Aalto University
School of Economics

Creating a consumer-driven business model for the cruise line industry: Case Royal Caribbean Cruise Lines Ltd.

Information Systems Science

Master's thesis

Anni Ahola

2011

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Spring 2011

Approved by the Head of the Department of Information and Service Economy __/__ 20__ and

awarded the grade ____

AALTO UNIVERSITY SCHOOL OF ECONOMICS **ABSTRACT**
Department of Information and Service Economy 10.08.2011
Master's thesis
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Purpose of the study
The purpose of this study is to figure out a new kind of a cruise line business model that can be used by cruise line organizations in their business planning processes. The objective is to find out general frameworks and theories from the literature that could be applied to the empirical part of the study. Mainly, the goal is to examine tourism growth, current cruise line business, consumer behavior and service industry in order to form this business model especially for Royal Caribbean Cruise Lines Ltd. (RCCL). One of the most significant things is to examine people's requirements and needs towards tourism, cruise lines and service industry, since they reflect to the business planning and strategy making that eventually lead to competitive advantages in the markets. China and Russia are taken as case country examples, so the model developed through the literature part of the study is used, generating specific results and proposed business models for these countries.

Methodology
The study is pursued as a multiple case study, in which two countries are taken into consideration. China and Russia were chosen subjectively seeing that the results from them would induce value to the study as well as to RCCL. The study is descriptive in nature as its purpose is to describe the nature, commonness and the historical development of tourism and the cruise line industry. Three sources of evidence are used. Archival records are analyzed by quantitative as well as qualitative methods, whereas semi-structured interviews and focus groups by only qualitative ones. These three sources reduce errors and biases, since they are used interchangeably. As a whole, the research is seen qualitative as its main purpose is to propose new practical knowledge and a new kind of a business model related to the cruise line business.

Findings
The key finding of this research is that cruise line business models should be developed according to the interests of their target markets. The results from China and Russia showed that those consumers have very diverse requirements and wants related to services, and therefore consumer behavior mainly associates with the business planning and strategies that organizations pursue. In addition, the cruise line industry has been seen to become more oligopolistic, so new industry entrants may compete with niche market opportunities. Anyway, in case of RCCL the competitive advantage can be achieved by pursuing both cost advantages and differentiation simultaneously. The value offered should meet consumers' perceptions and expectations, so market researches and surveys should be done in the first place before starting to develop new offerings. In case of China, the cruise lines have great potential due to the country's emergent nature. The concept should enhance family-orientation and it should include casinos, gardens and Asian food onboard. Russians appreciate spas and sanatoria and excellent service. The first move would be to concentrate on the big cities such as Saint Petersburg and Moscow. Common to both countries is that package trip opportunities should be included and the marketing channels should be more efficient in order to reach the untapped market potential.

Keywords: cruise line business model/concept, RCCL, consumer behavior, service industry, tourism growth, customer value and expectations

AALTO YLIOPISTON KAUPPAKORKEAKOULU **TIIVISTELMÄ**
Tieto- ja palvelutalouden laitos 10.08.2011
Pro Gradu -tutkielma
Anni Ahola

Tutkimuksen tavoitteet
Tutkimuksen tarkoituksena on luoda uudenlainen risteilyliiketoimintamalli, jota risteilyorganisaatiot voisivat toiminnoissaan käyttää. Tavoitteena on käyttää keskeisiä teorioita ja rakenteita kirjallisuudesta, joita voidaan soveltaa tutkimuksen empiirisessä osassa. Pääasiallinen tavoite on tutkia turismin kasvua, risteilyliiketoimintaa, kuluttajakäyttäytymistä sekä palvelutaloutta, jotta uusi liiketoimintamalli erityisesti Royal Caribbean Cruise Lines Ltd:lle (RCCL) voidaan muodostaa. Yksi tärkeimmistä tutkimusaiheista on kartoittaa kuluttajien vaatimukset ja toiveet turismilta, risteilyitä ja palveluilta, sillä ne vaikuttavat paljolti liiketoiminnan suunniteluun ja strategiatyöhön, jotka loppujen lopuksi tuovat kilpailuedun markkinoilla. Kiina ja Venäjä ovat tapaustutkimuksen esimerkkimaita, joten kirjallisuuden pohjalta tuotettua mallia on käytetty, tuottaen maille ominaisia tuloksia ja liiketoimintamalliehdotuksia.

