

NUMBER ONE

By Richard H. Wagner

Carnival Cruise Lines has grown from a company with one second-hand ship into the most popular and most profitable cruise line in the world.

When most Americans think about cruise vacations, they think about Carnival Cruise Lines. Carnival will carry some 3.7 million passengers in 2007 - - more than any other cruise line including its sister companies Cunard Line, Princess Cruises and Holland America Line. What makes this fact particularly impressive is that 35 years ago, there was no Carnival Cruise Line.

While the company still focuses heavily on its original market --Caribbean cruising - - in recent years "Fun Ships" have been deployed to a number of American cities and to ports in Europe. In 2007, two Carnival ships sailed on a regular basis from New York. *The Log* went aboard these ships to find out what Carnival is all about.

The Legend Begins

The early days of Carnival are inextricably linked to the legend of Ted Arison, a former colonel in the Israeli Army, who, as the story opens, had had a somewhat unsuccessful business career in the air cargo industry. One day in 1966, Arison was visiting the office of some friends in the shipping business whose interests included leasing two car ferries for use as cruise ships in Miami when they received a message from the person who was chartering the ferries. The message advised them that the cruise business was not doing well and sought to re-negotiate a lower charter fee for the ferries. Arison told the ship owners that they should reject the cruise operator's demand. He knew the business and would be willing to go to Miami and operate the ships for them. Delighted at this fortuitous coincidence, the ship owners agreed and Arison was off to Miami.

In fact, Arison had no experience in the cruise business. Moreover, he found that the ferries were more utilitarian than luxurious with many of the passenger cabins not even having a porthole. Nonetheless, the Arison Shipping Company soon achieved a modest

success running the ferries from Miami to the Bahamas, carrying a mixture of cruise passengers and cars.

The road to success, however, then took a turn. Because of reverses in some of their other ventures, the ship owners went bankrupt. The primary holder of the mortgage on the two car ferries was the Israeli government and it decided that the ferries might be useful for military purposes in the event of war. Accordingly, they directed that the ferries be returned to Israeli waters. As a result, Arison's cruise ship business no longer had any ships.

Looking through a trade publication, Arison ran across an article about a newly built combination passenger ship and car ferry. Norwegian businessman Kurt Kloster had built the *SUNWARD* in order to take cars and holiday-makers from England to Gibraltar. However, political problems in Gibraltar had squelched the scheme. Arison immediately called Kloster and told him that *SUNWARD* sounded similar to the ships that he had been operating successfully in Miami and that the two should join forces.

Kloster was intrigued by the idea but asked to see documentation of the advanced bookings that Arison had mentioned. There had indeed been a demand for future cruises but Arison had no documentation. Nonetheless, he agreed and reportedly set his people to work making some documentation. Kloster also demanded a guarantee that he would make \$500,000 a year in profit. Arison agreed even though he did not have the money. As a result, a partnership was formed between Arison Shipping and Kloster's company that would do business under the name "Norwegian Caribbean Lines" or "NCL."

When *SUNWARD* arrived in Miami, Arison found that it was a significant improvement over his earlier ships with a sleek design that looked more like a modern cruise ship than the retired ocean liners that most of his competitors were using to do cruises out of Miami. Besides having a catchy appearance, *SUN-*



CARNIVAL VICTORY is one of two cruise ships Carnival Cruise Lines operated out of New York in 2007. (Photo: R.H. Wagner)

WARD was fully air-conditioned and her passenger cabins were located on the outside of the hull so that passengers could have portholes. She was put to work doing three and four-night cruises from Miami to Nassau. The operation proved successful and two more new ships were added to the fleet.

Success, however, did not promote harmony between the partners. Conflicts arose between Arison's Americans who were doing the sales, marketing and the other shoreside business aspects of the partnership and Kloster's Norwegians who were sailing the ships. By 1971, Kloster announced that he was severing the partnership and taking the three ships with him. Arison responded by seizing the deposits passengers had paid for future cruises. Years of litigation followed that eventually ended with an out-of-court settlement.

