Pricing methods and strategies in the cruise line industry
A case study on Carnival Corporation’s premium and luxury brands

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Abstract
This research paper investigates the factors affecting pricing strategies and models within the cruise line industry. The kind of pricing models that can contribute to the development of pricing strategies and processes within the industry is also being investigated. The first and the latter are both this research’ purposes and are important topic for both academic and managerial perspective.

The paper uses Carnival Corporation’s two distinct brands, the premium Holland America Line and the ultra-luxury The Yachts of Seabourn as a case study to find out the existing pricing strategies and models in the industry today. Pricing factors and processes are also taken up. Semi-structured interviews with key personnel within sales and revenue were done and used as a source for empirical data. Studying the case’s website also supports the gathered information from the interviews. Scientific articles and business textbooks were studied for theoretical perspective. Journals about pricing, pricing in the cruise line and revenue management written in random by, for example, Phillips (2005), Lieberman (2012) and Oxenfeldt (1973) to name a few were primarily used. The academic textbooks written by Olve et al. (2013) about pricing and the method book by Bryman & Bell (2011) are a few of the examples used amongst others. By analyzing and comparing theoretical information and empirical data, the author of this research comes up with viable results that aim to give a better understanding of the subject in both academic and professional fields.

The findings show that the cruise industry still focuses primarily on profit that makes pricing a critical part of the process. There are several factors affecting price decision-making and strategies that include sales, seasonality, and customer’s feedback. The primary objectives for these decisions are long-term profit, growth, loyalty of resellers and brand’s reputation. It was also found out that the existing price models could be adjusted in order to conform to the other types of hospitality businesses. One or more characteristics of the five components in the price model equalizer by Olve et al. can be used and combined if necessary. These findings have theoretical and practical implications suggesting that the cruise line industry’s price setting continues to evolve and adapt when deemed necessary.

Keywords: Pricing strategy, pricing models, Carnival Corporation, revenue management, cruise industry
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1. Introduction

1.1 Pricing in the cruise industry

The birth of the modern cruise industry can be traced back to the 1960’s when shipping companies grabbed the opportunity of repositioning themselves as providers of vacation travels, from the previous mere transportation services (Kwortnik Jr. 2006). When the American TV-series The Love Boat was launched in 1977, going on a cruise had become popular, much to the romanticized glory of the show and cruising. From 1990 to 2008, the industry had grown an average annual passenger growth rate of 7.4% per annum, according to the Cruise Line Association (CLIA 2009). The worldwide cruise ship passengers rose in 2012 and 2013 in spite of some major accidents (the sinking of Costa Concordia that claimed 32 lives) in 2012 that makes the fear of cruise operators on the collapse of bookings misplaced (The Economist 2014).

One of those that paced the cruising industry was Carnival Cruises when, in 1972, cruising was still relatively small, formal, and lengthy (Kwortnik Jr.). Carnival Corporation (see appendix 1 for operations summary) is the world’s largest cruise company with 52% of market share in 2012, along with about 101 ships and operates ten distinct brands (Levin et al 2012). During the 70s, the most common known pricing published are called brochure rate, list price or full inclusive tariff (FIT). These are categorized accordingly to the date of departure, port of embarkation, and the duration of cruise (Lieberman 2012).

According to the Cruise Line Association Report (CLIA 2014), price is the top motivator to take a cruise for major consumers, followed by destinations/itineraries, cruise board reputation and many more. Cruising is a growing phenomenon and will continue to do so. Olve, Cöster, Iveroth, Petri & Westelius (2013) write that research about pricing is very much fragmented since it covers a wide array of different discipline like marketing, economics, and psychology. They cite that many organizations put too little resources to develop effective pricing processes and pricing models are often unstructured and less thought through than the other areas of a business.

Nagle & Holden (1995); Avlonitis & Indounas (2005) suggest that pricing is the most neglected element of the marketing mix and research is very limited. Oxenfeldt (1973 p. 49) cites that “the field of pricing remains largely the domain of economic theorists who discuss price primarily in relation to the analyses of specific market structures”. The first ever proposed inventory control solution for pricing was that for the airline industry and marked the beginning of revenue management (Lu & Mazzarella 2006). Since then, those inventory control solutions were only mainly used in airlines and hotels that solved the theoretical and practical problems that they were facing.

Liozu and Hinterhuber (2013) examine the positive relationship between pricing methods and firm performance where they point out the increasing role of pricing capabilities put into practice for companies. Oxenfeldt connotes the focus of pricing specialists on the importance of aiding pricing decision-makers for accuracy and efficiency. Oxenfeldt means that in order to cope up with the complexity of price setting, practitioners would need an effective and multi-dimensional model for
analysis that would encourage systematic thinking. Besides that, Oxenfeldt (1973 p. 50) believes that such pricing model “would also underscore the differential advantage available to the firm which strategically sets the prices of all of its products”.

When one look at the pricing challenges and strategies of cruise lines in comparison with other segments of the travel industry, one might think that cruise lines are doing very good. But, it isn’t just the case. Lieberman (2012) points out an example of hotels and airlines reporting an annual occupancy of more than 70% and a load factor with 80-90%, respectively, to be considered financial successes. Although a cruise ship is usually regarded as a floating hotel, there are comparable differences when it comes to occupancy. According to Lieberman, the financially successful cruise lines have utilization rates of more than 100%. He further adds that empty cabins are problematic because of revenue loss and operational loss. Operational loss may include loss in tipping (which makes up a big portion of many personnel’s income) which in turn makes it difficult for the company to keep experienced employees, and the loss of work morale that makes the cruising experience for passengers less pleasurable. It is therefore very important to fill in every cabin as much as possible and that situation consequently makes pricing strategies in the cruise line industry even more critical.

1.2 Research Problem

Avlonitis & Indounas (2005) highlight that pricing is the only element in the marketing mix that produces revenues for the firm while all others are related to expenses and that it is also the most flexible element of marketing strategy. Since the strong and continuing growth of market share of Carnival Corporation, finding out how the company retaliate its pricing methods and strategies will be interesting. To be able to attract more customers and boost revenue is an ultimate goal, but the capability to develop a scheme where pricing strategy effectively dictates whether a business will make it or not may be anything but simple. With these put into considerations, the following questions have been formulated:

- What are the main factors affecting pricing strategies and processes in the cruise industry?
- What kind of price models can contribute to the development of pricing strategies of the cruising industry?

1.3 Purpose of the Study

This research aims to find out more about the factors affecting pricing – its strategies, processes and models in theory and in practice with focus on the cruising industry. To be able to know what kind of pricing models that can contribute for the development of these strategies is also vital for the study.

1.4 Limitations of the study

To be able to create a platform for pricing of all ten brands under the corporation is an enormous responsibility by itself, much more to perform all the methods and strategies of each and every brand. Investigating all ten brands will also require tremendous amount of time so the study will focus on its two brands – its premium brand, Holland America Line (HAL) and its luxury brand, The Yachts of Seabourn. It
is also an ultimate goal to as much as possible confine the study within these two distinct brands as there might be considerable differences on pricing between them and the others that are aimed for the mass market.

1.5 Thesis outline

This thesis is divided into six chapters. The first chapter is an introduction to the topic’s background, research problem, and purpose of the study. The second chapter is methodology – where methods and research design are discussed, as well as how the sampling, interviews, and choice of literature have been conducted. The third chapter goes through the theoretical perspective in relevance to the study. Some of these theories include pricing decisions, objectives, methods, price model equalizer, pricing strategies in the cruise line industry itself, and revenue management. The next chapter is the empirical perspective of the study where the subject of the case study, being Carnival Corporation’s premium and luxury brands, are being described based on actual and practical inquiries. This is then followed by analysis and discussions where the theoretical and empirical results are reviewed, weighed in, and compared. Finally, the last chapter, Conclusion, is where the overall results are being summarized and where the author attempts to answer the research problems.
2. Methodology

2.1 Research Design

To do an academic research is one of the most important things you’ll ever do in your academic career, that’s why it is very important that you choose properly which research design is most applicable in your case. Choosing the research design, and consequently the research strategy and applying it into practice is vital to achieve a competent and qualified research paper.

Bryman & Bell (2013) named three criteria to keep in mind when evaluating business and management research. They are reliability, replicability and validity. Reliability is the quality of being reliable, dependable or trustworthy. It is also about being consistent, and that if the research should be done all over again, the results shall remain the same. That’s why it is very important to choose carefully who the respondents will be, and if they can give reliable information with regards to their job descriptions and main responsibilities in the company. In my study, I opted for those who I believe have the most relevance and knowledge with pricing within the premium brands of Carnival Corporation. Replicability is the property of an activity, process or test results that can be duplicated at another location or time and validity is having the quality of being valid, based on truth foundation. All of these criteria are included in my own research in investigating the pricing strategy within the cruising giant Carnival Corporation.

Carnival Corporation have currently 10 different brands, each one distinct from each other and each intended to have different market segments – mass market/discount, premium, and ultra-deluxe. Since these ten brands will give an enormous amount of information, my research will focus on its premium and ultra-deluxe brands – Holland-America Line and The Yachts of Seabourn, respectively. Information about the two different brand’s revenue, sales and others involved work with their pricing. In other words, how do it all look like inside the cruise industry - the pricing policies, pricing strategies, and ultimately the pricing decisions.

To be able to know what kind of information to be collected can help a researcher determine what methodology to use in the study. The first step was to collect relevant information of Carnival Corporation as a whole, then eventually, information about Holland-America Line and Seabourn. Most of these data are already available in the Internet. Out of the collected information, I can be able to identify pricing practices of the two brands and determine the different methods they are using and factors affecting decision-making. In addition, there will be semi-structured interviews from financial key personnel (i.e. Carnival corporation’s Seabourn brand VP for Sales and Marketing) which will also be the source of qualitative data like for example the pricing policies, procedures, how do they get into the decision and who decides most.

2.2 Case study method

Bryman and Bell (2013) pointed out the case study method to be a very popular research design often used in business and economics research. It can, for example, include studies on an individual organization, a certain place, a special person, or a specific event. Bryman & Bell (2013) mean that case studies can be done with
different methods combined so it can be a better approach, and create a more vigorous study that does not just rely on one method. The author’s work experience in the cruise industry combined with my revenue management experience in an airline company will also be contributing factors to further harness the quality of investigation that in this research. In the case of the two brands within Carnival Corporation, having been to a few ships in Holland America Line and to all the six ships in the Seabourn fleet will help in the better understanding of the working environment of the case. This advantage will be used to do an instrumental case study – the type of case study, according to Bryman & Bell, where research is done to better understand, or question, a more general problem.

2.3 Non-probability sampling and respondents

The Snowball non-probability sampling is the method I used for this research. Snowball sampling, or sometimes called chain sampling, is a method where the researcher makes an initial contact to a few people and then widens the contact network (Bryman & Bell). I first contacted an employee in Carnival Corporation and then that person recommended a key player from the sales department. Consequently, the personnel recommended another four. The following are the three main respondents:

**John Delaney** is the former vice-president for revenue marketing in Holland-America Line before he became the VP for Marketing and Sales in Seabourn. He had driven many projects for Carnival Corporation focusing on financial and operating analysis in areas like marketing, sales, channel performance, procurement, and logistics. Prior to Carnival corp., Delaney has worked on major corporations including The Walt Disney Company, Gateway Computers, and the Cheesecake Factory.

