



A TRAVEL, HOSPITALITY & LEISURE SERIES

The Cruise Industry Is Setting Sail for New Heights: Everyone's Invited

Part 1: Assessing the Current State of the Cruise Industry Growth Landscape

The cruise industry is experiencing a dynamic transformation, with a strong resurgence in passenger numbers and record bookings, signaling a promising recovery post-pandemic. However, challenges remain, especially in attracting new customers and addressing market saturation. The next two articles will outline how cruise lines can achieve new levels of growth internally and generate step change growth inorganically. In this article, we explore the current state of the cruise industry's internal growth landscape and discuss strategies for the future.

Assessing the Current State of the Cruise Industry Growth Landscape

Is the Cruise Industry Prepared to Embark on a New Era?

a. Guests Are Back on the Water in Strong Numbers

As the world reopened, cruise enthusiasts are flocking back to the water in impressive numbers with 31.5 million passengers expected through the end of 2023 or 106 percent of pre-pandemic levels. This resurgence in passenger demand is driven by a combination of factors, including the pent-up desire for travel and the enhanced safety measures implemented by cruise lines. Passengers are eager to rediscover the joy of cruising, and this enthusiasm is translating into strong bookings.

b. Many Brands Are Seeing Record Bookings

Cruise lines are reporting record bookings, indicating there was strong pent-up demand, but the forward bookings are a bit softer across many. Cruise enthusiasts who deferred their travel plans during the pandemic are now eager to set sail once more. This surge in bookings has not only bolstered revenue but has also provided a sense of stability to the industry, which faced uncertainty during the pandemic.

c. New-to-Cruise Customers Continue to Struggle

While loyal cruisers are quick to return, attracting new-to-cruise customers remains challenging. Concerns about health and safety, as well as unfamiliarity with the cruise experience, are barriers that cruise lines need to address. Cruise Lines International Association (CLIA) reports over four million new-to-cruise passengers will be needed to fill the capacity in 2025. To overcome this challenge, cruise companies are offering new itineraries, onboard amenities and excursions which appeal to normal land-based vacationers. Cruise lines are also offering much more flexible booking policies than ever to provide reassurance to new customers. Lower Birth capacity based on the current backlog of new builds is forecast to reach nearly 750,000 by the end of 2028.

d. Existing Markets Saturation

Some cruise markets are approaching saturation, with existing guests making up a significant portion of the overall tourism. A number of smaller ports across geographies from the Caribbean to New England are limiting the size of vessels and number of ports of call. The examples of limiting cruise ships span the globe with Venice banning cruise ships from the city center port and places like the Galapagos instituting new fees to fund conservation. Expanding to new ports of call and lobbying to keep ports accessible are crucial for long-term growth.



How Can the Cruise Industry Navigate the Changing Tides?

a. Cruise Lines Need to Age Down – and Do It Gradually

Cruise lines must focus on attracting a younger demographic to ensure sustained growth. This presents a unique challenge for the legacy brands who have average guest ages over 60. However, this transition should be gradual, allowing cruise brands to maintain their appeal to older passengers while simultaneously catering to a younger audience. This involves designing cruise experiences that cater to both age groups, from onboard entertainment options to dining choices.

b. New Sub-Brands Are Needed to Aid the Bifurcation of Younger and Older

Cruise lines may need to create sub-brands or distinct cruise experiences tailored to different age groups. They can introduce more adventurous and technology-driven offerings for younger travelers, while retaining classic and elegant experiences for older passengers. This approach allows cruise companies to offer diverse experiences under the same umbrella brand, appealing to a wider audience. The Norwegian Prima class of vessels highlights the trend of creating space for multi-generational and even solo cruising with offerings across the spectrum.

c. Reframing the Overall Value Proposition to New Segments

Cruise companies should rethink their value propositions to resonate with new customer segments. Highlighting unique experiences, sustainability efforts and wellness-focused offerings can attract a broader audience. Emphasizing eco-friendly practices and partnerships with local communities can appeal to environmentally conscious travelers. This involves not only attracting sustainability-focused or younger travelers but also diversifying the cruise experience to cater to different interests and preferences including the increasingly popular solo cruiser.

d. Rethinking the Purchasing Experience for New Segments

The purchasing experience needs to be modernized to appeal to tech-savvy, younger customers. The days of 40-70 percent of bookings coming via physical travel agents is dwindling. The appeal of using an offline travel agency to younger consumers is limited and doesn't align with the expectations of other leisure opportunities. Cruise lines can explore digital booking platforms, mobile apps and personalized offers to simplify and enhance the booking process. The trade will remain a key part of the industry for years to come, but we believe creating a simple, seamless and engaging direct booking experience on the website or in the mobile app will naturally lure guests away from the trade. Implementing features such as virtual ship tours, interactive itineraries, and creating engaging experiences overall for new segments of travelers will fuel growth and profitability.

Spotlight on Direct Bookings and Conversational Artificial Intelligence (AI)

The complexity of the cruise purchase relative to booking a flight or a room is one reason cruise has lagged its peers in terms of share of direct, digital bookings. With many factors to consider including cabin type, food and beverage (F&B) packages, excursions and more, a direct conversation with an expert provides a sense of comfort and simplicity. However, advancements in the ability to deploy AI—including but not limited to large language models (LLMs) like ChatGPT—make it possible to replicate that experience and provide an even greater degree of personalization than a traditional agent can offer.

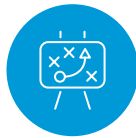
How A&M Can Help

A&M can play a pivotal role in helping cruise industry stakeholders navigate this transformative phase and capitalize on emerging opportunities. Here's how A&M can deliver the following services:



Segment Analysis:

A&M can conduct comprehensive market analysis to identify target demographics and their preferences. This includes understanding the unique needs and expectations of younger and older cruisers, enabling cruise lines to tailor their offerings accordingly.



Brand Strategy:

A&M can work closely with cruise lines to develop brand strategies that allow for the gradual aging-down process while maintaining brand integrity. This involves potentially creating sub-brands, repositioning existing ones or launching entirely new cruise experiences.



Value Proposition Redefinition:

A&M can help cruise companies reframe their value propositions to appeal to new segments. This involves identifying and accentuating the aspects of cruising that resonate most with younger travelers, such as sustainability initiatives, digital connectivity and immersive experiences.



Digital Transformation:

In an increasingly digital world, A&M can guide cruise companies in transforming their digital presence and purchasing experiences. This includes advising on the development of intuitive booking platforms, mobile apps and personalized marketing strategies that cater to the preferences of tech-savvy travelers.



Operational Efficiency:

A&M can assist cruise lines in optimizing their operations for cost-effectiveness and passenger safety. This includes recommending supply chain, procurement, shared services and cost optimization to ensure a more profitable enterprise and seamless cruise experience.

The cruise industry is on the cusp of a new era, marked by a resurgence of passenger interest and a need for innovative strategies to attract younger travelers. A&M's expertise can be instrumental in helping cruise companies adapt to these changes and navigate the path toward sustained growth and success in this evolving landscape. In our next article "Cruising for a Deal: Set Sail for Growth" we will explore the inorganic side of the cruise landscape including the rapid expansion of the private islands.

Key Contacts:



Philip Rothaus

Managing Director

+1 914 610 0300

prothaus@alvarezandmarsal.com



Andrew Maliszewski

Senior Director

+1 551 265 0584

amaliszewski@alvarezandmarsal.com

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