

Carnival Cruise Lines

Charting a New Brand Course

by CHEKITAN S. DEV

Carnival Cruise Lines is the market leader in the low-price cruise market. Carnival achieved this position by emphasizing onboard activities, targeting a relatively young cruiser, using extensive television advertising, and focusing on the travel agent as its channel of distribution. As a result of industry growth, new companies have entered the business and existing lines have added ships. Currently, Carnival controls 24 percent of the berth space in the North American market. This commentary on Professor Robert Kwortnik's case offers nearly a dozen opportunities for Carnival management to strengthen its position—notably, paying attention to the market's changing demographics and considering expanded marketing opportunities, including operating land-based resorts.

Keywords: Carnival, cruise lines, brand environment, brand strategy

Professor Kwortnik introduces us to Carnival Cruise Lines as the dominant player in the entry-level cruise business. Carnival's string of successful and profitable years encouraged copycat competitors, even as the cruise industry consolidated. Since Carnival's founding, the cruise industry has become fiercely competitive due to increased capacity, price discounting, and a "sea of sameness" where all the cruise brands are beginning to look and sound alike. Professor Kwortnik concludes that Carnival now faces the challenge of deciding how best to burnish its brand to succeed in the future.

In his analysis of that brand-burnishing effort, he outlines issues of lack of brand differentiation, brand positioning, and brand equity. In suggesting solutions to Carnival's problem, he offers the following areas where Carnival can do better: definition of the brand's

target market, identifying brand purchase drivers, and definition of brand attributes. In closing his analysis, he offers a retail analogy by suggesting that Carnival move from being the KMart of cruising to the Wal*Mart of the high seas. In the following sections, I will comment on the scope and strength of Professor Kwortnik's analysis. In particular, I question the applicability to Carnival of the Wal*Mart metaphor and suggest that it emulate a different retail chain.

Overall, I felt the case was well presented and analyzed. I agree with many of the suggestions Professor Kwortnik offers in his report. Particular strengths of his brand audit are the reexamination of Carnival's brand positioning and his questioning the continued relevance of its key brand attributes. Because he did an excellent job of covering the bases, my contribution here is to offer supplemental brand strategies based on possible sources of additional challenges to Carnival.

Specifically, where Professor Kwortnik's analysis could be expanded is in the area of brand environment. Brand environment typically includes challenges and opportunities relating to the product category, industry, and economy that can determine a brand's survival and success. In the following sections, I will attempt to define these areas and suggest opportunities that might emerge as a result.

Challenges: What Else Must Keep Carnival's Brand Stewards Awake at Night

In my opinion, this brand needs more than a little spit and polish. Instead, it needs serious upgrading if it is going to survive in the years ahead—let alone succeed. Below, I offer a handful of reasons why the problem may be more severe than it appears.

Substitute products. Many hospitality products are potential substitutes for a

cruise, including hotels, destination resorts, all-inclusive resorts, timeshares, rental homes, air travel, trains, and casinos. Though none of these products alone supplies the identical experience, several can be combined to provide a package with features similar to a cruise. Another set of substitute products that are not hospitality-related also compete for the customer's disposable dollar, such as cars, furs, and jewels. Indeed, Carnival's marketing department has determined that the primary purchase decision is whether money will be spent on cruising or on luxury items. These substitutes represent real threats to the future of cruising.

Substitute products constitute a strong challenge to the cruise industry due to the perceptions surrounding cruises. First, the perceived high cost of cruising makes other travel options seem more reasonably priced, even though the expense of a land-based vacation is comparable to the price of a cruise when all costs are considered. Second, the perceived cost of a cruise creates a barrier related to switching costs. Given that an extended vacation may be a once-a-year-option, customers want to get the best value. Other products on the market appear to be less risky, whether they are land-based vacations or luxury purchases.

Buyers. The primary purchaser of cruises has traditionally been travel agents, who are Carnival's primary distribution channel. Although travel agents are important to Carnival, their influence has so far been manifested in whether they recommend a Carnival cruise, another cruise line, or another type of vacation altogether. As the primary brand representatives for Carnival, any weakening of the brand risks confusion in the marketplace. Moreover, if travel agents banded together, they could force a cruise line to reduce margins and pay greater commissions. Indeed, some organization of travel agents has occurred (e.g., Virtuoso), which increases their bargaining power.