**Mr. Paul Grigsby** - as Sr. Director Revenue Planning and Analysis for Holland America Line, Mr. Grigsby explained, ‘I’m responsible setting the pricing strategy of over 500 sailings per year. Furthermore, I’m responsible for budgeting and forecasting the ticket sales revenue for each of these sailings.’

**Mr. Greg Vogel** is the Manager of Revenue Science who is responsible for the technical application of the pricing strategy. He is in charged with the developing booking profiles (demand forecast) as well as pricing elasticity models.

2.4 Conducting the Interview

For this research, I used semi-structured interviews, which according to Bryman & Bell (2013), is where the researcher uses a list of things related to the theme as a guide and where the interviewees have great freedom in the way they answer the questions. Dahl (2012) believes in the importance of being aware on the nature of interviews. It can be from whatever the interview can tell us as well as what it cannot tell us. That’s why my interviews are open-ended, where the respondents can talk freely and could express more of what they think and know of besides of the questions I have asked them.

Initially, I did a pilot interview on two of the interviewees to gather relevant information that might give me more idea about the topic. It was done with an interview guide in my hand as a support and to help pave the way into where the
conversation was aimed to go. Same as Dahl (2012) did on her interviews, I also took notes right after the interviews on my feelings, thoughts, and impressions around the experience in an aim to help me prepare better for the questions.

After the pilot interview, the final questions had been drafted to conduct the ‘main’ interviews with the respondents at different times. Since all of the respondents are somewhere around the globe, we agreed that I send the questions first so they can prepare. After a few unsuccessful tries of doing the interview over Skype\(^1\) (time difference, technical problem, time constraint for the interviewees), we decided that they answer the questions by mail first and then we discuss additional information over the phone as a follow-up. Below is the interview scheme for this study:

<table>
<thead>
<tr>
<th>Name</th>
<th>Position in the Company</th>
<th>Date/Place of Interview</th>
<th>Length of Interview</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paul Grigsby</td>
<td>Senior Director for Revenue Planning and Analysis – Premium Brands</td>
<td>March 28, 2014/Almere, the Netherlands and May 7, 2014</td>
<td>45 minutes (pilot)</td>
</tr>
<tr>
<td>Greg Vogel</td>
<td>Manager for Revenue Science – Carnival Corporation</td>
<td>May 6, 2014</td>
<td>N/A (Not Applicable)</td>
</tr>
<tr>
<td>John Delaney</td>
<td>VP Sales and Marketing - Seabourn</td>
<td>May 7, 2014</td>
<td>N/A</td>
</tr>
<tr>
<td>Magnus Bengtsson</td>
<td>Fleet captain for Seabourn and HAL</td>
<td>March 25, 2014/Almere, the Netherlands</td>
<td>20 minutes</td>
</tr>
<tr>
<td>Warren</td>
<td>Cruise sales specialist - Seabourn</td>
<td>May 9, 2014</td>
<td>N/A</td>
</tr>
<tr>
<td>Deborah Hampson</td>
<td>Cruise sales specialist - Seabourn</td>
<td>May 9, 2014</td>
<td>N/A</td>
</tr>
<tr>
<td>Sarah Fereira</td>
<td>Cruise sales specialist - Seabourn</td>
<td>May 9, 2014</td>
<td>N/A</td>
</tr>
</tbody>
</table>

*Table 1. Interviewees & interview details*

2.5 Choice of literature

To be able to undergo the research, I have chosen to study scientific articles from the university’s library portal as well as business textbooks. Some examples of the scientific articles are *pricing orientations, capabilities, and firm performance* by Liozu & Hinterhuber (2013), *Optimal cruise-liner passenger cabin pricing policy* by Ladany & Arbel (1991), and *Pricing strategies and models* by Dolgui & Proth (2010). These sources of information are used for the theoretical part of the study. Keywords like pricing strategy, pricing methods, Carnival Corporation, revenue management, and cruise industry were mainly used.

\(^1\) Skype is a video conferencing communications software
2.6 Methods for analysis

The analysis and discussion part of this paper represent the interpretation of the theory based on the gathered observation of the cases and reaction from the respondents, or vice-versa. Earlier research had been compared to the answers of the respondents and data from the case’ websites. The connection of theories and responses are discussed as well as the contradicting ones. Out of these analyses and discussions, conclusions are drawn.
3. Theory – Pricing Strategies and Revenue Management

3.1. Pricing decisions and strategies

Phillips (2005) adheres that pricing is a part of marketing science, which “deals with the quantitative analysis of marketing initiatives” (p.5). However, Phillips believes on the gap between marketing science theory and its application to real pricing decisions as well as expressed by Oxenfeldt (1973 p. 48) when he examined “the apparent gulf between pricing theory and practice”. Phillips remarks that pricing decisions are becoming more and more tactical and operational that companies have to make pricing decisions as swiftly as possible in order to remain competitive. Phillips gives the following trends as drivers of the developing methods for better decisions on Pricing and Revenue Optimization (PRO):

- Revenue management’s breakthrough in the airline industry gave birth to more profitable real-time pricing techniques
- Staggering corporate information due to ERP (Enterprise Resource Planning) and CRM (Customer Relation Management)
- The popularity of e-commerce which enables a quicker pricing management
- The success of supply chain software systems which paved the way for sophisticated quantitative analysis to solve complex corporate problems

Phillips also writes about the operational and supporting PRO activities in setting and updating prices on the market. The difference in the timing of these PRO decisions may vary depending on the application. Supporting PRO’s primary role is to provide key inputs to the primary operational ones, according to Phillips. The following consist the Operational and Supporting PRO activities:

Operational PROs:

- Analyze alternatives – its most recent use of software systems solves underlying optimization problems for price recommendation
- Choose the best alternative – as the phrase suggests, this stage allows a person to determine the best pricing alternative, and with the recent optimization software available, the capability of a what-if scenario is widely used to help a price-setter understand the recommendations better.
- Execute pricing – this is where the calculated prices are being communicated to the market, and price transmissions can also vary from industry to industry.
- Monitor and evaluate performance – results from the marketplace are compared to expectations and overall performance is evaluated against company goals.

Supporting PROs:

- Set goals and business goals – the key initial step in PRO is to specify the overall goal of the process, where it should be stated clearly and explicitly.
- Segment the market – in order to maximize opportunity to extract profit.
- Determine price response – each segmented market corresponds to a price-response function.
- Update price response – includes updating price models to incorporate what they learn.
While Phillips (2005) has the focus in pricing decisions for revenue optimization, Oxenfeldt (1973) writes about the basic structure in the decision-making process. He points out that the one who decides the price does not only have the responsibility to determine the different demand elasticity and the most appropriate price for them. They also have the responsibility to take the necessary steps that can change the demand elasticity for the good of the firm. He further expresses that “pricing should be regarded as a field where the essential elements are quite clear and well-known and where the concepts that need to be applied are widely recognized and within reach of all executives” (p. 50). Some of the top management price-related decision issues are e.g. the willingness to drive away competitors, taking advantage of the competitor when they are exposed, violating the law in exchange for increase of sales. Other issues can also be if a firm should seek price leadership, high profitability or avoidance of price competition.

Liozu and Hinterhuber (2013:596) define the role of pricing capabilities as a “set of complex routines, skills, systems, know-how, coordination mechanisms, and complementary resources in increasing company performance”. It refers to the capability within a firm to set the price (Dolgui & Proth 2010), like identifying competitor’s prices, devising pricing strategy and translating it into price (Liozu and Hinterhuber). In order to be capable of setting the price, Oxenfeldt gives a model framework for pricing decisions in the following stages that can overlap and may not be necessarily in order (p. 50):

- Recognize the need for pricing decision
- Price determination
- Develop a model
- Identify and anticipate pricing problems
- Develop and anticipate pricing problems
- Develop feasible courses of action
- Forecast the outcomes of each alternative
- Monitor and review the outcome of each action

### 3.2 Pricing objectives

It is only when a firm is clear in defining its corporate objectives (Oxenfeldt 1973) and translating its vision in a way that all levels of the firm understands (Kaplan & Norton 1996) that the firm can evaluate opportunities and threats (Porter 1980) in order to come up to better decisions. The most important pricing objectives, according to Oxenfeldt, includes the following: Maximum short and long run profits, growth, stabilizing markets, desensitizing customers to price, price leadership, discouraging entrants, speed exit of marginal firms, avoiding government investigations, middleman loyalty, labor demands, enhancing firm’s image, create excitement to the product, rival’s trust, and build traffic among others (p. 50).

On the other hand, a study made by Avlonitis & Indounas (2005) on pricing objectives of service firms shows that the three most important objectives are customer-related. The study results in defining the most important objectives when price-setting namely maintaining the existing customers, attracting new customers, and satisfying customer’s needs. However, results also show that objectives related to profit, sales and market share are with lesser importance and the least important
objective is the discouragement of new entrants into the market. To prevent problems, price-setters require the need to have “an information system to monitor the effects of their pricing arrangements and thus to help make prompt and specific adaptive action” (Oxenfeldt 1973 p. 52). Oxenfeldt gives the following to be the data that are used to design a price monitoring system: sales, competitor’s prices, potential customers’ inquiries, company sales at off-list price, discounted customers, market shares, price complaints, and inventories. He added that some of these data are very difficult to measure with accuracy.

Oxenfeldt also gives some pricing problems that may rise. Decline in sales, too high or too low prices relative to those charged by rivals or the benefits of the product, regarded as an exploitative company, gives difficulty to resellers, too big price differences among products within the line, too frequent price changes, too many price choices that creates confusion, customers becoming price sensitive and decline in market discipline are just a few. Oxenfeldt suggests that price and changes upon it do not just affect current sales but have more far reaching consequences. He thinks that when firms experience pricing problems, from which mostly aren’t subtle, executives still struggle in identifying them due to lack of information as to the cause of the problem. That’s where the need of price setters to interpret the opinion of the desired market correctly and in relevance to its own particular market segments becomes necessary.

