report, Steiner Leisure Limited, Form 10-K, 2008.
- [20] Sturgeon, T., *From commodity chains to value chains, interdisciplinary theory building in an age of globalization*, in: *Frontiers of commodity chain research*, Palo Alto, Stanford University Press, 2008., 110-135.
- [21] UNWTO- *Worldwide cruise ship activity*, Madrid, World Tourism Organization, 2003
- [22] UNWTO-*Turismo de cruceros – Situación actual y tendencias*, Madrid, World Tourism Organisation, 2008.
- [23] Upchurch, B., *Recruiting*, *Cruise industry news annual*, 1995, 201-202.
- [24] Wood, R. E., *Caribbean cruise tourism - globalization at sea*, *Annals of Tourism Research*, 27 (2000), 2, 345-370.
- [25] Wood, R. E., *Cruise tourism: a paradigmatic case of globalization?*, in: *Cruise ship tourism*, CABI International, 2006., 397-406.