Metodologia
Tutkimus on tehty monitapaustutkimuksena, sillä kaksi maata on tarkastelun kohteena. Kiina ja Venäjä valittiin subjektiivisesti ajatellen, että näistä saadut tulokset tuottavat arvoa sekä tutkimukselle että RCCL:lle. Tutkimus on luonteeltaan kuvaileva, sillä sen perustarkoitus on kuvailla turismin ja risteilyliiketoiminnan olemusta, yleisyyttä sekä niiden kehittymistä. Tutkimuksessa käytetään kolmea eri todistusaineistoa. Arkistotietoja analysoidaan sekä kvantitatiivisesti että kvalitatiivisesti, kuten taas teemahaastatteluja ja kohderyhmä haastatteluja tutkitaan ainoastaan kvalitatiivisen perustein. Nämä kolme metodologiaa vähentävät virheiden määrää sekä tutkimusharhoja, sillä niitä käytetään vaihdellen. Kokonaisuudessaan tutkimus on kvalitatiivinen, sillä sen tarkoitus on tuottaa uutta käytännön tietoa sekä uusi liiketoimintamalli risteilyliiketoimintaan.

Tulokset
Tutkimuksen tulokset osoittavat, että risteilyliiketoimintakonsepti tulisi kehittää ottaen huomioon kohdemarkkinoiden intressit. Kiinan ja Venäjän tulokset todistavat, että näiden maiden kuluttajilla on erilaiset vaatimukset ja halut koskien palveluja ja sen vuoksi kuluttajakäyttäytymisen pitäisi olla yksi pääosa liiketoiminnan suunnittelemista sekä strategiaa. Lisäksi on nähtävissä, että risteilyliiketoiminta on oligopolistista, joten uudet tulokkaat voivat kilpailla tuottaen palveluita markkinaraoille. RCCL:n tapauksessa markkinaetu voidaan tavoittaa keskittyen sekä kustannusetuihin että erilaistumiseen. Arvontuotannon tulisi korreloida kuluttajien havaintoja ja odotuksia, joten markkinatutkimukset tulisi tehdä ennen varsinaista kehitystyön aloittamista. Kiinan teollistumisen ansiosta risteilyliiketoiminnalla on suuri potentiaali Aasian merillä. Konseptin tulisi korostaa perhekeskeisyyttä ja laivan tulisi tarjota risteilijöille kasinoita, puutarhoja ja aasialaista ruokaa. Venäläiset taas arvostavat kylpylöitä ja erinomaista palvelua. Ensimmäiseksi tulisi keskittyä isoihin kaupunkeihin kuten Pietariin ja Moskovaan. Molemmille maille yhteistä on pakettimatkojen tarjonnan tärkeys sekä markkinointikanavien kehittäminen käyttämätöntä markkinapotentiaalia varten.

Avainsanat: risteilyliiketoiminnan malli/konsepti, RCCL, kuluttajakäyttäytyminen, palvelutalous, turismin kasvu, kuluttajien arvontuotanto ja odotukset

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Abbreviations

Carnival Cruise Lines Ltd.: Will be referred as *CCL* during the study.

Cruise Lines International Association: Will be referred as *CLIA* during the study.

Royal Caribbean Cruise Lines Ltd.: Will be referred as *RCCL* during the study.

Royal Caribbean International: Will be referred as *RCI* during the study.

World Tourism and Travel Council: Will be referred as WTTC during the study.

World Tourism Organization: Will be referred as *WTO* during the study.

1 INTRODUCTION

This chapter begins with the background information to the study. Thereafter, the research gap is defined following the definition of research objectives and questions. In the fourth section, research methodology and scope are addressed. Finally, the outline and the structure of the thesis are presented. The purpose of the first chapter is to introduce the main ideas of the study and represent the chronology of the research.