### 3.3 Pricing methods

Avlonitis & Indounas (2005) explain that pricing methods are explicit steps or procedures by which firms arrive at pricing decisions. Pricing methods are further divided into three major categories namely cost-based, competition-based and demand (value) based (Avlonitis & Indounas; Liozu & Hinterhuber 2013). The following table has the three categories with their corresponding sub-methods according to Avlonitis & Indounas:

<table>
<thead>
<tr>
<th>Cost-based method</th>
<th>Competition based method</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Cost-plus method</td>
<td>- Pricing is done similar to the competitor or according to the market’s average prices</td>
</tr>
<tr>
<td>- Target return pricing</td>
<td>- Pricing is set above competitors’</td>
</tr>
<tr>
<td>- Break-even analysis</td>
<td>- Pricing below competitors’</td>
</tr>
<tr>
<td>- Contribution analysis</td>
<td>- Pricing according to the dominant price in the</td>
</tr>
<tr>
<td>- Marginal pricing</td>
<td></td>
</tr>
</tbody>
</table>
### Table 5. Avlonitis & Indounas (2005)

<table>
<thead>
<tr>
<th>Market</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand based pricing method</td>
<td>- Perceived-value pricing where the price is based on the customer’s perception of value</td>
</tr>
<tr>
<td></td>
<td>- Value-pricing where a fairly low price is set for a high quality service</td>
</tr>
<tr>
<td></td>
<td>- Pricing according to the customer’s needs where the price is set so as to satisfy customer’s needs</td>
</tr>
</tbody>
</table>

Results in Liozu & Hinterhuber’s (2013) research show the three above-mentioned pricing categories’ direct effects to firm performance: All three pricing orientations had a positive and significant influence on pricing capability, and the high impact of pricing capabilities on relative firm performance (except the negative significance of competition-based pricing) and with the ultimate conclusion that value-based pricing is the superior approach on setting prices. Figure 1 shows the final research model result generated by Liozu & Hinterhuber that shows the direct causal relationships between constructs:

![Figure 3.1: Liozu & Hinterhuber (2013) final research model](image)

This figure shows the relationship between the three pricing orientations: value-based, cost-based, and competition-based pricing to pricing capabilities and relative firm performance, as well as the influence of firm activities (e.g. training on revenue and pricing for employees) to pricing capabilities. All of the constructs in the figure have positive influences except the competition-based pricing negative influence to firm performance.

Liozu & Hinterhuber imply that value-based pricing “is understanding and increasing customer’s willingness to pay across market segments, communicating customer value (instead of product features), aligning prices with differences in value perception across segments, understanding and influencing customer price elasticity, and identifying ways to profitably address differences in customer’s willingness to pay” (p. 607). According to Oxenfeldt (1973), pricing is not mere determining prices on individual products but taking into consideration that the company sells a wide array of product in a broad variety of market from different geographic and that the product offers benefits of varying importance to the customers. He adds that effective and successful pricing management requires an adept understanding of possible consequences in price changes.


3.4 Price model equalizer as a tool for pricing decisions

Competition among businesses is increasing that companies has now started to compete through price and taking payments in a new ways (Olve et al. 2013). They express that it has become more usual that the “core products” are similar to each other but the way on how they take payments varies. According to Olve et al. (2013), pricing models must be formed so that they go in line with, and contribute to the realization of the company’s business model. They mean that price have to reflect the company’s identity. In order to do that, price models should be configured so that it can give the picture the company wants to show to the market.

Olve et al. develop a price model equalizer that comprises of five components each made up of different aspects of a product that will be priced. They intend to use the equalizer as a tool to strategically set a price to a certain product. The following figure is developed by Olve et al. to further understand the equalizer followed by its five major components:

![Figure 3.2: The price model equalizer (Olve et al. 2013)](image)

**Scope of the offering** – This component, the product can either be in a scale as a system or as an attribute. As a system, consumers pay the product as a whole package, even if not all of its parts will be used up or consumed. Many businesses today offers all-inclusive products like on the case of low-cost flights (Olve et al. 2013; Daft & Albers 2012; Lieberman 2012). On the other end of the scale, the product is priced according to its attributes – which means pricing the product with each of its parts accordingly.

**Temporal rights of the buyer** – In this context, rights are the rights of the buyers to the product. It is the same as the rights of the buyers for how long can they use the product and what can they do with it. This component can have five different kinds of rights. They are: perpetual, leasing, rental, subscription, and pay-per-use rights. Perpetual rights give customers the right to use the product indefinitely and can
decide what to do with the product—sell or give away but without duplicating the product itself. Leasing means the buyer can use the product in a certain time (usually a year or two leasing period) and then can decide to buy again the product at the end of the leasing period. The third type is rental rights—where the buyer can use the product in a specific period without changing or upgrading the product he is hiring. Subscription is a recurring delivery of the product to the buyers (e.g. newspaper subscription). The last is the pay-per-use rights, where is very common in the area of pricing. The buyer has the right to consume the product at the time or every time of purchase.

Influence—This dimension pricing decision is all about who have more power between the seller and the buyer in setting the conditions for pricing. Pricing decision is based on six components. The first component is the pricelist, where the seller set up a predetermined list of prices. The buyer has a very limited influence on this and the only thing he can do is to decide to buy the product or not. The next component would be the negotiation; can be based on some sort of a price list as long as both partners agree or a discussion between the buyer and seller for an accepted price. The third one is result-based pricing decision, where the price of the product is based on an agreement between the two parties that is relative to how the result shall be measured. The fourth component is pay-what-you-want; means that the buyer will determine how much he is willing to pay for the product with recommendation from the vendor. The next component is called auction, where either the buyer or the seller can decide on the price but depends on other buyers how much they are willing to pay. This is a kind of bidding where the seller’s power is either to accept or reject the final bid. The last component, called exogenous, is a little more complicated way of pricing where external factors are considered and either the buyer or seller have the power to influence the price.

Price base—Olve et al. (2013) refer to this dimension as to which type of information the prices are based from. The three basic categories that fall under this dimension are: Customer’s value, competitor, and cost. Pricing based on cost is often logical, however, Olve et al. suggest that pricing based only on cost can be misleading because it only gives the floor price of a product. Instead, trying to use the competitor’s price on relative products can help in setting the price for the company. Pricing based on customer’s value is getting to know what the product offers that is valued by the customer the most.

Price formula—this last dimension is about which price formulas used to charge the customers. This is made up of five different formulas: fixed price, fixed price + per unit, assured purchase volume + per unit fee, per unit fee with a ceiling, and per unit. The fixed price will have the predetermined price regardless how much of the product is consumed (or not consumed). The fixed price + per unit fee, as the name suggests, takes a fixed initial amount plus the price depending on the number of units sold. Assured purchase volume + per unit fee will guarantee revenue for the seller on the ground volume regardless if it is consumed or not, plus the number of units sold in excess of that ground volume. The next one is per unit fee with a ceiling, which means that the buyer pays for per unit sold until it reaches a maximum price (ceiling price). After that, every unit consumed is free of charge. The last formula is calculated per unit. Examples can be per kilogram for potatoes, per hour for a labor, or per liter for gasoline.
3.5 Pricing strategies in the cruise industry

3.5.1 The Cruise Line Industry

During its formative years, the cruise line industry had significant changes that have impacted its pricing structure and approach. These changes include the following (Lieberman 2012: 201):

- The cruise port with the greatest number of passenger embarkations in the United States shifted from New York to Miami, as the popularity of Caribbean cruise vacations began to dwarf the popularity of trans-Atlantic Cruising
- Airline flights and cruises could be purchased as an integrated package; air/sea departments became critical within cruise lines
- Cruise line marketing shifted from a destination-focus to an experience-focus
- Active promotion of cruises began further out (i.e. relative to departure date)
- Cruise lines adopted computer-based reservations systems
- Substantially larger ships were constructed
- Many cabins, not just a few suites, were designed with balconies
- Cruise lines offered enhanced on-board services, some available for a supplemental charge
- Total industry capacity increased dramatically

According to Dolgui and Proth (2010), pricing strategy is the way on adjusting prices with the goal of establishing an optimum price with the current profit optimization, maximizing the number of units sold, etc. They imply that adjusting the price is easier and more efficient than reducing production cost or increasing market share. Consequently, they come up that ‘price as an adjustment parameter for profit is the easiest and fastest way to increase competitiveness’ (Dolgui & Proth p. 101). This paper will discuss a few of the pricing strategies used in the cruise industry today: The air-sea pricing model, the gateway city discount strategy, and price differentiation.

3.5.2 Air-Sea pricing models

The integration of the air flights and cruises began when the demand for a wider market during the early boom of the industry in North America (Lieberman 2012). The Caribbean cruising had been very popular and cruise operator executives realized the need to a wider marketing efforts and attract much more number of passengers from just outside Miami, or even Florida. This gave rise to the inclusion of air transportation into their product offering (Lieberman). Lieberman wrote, ‘In many ways, the popularity of air-sea packages outpaced the ability of the cruise lines to manage and pace them” (Lieberman p. 203). Many cruise line companies started to offer tours, return flight packages, land transfers, and even hotels for guests waiting a day earlier in the embarkation ports. Lieberman further expressed that the benefits of making integrated flight arrangements of the line’s Air/Sea department became more apparent that it raised new pricing questions.

Questions like how can the cruise-only price relate with the air-sea packages, how will the add-on depend on the city from which the passenger is flying from, and where will the discounts be applied - to the cruise or to the flight cost are just some of the questions that Lieberman discussed. Lieberman continued to discuss that cruise
executives use one of the following four pricing strategies in a struggle to address the above-mentioned questions:

- Free airfare – they (the cruise operator) usually put free airfare or airfare included in the advertisement but the discount is only for those who wanted to book the cruise and get allowance, deduction or credit from the all-inclusive cruise price
- Air Supplement - they advertise a cruise only price and offer an optional air supplement for specific gateway cities (where the passenger departs from). The specified cities cost the same while additional costs apply to other cities depending on where it is located. The optional offer can include return flights, ground transfers and baggage assistance.
- Zone fares - they also advertise for a cruise only price. Like the air supplement, the additional cost is for passengers who arrange it through the cruise line and depends on which city they are departing from. In this case, the cities are rather grouped into several zones (same zone, same price).
- Distinct air add-ons – Advertise the cruise only price with an additional cost for flights depending on the gateway city and date of departure.

Lieberman means that in all the four strategies, the cruise line generally paid a lesser amount to the airline compared when the passengers do the bookings. Usually, cruise lines negotiated contract fares with airline and fares vary depending on the gateway city, airline, and days of the week. Lieberman (2012) added that for the past 20 years, majority of the cruise lines implemented at least two of the four pricing strategies discussed earlier.

3.5.3 Gateway city discount strategy
The evolution of the ‘one size fits all’ strategy (flights add-on) to become a fully customized product made the cruise lines refine its pricing tactics dramatically (Lieberman). Airfare depends on the gateway city and departure dates of the passengers. Phillips (2012:125) writes that ‘managing availability by city is one way cruise lines can maximize contribution from each sailing’. He describes the incentive segment where companies purchase in bulk for their employees by booking early in lower fares than individual cruise fare. Lieberman wrote that ‘cruise lines placed higher importance on incentivizing passengers to book early (p. 205). The “Lowest Price Guarantee” is a way to encourage early bookings as the author gave Princess Cruises and Holland America Lines as examples that provide it. If the same product combination is given at a lower price in a lower date, the two mentioned cruise lines committed to refund the difference.