Direct purchase by passengers has become a growing source of sales. Due to the transparency offered by the Internet, passengers have become more educated on cruise offerings and can shop for attractive prices. At the moment, end users have some market power, but not yet enough to have a noticeable effect on the industry. While the power of direct purchasers is currently limited (because they are small in number and fragmented), there is the real possibility that a stronger buyer group could depress prices and diminish Carnival's stellar profitability record.

Potential new entrants. Any inability to fend off newer, more nimble, and unconventional competitive brands could torpedo Carnival's growth. The industry's outstanding success over the past ten years has attracted new entrants. One recent start-up, EasyCruise, has positioned itself exactly where Carnival was at its inception: as the low-cost provider. While EasyCruise is operating mainly in the Mediterranean Sea, there is the real possibility that EasyCruise could become a force to reckon with in the North American market.

Regardless of where it operates, each new entry into the cruise industry has some impact on Carnival's position. That said, however, the ability of a company to enter the market and make a sizable dent in Carnival's sales is limited. To begin with, the cost of new-ship construction has risen dramatically, as Professor Kwortnik explains in the accompanying case with the competition between Carnival and Royal Caribbean International (RCI) for largest-ship bragging rights. Second, Carnival has a tremendous advantage in size that generates economies of scale. These economies allow Carnival to profit in the present market while being the low-price leader. Third, Carnival has the advantage of being further advanced on the learning curve.

Suppliers of key inputs. The supply input that is paramount to cruise lines is air transportation. A reduction in airline seats to major ports, whether by marketing decision, strike, or other interruption of service, can damage the cruise industry. Additionally, air-fare increases can limit the potential pool of customers. Although cruise packages may include air fare, the recent rise in fuel prices will put pressure on the economics of the cruise business.

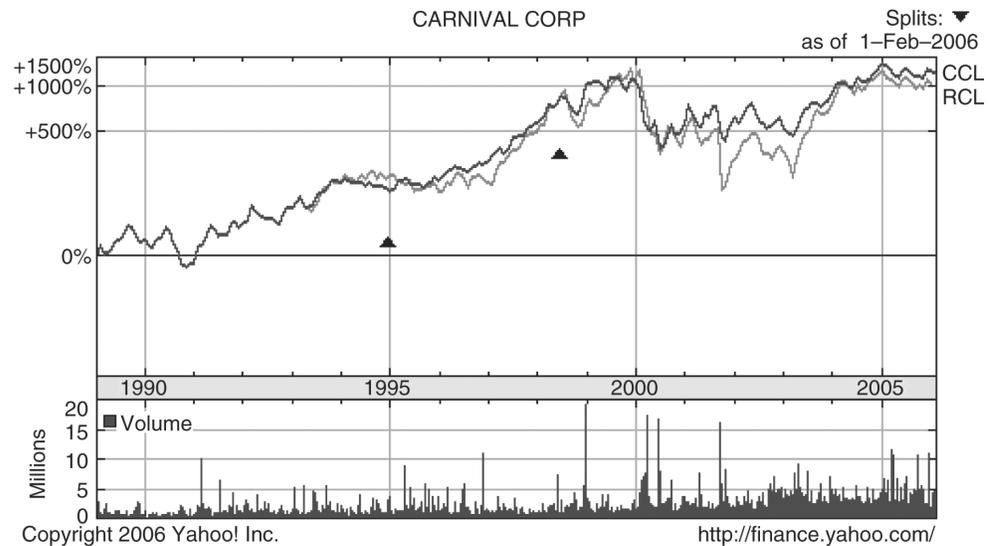
Rivalry among firms. Professor Kwortnik alluded to the dramatic increase in cruise lines' rivalry as the number of berths grows and as distinctions among cruise brands blur. The most dramatic example of lack of differentiation is the current Carnival brand campaign featuring the song "Somewhere beyond the Sea," with visuals that could represent any cruise line. Despite my intellectual reaction, I did find myself humming the theme after watching the ad. So despite my stated objections regarding the ad's ability to adequately differentiate the brand, on an emotional level it hit its mark for this aging baby boomer! The fact remains that Carnival faces the challenge of deciding how to best position and differentiate its brand competitively, while avoiding a price and amenity war. Even the stock price growth of RCI, Carnival's key competitor, shown as the lower line in Exhibit 1, mirrors that of Carnival's own stock (generally, the upper line), reflecting investors' view of the brands' similarities.

All these factors have combined to heighten the industry's competitiveness and underscore the dwindling differentiation between brands. Next, I will identify some opportunities for strengthening the brand.

