



Challenges and Opportunities for the Cruise Sector

A Product and Logistical Perspective
September 25, 2008



Cruise Challenges and Opportunities

Product and Logistical Issues

- Significant factors which are challenging the historical business practices of the sector
- Key challenges which we face as a result of our steady growth
- Two examples of recent projects which represent novel approaches to port development



Cruise Challenges and Opportunities

Port selection increasingly complicated

- Deployment (product) strategy evolving
 - Financial opportunity costs playing a bigger role in asset allocation
 - Developing markets versus mature
 - Currency challenges affect returns, operating costs and newbuild decisions
 - Regulatory issues restrict historical itineraries
 - Fuel efficiency changes cost – benefit relationship of port content



Itinerary/Fuel Optimization

Port Content – Commercial appeal

- 10-day Round trip European cruise – 13 departures: Evaluate 2 different port options within itinerary

	City “A” B/(W) City “B” <u>(per PBD)</u>
Yield lower	(\$3.00)
Fuel cost lower	\$1.70
Shore Ex profit higher	\$6.60
Port cost lower	<u>\$1.05</u>
Profit contribution higher	\$6.35



Itinerary/Fuel Optimization

Deployment Decision – Competitive Home Ports

- 7-day US Domestic Round Trip Cruise: Fall 2009/Spring 2010 - 2 turn port options
 - Fuel Savings: \$60,160/voyage or \$3.20/PBD in favor of city “B”
 - Yield difference: City “A” > City “B” by \$17.00 gross
 - Adjusted for richness: \$9.35 (to make historical results comparable)
 - Conclusion: $\$9.35 - \$3.20 = \$6.15$ higher yield for City “A”



Itinerary/Fuel Optimization

Timings for Port Calls

- 7-day US Domestic RT Cruise
 - Change: arrive Port 1 hour later (0900 vs. 0800)
 - Fuel savings/voyage: \$18,750 (\$1.00/PBD)
 - Fuel saving, full-year: \$600,000



Cruise Challenges and Opportunities

Challenges of Growth

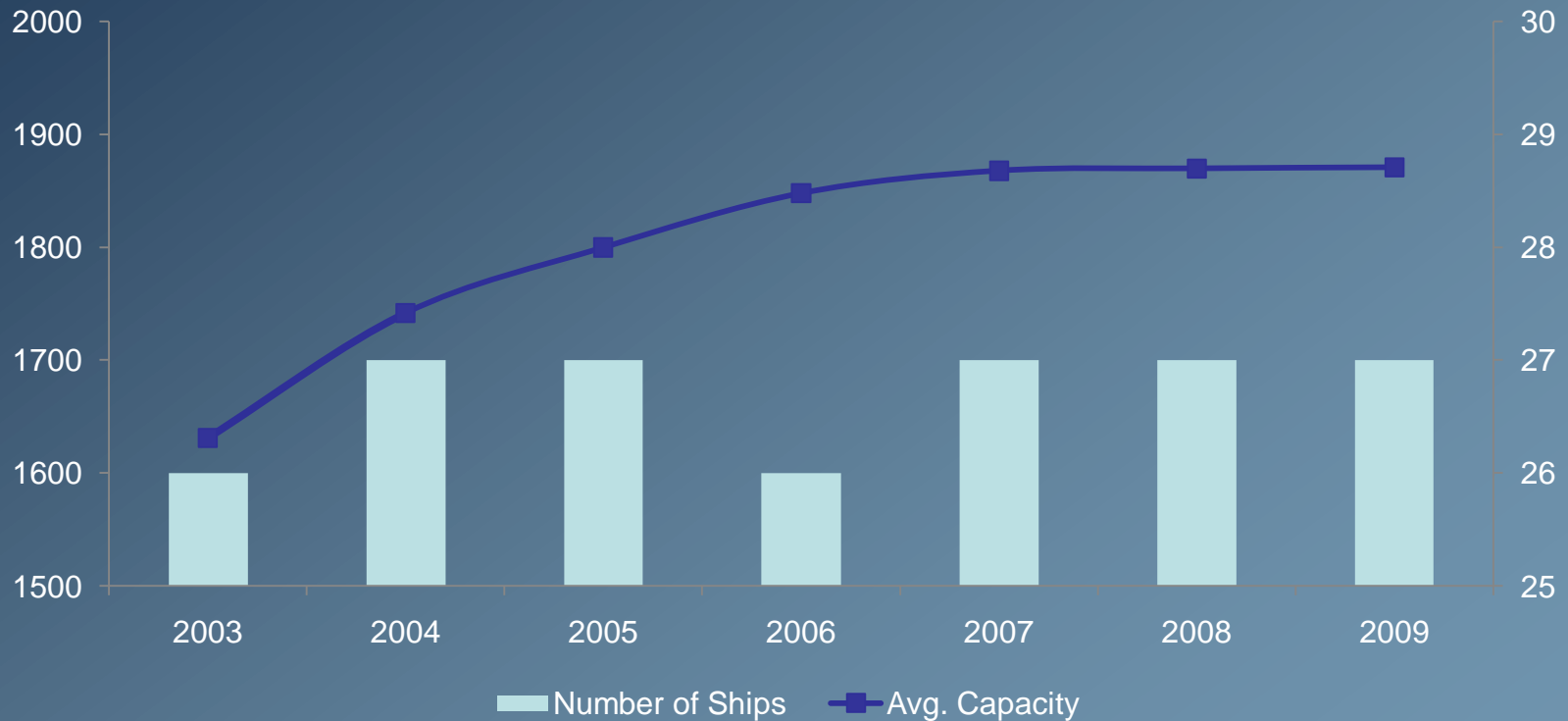
- Host community impacts
 - Balancing community with commerce
 - Long term vs. short term development
- Challenges of vessel growth
 - Efficient clearance
 - Ample gangway capacity
 - Tour staging facilities
 - Luggage handling
 - US Direct
 - Storing