3.5.4 Price Differentiation
Price differentiation is a term used to describe the ‘ways the additional profit can be extracted from the marketplace by charging different prices’ (Phillips 2005: 76). Tactics in price differentiation can include charging different prices for exactly the same product, charging different prices for different version of the product, and combinations of the two. Phillips means that this is the less controversial term for price discrimination to avoid negative effects of the word. Price differentiation uses the subtle strategies like product versioning, regional pricing, and channel pricing.
3.6 Revenue Management

Phillips (p. 120) describes revenue management as “the strategy and tactics used by a number of industries to manage the allocation of their capacity to different fare classes over time in order to maximize revenue” while Cross (1997) in Lieberman (2012:210) expressed the term as “the art and science of predicting real-time demand at the macro market level and optimizing the price and availability of products”. Although Ji & Mazzarella (2006) argue that revenue management is not applicable for all industries, they point out many, if not all, of the following characteristics a successful revenue management possesses: perishable inventory, fixed capacity, market segmentation, advanced sales, low marginal costs and time variable demand. These characteristics, according to Ji & Mazzarella, are shared by the cruise line industry. On another aspect, Phillips writes that Revenue management is applicable on the following conditions (p. 120):

- The seller is selling a fixed stock of perishable capacity
- Customers book capacity prior to departure
- The seller manages a set of fare classes, each of which has a fixed price
- The seller can change the availability of fare classes over time

Revenue management can be executed in three levels to remain successful as Phillips points out. He acknowledges the strategic, tactical and booking control levels as those three levels used in revenue management decisions. While the strategic level uses market segmentation and price differentiation (done quarterly or annually) and the tactical level (done daily or weekly) calculates and updates booking limits, the booking control level determines which bookings to accept and which one to reject and done in real time.

3.6.1 Capacity Allocation

Determining how many cabins to sell to customers at a low price while considering the possibility of a high demand in the future. This, defined by Phillips (2005), is capacity allocation. He presented two capacity allocation problems: the two-class model and the multiclass model. Under the two-class model, a product with a fixed capacity has two kinds of costumers (Phillips). They are the discount customers that booked early (in this case they always pay something greater than 0 hence, Pd>0) and the full-fare customers that booked later (Pf>Pd). Given the conditions of a limited number of seats or cabins, Phillips brings up the two-class capacity allocation problem: How many discount customers should be allowed to book, if any at all?

Phillips writes that the “goal of the two-class capacity allocation is to determine a discount booking limit”(p. 150), where he assumes that since there are only two classes, the protection level for full-fare bookings is equal to the capacity minus the booking limit: \( y = C - b \) whereas; C is capacity. Phillips mentions spoilage and dilution. Spoilage is when we set the discount booking too low and miss the opportunity of booking discount customers as well as not having enough full-fare customers. Empty seats/cabins will not give any revenue and can be considered spoiled inventory. However, dilution (diluted revenue) happens when too many discount bookings are allowed, that caused missing the opportunity of receiving the more profitable full-fare customers. The trade-off between the two-class problems is shown by Phillips (p. 150) in his devised Decision Tree Approach. Although this
strategy is most commonly used in the airline industry, the cruise and hotel industry has also adapted this approach (Phillips).

3.7 Interpretation of the theoretical perspective

The different theories on pricing discussed in this chapter were early research on pricing and with focus to its objectives, processes, methods, strategies and decisions are. Authors like Philips (2005), Oxenfeldt (1973) and Liozu & Hinterhuber (2013) mainly write theories on pricing and pricing decisions, objectives and methods. These theories represent the importance of a well-equipped pricing process to enable success of any firm. Pricing methods are primarily taken up by Avlonitis & Indounas (2005) where they ultimately compare the different pricing constructs and pricing capability in relation to firm performance. Authors Olve et al. (2013) also write about their development of a price model equalizer where the different concepts of pricing have been meticulously and specifically pointed out through its five major components.

The pricing strategy which is the way of adjusting prices for profit optimization (Dolgui & Proth 2010) in the cruise industry were also taken up and the different pricing strategies used presently in the cruise industry are presented primarily by Lieberman (2012). The area of revenue management is also being discussed where Phillips points out strategy and tactics to optimize revenue.
4. Pricing in the Cruise Industry – an empirical investigation

Chapter four represents the empirical data of this research and comprises of gathered information about the cruise company Carnival Corporation and two of its distinct brands, Holland America Line and The Yachts of Seabourn. Carnival Corporation’s short history, its mission and key financial information is given. Holland America Line’s and Seabourn’s company profiles, mission and values, price strategy, price processes and price models are presented in this chapter based on data from the website and transcribed interviews from three major respondents and an additional four employees that supports the investigation.

4.1 About Carnival Corporation and its history

The name Carnival Corporation didn’t started until 1994 although its flagship brand, Carnival Cruise Lines, was formed in 1972. In 1987, Carnival made an initial public offering of 20% in common stock that made it possible for the company to expand through acquisitions. Since then, the company has acquired representation in virtually every market segment of the cruise industry and became recognized as one of the largest leisure travel companies in the world. The success of Carnival Corporation can be traced back to its ability to be autonomous in managing its brand. Each major brand maintains its own separate sales, marketing and reservation office.

Some of Carnival’s significant acquisitions include the premium operator Holland America Line (1989), the luxury brand Seabourn (1992), Europe’s top cruise operator then (1997), and Cunard Line (1998). The latter was responsible for the building of the world’s largest ocean liner with its 150,000-ton weight, the Queen Mary 2. In 2003, the company merged with P&O Princess cruises which includes the premium brand Princess Cruises that gained worldwide popularity from the hit television series, “The Love Boat”.

With its wide-range of products offering and attracting 10 million guests annually, it is a dual listed company in New York Stock Exchange and London Stock Exchange. It is also noteworthy that it is the only company in the world to be included in both the S&P 500 (Standard & Poor’s) index and the FTSE 100 index (commonly referred to as footsie). Both indexes are based on the market capitalization of large companies with common stocks. The following is Carnival Corporation’s mission:

Our mission is to take the world on vacation and deliver exceptional experiences through many of the world's best-known cruise brands that cater to a variety of different geographic regions and lifestyles, all at an outstanding value unrivaled on land or at sea (carnivalcorp.com).

Carnival Corporation garnered total revenue of $15.5 billion in 2013, with a $1.5 billion in total profit. Its 2013, it has over $40 billion in assets. From the total revenue, passenger ticket sales comprise $11.6 billion, onboard and other sales $3.5 billion, and tours and other $210 million. (See appendix 2 – Consolidated Statements of Income 2013).
4.2 Holland America Lines – ‘A signature of Excellence’

4.2.1 Company profile\(^2\)

Being recognized as the worldwide leader in the premium segment of the cruise industry, Holland America Line (HAL) has a fleet of 15 ships. Every year, it has more than 500 cruises in 415 ports and in 98 countries, territories or dependencies. In its 140\(^{th}\) anniversary in 2013, HAL has carried more than 11 million passengers from Europe to the New World and to many vacation destinations across the horizons since its founding in 1873.

Holland America Line’s mission is: “Through excellence we create once-in-a-lifetime experience, every time.” The corporation also adheres uncompromising commitment to safety and sustainability through safeguarding the well being of the people and the ocean. It goes with protecting the guests, employees and environment thorough rigorous trainings to uphold standards. The company’s foundation for success is the focus on performance and results. It also highlights their commitment to service excellence, integrity, honesty, ethics, working in a team environment, and embracing change and improvement in order to remain viable and competitive. Finally, maintaining optimism and perspective is the company’s way of striking a positive and healthy balance between personal life and professional goals.

4.2.2 Pilot interview with one of HAL’s key pricing personnel

As the Senior Director for Revenue and Planning in Holland America Line, Paul Grigsby sits in Carnival Corporation head office located in Seattle, USA. He works with 52 other personnel in Revenue Management department of Holland America Line. He added that they are planning the pricing of products at least 12-18 months before the selling date (when they open up the system to be available for bookings).

Mr. Grigsby explained in his pilot interview that all the different brands under Carnival Corporation have different pricing of its products depending on the region where the ship sails and the duration of the cruise. In the time of the interview, the Revenue management department is working on the fall-winter pricing for 2015-2016. In doing that, they are looking on how the fall-winter 2014-2015 bookings are currently going and make some of the major decisions based on that.

Mr. Grigsby discussed the term “churn”, which means there is no penalty on cancellations. There is an option period, a period when people can choose to cancel their bookings without penalty by not paying the deposit within 24 hours-three days. He specified that half of the bookings are done in the option period and 20% of those lack deposit.

Cancellations done within 75 days of sailing date have a no-money return penalty. However, Paul Grigsby prefer the 100% full-ship capacity as the revenue onboard is much needed. Onboard revenue refers to the onboard purchases that include drinks, food and wine, tours, tax-free shopping, activities, etc. Loss in booking affects the maximal capacity that they are aiming and consequently affects the total revenue of the company. As much as they have to drop the prices on the last minute a few times, they try to avoid this alternative. He further added that the whole industry is like that

\(^2\)Based on information from www.hollandamerica.com
at present but they have an internal agreement on pricing floors. They will not drop the prices of their premium brands too low. He gave a cruise to Alaska as an example. The cruise will cost $399 per person a week at its lowest as an exclusive price. That means it doesn’t include food and beverages or any flight or ground transfers.

4.2.3 Pricing strategies within Holland America Line (HAL)\(^3\)

A pricing example of a cruise in January 2015 would cost about $2,266 for a 7-day Caribbean cruise as a value fare on double occupancy inclusive of taxes, fees and port expenses. For the same destination but on a 14-day cruise, HAL charges $4,100 per person on a double occupancy (hollandamerica.com).

The senior director for Revenue Planning & Analysis, Paul Grigsby, says that revenue management at most cruise lines is organized around two areas: planning/launch pricing and yield management. Grigsby fulfills the first role through overseeing the pricing strategy for the brand as well as demand forecasting and science. In addition to launching fares, he is involved as well in the budgeting process and forecasting of the ticket revenue. Besides him, there are two other directors in HAL who have yield management roles. They are responsible for the day-to-day pricing and inventory decisions to ensure that the sailings are selling according to plan. Along the launch prices, all the terms and conditions related to selling cruises have to be done simultaneously. They include cancellation policies, group incentives and foreign exchange rates. They tend to launch a product trade such as Europe, Alaska, Australia, etc. about a year to a year and a half before the first sailing date.

The organization is very much in line with one of the HAL’s goals to earn an acceptable return on capital. The single largest component in the balance sheet is the ticket revenue that falls under the responsibility of the senior director for revenue planning & analysis. Therefore, he believes that their endeavors to optimize ticket revenue are congruent to the company goal. Some of the factors to consider when deciding prices for particular cruises are the following:

- Prior year’s performance on the same or similar sailings (if they have to tactically lower the prices to fill the sailing then they would likely start with a lower strategic price)
- Ship/class – more verandahs, improved yields
- HAL capacity changes – more capacity, lower prices
- Trade capacity changes – more capacity, lower prices
- Competitive pricing – necessity for relevance
- Macro-political/economic factors – soft marketability means lower prices

HAL tries and anticipate customers perceived utility for a sailing and a particular cabin category and pricing accordingly. They are conscious of the competition and in which segment of the market they compete. Paul Grigsby gives the three general segments in the cruising industry today: the contemporary (e.g. Carnival and Royal Caribbean), the premium (e.g. Holland America Line, Celebrity), and the luxury segment (e.g. Seabourn and Crystal). They ensure that the pricing reflects the

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\(^3\) Based on an interview with Paul Grigsby, Director for Revenue Planning & Analysis in HAL, (May 7, 2014)
premium market and isn’t necessarily lower or higher than the others from the same segment.

