



"I Love My Carnival Rep, But..."

Cruise Week is hearing from agents of all models regarding a perceived growth in direct business by most mainstream brands. Here's a representative example from one agent who sells nationally and locally:

"I was just telling my Carnival rep that, 'I love you, and I want to give you more business.' They're very supportive. But I can't change the mentality out there consumers have with your product and how people choose to book it [by going direct]. That's the way it is. It's not that we don't want to sell it. It's the nature of the product.

"Their [Carnival's] business is good, and all the ships are full, so whatever Carnival does is working. I think the real issue is that it's a very simple product to understand, particularly if you're in a homeport."

She points out this also impacts the way her agency promotes CCL. It's a common concern, so we checked with Carnival CEO Gerry Cahill, Exec VP Lynn Torrent, and VP Sales Joni Rein for a broad overview of the role of agents in selling their product.

Both Torrent and Rein made it clear that they foresee agents continuing to sell the majority of Carnival's cruises; they say figures they've heard bandied about for huge direct business for CCL are off-base. "Travel agents are and will continue to be the main source of our distribution," emphasizes Torrent. Adds Rein: "There's this belief that somehow the trade is going away, but it's the heartbeat of the industry."

Cahill explains, "We want to accomplish the highest net yields that we can for our brand," and there are two components: the gross selling price to the consumer and what CCL pays to sell the product.

"In my dream world, my selling price is high to the consumer, and my cost of distributing the product through agents is low," says Cahill. "I need to achieve the highest average selling price for all my inventory. And travel agents help me achieve that."

Agents Reach Seen As Creating Demand

The reason? Even with CCL's extensive advertising, Cahill says they don't have enough reach to the potential market. "There are a lot of different travel agent models out there," he says. "The online players have strong brands, frankly, and a lot of people are going to go to those brands. That's a positive for me. Then there are the home-based agents that can reach family and friends that I can't get to. Then you have all the other agents, many of whom are really shrewd marketers who reach out, and by doing so help me to achieve a higher gross selling point."

He says recent automation changes implemented by CCL will help agents stay relevant. "We've made changes to make the cost of doing business with travel agents more efficient," says Cahill. "This makes travel agents more effective to me as a distribution channel, be-

cause my costs are less. It's not cheap to run a call center....So if I can say that travel agents are going to be booking on an automated basis, I don't have the cost of them calling my call center unless needed to answer a question. That makes it a more efficient channel, which makes a more desirable distribution channel for me."

As for whether a CCL cruise, particularly from a homeport, is comparatively simple to book, Cahill notes: "Agents are needed to explain the options; that's why they still get so many [follow-up] calls."

And he knows because it happens with CCL Vacation Planners as well. "Even if you have an online booking, they're still going to call our call center for a number of questions, because it's a low knowledge level [on the part of consumers]," he says.

Direct Vs. Agents On Pricing

The industry's pricing structure is another reason CCL says they need a strong independent distribution system. "The cruise industry pricing is very variable, dynamic, always moving, a function of demand and supply," says Cahill. "If I get more demand, my price goes up. The travel agent helps create demand, because they reach all the people I can't reach."

But what about the costs of agents, care and feeding? "Direct has its own costs," replies Cahill. "There's nothing that doesn't have its own cost. Some direct may cost you less. Say I get an online booking on my website, that's my lowest cost booking to take."

But, he adds, what happens if all business shifts to direct? "I'm going to lose a lot of demand, because I won't reach a lot of those potential guests out there without the travel agent," says Cahill. "Let's assume direct lowered my cost of bookings \$20-- to pick a number out of the air. What happens if my sales price goes down \$40 [because the demand created by agents is not there]? So I do need travel agents and will always need agents."

Cahill says Carnival Cruise Line is getting an unfair rap on this issue. "The truth is we drive more volume through travel agents in the U.S. by far in part because we aren't selling half our cruises to Europeans," says Cahill. "Our big partners really understand that we are driving a lot of volume through travel agents."

Queen Elizabeth Changes Cunard

With the 2092-pax *Queen Elizabeth's* arriving in October, Cunard, one of the oldest passenger shipping lines, is boasting the youngest fleet in the industry. Traditional selling points, such as British tradition and elegance, are now combined with youth and consistency.

"Cunard used to be a variety of ships, mostly disparate," says Cunard President/Managing Director Peter Shanks. "Now, if you compare *QM2*, *Queen Elizabeth*, and *Queen Victoria*, there's a consistent set of signature rooms."