It should be noted that the thesis is mainly done for Royal Caribbean Cruise Lines Ltd. (RCCL) but also STX Europe can use the results as an advantage in their ship construction business. The main emphasis is therefore given to the cruise line business, although tourism and service economy in general are also discussed. The research is accomplished together with the students from Aalto University School of Science and Technology. These students have also knowledge of artistic and design issues taught in the Aalto University School of Art and Design, so therefore the objective is to provide a combined analysis of *economic, technical* and *artistic* issues in this specified business area to the organizations under consideration. The organizations can further take advantage of the research results in their strategy making and business planning. Since RCCL and STX Europe have worked 40 years together, they have created a system of deliberate planning in sales/procurement processes, which is a structural element of the business model, fostering sustaining innovation. In order to maintain this strategic alliance so that both parties benefit, new business model perspectives are required.

1.1 Background of the Study

Tourism industry is very familiar to all people worldwide. Some regions are more popular to travel to than others, and people from different countries may have various insights to travelling and destination choices. International tourism is usually divided to recreational, leisure and business tourism (WTO, 2011) from which the second one is given most attention in this study. The statistics show that tourism in general has steadily increased during the past decades and especially during the 21st century, thus acknowledging that there are variations from year to year due to the economic situation and political crisis in some countries that affect the consumer behavior and destination choices negatively. Tourism business has its own characteristics compared to other industries. It is very service driven and it can be seen as a form of complementary demand where the main components are transport, food and accommodation (Morley, 1992, p.252). As a result, much of the tourism supply cannot be stored and businesses have to cope with the problem of seasonal demand that has large fixed costs, therefore making the business planning and strategy development more difficult for tourism organizations than for pure product producers.

Tourism business, especially revenues from consumers, may be a living standard for some countries. For instance in the Caribbean region, the small islands depend highly upon tourism (Lester and Weeden, 2004) whilst also for instance Spain's tourism share from GDP is as high as 11 percent (WTO, 2010). Despite these facts and the importance of tourism in some regions, the consumer choice of destination is changing due to the popularity of more specialized and customized opportunities such as backpacking and self-organized trips (Pizam, 2008, p.489). Consequently, Pizam (2008) notes that hospitality and tourism industries have to constantly look for new creative ideas and innovative products, services and business models that can satisfy their end customers. It is not enough to compete by a cost leadership or differentiation strategy, rather a mixed approach is needed to sustain competitive advantages. Also the offering has to be developed so that the value delivered matches the consumer's expectations and perceptions.

The situation is somewhat similar with the cruise line industry. Thus it should be noted that this industry has experienced an average growth of 8,2% since 1980 (CLIA, 2006, p.3), which is actually double when compared to the long-term average of tourism in general (WTO, 2011, p.4). The main reason for the expansion of the cruise line industry according to Weaver (2005, p.347) is television that has promoted the cruise tourism in more than one way. For instance, the popularity given to “The Love Boat” television series in the USA during 70s and 80s influenced the expansion during that time, which has further continued to grow mainly because of the increasing presence of TV and Internet. On the other hand, the growing existence of baby boomers especially in Western countries has resulted into a growth in this sector, since according to CLIA (2008, p.21) the typical cruiser is a middle-aged person with sufficient funds to consume on travelling.

The major market area of the cruise line industry is North America currently constituting 70% of the total market turnover (CLIA, 2006, p.2). The next largest cruise line area is Europe in which the Baltic Sea and Mediterranean cruises tend to dominate the markets. Reasons why these continents have become the most popular cruise line destinations can be understood by analyzing their economic situation. It is very well known that North America and Europe are the wealthiest continents in the world and people living there have higher income levels than in developed countries. Therefore, Western people have more money to consume and the countries have a possibility to develop greater offerings that appeal to consumers. Also the warm climate in the Caribbean and Mediterranean enhances the possibility of easy travelling and spending holidays in warm places. Despite the common characteristics of these cruise line destinations, the business model in each case has to be developed so that it appeals to different consumer segments. Actually, this is one of the main challenges in today’s business, because of the multiculturalism onboard and the idea that Asia region is becoming a more popular destination to travel to, in which the consumers are seen very different from the traditional Western ones.