One of the primary “rules” in the cruise industry is to maximize occupancies and unlike the hotel industry that operates in 75% capacity, the former strive for the high 90%’s. This makes, according to Grigsby, price differentiation a necessity. They offer special prices for groups, international markets, or select states within the U.S., travel agents, past passengers (loyalty), crew’s friends and families, etc. All of these different price promotions are needed to fill the ships.

4.2.4 Pricing processes within HAL

Paul Grigsby (2014) says that the Revenue management department (in HAL’s) is required to present their strategic pricing to the CEO, Stein Kruse, to prove how the plan will deliver the budget expectations. The tactical pricing has also the executive scrutiny and often at the CEO level. They conduct a meeting called the “Inventory Meeting” where the pricing strategies are determined. Price changes at a category level that are $50 or less can be executed at the pricing analyst level. They believe in empowering their revenue analysts.

![Figure 4.1: Holland America Line price planning process.](image)

HAL offers an air program where guests may select an air schedule from options that are tailored to meet the voyage sailing/arrival times. “The air booking tool adds a markup to the air cost and offers a total price including air taxes for each air schedule”, according to Mr. Grigsby. He continues that, “the markup is added to offset costs associated with the next port protection and the 24-hour flight assistance services included with the air/sea package”. The transfers to and from the ship as well as the pre and post hotel stays are not included in the HAL air/sea package but may be purchased separately when desired (Grigsby).

The crisis in Ukraine is a recent bump that affects change in prices. It has softened the market demand mainly in the US domestic market. It is why therefore HAL had to drop the prices in the UK and other European markets to increase the demand and to offset the decline of demand in the US, according to Grigsby. The grounding of Costa Concordia is another bump that reduced the demand throughout the cruise industry and caused a widespread drop in pricing.
Decision-making process can be more challenging since there are so many moving parts in the cruise industry that it is hard to keep track of them and make effective decisions. Especially because the revenue management group finalizes pricing about a year and a half before sailing, a lot can still happen in that span of time. The application of big data and scientific modeling hold great promise in the cruise business. HAL’s sister brand, Carnival cruisers, is so far the farthest in applying dynamic forecast models and pricing elasticity measures but Hal is making good strides. Ultimately, each sailing will have its own forecast and pricing recommendation that help analysts to make optimal decisions (Grigsby 2014).

The decision-making process, according to the revenue scientist Greg Vogel (2014), can be challenging in HAL when there is an inherent noise in the data. There is no 100% confidence in anything they do, although they typically try to make decisions off of high confidence models. There is always a noise in the data and uncertainty within any model and they must weigh the risk reward ratio. There are things to be improved in the existing pricing model. It still needs further development as they only started the process from scratch a little over a year.

4.2.5 Price models within HAL

The revenue scientist in Holland America Line (HAL) works as a data scientist. He is in-charge with the usage of the revenue data to create predictive models such as predicting future demand and suggested price changes. There are a variety of solutions that exist for pricing technology within the cruise industry. Whether it is a system built through data scientists like at HAL and Carnival, or a black box solution such as that which is built by PRO, or a pre-built solution that can be operated through statisticians that still allows a great deal of flexibility. An example of this can be the RMPOA solution from SAS (Scandinavian Airlines). All the three solutions have exposures within the cruise industry, but HAL is developing its own system within the house.

When it comes to automation, the revenue scientist says that nothing is automated. He means that contrary to popular belief within the industry; there is no automatic pricing machine, but people who do the pricing. He would create a list of pricing recommendations based on booking data and elasticity in the market at a certain time and pass the generated information to the Revenue Management (RM) analysts who will have the flexibility to review those recommendations using their own expertise. From there, the RM analysts go through decision-making process wherein the results would be making their way to the GDS (Global Distribution System) system and other connected system. The revenue scientist’s pricing model follows the established formulas in economic theory wherein the application of price elasticity to the demand forecast is done. It is calculated through weighted history from the most similar voyages based in the past sailings. The similarity is determined based on a scored metric he developed with the help of statistical theory.

An advantage of their system would be that they are able to couple the power of the pricing models with the knowledge and human experience. All models have inherently errors and to be able to combine a system and human expertise minimize each other’s error. They are also catching troubled voyages much faster and are able

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4 Based on an interview with Greg Vogel, HAL’s revenue scientist, (May 6, 2014)
to act on them without drastic changes like before. Human error is still involved, and decision-making is left up to human judgment.

Factors that can affect pricing decisions within HAL are the nature of how the trade is doing as a whole, how far the business has reached, and what the experiences tell. Sudden changes in prices can be caused by events that are actually “rare events”. These cause ripples to prices and to the industry as a whole. Some examples are the Costa Concordia, Carnival Triumph, Ukraine situation, etc.

4.3 The Yachts of Seabourn – ‘Intimate Luxury’

4.3.1 Company Profile

As a pioneer in the small-ship and ultra-luxury cruising, The Yachts of Seabourn has a fleet of only six small and all-suite ships. Carrying only 208-450 guests, Seabourn provides luxury in space and ambience while sailing to the world’s most desirable and exclusive destinations that other big ships couldn’t get in. “Small ports like the exclusive Portofino in Italy have shallow berth and do not allow bigger ships, which makes Seabourn a definite and unique choice for high-end clientele”, says Fleet Captain Magnus Bengtsson.

Seabourn’s mission is the following:

Through genuine and intuitive service, we consistently deliver exceptional Seabourn Moments that delight our guests and create the world’s finest travel experiences.

Seabourn’s values include commitment to safety and sustainability, focus on performance and results, service excellence, integrity, honesty, ethics, being a team player, embracing change, and maintaining optimism and perspective.

4.3.2 Pricing strategies within Seabourn

The work of the VP for Marketing and Sales, John Delaney, is focused on filling up the ships with quality and high paying guests. To be able to do it, Delaney works with the global sales team to make the travel agent community familiar with the Seabourn brand. This means making them have the right sales collateral and selling tools as well as being responsible for the brand’s commercial terms such as commission levels. He is also engaging in pricing strategies, revenue management, revenue budgeting and forecasting. All the product marketing rolls up under him from the emails, direct marketing and Seabourn website.

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5 Based on information from www.seabourn.com (February 2014)
6 Magnus Bengtsson – Fleet Captain, Seabourn and Holland America Line, interview (March 25, 2014)
7 Based on an interview with John Delaney, VP for Marketing & Sales in Seabourn (May 7, 2014)
While Seabourn uses similar tools and processes that aligned with its sister brands governing revenue analysis, it is a bit of a unique situation within the Carnival Family of brands. Seabourn is the only small ship luxury brand in the family so there is less indirect competition than the other brand may face when setting their individual strategies. The overall pricing and deployment strategies are similarly aligned in the planning process to deliver on the 5-year yield growth plan for Seabourn that was set by Carnival Corporation. The main drivers (factors) of their pricing would be related to the following:

1. **Seasonality** – the peak time cruises are higher-priced than the shoulder season. For example, spring vs. summer in Europe where summer would be the peak travel time.
2. **Past demand for comparable itineraries** – this can cause Seabourn to potentially have greater increase year over year.
3. **Port content vs. sea days** – as the number of sea days increases, it causes a drop in demand which would require them to modify prices in order to stimulate market demand.

When it comes to pricing decisions, Seabourn integrates customer’s value, competitors, and cost in order to help them drive to the most desired strategic or launch pricing, although the most dominating of the three is *cost*. The following are ways on how they do it:

1. **Customer’s values** – they would take periodic surveys to ensure that their product is meeting expectations, as well as to inquire about potential new destinations to ensure that they are at the top of the customer’s future (travel) plans.
2. **Competition** – Seabourn research their direct competitors on an ongoing basis to see the pricing and promotions they have to offer in order to align their own pricing in the marketplace. They note that while they don’t always compete on price, it is important to know what their competitors are doing as it may influence the prices going up or down.
3. **Cost** – They consider cost as probably the most important factor during the planning process. Together with the revenue analysis, customer and competitive landscape, cost planning helps them put forth a deployment schedule set to exceed our annual plan revenue goals.

Since Seabourn is a multi-national organization with offices in Europe, United Kingdom, Australia and the U.S., price differentiation is leveraged more on a tactical level across markets. Price leverage is as needed in particular markets that can help drive volumes in given locations and/or past demand to support a particular voyage or series of departures. Leveraging packages on a tactical basis, for example, helps drive volume to a certain voyage. The air sea-package is one that includes pre and post cruise flights, transfer to and from the ship and the cruise. This includes hotel overnights as required by flight schedules. The pre-hotel package is an offer of a hotel stay before the cruise including transfer to the ship on the day of embarkation.

### 4.3.3 Pricing processes within Seabourn

The planning process, being the foundation and driver of price decision-making, intimately involve all areas of the organization according to Delaney (2014). He
explains strategic pricing that involves the Product Marketing group leading the general process. It takes the approved deployment plan and leverages past year’s pricing along with competitive research to develop recommendations for pricing. This will then be presented for final approval from the senior management up to the president of the organization. Tactical pricing level is when the Product Marketing team drives the overall daily, weekly and monthly tactical pricing and promotions working closely with the Marketing Communications team to ensure that the pricing and communications (e.g. direct mail, email, online) needed to drive demand to hit their annual plan goals for occupancy and revenue (Delaney 2014). The following is the chart for Seabourn’s price planning process as explained earlier:

![Figure 4.3: Seabourn’s price planning process](image)

Delaney says that decision-making can be more challenging when it comes to the access of the right information. Whether it is a competitive information or costumer demand, the need for information is always there to help the organization generate the tactical pricing and communications plans driving demand. Time is also another challenge as it is their goal to be proactive rather than being reactive in their decisions. Flexibility is a challenge when it comes to the speed of execution in improving the employees’ reaction to events or competitive swings.

The pricing decision and planning can be occasionally disturbed through different events that may impact the pricing in the cruise line industry as a whole. Geo-political events such as the crisis in Ukraine in 2014 and the Arab Spring in 2012 are just a few examples. Any negative press associated with the cruise industry could affect demand for a long or short period of time as well as deployment changes that increase the supply of beds on a particular product (Delaney).

4.3.4 Pricing models within Seabourn

To improve yield management means always improving the predicting pricing models. Information and time can also be improved, says Delaney. The organization is leveraging more science in going forward at improving their pace/forecast modeling that provides product managers and revenue analysts with more information around pricing necessary to drive demand. In addition, tools around competitive analysis could be improved. Like all revenue departments, they are striving to have more data driven decisions throughout the pricing process from planning, strategic pricing, to tactical pricing that improves the year over year yield growth.