Cunard

continued from p. 1

Marketing for *Queen Elizabeth* has been for past passengers up till this point, but expectations are the general PR will continue ramping up as her October inaugural approaches. Already, more information on dining features and the like is available on the revamped cunard.com website. And she should be the media darling of the next Wave Season: *QE's* 2011 World Cruise kicks off with all three Queens in New York City on January 13. "We'll be lining the three ships up between Battery Park and the Statue of Liberty," says Shanks.

With three ships, there's a much broader range of deployments than seen in recent years. Most notable is *Queen Victoria's* Winter/Spring 2011 and 2012 North America sailings, sailing the Caribbean, transcanal, Mexico, and rt/Hawaii from Los Angeles (for which Cunard is heavily promoting group rates and amenities).

And it's not just *Queen Victoria*. A telling example of the wider deployment range is in Summer 2011 when *Queen Victoria* will mainly be doing open jaw Europe, *QM2* the transatlantics, and *QE* rt/Southampton. And in January 2012 both the *QE* and *QM2* will do world cruises (with distinct itineraries) departing Southampton.

Shanks says all will sell well with North Americans. "There's a bit of a myth that North Americans don't come to Southampton to sail," says Shanks, reporting more than 35% of those passengers are U.S. sourced. "We expect upwards of 500 North Americans on the Northern [Europe] voyages and 300 to 350 on the Southern voyages [Med, some lengthy, running 17-19 days]."

He considers Cunard quite well known in the New York area and South Florida. "But we want to be broader, particularly with *Queen Victoria* going to the West Coast for Winter 2011 and 2012 sailings," says Shanks. "We'll be investing more in joint market partner programs with travel management marketers."

Fuel-Related Changes

As for other recent changes, the *QM2* is now sailing seven-night transatlantics versus six, the added day perhaps one of the most visible efforts by the cruise industry to cut down on fuel costs by slowing down ship speed. "The seven-nighters are scoring every bit as well as the six nighters," reports Shanks, adding that while the decision was made when fuel was at \$140, all of the 2011 crossings will be seven days. "If we stayed at six nights, the [per diems] would have to go up."

Cunard is also implementing fuel surcharges for new bookings after November 1 for 2011 sailings. "We implemented it across the U.K. brands [also P & O Cruises]," says Shanks, adding it didn't make sense for fuel surcharges for one U.K. brand, but not the other.

Latest Carnival Corp. Report On Biz

During their second quarter earnings call on Tuesday, Carnival Corp. leaders reported slightly lower year-over-year booking volumes over the last thirteen weeks for North American brands. Vice Chairman/COO Howard Frank reported strong volume and pricing for Caribbean programs during the same period but, lower booking volumes for Alaska and Europe itineraries (though both are selling at higher pricing year-over-year). Pricing for Mexican Riviera is back up.

The big picture? "It is fair to say that demand for cruises has been solid, and we have continued to achieve higher year-over-year price increases," said Frank. He added that despite the "brief slowdown" in Alaska and Europe trades, the company is expecting significant year-over-year price improvement for Alaska and Europe for 2010.

"Beginning in early May, the effect of the volcanic ash issue in the U.K. and Western Europe did cause nervousness for air travel, particularly for North American consumers taking airline flights across the Atlantic," reported Frank, adding it was compounded by the European sovereign debt crisis and the resultant negative effect on global equity markets. "We believe this caused consumers, especially those in North America, to rethink their vacation plans."

He indicated that when the problems occurred, there wasn't much inventory left to sell for Europe and Alaska. Execs emphasized that external events seem to have affected North Americans more than European markets. "The European consumers appear to be more resilient to geopolitical events than their North American counterparts," said Frank.

Looking ahead, fourth quarter occupancy is slightly lower year-over-year. However, Frank said, "At the present time pricing is running nicely ahead year-over-year with lower occupancies."

Frank said: "Principally, what's happening is we're getting stronger pricing for the quarter and are less concerned about lower occupancy. Booking pacing has been good."

Commissions Transportation & Other

In other financial news, Carnival Corp. reported that "Commissions, transportation, and other" for the first six months of the year went from \$954 million in 2009 to \$937 million for the first six months of 2010. However, for the three months ending May 31, the "commissions, transportation, and other" stayed the same at \$440 million year-over-year. For that some quarter, Carnival's profits totaled \$252 million, compared to \$264 million for the second quarter of 2009.