Cruise Challenges and Opportunities

Product and Logistical Issues

Alaska Vessel Deployment vs. Average Size



Cruise Challenges and Opportunities

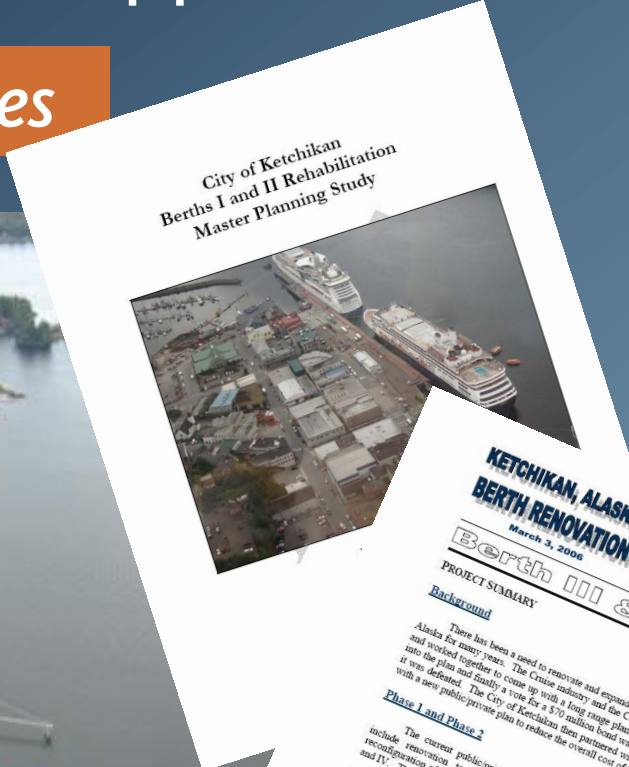
Product and Logistical Issues

- Case study – Ketchikan
 - Five year program (so far)
 - Capacity from 2.5 to 4 post panamax berths in two phases
 - Community facilities renovated
 - City float rebuilt, third berth designed to serve commercial fishing fleet in off-season
 - Staging areas all upgraded
 - Seawalk built to link all facilities
 - Public-private partnership
 - One berth and infrastructure funded by bonds
 - Second berth private development leased to city



Cruise Challenges and Opportunities

Product and Logistical Issues



City of Ketchikan
Berths I and II Rehabilitation
Master Planning Study



KETCHIKAN, ALASKA
BERTH RENOVATION
March 3, 2006

Berth III & Berth IV

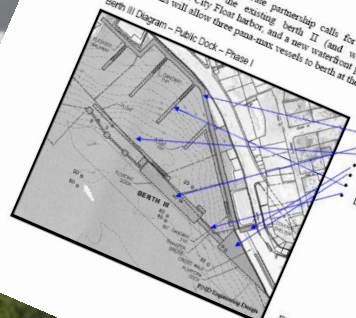
PROJECT SUMMARY

Background

There has been a need to renovate and expand the berthing capacity in Ketchikan, Alaska for many years. The cruise industry and the City of Ketchikan realized this need and worked together to come up with a long range plan. Many options and factors were included in the plan and finally a vote for a \$70 million bond was held in August 2005 however it was defeated. The City of Ketchikan then partnered with private industry to come up with a new public-private plan to reduce the overall cost of the development.

Phase I and Phase 2

The current public-private partnership calls for two phases: Phase One will include renovation to the existing berth II (and will be renamed Berth III), reconstruction of City Float harbor, and a new waterfront promenade linking Berths III and IV. This will allow three pass-stay vessels to berth at the City docks.