Seabourn’s brochure prices are pre-determined many months before as explained by Warren. An example of an offered price would be a 7-day cruise in the Caribbean for

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8Warren, cruise sales specialist, Seabourn, interview May 9, 2014
January 2015. A regular suite (all cabin in the ship are suite-typed) would cost $6,600 as brochure fare per guest in a double occupancy. They also advertise a value fare (discount price offered on certain conditions like early booking) from $2,999. Another set of price for a 14-day Exotic Caribbean cruise would cost $11,700 brochure rate and $5,299 value fare. All prices are exclusive of $76-296 per person tax.

4.3.5 Pricing conditions that apply in Seabourn

Two of the cruise sales specialists within give the pricing objectives that they think Seabourn have. Cruise sales specialist #1 believes the objectives to include short-and long-term profits, growth, stabilizing the market, desensitizing customers to price, price leadership, middlemen loyalty, firm’s image, viewed as fair by customers, create product excitement, rival’s trust, promote weak items, discourage price cutting, and making the products visible. On the other hand, the other cruise sales specialist (#2) gives only five objectives: long-run profits, growth, middlemen loyalty, product’s excitement, and rivals’ trust.

When asked to enumerate the pricing difficulties they deem to apply in Seabourn, specialist #1 sums it up with decline in sales, too high and too low prices, frequent price change, price reflection to the firm, price viewed as too high and pricing that attracts disloyal customers. Specialist #2 gives too low price and price difference among products are unintelligible. Specialist #2 adds that the different prices for the same item e.g. suites and itineraries, or the considerable price difference on same suite categories due to different promotions is a problem.

To be able to monitor pricing properly, the two cruise specialists were also asked what kind of information or data they use. Cruise sales specialist #1 mentions sales, inquiries from potential customers, types of customers who gets discounts, price complaints, customers’ attitudes towards the company, and the number of lost customers due to brand switching. Specialist #2 gives sales, company’s sales at an off-list price (discounted prices), and costs.

4.4 Chapter summary

This chapter’s focus is on the information derived from the three main respondents working with sales, revenue and marketing within Carnival’s premium and luxury brands. Additional information from three more cruise sales specialists were also considered in this chapter. The pricing strategies, pricing processes and pricing models are primarily in focus. The respondents convey that the pricing strategies within the cruise industry require planning and pricing management to work. They also express that it is important to earn return on capital and that cost is very important when setting prices. The pricing processes involve the higher level of the management as the company sees pricing as a very important part of the business. It is where decision making is a lengthy process and puts into consideration different aspects like seasonality, demand, customers, competition and cost. When it comes to pricing models, the access to necessary information is given importance in order to analyze and predict pricing. There is once again the relevance of revenue management in coming up with price models, as well as the revenue scientists’ usage of established formulas in economic theory. The price elasticity and demand forecast are also done in accordance with the price models. Additionally, this chapter takes up some of the

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*Based on questionnaire answers of two Seabourn’s cruise sales specialist (see appendix 3)*
pricing conditions that are currently being used within Carnival’s two distinct brands. They involve the pricing objectives and difficulties used when setting the price, as well as the kind of information the brands use in monitoring price sensitivity.
5. Analysis and Discussions

In this section, the theoretical perspective will be linked to the empirical data of this research. Going back again to the main thesis problem, and evaluating the empirical data with theoretical support will be the basis for analysis and discussion. To recap, here are the main thesis questions:

- What are the main factors affecting pricing strategies and processes in the cruise industry?
- What kind of pricing models can contribute to the development of pricing strategies of the cruising industry?

Additionally, this study also tries to find out about how the cruise industry works with its price planning, objectives, strategies and decision-making. Also, what can the attempt of adjusting the current price model for improvement of the company do will be analyzed.

5.1 Pricing management in the cruise industry

Both brands in focus have the same foundation for success as expressed by their mission statement, which matches the theoretical view of companies to remain competitive though profitability performance (Oxenfeldt 1973; Phillips 2005; Liozu & Hinterhuber 2013). The company also adheres to change in order to stay viable and competitive, an idea that reminds of Liozu & Hinterhuber’s thought on changing prices which requires a successful pricing management for the company. Adhering to change for viability and competence can also be directly proportionate to Dolgui & Proth’s insights to “use price as an adjustment parameter for profit as the easiest and fastest way to increase competitiveness (Dolgui & Proth 20120 p. 101).

Since the respondents consider cost as the most important factor in determining price, it is still obvious that profitability remains as the top, if not the only, driver for business success in the cruise or any other industry. On the study made by Avlonitis & Indounas (2005), results show that the top most important objectives are customer-related and that objectives related to sales, market share and sales are with lesser importance. This does not corroborate to the study’s empirical results where profit, sales, and market shares are deemed very important and are on top of their objectives.

Pricing management in cruise industry can look complicated for outsiders but for those who are working internally, it is work on a daily basis. Oxenfeldt (1973) believes that pricing’s essential elements should be well recognized within all levels of management which coincides with the respondent’s organizational process on pricing where top executives get involve. An example is the presentation of the strategic pricing plan to Holland America’s CEO for approval and Seabourn’s several level of management involvement to the whole process.

Pricing capabilities, according to Liozu & Hinterhuber (2013), are a set of skills to increase company performance that recounts a respondent saying that one of the company goals is to earn an acceptable return of capital. Furthermore, the respondent’s responsibility as senior director for Revenue Planning & Analysis is
validated by the fact that ticket revenue is the single largest component of the balance sheet. In other words, the capability of pricing is a very important contributing factor for company performance.

5.2 Pricing process, strategy and decision

Oxenfeldt (1973) points out that the one who decides the price not only determine the demand elasticity but also decide on the most appropriate price for them and Phillips’ tactics (2005) on price differentiation charging different prices for the same product which ties the idea with one of Carnival’s missions to “cater to a variety of different geographic regions and lifestyles”. Additionally, the respondents remark that price differentiation which caters special prices for groups, international market, selected states across the US, travel agents, recurring passengers and employees’ family and friends are necessary to drive volume. However, one respondent finds price differentiation or charging different prices for the same item (e.g. suites or itineraries) problematic because they are of considerable differences due to different promotions.

In the table below, I use Oxenfeldt’s enumeration of factors used in price decision-making on the left side of the table and compares to the Grigsby’s and Delaney’s own enumeration of pricing factors in the opposite side:

<table>
<thead>
<tr>
<th>Oxenfeldt’s pricing factors</th>
<th>This research’s pricing factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>-Sales in previous years &amp; other market’s/channel’s pricing</td>
<td>- Prior year’s performance</td>
</tr>
<tr>
<td>-Rival’s prices</td>
<td>- Competitive pricing, competitor research</td>
</tr>
<tr>
<td>-Market shares in individual markets</td>
<td>- Elasticity in the market</td>
</tr>
<tr>
<td></td>
<td>- Seasonality</td>
</tr>
<tr>
<td>Marketing &amp; production costs; company’s sales</td>
<td>- Macro-political/economic factors e.g. soft marketability</td>
</tr>
<tr>
<td></td>
<td>- Competitive pricing</td>
</tr>
<tr>
<td>Customer’s attitudes towards firms, prices, etc</td>
<td>- Seasonality (high/low season)</td>
</tr>
<tr>
<td></td>
<td>- Ship/class</td>
</tr>
<tr>
<td></td>
<td>- Data based from periodic surveys from customers</td>
</tr>
<tr>
<td></td>
<td>- Potential new destinations</td>
</tr>
<tr>
<td></td>
<td>- Customer’s perceived utility in relation with price</td>
</tr>
<tr>
<td>Brand switching; number of lost costumers</td>
<td>- Past demand for comparable itineraries</td>
</tr>
<tr>
<td></td>
<td>- Port content vs. sea days</td>
</tr>
<tr>
<td></td>
<td>- Capacity changes</td>
</tr>
</tbody>
</table>

*Table 8. Oxenfeldt’s versus the study’s factors in pricing decisions*

When one look on the pricing factors that Oxenfeldt (1973) enumerates, the respondents’ answers coincide with them. Oxenfeldt connotes the current and previous sales as well as other market and channel pricing, which goes with what the respondents think on prices based from previous year sales. When it comes to Oxenfeldt’s rival prices, the respondents refer to competitor research that makes use of information on price decision-making. According to Oxenfeldt, market shares in individual markets are to be considered, whereas Seabourn and HAL look unto the seasonality (which continents sell best according to times of the year), and elasticity in the market (how much consumers are willing to spend for certain destinations). The
respondents’ views on macro-political and economic factors like the insurgencies on certain countries and natural calamities make up the marketing and production costs that Oxenfeldt mentioned earlier. Oxenfeldt writes one of the pricing factors being the customer’s attitude towards firms and prices. The respondents mean that high and low season, the type of ship, survey data, potential new destinations, and customer’s perceived utility in relation with price all affects pricing decisions. Finally, Oxenfeldt writes about brand switching, where the company lose customers when they switch brands. This is similar into looking at the demand for comparable itineraries (different brands going the same destinations), how many port days compared to sea days (sea days are less preferred by customers), and capacity changes (due to cancellation of bookings).

Liozu & Hinterhuber’s (2013) research states that the three pricing orientations namely cost-based, competition-based, and demand-based have a positive and significant influence on pricing capabilities which in turn gives a positive correlation to the relative firm performance except the competition-based method. Nevertheless, the result shows that of all three, value-based method is the superior method. This theory reminds of the respondent’s view on those three orientations although they try to integrate all three, albeit for cost-based method which they think is the most important during the planning process. However, they noted also that even though they look at to their competitors, their pricing doesn’t necessarily directly reflect the others in the segment. It is also interesting that both the cruise sales specialists interviewed do not see the rival’s prices as a factor in setting the price.

Lieberman (2012) gives that either one of the following strategies are used by the cruise industry in addressing the struggle against air-sea packages: free airfare, air supplement, zone fares and distinct air add-ons. The most suitable of all four strategies that the subject company is using is the distinct air add-ons since they advertise for the cruise only price and then charge an additional cost for flights depending on the gateway city and date of departure. This is also, according to the respondents, followed by a markup that can offset additional cost for the company like air tax, etc.

### 5.3 Price model equalizer analysis and recommendations

The following analysis are based on the price model equalizer by Olve et al. (2013) and the empirical data and from this study, with additional recommendation on how to make the case’s existing pricing model better:

![Figure 5.1. Existing price model for Holland America Line and Seabourn](image-url)
Scope of the offering – the company’s range may well be not an absolute system or an absolute by attributes. Even all-inclusive travels are often deemed as a system package, but the cruise company in this study can be priced as both a package and an attribute(s). To be able to concentrate on one of the two scales may give benefits to the cruise company. It will be also easier to communicate to all the levels of the company, internally and externally. The guests will easily recognize and understand the product. Since Holland America and Seabourn are two of the most expensive brands of Carnival, the scale system would be beneficial to focus on. The majority of the passengers are high-paying guests who adhere quality and top service, and they expect nothing less for a company that charges optimally to know what these things are and give these to them. They are used on knowing and getting what they want, so let them have the peace of mind that the offering they get from the company is the best system package in the market.