The end of the partnership once again left Arison with a cruise ship company that had no ships. Arison first sought to purchase two old Cunard ships, the CARMANIA and the FRANCONIA, that had been retired from service. (See *The Log*, Summer 2007, at p. 22). However, a deal could not be worked out. Next, Arison set his sights on another laid-up vessel, the

Canadian Pacific liner EMPRESS OF CANADA. But, again he found that he did not have the capital to buy her.

Arison then turned to his friend Meshulam Riklis, whose holdings included a travel business, American International Travel Service ("AITS"), which operated tours and suggested that he set up a subsidiary of AITS that would provide cruises out of Miami. Arison would contribute the \$1 million that he had seized from NCL and together they would buy the EMPRESS OF CANADA. Riklis agreed and since AITS had called its various tours "Rio Carnival", "Hawaiian Carnival" etc., the new cruise line would be called Carnival Cruise Lines.

The EMPRESS OF CANADA had been built in 1961 for the run between Britain and Canada. Although she had been used for cruising in the winter months, she was configured as a two-class liner and substantial renovation work would have to be done before she was ready for the Caribbean. (In fact, the ship sailed with a cadre of workmen for two years into her Carnival career). She was renamed MARDI GRAS to be consistent with the festive, carnival-like spirit her new owners

were trying to engender.

Captain Claudio Cupisti, now master of CARNIVAL MIRACLE, started with the company aboard MARDI GRAS. "The MARDI GRAS was the first love of this company because it was a ship with a lot of character. Lots of wood, lots of brass, lots of what you think of as an old ship that you see in a movie. Small portholes, small lounges, more geared to crossing oceans than doing cruises. It is like the old lady that you have seen around working but with lots of class."

On 7 March 1972, MARDI GRAS set sail from Miami on the maiden voyage of the new Carnival Cruise Lines. She immediately ran aground. For a full day, the ship sat at the tip of Miami Beach in plain sight of thousands of tourists and close enough to land for the newspapers and wire services to get plenty of pictures. On board, however, the passengers continued to party.

Once off the sandbar, MARDI GRAS continued on with the maiden cruise. In San Juan, the fuel suppliers had no past history with this fledgling operation and demanded cash to refuel the ship so that it could return to Miami. Arison wine and dined them in the hopes of obtaining credit. Still, they demanded cash. Consequently, he had the Carnival office in Miami wire him the deposits that had been paid on future cruises and then went around the ship emptying the cash registers in the bars to obtain the needed funds.

MARDI GRAS struggled back to Miami and for some two years Carnival Cruise Lines continued to struggle. Part of the problem was that AITS was doing the sales for the line. Inasmuch as it was a travel business, it preferred to deal directly with the public rather than through independent travel agents who were (and still are) responsible for selling a high proportion of cruises. As the losses mounted, AITS became increasingly concerned about its investment. In addition, one of AITS other holdings was a Las Vegas casino and the Nevada Gaming Commission was becoming concerned about AITS' money-losing cruise line investment. Accordingly, in 1974, for the sum of one dollar, AITS sold Carnival Cruise Lines, complete with its assets (primarily the MARDI GRAS) and its liabilities (\$5 million in debt), to Arison and two other investors.

Arison brought in a new marketing team and,



CARNIVAL MIRACLE is newer but somewhat smaller than CARNIVAL VICTORY. Consistently rated highly by both passengers and crew, MIRACLE replaced sister ship CARNIVAL LEGEND this year as one of the company's New York-based ships. (Photo: R. H. Wagner)

as will be discussed later, implemented a new marketing philosophy. He also made amends with the travel agents. Soon, Carnival was making money, which he invested in expanding the Carnival fleet. In 1976, he purchased another Canadian Pacific liner, EMPRESS OF BRITAIN and converted her into the CARNIVALE. In 1978, the Union Castle Line's TRANSVAAL CASTLE became the FESTIVALE.