A Brand Manifesto for Carnival: Eleven Opportunities

In supplementing Professor Kwortnik's recommendations, I offer eleven initiatives

Exhibit 1:
Carnival and Royal Caribbean stock prices



Source: <http://finance.yahoo.com/>. Copyright 2006 Yahoo! Inc.

Note: Where lines diverge, Royal Caribbean is generally the lower of the two lines, while Carnival is the upper line.

Carnival should consider to strengthen its brand.

Opportunity 1. As Professor Kwornik suggests, Carnival has the opportunity to reconfigure its brand mantra. With its dominant market share, Carnival should evolve from being the low-cost provider to the primary choice for the value-conscious passenger. Additional value-added services (e.g., premium wine sales, extended shore excursions, full-service spas) will increase onboard revenues, thereby lessening the need to carry the greatest number of passengers. While this might seem like an exercise in semantics, Carnival has a real opportunity to carefully define its brand-value drivers and do a better job of putting together the optimum bundle of attributes.

Opportunity 2. Carnival needs to develop a strong relationship with airlines serving its ports. This will ensure its supply of discounted tickets and continue passenger

transportation without interruption. One option might be to cobrand with a specific airline as the preferred partner. A more radical option might be to get into the airline business or, as Virgin is doing, into the business of getting customers from their homes to the ship no matter where they live.

Opportunity 3. Given its high occupancy figures, a program of price increases might be feasible by using profit-per-customer maximization, which has heretofore not been part of the cruise industry's marketing strategy. A second option might include additional departures from ports within driving distance of the major source markets. By focusing on profit per passenger, Carnival can balance the advantage of increased profit margins against the disadvantage of fewer passengers.

Opportunity 4. Carnival should consider expanding its brand into other niches. Offering Carnival-branded land resorts, for

instance, could expand the leisure opportunities for its customers. By focusing on “customer equity,” which is the value of its customer base, Carnival will create a powerful new revenue stream. If only 16 percent of Americans have taken a cruise, a substantial part of the other 84 percent have surely been to a resort and represent a huge market for Carnival. While Carnival would risk straying from its core competence with this approach, diversification is not that great a stretch, given the similarity between cruise operations and resort operations. A second, more interesting reason for such an approach would be to create a Carnival brand experience in a familiar setting as a showcase to entice people to try a Carnival cruise. Just as Nike went into the business of hyperexperience retail stores called NikeTown to introduce people to the Nike brand in a dramatic way, Carnival could open a resort for low-penetration markets to introduce people to the brand and encourage them to try a cruise.

Opportunity 5. Carnival should also concentrate on developing repeat customers by building a state-of-the-art customer relationship management (CRM) system and by offering its current customers incentives to refer friends and family members. If it is five times more costly to develop a new customer than to rebook a previous one, and satisfied customers talk to at least four other people, a drop in customer-acquisition cost from CRM and the increase in referral marketing will surely increase brand profitability.

Opportunity 6. To remain the dominant player in the industry, Carnival must continue to expand on its tradition-breaking use of media. As an example, a Google keyword search for Carnival Cruise Lines resulted in 2 million hits, and a search for Royal Caribbean Cruise Lines returned 1 million hits. This is despite the fact that the core brands are about the same size. Once Carnival has made sure that it is

managing the way its brand is represented in connection with these 2 million hits, it should determine how to use the full potential of the Internet to reach its cruisers. Instant messaging, podcasting, and weblogs are just three examples of nontraditional “below the line” marketing communications options Carnival should explore.

Opportunity 7. Carnival’s relationship with travel agents must be nurtured and protected because Carnival relies on travel agents for 80 percent of its business. Possible opportunities are to cobrand more visibly with one or more groups; offer more and better education and familiarization experiences; and become more sophisticated in tracking the effectiveness of the brand message, training, and promotions for travel agents. An even more radical option might be to buy a chain of travel agencies.

Opportunity 8. Use the Carnival name on every ship. At the moment, not all of Carnival’s ships carry the company name. The Web site screenshot in Exhibit 2 depicts this situation.