Temporal rights of the buyer – there is no doubt that the company is practicing the pay-per-use rights, where the product is consumed as soon as the guests show up in the embarkation area (although a product can include the air and hotel package which means the product is consumed once customers check in to the airport). Although the pay per use scale of the rights component seems the most viable one than the four others, there are passengers that spend more days of the year in the cruise than they do on land, so a suggestion would be to promote a small percentage of a VVIP (Very Very Important Persons) ticket for them. This will encourage more and more to acquire the offers. This can be considered then as the leasing scale, where customers can choose to use the offering in a specific time, and just renew after expiration date if necessary. That means they can come on the cruise as much as they want, always having the top priority for bookings and itinerary dates.

Influence – the cruise company uses the pricelist for pricing decision - where the seller set up a predetermined list of price list. In this case, it is the revenue management department together with the approval of the senior management and CEO who decides the price. It is important not to make it too complicated, and the pricelist seems to be working well as the one influencing the price decision.

Price base - although the research found out that the company is trying to combine all the three components (customer’s value, competitors, and cost) in this dimension, it is observable that competitors don’t weigh so much more than the other two. The explanation can be that the two brands, as subjects of the case study, are on the premium and luxury segments of the market. They can anticipate high demand from the loyal and high-paying market. Therefore the information basis for the pricing is most appropriately the cost method for them. However, taking away too much focus on cost and trying to focus as much as with customer’s value can also be beneficial. As more and more alternative ways of vacationing are being introduced in the market all the time, it is important to maintain customer’s perceived value on the product for sustainability of the business. One way of doing that is compromising between cost and customer’s value.

Price formula – the company charges for a cruise to a specific destination in a week on a particular cabin type, therefore, it is just logical to take a per unit price for it. It means the product is paid accordingly, for example per cruise. This is a working pricing model but another characteristic of the component, the assured purchase volume + per unit can also work as well, if not better. The start volume can be a
specified volume of offered cruises in a particular weeks and corresponding
destination (each as a system scope of offering mentioned earlier). In excess of that,
the customers can choose to purchase per unit (=cruise) depending on their own
preferred number of units with a better price compared to purchasing per unit.
Although this is usually used only on other hospitality businesses like hotels and
airlines, the cruise industry have to adapt its strategies. This will not only guarantee a
certain sold volume for the company, but will give the frequent customers the chance
to avail great value for money, and attracting potential market to be frequent cruisers
as well.

5.4 Revenue management: vital for pricing strategy

When it comes to revenue management, this study’s theoretical and empirical data
coincide with each other accordingly. Phillips’ description (2005: 120) of revenue
management as the “strategy and tactics used by a number of industries to manage the
allocation of their capacity to different fare classes” recounts the respondents
addressing price differentiation, as well as them (Revenue management department)
overseeing pricing strategy, demand forecasting and science, budget and revenue.
Furthermore, Lieberman (2012) writes that revenue management is price and product
availability optimization that ties the idea to the respondents’ responsibility of filling
the ships with high quality and high-paying guests.

In the following, Ji & Mazzarella (2006) and Phillips (2005) point out the
characteristics of a successful revenue management that relate to this study’s gathered
empirical observations:

- Perishable inventory – the cruise industry’s product is the cruise itself, it is an
  experience that goes over a due date. Once the sailing date is done, the product
  offerings for that particular sailing has perished.
- Fixed capacity – because of the booking, capacity is predetermined (e.g.
  booking pace)
- Market segmentation – the cruise industry’s price differentiation and
  understanding of their own particular market
- Seller can change availability of fare classes over time – they can drop the
  prices if necessary anytime (e.g. just shortly before sailing date to fill up the
  ship)

Because of the above-mentioned characteristics, revenue management is still
considered a perfect pricing tool in the cruise industry at the moment despite Ji &
Mazzarella’s notion that it is not applicable for all industries.

The two brands in the case study use all of the mentioned steps and processes on price
and revenue optimization (PRO) that Phillips (2005) mentioned as operational and
supporting PROs. Analyzing alternatives with the use of recent software systems is
done, although not necessarily the most advanced or automated system. However,
Carnival’s HAL and Seabourn still rely on a human being to ultimately determine the
price and evaluate price recommendations.

Phillips also discusses the two-class capacity allocation model that takes up the
dilemma of the maximum discount customers booking a company would allow. As an
attest to that theory, the company allows a certain booking limit for what they call value fare bookings (discount bookings) in contrast to their brochure fares, which is the regular or high-priced offer. Value fare bookings are very much controlled, as to not to experience any spoilage and dilution.

Phillips believes that revenue management’s breakthrough was caused by factors like the airline’s real-time pricing techniques, ERP (Enterprise Resource Planning), e-commerce and a success of software systems. This idea confirms the corporation’s revenue scientist’s work with company information integrated into a system as well as citing all other software systems used in the cruise industry today like the black box solution and SAS’s RMPOA solution. Furthermore, Oxenfeldt expresses that executives still struggle in identifying pricing problems due to lack of information which makes it necessary for price setters to have an information system that monitors pricing effects. This also prompts the respondents’ challenge on the access of right information to be used for both strategic and tactical planning.
6. Conclusion

6.1 Results

In spite of the popular theories of doing business for sustainability and social responsibility and not just revenue, is still no doubt that mere profit remains an undefeated objective of businesses. That’s why pricing strategy is very crucial to many businesses including the cruise industry. Pricing is a daily routine for them and the science behind it continues to evolve. One cannot say for sure if that evolution is for the better or for the worse, since companies usually stick to a proven strategy. As they say, “Why change a winning concept?” Pricing in the cruise industry may not be the same as compared to the airline industry (the one that gave rise to revenue management in the first place), but it basically uses similar strategies like price differentiation and capacity allocation. Also, both Holland America Line and Seabourn are belonging on the high-end of the market segment, and that makes them independent from pricing pressure from other brands within and outside the corporation.

There are many factors that contribute to price decision-making as well, some almost relatively similar to another. The following are the topmost contributing factors in pricing decisions used by the cruise industry:

- Previous sales
- Seasonality
- Macro-political/economic factors
- Customers feedback

Additionally, the cruise industry has also the following topmost objectives in pricing:

- Long-term profit
- Growth
- Loyalty of travel agents
- Create curiosity for the product
- Maintain the brand’s reputation

This study has come into a conclusion that since Carnival Corporation is a big company with ten distinct brands and comprises of about a hundred cruise ships, it doesn’t matter if the pricing strategies of each brand differs from each other as long as congruency to their vision of focusing to performance and result is fulfilled. By result, it does not only means having the most fleet in the business, but being the most profitable.

Ultimately, this research has also discovered that the cruise industry takes seriously their price planning and decision-making. The executive level of the company gets more or less involved in the process if necessary. The following is the research’s view on how their price planning and decision-making flow:
Under the umbrella corporation of Carnival Corp., the pricing decisions start from the core of the sales and revenue team. Holland America Line’s revenue scientist provides information based on booking data and market elasticity to the pricing analysts. These are then worked out together with the revenue analysts in the revenue management department. The initial proposed pricing will then be sent to HAL’s CEO for approval and then sent back for final pricing decisions. On the parallel brand, Seabourn’s product marketing group submits the price proposal to the senior management and then consequently the brand’s president who will then be communicated back to the product marketing group (equivalent of revenue dept. in HAL), as well as to the Marketing and communications dept. where the final pricing decisions are made.

### 6.2 Price model recommendations

Olve et al. (2013) express that the price model must be formed so that it is in line with, and contributes to realize the company’s overall business model. The pricing that the company uses must therefore coincide with what the company aims to achieve in its business model. That’s why it is vital to adjust their pricing model to the one that reflects Carnival Corporation’s image in the market. Given the price model equalizer, the author would also recommend for the equalizer to be not an equalizer, but a price model switchboard, where the five components composed of different switches. One or more switches can also be turned on (as opposed to just an equalizer where you can only chose one or either of the two scale characteristics nearest to each other). In this way, it is easier to indicate if the need for more than one characteristic arise and deemed necessary. The following is the recommended price model for the premium and luxury cruise industry, with a buttons instead of an equalizer tool to determine pricing characteristics:
The above price model switchboard will make it possible for the price setter to determine the prices accordingly. This will also allow using more than one of the characteristics of each component if deemed necessary. In the case of the premium and luxury brands of a cruise industry, the above recommendations can be taken into consideration. The green light indicates the button has been pushed and therefore the corresponding one or more characteristics may be applied as a combination.

6.3 Research as a learning process

This research teaches me that revenue management in the cruise line industry is not that complicated as I thought before. The set of skills needed for a successful compliance of responsibilities can be achieved through education and experience. I have also learned the vague similarity of pricing between the cruise industry and airline industry. Although both industries use revenue management, there are clear differences due to the nature of the business. It is also both surprisingly invigorating and wearing to do a research alone, but the interest on the subject matters puts one’s self into a fresher perspective every time.

I recommend further studies on revenue management on the same industry or other areas of businesses as well where in-depth practical research in the natural working environment is done. In order to conduct a more viable research, observations and practical experience with pricing are highly recommended. That method will foster and bring out real-time first hand observations and even more reliable results.
References


### Appendix 1. Carnival Corporation’s operations Summary

<table>
<thead>
<tr>
<th></th>
<th>Target Market</th>
<th>Passenger Capacity</th>
<th>Market Segment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carnival Cruise Lines</td>
<td>USA</td>
<td>58,273</td>
<td>Mass Market/Discount</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>“Carnival Cruise Lines is the best-known cruise brand in North America and the most profitable in the world.”</td>
</tr>
<tr>
<td>Princess</td>
<td>United Kingdom</td>
<td>36,900</td>
<td>Mass Market</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>“Princess is a global cruise and tour company operating a modern fleet of 17 ships carrying more than a million passengers each year.”</td>
</tr>
<tr>
<td>Costa Cruises</td>
<td>Italy, France, and Germany</td>
<td>29,286</td>
<td>Mass Market</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>“Based in Genoa, Italy, Costa Crociere is the leading cruise company in Europe and South America, operating a modern fleet of 15 ships.”</td>
</tr>
<tr>
<td>Holland America Lines</td>
<td>USA</td>
<td>23,492</td>
<td>Premium</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>“…Holland America Line is recognized as the undisputed leader in the cruise industry's premium segment.”</td>
</tr>
<tr>
<td>P&amp;O Cruises</td>
<td>United Kingdom</td>
<td>14,610</td>
<td>Mass Market</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>“…market-leading P&amp;O Cruises has been operating cruise ships for more than 170 years and combines innovation, professionalism and unrivalled experience…”</td>
</tr>
<tr>
<td>AIDA</td>
<td>Germany</td>
<td>14,248</td>
<td>Mass Market/Discount</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>“AIDA ships incorporate the successful elements of upmarket clubs and resorts in the premium and four-star range, with a host of on-board amenities and facilities that attract younger, more active vacationers.”</td>
</tr>
<tr>
<td>Cunard</td>
<td>United Kingdom/USA</td>
<td>6,670</td>
<td>Premium</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>“Royalty, celebrities and voyagers from every walk of life have enjoyed Cunard's classic luxury experience based on the history and tradition of transatlantic liner service.”</td>
</tr>
<tr>
<td>P&amp;O Cruises Australia</td>
<td>Australia</td>
<td>6,242</td>
<td>Mass Market</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>“…in the past five years P&amp;O Cruises has expanded its operations from one cruise ship, based in Sydney, to three cruise ships sailing year round…”</td>
</tr>
<tr>
<td>Ibero Cruises</td>
<td>Spain</td>
<td>4,176</td>
<td>Mass Market</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>“Iberocruceros is one of the top operators in the fast-growing Spanish- and Portuguese-speaking cruise markets.”</td>
</tr>
<tr>
<td>The Yachts of Seabourn</td>
<td>United Kingdom</td>
<td>1,974</td>
<td>Ultra-Deluxe</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>“…ultra luxury cruising vacations in a unique, small-ship style…”</td>
</tr>
</tbody>
</table>