With the three converted liners making money, in 1981, Carnival began to build its own cruise ships with the TROPICALE (35,190 g.r.t.). This was a major turning point because it allowed Carnival to design its ships to meet its ideas about cruising rather than adapt its ideas to the limitations of existing designs. Since then Carnival has built 23 more ships for its fleet and will add another, the 113,000 ton CARNIVAL SPLENDOR, in 2008. By 1987, Carnival had passed all the other cruise lines in the number of passengers carried.

An indication of the complete turnaround of Carnival's fortunes occurred in 1988, when Finland's Wartsila shipyard went bankrupt. The yard was in the process of building a ship for Carnival. To be sure that work on the ship was not delayed, Carnival stepped in and helped finance a reorganization of the yard. The ship was finished on schedule and the yard (now Kvaerner-Masa) remains today as one of the major builders of cruise ships in the world, although Carnival no longer has an interest. Carnival had come a long way from having to shake the cash registers to pay for fuel.

Prior to the stock market crash of 1987, Arison took Carnival public, which gave the money-generating line \$400 million more in capital to fuel expansion. The publicly traded company, Carnival Corporation, would act as a holding company for Carnival Cruise Lines and for any company it might acquire.

Three years later, Ted Arison retired and his son, Micky Arison took over as chief executive officer of Carnival Corporation. Micky Arison continued the acquisition program begun during his father's tenure when Carnival acquired Holland America Line and Windstar Cruises in 1989. Subsequently, Carnival Corporation has acquired Cunard Line, Princess Cruises, Seabourn Cruise Line, Costa Cruises, P&O Cruises, P&O Cruises Australia and Swan Hellenic. It also owns Ocean Village Cruises and Aida. In all, 82 ships now sail under the various Carnival brands. Micky Arison's philosophy has been to allow these acquired lines to operate with their own identities rather than make them clones of Carnival Cruise Lines. (See *The Log*, Winter 2006 at p. 30). Thus, they are intended to appeal to different market segments. By no means, however, is management attempting to abandon its original success formula. Carnival Cruise Lines is the most popular and profitable cruise line in the world. It operates 22 ships sailing to destinations in the Caribbean, Canada, the Bahamas, Mexico, New England, and now Europe.

The Keys to Success

There were several entrepreneurs providing cruises on retired ocean liners out of Miami in the early 1970s. So, how did one of them metamorphose into a corporate giant producing \$11.5 billion in revenue in 2006?

Captain Gianpaolo Casula, master of the *CARNIVAL VICTORY*, joined Carnival Cruise Lines in 1976 shortly after the line began and has witnessed first hand its phenomenal growth. He told *The Log* that when Carnival began operations, "cruising was pretty much limited to the upper class and so it was a little bit restricted. Ted Arison gave the chance for everybody to cruise. That's how they succeeded. Prices went down." Or, as Carnival's corporate history puts it, Arison "set out to realize his vision of making a vacation experience once reserved for the very rich accessible to the average person."

In addition, while Costa, Cunard, Holland America and the other established lines offered a very staid approach to cruising in which the passengers were pretty much left to entertain themselves, Captain Casula pointed out, Carnival "offered a different way [to

cruise]. For the guests, there was a lot of fun, they could enjoy being aboard with activities."

Indeed, "fun" became the watchword of the company. One of the people brought in to work on marketing the line was Bob Dickinson who is credited with developing the line's slogan: "The Fun Ships." Dickinson has written: "What is the universal need - - the one ingredient everyone wants in their vacation? FUN! And, fortunately, the product at the time backed up the slogan. . . . With the 'Fun Ship' position, the ship itself became the destination and the ports of call became green stamps - - a total reversal of previous cruise marketing. Cruise marketing had been destination driven. But in the early 1970s, less than one percent of the public had been on a cruise; the vast majority of the population was leery of this unknown concept. By focusing on the ship rather than the ports of call, Carnival was forced to communicate to the public what the experience of the ship and cruising was all about." (Bob Dickinson, Andy Vladimir, *Selling the Sea*, 2d ed 2007).