- Promenade
- Floating Pier
- Center Pier
- Covered Shelter
- Expansion Dock
- New Float
- Down Ramp

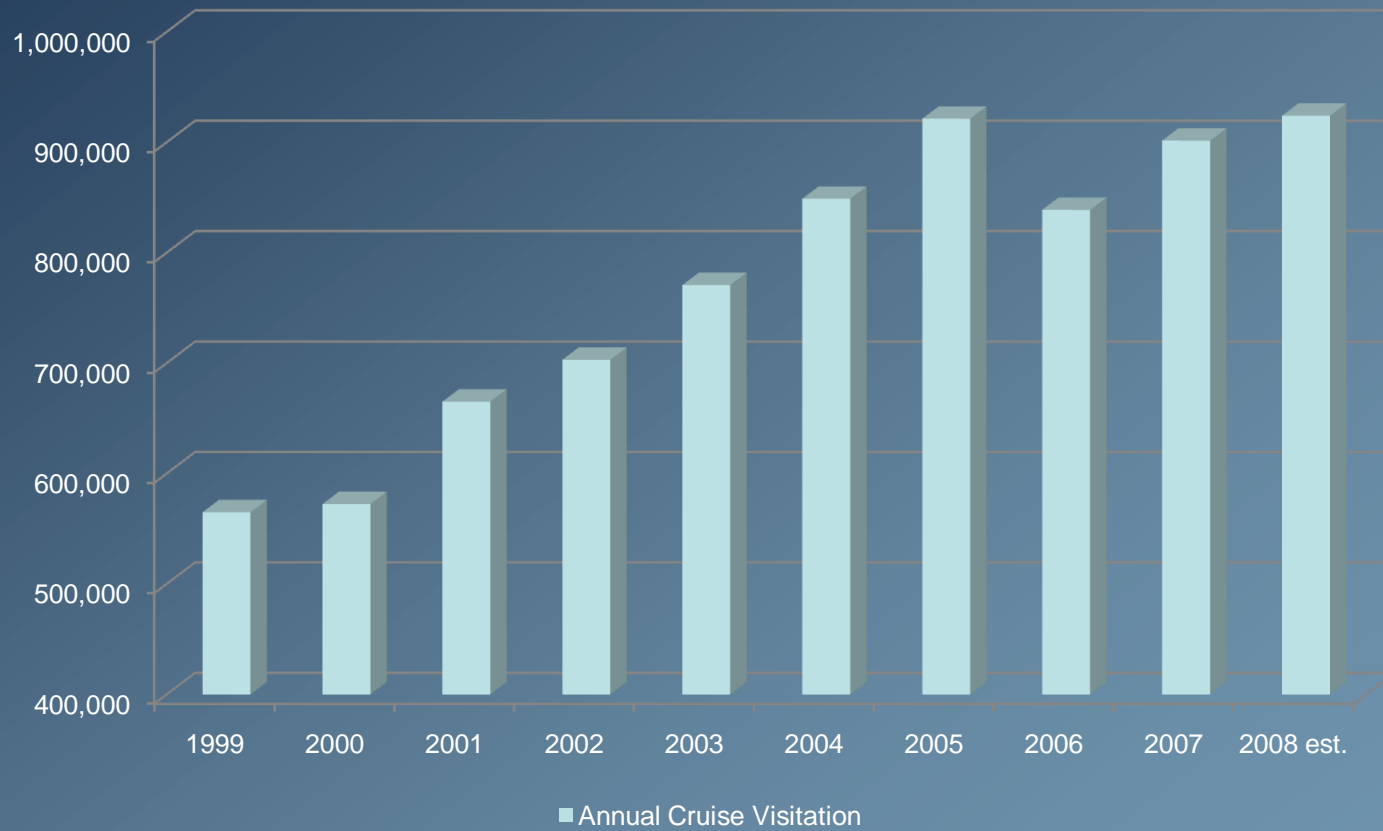
Figure 4 - Berth III



Cruise Challenges and Opportunities

Product and Logistical Issues

Ketchikan Alaska



Cruise Challenges and Opportunities

Product and Logistical Issues

- Case study – Whittier
 - Opportunity for inter-modal ship turn facility
 - Private terminal development on city leased land
 - 75 miles closer to Anchorage airport
 - 8 hour shorter route for ships
 - Purpose built facility
 - Floating dock
 - Airline check-in in terminal migrated to BAGs Inc. direct check
 - Highest rated customer service in the world



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Product and Logistical Issues



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Product and Logistical Issues



Cruise Challenges and Opportunities

Product and Logistical Issues

- “We don’t make the market, the market makes us”
 - If you build it, they might not come!
 - Engage the lines, we’re always looking for new, novel and improved
 - Scale development to grow with traffic
 - Current cruise ports need to assure they are aware of and adapting to the developing needs of the industry