(Levin et al 2012)
### Appendix 2. Carnival Corporation’s consolidated statements of income

CARNIVAL CORPORATION & PLC  
CONSOLIDATED STATEMENTS OF INCOME  
(in millions, except per share data)  
Years Ended November 30,  

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cruise</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Passenger tickets</td>
<td>$11,648</td>
<td>$11,658</td>
<td>$12,158</td>
</tr>
<tr>
<td>Onboard and other</td>
<td>3,598</td>
<td>3,513</td>
<td>3,357</td>
</tr>
<tr>
<td>Tour and other</td>
<td>210</td>
<td>211</td>
<td>278</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>15,456</td>
<td>15,382</td>
<td>15,793</td>
</tr>
<tr>
<td><strong>Operating Costs and Expenses</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cruise</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commissions, transportation and other</td>
<td>2,303</td>
<td>2,292</td>
<td>2,461</td>
</tr>
<tr>
<td>Fuel</td>
<td>2,208</td>
<td>2,381</td>
<td>2,193</td>
</tr>
<tr>
<td>Payroll and related</td>
<td>1,859</td>
<td>1,742</td>
<td>1,723</td>
</tr>
<tr>
<td>Food</td>
<td>983</td>
<td>960</td>
<td>965</td>
</tr>
<tr>
<td>Other ship operating</td>
<td>2,589</td>
<td>2,233</td>
<td>2,247</td>
</tr>
<tr>
<td>Tour and other</td>
<td>143</td>
<td>154</td>
<td>204</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>10,624</td>
<td>10,320</td>
<td>10,299</td>
</tr>
<tr>
<td>Selling and administrative</td>
<td>1,879</td>
<td>1,720</td>
<td>1,717</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>1,588</td>
<td>1,527</td>
<td>1,522</td>
</tr>
<tr>
<td>Ibero goodwill and trademark impairment charges</td>
<td>13 173 –14,104 13,740 13,538</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Operating Income</strong></td>
<td>1,352</td>
<td>1,642</td>
<td>2,255</td>
</tr>
<tr>
<td><strong>Nonoperating (Expense) Income</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest income</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest expense, net of capitalized interest</td>
<td>(319) (336) (365)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gains (losses) on fuel derivatives, net</td>
<td>36 (7) 1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other (expense) income, net</td>
<td>(8) (7) 10</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Income Before Income Taxes</strong></td>
<td>1,072 1,302 1,912</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income Tax Benefit (Expense), Net</td>
<td>6 (4) -</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td>$1,078</td>
<td>$1,298</td>
<td>$1,912</td>
</tr>
<tr>
<td><strong>Earnings Per Share</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basic</td>
<td>$1.39</td>
<td>$1.67</td>
<td>$2.43</td>
</tr>
<tr>
<td>Diluted</td>
<td>$1.39</td>
<td>$1.67</td>
<td>$2.42</td>
</tr>
<tr>
<td>Dividends Declared Per Share</td>
<td>$1.00</td>
<td>$1.50</td>
<td>$1.00</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these consolidated financial statements.
Appendix 3. Cruise sales specialists answers

<table>
<thead>
<tr>
<th>Cruise sales specialist #1</th>
<th>Cruise sales specialist #2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pricing objectives:</td>
<td>Pricing objectives:</td>
</tr>
<tr>
<td>1. Maximum long-run profits</td>
<td>1. Maximum long-run profits</td>
</tr>
<tr>
<td>3. Growth</td>
<td>3. Maintain loyalty of middlemen and get their sales support (Travel Agents as Middlemen have an extreme importance for Seabourn Sales and Marketing)</td>
</tr>
<tr>
<td>4. Stabilize market</td>
<td>4. Create interest and excitement about the item (With new itineraries and customer programs).</td>
</tr>
<tr>
<td>5. Desensitize customers to price</td>
<td>5. Be considered trustworthy and reliable by rivals</td>
</tr>
<tr>
<td>6. Maintain price leadership arrangement</td>
<td></td>
</tr>
<tr>
<td>7. Maintain loyalty of middlemen and get their sales support</td>
<td>8. Price is too low</td>
</tr>
<tr>
<td>8. Enhance image of firms and its offerings</td>
<td>2. The price differentials among items in the line are unobjectionable or unintelligible (Different prices for the same item - suites and/or itineraries – or a considerable difference on same suite categories prices due to different promotions).</td>
</tr>
<tr>
<td>9. Be regarded as fair by customers (ultimate)</td>
<td>3. Price is too low</td>
</tr>
<tr>
<td>10. Create interest and excitement about the item</td>
<td>2. The price differentials among items in the line are unobjectionable or unintelligible (Different prices for the same item - suites and/or itineraries – or a considerable difference on same suite categories prices due to different promotions).</td>
</tr>
<tr>
<td>11. Be considered trustworthy and reliable by rivals</td>
<td>4. Its price changes are too frequent (do not take account of major changes in market circumstances)</td>
</tr>
<tr>
<td>12. Help in the sale of weak items in the line</td>
<td>5. The firm’s price reflects negatively on itself and on its products</td>
</tr>
<tr>
<td>13. Discourage others from cutting prices</td>
<td>6. The firm’s prices seem higher to customers than they really are</td>
</tr>
<tr>
<td>14. Make a product “visible”</td>
<td>7. The firm’s price policy attracts undesirable kinds of customers which have no loyalty to any seller</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Pricing difficulties:</th>
<th>Pricing difficulties:</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Decline in sales</td>
<td>1. Price is too low</td>
</tr>
<tr>
<td>2. Prices are too high (relative to those charged by rival or benefits of the product)</td>
<td>2. The price differentials among items in the line are unobjectionable or unintelligible (Different prices for the same item - suites and/or itineraries – or a considerable difference on same suite categories prices due to different promotions).</td>
</tr>
<tr>
<td>3. Price is too low</td>
<td>3. Price is too low</td>
</tr>
<tr>
<td>4. Its price changes are too frequent (do not take account of major changes in market circumstances)</td>
<td>2. The price differentials among items in the line are unobjectionable or unintelligible (Different prices for the same item - suites and/or itineraries – or a considerable difference on same suite categories prices due to different promotions).</td>
</tr>
<tr>
<td>5. The firm’s price reflects negatively on itself and on its products</td>
<td>4. Its price changes are too frequent (do not take account of major changes in market circumstances)</td>
</tr>
<tr>
<td>6. The firm’s prices seem higher to customers than they really are</td>
<td>5. The firm’s price reflects negatively on itself and on its products</td>
</tr>
<tr>
<td>7. The firm’s price policy attracts undesirable kinds of customers which have no loyalty to any seller</td>
<td>6. The firm’s prices seem higher to customers than they really are</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Data used for price monitoring system:</th>
<th>Data used for price monitoring system:</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Sales – in units and in dollars (a.)</td>
<td>1. Sales – in units and in dollars (a.)</td>
</tr>
<tr>
<td>previous year’s comparisons, b. different market’s/channel’s comparisons</td>
<td>previous year’s comparisons, b. different market’s/channel’s comparisons</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>2. Inquiries from potential customers about the line</td>
<td>2. Company’s sales at offlist price (a. measured as a % of total sales, b. revenue as % of sales at full price)</td>
</tr>
<tr>
<td>3. Types of customers getting the most and largest price reductions</td>
<td>3. Marketing costs, production costs, production costs at nearly output</td>
</tr>
<tr>
<td>4. Price complaints (a. from customers, b. from salesmen)</td>
<td></td>
</tr>
<tr>
<td>5. Customer’s attitudes towards firms, prices, etc.</td>
<td></td>
</tr>
<tr>
<td>6. Number of lost customers (brand switching)</td>
<td></td>
</tr>
</tbody>
</table>
Appendix 4. Interview guide questions

Paul Grigsby – Revenue Director

1. Can you tell us a little bit more about pricing and revenue management in the light of your work? (the process, the stages, etc)
2. How do you think your pricing strategy goes in line with Holland America’s mission and goal? (congruency and how)
3. What are the main factors that you take into consideration when deciding prices on a particular cruise? (How do these factors affect pricing?)
4. How do you integrate customer’s value, competitors, or cost when deciding on prices?
5. Who are those involved when deciding the prices? (top management, revenue dept. only? Who are involved in the strategic, tactical or booking level?)
6. How often do you use price differentiation? If you do how crucial is it for the pricing process?
7. Can you give a brief description on air-sea packages, other packages etc.? (how are they profitable if they are)
8. Can you give me examples of occasional bumps that occur that affect in a sudden change in prices?
9. What makes the decision-making process challenging for you or for the team?
10. What could be improved/better in the existing pricing model and practices you now have?

Greg Vogel – Revenue Scientist

1. Can you tell us a little bit about your work as a revenue scientist?
2. How would you describe the pricing technology systems used prolifically in the cruise industry today? (Is it the same system used in HAL?)
3. Can you describe the automated pricing system you are using in HAL? (its name, systems provider, is it connected to GDS for example, etc?)
4. Do you or the system follow certain formulas when determining prices and what are they? (for example optimal market segmentation etc)
5. What are the advantages and disadvantages of the system?
6. What do you think are the main and important factors (attributes) that affect pricing decisions within HAL or even the whole cruise industry as a whole?
7. Can you give me examples of occasional bumps that occur that affect in a sudden change in prices?
8. What makes the decision-making process challenging for you or for the team?
9. What could be improved/better in the existing pricing model you now have?

John Delaney – VP Marketing and Sales

1. Can you tell us a little about your work as the VP for Marketing and Sales?
2. How does the pricing strategy you are using in Seabourn go in line with Seabourn’s mission and goal as well as that of Carnival Corporation? (how congruent they are)

3. What are the main factors that you take into consideration when deciding prices on a particular cruise? (How do these factors affect pricing?)

4. How do you integrate customer’s value, competitors, or cost when deciding on prices?

5. Who are those involved when deciding the prices? (top management, revenue dept. only? Who are involved in the strategic, tactical or booking level?)

6. How often do you use price differentiation? If you do how crucial is it for the pricing process?

7. Can you give a brief description on air-sea packages, other packages etc.? (how profitable or unprofitable they are)

8. Can you give me examples of occasional bumps that occur that can affect in a sudden change in prices?

9. What makes the decision-making process challenging for you or for the team?

10. What could be improved/better in the existing pricing model and practices you now have?