Unlike many of the early Miami cruise operators who limited their marketing to southern Florida, Arison had pioneered nationwide marketing in his days with NCL. Building upon this, Carnival became the first line to advertise on network television with a campaign that brought the Fun Ship slogan into millions of American homes.

Captain Cupisti also noted that: "In the beginning, one of the other strategies that was adopted was boosting the travel agency network and that gave us the edge over everybody else. We have a loyal travel agency network. We keep rewarding these people. We are proud to have these people working with us and they are loyal to us. They keep the Carnival and the Carnival Corporation as the first choice to the regular passenger".

Indeed, the story is told that Carnival hired people to go into travel agencies posing as people planning their next vacation. If the travel agent suggested a cruise vacation, the Carnival employee would give them ten dollars. If the travel agent suggested a Carnival cruise, Carnival paid them \$1,000.

Another key factor in Carnival's success was the designs of the ship. Captain Casula, who has commanded most of the Carnival ships over the years, noted "we have always had as our architect [Joseph] Farcus and he did a fantastic job. We consider him like a genius." The interior designs were not like the traditional ocean liners. Sometimes they were whimsical, sometimes shock and awe Las Vegas-style, always they were sought to engender a fun experience.

Farcus has explained that his designs tell a

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"story." The design process begins with "an intellectual idea for me to build artistic creations around [which] all of the public rooms on board the ship follow. To me, there is a coherence in the design that varies in how that is interpreted from room-to-room. It will really enhance your cruise by making this a discovery process. My hope is that the environment itself will engender this type of exploration."

Yet another ingredient in the success formula is hospitality, a factor Captain Casula credits as helping Carnival compete against lines that offer more luxurious cruise experiences. "It is like if you travel around the world, sometimes you go to a very sophisticated hotel, beautiful, but the hospitality is not what you want and so you [no longer] care about how sophisticated the hotel is. Then you go to another one, nice and simple, you get treated like royalty and so you would prefer to go there. For us, in my personal opinion, the way you have been treated is very important. Saying hello, talking, greeting, try to remember the name of the guest. It gives you a good feeling."

According to Captain Casula, Carnival Cruise Line has continued to succeed over the years by remaining focused on its core market and the principles that allowed it to succeed with that market in the first place. "Carnival has stayed, more or less, on a level for a specific class of guests. From the beginning up until now, the only difference is that the ships became more sophisticated in equipment, offering more fancy things on board."

The New York Ships

Carnival Cruise Line operated two ships out of New York during 2007. The CARNIVAL VICTORY focused on providing short cruises to Halifax and St. John's in Canada while the CARNIVAL MIRACLE provided eight-day cruises to the Caribbean.

The VICTORY is 101,509 tons and is built by Fincantieri on a post-Panamax hull that is 893 feet long and 116 feet at the beam. She is the last of three Destiny-class cruise ships, entering service in 2000. With 13 passenger decks, she towers above the water, which creates spectacular views from her upper decks but which also presents a large face to the wind. However, Captain Casula indicated that coping with this issue is just a matter of getting to know your ship. "Every ship has a different side and presents a different face to the wind. In the maneuver, you have to take this into consideration."

Six diesel engines power the ship, generating

enough electricity to supply a city with a population of 30,000. The electric motors turn two shafts that rotate the variable pitch propellers in opposite directions. They also power three bow thrusters and three stern thrusters.

The thrusters and the ship's two independent rudders give it tremendous maneuverability. "They make it more easy for us to dock and also to be independent. If the wind is not over 25 knots, I dock. If the wind is over 25 knots, I have to ask the assistance of tug boats."

VICTORY was "built for cruising" and so has a maximum draft of 27 feet. "In those small islands, we need ships with not too much draft." "Of course, when we are in bad weather, we don't handle like the ships of [the ocean liner period] like NORWAY [formerly FRANCE], MICHELANGELO, or RAPHAEL. Those [were a] different shape, more aerodynamic, just built to do the crossing. We are safe [but] you can feel more the impact when you hit a wave." Accordingly, as the more wintry weather approached in October, VICTORY went south to homeport in Miami until next Spring.