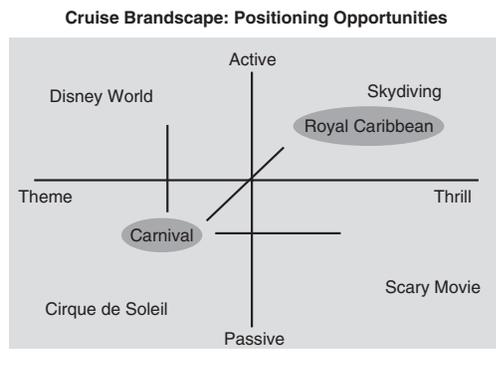
Why *Holiday* and *Paradise*, for instance, are not branded with the Carnival name is not clear, but the result is potential confusion, and it compromises the umbrella endorsement of the Carnival brand. Either all ships should be branded “Carnival,” or a separate brand needs to be created to encompass these non-Carnival-brand ships, and they should have a clearly differentiated value proposition.

Opportunity 9. I would not subscribe to Wal*Mart’s being the most appropriate brand metaphor for Carnival. Instead, I suggest the Target model. While still attracting the value-conscious retail shopper, Target has done a good job of creating excitement in the marketplace and making a serious dent in both Wal*Mart’s and Kmart’s business. Aspiring to a

Exhibit 2:
Carnival Web Page Listing of Ships



Exhibit 3:
Cruise Brandscape: Positioning Opportunities



value-oriented and stylish brand positioning will, I feel, serve Carnival well as a brand metaphor.

Opportunity 10. Carnival is in a position to redefine its position in the cruise “brandscape.” In the map shown in Exhibit 3, I attempt to show the possible options for Carnival as it considers more interesting positions in the cruise marketplace. One possibility involves going head-to-head with RCI’s position of offering more active and thrilling cruises. While the main advantage of this option would be to steal market share by outpacing RCI, the main disadvantage is that RCI already holds this position quite effectively. One “flanking” opportunity is to move to the

Exhibit 4:**Carnival's Brand-Strengthening Options**

Carnival's Brand Strengthening Options		
	Current Product	New Product(s)
Present Market(s)	Market Penetration 1. Fun 2. Young 3. Cheap	Product Development 1. Spas 2. Sports Arenas 3. Amusement Rides
New Market(s)	Market Development 1. Pacific 2. Southeast Asia 3. Indian Ocean	Diversification 1. Land based resorts 2. Travel agencies 3. Airlines

active-theme position, which would be a natural evolution for Carnival. A more radical “flanking” position would be for Carnival to shift to a passive-thrill position by offering entertainment options not available on most cruise ships.

My specific concern is that Carnival needs to keep its eye on a younger demographic. A recent article in the *New York Times* reported, “While retirees are still a core segment of the cruise industry, the average age of passengers has fallen in the past decade to 50 from 60, according to the Cruise Line Industry Association in New York. The latest association survey shows that people under 40 now make up about a quarter of the manifest.”¹ While the Carnival brand is well positioned to

appeal to the young cruiser, it is apparent that RCI is actively promoting itself to this demographic by its fast-paced, onboard-adventure-theme “Get out there” advertising campaign.

Opportunity 11. Carnival should consider moving from an international operation to a truly global company. By expanding into markets such as the Pacific, Southeast Asia, and the Indian Ocean, it would offer its customers more reasons to return and would tap into the nascent but growing markets of India and China.

In charting its future, Carnival should explore options to strengthen its brand. The eleven opportunities outlined above can be summarized and grouped into a growth matrix as shown in Exhibit 4.

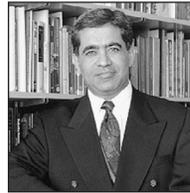
Building Relationships

Carnival can retain its dominant status and strengthen its brand even though competition is fierce, provided it remains oriented toward the long term without losing focus in the short term. Carnival has many opportunities to strengthen its brand, the most important of which involve staying in touch with its present and potential customers, including travel agents. By stressing

value over price and stressing its position as the “fun company,” Carnival can both hold its current market and expand to new markets to generate new customers.

Endnote

1. Denny Lee, “Extreme Makeover: Taking High Style to the High Seas,” *New York Times*, February 26, 2006, p. T8.



Chekitan S. Dev, Ph.D., is a professor at the Cornell University School of Hotel Administration (csd5@cornell.edu). This commentary draws on and updates the author’s prior research and analysis of Carnival Cruise Lines. See Barbara-Jean Ross, Chekitan S. Dev, and Kathleen M. Dennison, “Carnival Cruise Lines: Teaching Note,” in *Strategic Management Cases: Instructor’s Manual*, ed. D. W. Grigsby and M. J. Stahl (Belmont, CA: Wadsworth, 1993), 71-76.