Tourism in general is seen to exist because people want to escape from the daily routines (Dann, 1977, p.185). This is a very important issue to acknowledge in every service industry, because it relates to the offering that organizations develop. Generating value to consumers is the top priority of every organization, and therefore they have to measure what factors are significant in order to produce value that meets the consumers’ expectations. Consumer requirements vary between countries, since Japanese people may want very different things than British ones. They may appreciate sushi service in the cruise ship whilst British people have to have their afternoon tea onboard. As a result, every organization should focus on the cultural factors behind the wants and needs and by assessing these they are more able to develop a successful service concept and business model. Consumer expectations and perceptions play a key role in value generation, since they lead to a perceived service quality which is related to a total value derived from the service (Parasuraman et al. 1985, p.46).

Despite the growth and the great potential of the cruise line industry, there exist also problems within the business. As people are becoming more demanding and require variety from their leisure time, cruise line organizations have to think of new target markets and new innovations and business models to sustain their competitiveness. Szarytz (2006, p.260) sees that the future of the cruise line business requires the assessment of niche markets and more specified segmentation. In addition, modularity in design is needed so that the offering may be customized to these various segments. Cruise line organizations have to also compete against other industry players but simultaneously acknowledge the threat of substitutes. As a result, the biggest cruise line organizations are now starting to understand the value of new segmentation principles, and therefore they seek competence by conglomerates, acquisitions and mergers in order to serve new target markets with positioned offerings. Also the idea of the whole business ecosystem to be a part of the co-procurement of value is emphasized.

This subject is interesting to research for, since it gives value for cruise line organizations, mainly RCCL, but also because of its several challenges and opportunities. On the other hand, tourism business is a growing interest of both individuals and organizations, so therefore analysis of consumer behavior, cruise line business models and requirements from the service economy within different market segments, will eventually benefit both the supply and the demand side of cruise line industry. The scale is pretty large, since consumers, supplies and other factors have to be paid attention to, thus it makes the research motivating to study for.

1.2 Research Gap

Tourism industry has been studied a lot during past decades and the research is increasing all the time. However, as Toh et al. (2005) note the research about the cruise line industry compared to general tourism can be seen as very fragmented, and therefore several researches exist but they are not usually intertwined. Because of the scarce information from these several studies made on the topic, no common theory or framework can be directly applied to further research purposes. Consequently, one objective of this thesis is to combine different theories and frameworks, and therefore fill the research gap by analyzing both the consumer and the supply sides of the industry.

Tourism is also seen as a very dynamic business area, so several factors are needed for consideration. Nevertheless, all the issues cannot be included into one research, so the scope has to be defined. Earlier research on the cruise line industry has quite often focused on the demographic variables of cruise line consumers as well as on the consumer loyalty and price issues affecting the destination choice. Also examination of different market segments, especially the Caribbean and European, has been under consideration. Little research has been done on other market segments and their requirements from the industry. Therefore, one of the main purposes of this study is to fill this gap by presenting a framework on business models that can be applied to various target markets. Only a couple of case examples are studied since the scope would otherwise be too large for these research purposes.

1.3 Research Objectives and Questions

Altogether, there is one primary objective and three sub-goals in this thesis. The primary objective of the research is to figure out and provide a conceptual framework that cruise line organizations and especially RCCL can use in their business development. Mainly, the goal is to find out a cruise line business model that could be successfully used in the analysis of different market segments, and hence the business model that would be based on the consumers' requirements, expectations and perceptions.

Primary research question: How to adapt the cruise line business model to fit to the needs of various market segments?

The first sub-goal is to find out new target markets for the cruise line business. As North America currently constitutes about 70 percent of the total market, untapped market potential exists in somewhere else. American markets will be saturated soon, so the growth of different regions has to be researched for. Also consumer choice behavior needs to be assessed, since it has high influences on the travelling decisions; the motivation to take a trip and the most popular destinations to visit. These together serve a basis for research question one.

Research question 1: Which markets could be recognized as potential areas for future business development?