Entering service in 2004, CARNIVAL MIRACLE is smaller than VICTORY at 88,500 tons. Her longer (963 feet) and narrower (106 feet) hull gives her a sleeker shape and a more ocean liner-like block coefficient than her running-mate. "The hull of the ship is much better for crossing the ocean. For example, if you are going on [the VICTORY] class of ship, the shape of the bow is much larger. It has a tendency to bounce in the water. It can be annoying for somebody who is not used to [the sea]. Whereas this one is more like a liner. It cuts through the waves. It is much more comfortable for everyone." Captain Cupisti commented.

In fact, she is similar in design to Holland America's NOORDAM, which operates out of New York in the winter. (See *The Log*, Spring 2006 at p.9). Nonetheless, she too heads south when winter comes albeit somewhat later than VICTORY. "We are here for the summer for obvious reasons. Due to the weather in the Atlantic during the winter, it is bound to create problems with the ship and the passengers. For the first two days going and the last two days coming, it is going to be really rough."

Because of her smaller size, MIRACLE carries fewer passengers. Her passenger capacity is listed as 2,100 versus VICTORY's 2,758. (Keep in mind that the industry usually lists passenger capacity in terms of lower berth capacity. When VICTORY's upper berths are considered, she can carry 3,540 people).

Built by Kvaerner-Masa in Finland, MIRACLE's maximum speed is approximately 22 knots. However, she has an azipod propulsion system

rather than propeller shafts and rudders. On a ship with pods, electricity is sent from the ship's power plant to electric motors housed in casings hung below the hull referred to as pods. The motors then turn fixed blade propellers that are mounted on the front of the pod, which pull, rather than push, the ship through the water. Azipods can turn 360 degrees and enable the ship to turn at speed by turning the pods. As a result, there is no need for a rudder. Since they are located near the stern, they can also be turned to perform the function performed by stern thrusters. Not only are pods useful for maneuvering but they afford more space in the hull because the motors are outside the hull and because there is no need to have stern thrusters. Also, because there are no propeller shafts, there is less vibration.

Life Onboard

As Captain Casula pointed out, one of the key factors in Carnival's success has been affordable fares. Consequently, on board a Carnival ship one sees a broader cross-section of the middle class in terms of occupations and ethnicity than on some of the higher-priced lines. In addition, the lower fares are conducive to travel by families, family reunions and by various groups and organizations.

Thirty percent of the line's passengers are under age 35, 40 percent are between 35-55, and 30 percent are over 55. However, the age mix of the passengers, Captain Casula explained, "depends upon the season [and] upon the type of cruise. If we go to Alaska, most of the guests are mature adults. On the cruise to Canada from New York, we have a lot of families. In the Caribbean, in the summer, we have a lot of students, not teenagers, young 19, 20, 25. During the Spring Break, we have a lot of teenagers. In winter, we have a lot of adults."

In addition, Captain Cupisti pointed out that the length of the cruise affects the demographics. For a seven-day cruise, "you need only one week vacation. On an eight-day cruise, if you are leaving on Tuesday, and you are arriving the next Wednesday, you need two weeks vacation to go. So, that changes the demographic of our ship. [As a result] our ship is more cosmopolitan."

Although the fares are reasonable, the cruises are not "cut-rate" in terms of quality. The ships have state-of-the art nautical technology and feature the modern amenities such as spas, fitness centers, pools, casinos, theaters, bars and lounges that one would expect to find on a cruise ship. Carnival has long been known for having staterooms that were larger than the industry average. The rooms have the "Carnival Comfort Bed

Sleep System" which includes plush comfortable mattresses, duvets and high quality sheets and pillows and which are quite comfortable. The line also provides amenities baskets with sample-size, brand-name products such as razors, toothpaste and even romance novels. While not the type of luxury one would have found in the Plaza Hotel or would find today in the London Ritz, the rooms are comfortable and are similar to what one would expect from a good quality modern hotel chain.

