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

<table>
<thead>
<tr>
<th>City “A” B/(W)</th>
<th>City “B” (per PBD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yield lower</td>
<td>($3.00)</td>
</tr>
<tr>
<td>Fuel cost lower</td>
<td>$1.70</td>
</tr>
<tr>
<td>Shore Ex profit higher</td>
<td>$6.60</td>
</tr>
<tr>
<td>Port cost lower</td>
<td>$1.05</td>
</tr>
<tr>
<td>Profit contribution higher</td>
<td>$6.35</td>
</tr>
</tbody>
</table>
Itinerary/Fuel Optimization

• 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”

Deployment Decision – Competitive Home Ports
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

- **Number of Ships**
- **Avg. Capacity**


- **2003**
  - Number of Ships: 1600
  - Avg. Capacity: 26

- **2004**
  - Number of Ships: 1700
  - Avg. Capacity: 29

- **2005**
  - Number of Ships: 1700
  - Avg. Capacity: 29

- **2006**
  - Number of Ships: 1700
  - Avg. Capacity: 29

- **2007**
  - Number of Ships: 1800
  - Avg. Capacity: 29

- **2008**
  - Number of Ships: 1800
  - Avg. Capacity: 29

- **2009**
  - Number of Ships: 1800
  - Avg. Capacity: 29
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*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
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Product and Logistical Issues

Ketchikan Alaska

Annual Cruise Visitation

- 1999
- 2000
- 2001
- 2002
- 2003
- 2004
- 2005
- 2006
- 2007
- 2008 est.
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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Cruise Challenges and Opportunities

Product and Logistical Issues
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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