The second sub-goal of the thesis is to discover the standards and requirements that people want and require from their travelling experiences. In order to search this information, the current issues in service economy have to be addressed. Also the nature of services and the cruise line business model as well as empirical information about the subject are needed. The purpose here is to find out different frameworks and theories that could be applied to the empirical part of the study, generating value for end results.

Research question 2: Which standards and requirements do people have for travelling and the hospitality segment?

The third sub-goal of the thesis is to figure out consumer trends in the future. Because consumer behavior and the economic situation change all the time, predicting the future is challenging. However, based on market researches, consumer paradigms and the empirical study, the research will provide an analysis of the future. In addition, one of the main issues relevant in consumer behavior is the growing existence of environmental sustainability which is also paid attention to.

Research question 3: Which kinds of new consumer trends can be seen in the future that affect the cruise line business?

The abovementioned goals are intertwined and the sub-goals are tied to the primary research question. Therefore, the issues are not presented in chronology in the theory part. Instead there are six sections that all are associated with the research problems. In the empirical part, however, the questions are tried to be answered based on the research results and according to the framework, and tied together in the final chapter of the study.

1.4 Research Methodology and Scope

The research mainly focuses on the current state of the tourism and the cruise line business together with analysis about the future trends in the industry development and consumer behavior. Past statistics and data are used for reasoning and analysis but the research is not going to further analyze industry and behavior at earlier times. The main purpose is to have relevant information from the past and apply it to the current state of the economy.

This research can be divided into two parts. Accordingly, two main research methods are used to solve research problems and to answer to the research questions: literature review and analysis and empirical analysis. Next, the methods are described.

The first part, literature review is conducted in order to develop and test certain theory-based relationships in tourism business and consumer behavior. The topic has been researched before, so previously developed frameworks and theories are used in the analysis. However, it will not go through the earlier research thoroughly but rather touch it on relevant points.

The second, the empirical part, consists of both a qualitative and a quantitative study done on case countries, China and Russia. Semi-structured interviews are pursued in order to figure out the business perspective more thoroughly. Archival records are used in order to have quantitative data from statistics and market surveys that can be further spread to a larger scale. Finally, focus groups with Chinese and Russian people are used to have real-life information from case countries and their consumer behavior. Finally, it is noteworthy that China has been given more emphasis over Russia, because the country was seen more lucrative for business purposes in near future. In all, the empirical study's purpose is to explain the research results' relation to past researches and comprise the ideas that those have suggested.

The first chapter of the literature part gives an overview of the tourism business, its growth and economic impact as well as the regional differences in travelling. Nevertheless, the economic situation is only referred here so excluded are the deeper analysis of financial matters and the current economic downturn. The research mainly concentrates on the most visited countries/continents worldwide and those people that travel the most, excluding the analysis of their expenditure patterns on specific locations.

Cruise line business is addressed by its growth, globalization's impact on the industry, major providers and destinations together with a discussion of the cruise line business model. Also Blue Ocean Strategy is introduced in order to provide strategic implications to the study. Excluded is the deeper analysis of servicescapes in the cruise line industry, because it has already been researched by Pekka Lampinen in the earlier Master's Thesis done for RCCL. On the contrary, requirements from services and hospitality segments are thoroughly analyzed because they are used in the empirical part.

The theory part also covers consumer behavior and segmentation issues. The former one takes into account the consumer satisfaction and motivation issues and uses some theories from the literature in order to analyze how consumers make their choices. Since there are hundreds of frameworks and theories related to consumer behavior, only the relevant ones and most frequently used in these kinds of researches are pursued.

Finally, there are many concepts and frameworks that are not considered in the study. Thus, it has been tried to be kept simple and relevant, and therefore the main purpose is to answer to the research questions by combining the most important literature done on the topic together with the empirical results from this particular study.

1.5 Research Structure

The structure of the thesis is the following. In the second chapter, the theoretical background of the study is discussed in detail in the areas noted in the previous section. Firstly, tourism and cruise line businesses are introduced in order to give an overview to the business and about the market growth. Thereafter, service and hospitality segments are discussed and a deeper analysis about the cruise line business model is addressed. The second chapter of the thesis ends with the analysis of consumer choice behavior and market segmentation.