A modern hotel also describes the décor of the public rooms in CARNIVAL VICTORY. With this ship, architect Farcus took the sea as his central creative idea. Accordingly, the ship's multi-story central atrium is done in soft blues and greens. Although the colors vary, this type of restraint continues throughout the ship. There is little shock and awe in the VICTORY.

CARNIVAL MIRACLE is much more whimsical. The public rooms are designed around a theme of "Famous Fictional Characters." The theater is named after the Phantom of the Opera, a pool after Homer's Ulysses, and there is Mr. Lucky's Casino and Nick and Nora's Restaurant, for example. The colors are bolder, oversized painting of sea nymphs and large panels with drawings of Robin Hood, Lord Jim, Hercule Poirot and other fictional characters adorn the walls. Huge figures of sea gods, Frankenstein and the Mad Hatter appear in various rooms. As Carnival puts it: "Stepping aboard CARNIVAL MIRACLE is like entering a theme park."

As the television advertisements make clear, the object of a Carnival cruise is to have fun. This is light hearted-fun, not intellectual enrichment. There are trivia games, bean bag toss championships, and even hairy chest competitions. However, most of the passengers opt for relaxing, wining and dining in a nice setting. For many, this involves sun bathing by the pools, eating at the large buffets, and spending the night in the casino. However, for others, there is afternoon tea in one of the dining rooms with a classical music trio and listening to a jazz ensemble in the sophisticated atmosphere of the cigar lounge. Along the same lines, the entertainment options range from full-scale Las Vegas style productions shows in the theater to a singer accompanying himself on an acoustic guitar in one of the bars. In other words, Carnival recognizes that people have fun in different ways.

In recognition of the fact that the public is growing more demanding in its dining habits, Carnival brought in French master chef Georges Blanc to oversee the line's cuisine. However, this is a mass-production operation - - the VICTORY's dining rooms serve 1,500 main courses in less than 25 minutes - - and thus one cannot expect gourmet cooking. Accordingly, some of

the Carnival ships, including CARNIVAL MIRACLE, have separate specialty restaurants where passengers can indulge their gourmet cravings for an extra charge.

Going Forward

Carnival is by no means resting upon its laurels. Deploying two ships to New York is part of a larger strategy of stationing ships around the country. "We have the most number of homeports all around America. So, we can serve people without having them fly to the ship. We bring the ship to them." Captain Cupisti explained.

The strategy is working. The ships sail fully occupied but as MIRACLE's Hotel Director Pierre Camilleri noted, "only 30 percent of our guests fly in to join the cruise. Most of them are drive-in."

But, Carnival's horizons are not limited to America. The European economy is expanding and the conditions there are similar to those Carnival found so fertile in the 1970s in America. There, "the old conception of a cruise was that it was only for royalty. Now, they understand that the cruise is not just for royalty but it is for everybody. So, there is this booming of the market there." Accordingly, Carnival ships have been deployed to Europe including its latest ship CARNIVAL FREEDOM.

To handle the worldwide demand, Carnival is building more and bigger ships. Two 130,000 ton giants, CARNIVAL DREAM and CARNIVAL MAGIC are on order.

The growth of the cruise industry has also sparked a wave of construction in places that are or would like to be destination ports. In the Caribbean, islands are constructing piers and upgrading their infrastructures to accommodate the cruise ships. "Carnival expansion is very welcomed by the islands because we bring ships, we bring money, we bring work - - not only around the tourists but work on the piers and with the shops. So, it is all well around. They give us the space, the weather, we give them the ability to live very comfortably and to move up." Captain Cupisti commented.

The company is also continuing to develop its onboard experience. To do this, it is refurbishing older ships and adding new amenities and programs to its ships. As Captain Cupisti explained: "Following the evolution of the market, we are going towards the full experience onboard. [We do] not conceive of a ship like a closed space but as an in-all vacation package. So, in other words, you come on the ship and you should find everything."

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