The third chapter of the thesis provides a framework for the study. This is a combination of ideas and issues discussed and analyzed in the second chapter of the thesis that will be further used as an input for the empirical research. The framework can be further used as a business model development tool inside RCCL. In addition to the framework, the methodology of the research is introduced in chapter three. Research design, data collection and analysis and reliability and validity issues are presented.

The fourth chapter is about empirical study analysis and results in which the writer's own ideas and research results are examined. Chapter begins with the case country selection and the reasoning why these were chosen to the study. Thereafter, the eight separate sections, from 4.2 to 4.9, focus on the issues presented in the framework. The idea of this chapter is to research country-specific information based on the framework themes that are derived from the literature but also to provide the business model suggestions for RCCL.

The last chapter of the research concludes the issues and ideas together and presents theoretical and managerial implications to the study. Also main conclusions derived from the empirical part are addressed. Finally, limitations to the study and further research topics are covered.

2 THEORETICAL BACKGROUND

This chapter provides the theoretical background for the study. The issues are interrelated, thus for simplification the chapter is divided into six sections. These issues are also further applied to the research framework presented in chapter three and the empirical part of the study. Two first sections provide statistical knowledge about tourism and the cruise line industry, whilst sections 2.3-2.6 are mainly focused on the strategic implications. The first section of chapter two gives on overview of international tourism following the section of the cruise line industry outline. In the third section, the service and especially the hospitality segment are addressed in which the main focus is the recent trends in service business. The fourth section considers the cruise line industry and especially the strategic implications and a business model for future research. In the fifth section, consumer behavior is discussed due to seeing that it is perhaps the most influencing factor when analyzing cruise liners' consumption rates and consumers' destination choices. In the final section of the literature part, segmentation principles and target markets are examined using different theories from the literature. These six issues are the main factors that influence the business model adaptation in various market segments.

2.1 International Tourism

In the following section, tourism growth and regional differences in travelling are analyzed. These issues are important to consider, since they affect the tourism behavior and consumption but also assess the future trends in tourism.

Tourism in general can be seen as travelling for recreational, leisure or business purposes. WTO (1995, p.1) defines tourists as people who "*travel to and stay in places outside their usual environment for more than twenty-four (24) hours and not more than one consecutive year for leisure, business and other purposes not related to the exercise of an activity remunerated from within the place visit*". Furthermore, Morley as early as in 1992 acknowledges that tourism is a form of complementary demand. This means that the main components are transport, food and accommodation which all are important topics of this thesis due to understanding the ecosystem in which cruise line organizations operate.

Morley (ibid.) also states that because of the complementary nature of tourism, the supply cannot be stored, and therefore tourism businesses have to handle seasonal demand with high fixed costs. As a result, the strategic planning of tourism organizations is seen more complex than in case of pure product producers that can estimate the demand using past statistics, and therefore match the supply to demand rates.

Sirakaya et al. (2004, p.158) have followed Morley's (1992) ideas of the challenges facing service and tourism segments. They suggest that measuring and managing customer satisfaction is crucial for the survival, development and success of service industries, and especially for tourism that is a highly international and multicultural business. Similarly, other researches such as Duman and Mattila (2005), Ryan and Glendon (1998), Gnoth (1997) and Jang and Cai (2002) acknowledge the significance of satisfaction and dissatisfaction being the most important variables when measuring sustainable tourism. These issues are more thoroughly discussed in the latter sections of the chapter two. Next the tourism growth and regional differences are discussed.

2.1.1 Tourism's Growth

International tourism is growing year after year and in 2010 there were 935 million tourist arrivals compared to 528 million in year 1995 (*Figure 1.*). However, due to the economical crisis, seen especially in 2009, tourism business experienced the decline of four percent (WTO, 2011, p.1). WTO (ibid.) sees that the recovery from the decline year 2009 is mainly driven by emerging economies meaning Middle East, Asia and Pacific rather than by developed countries (see Appendix A.). Actually, this change in destination choice can be explained by Szarycz's (2008) idea that due to the changing consumer behavior, such as the increasing trend of backpacking and other self-organized trips, Asia is becoming a more popular destination to visit. Middle East is important for business people, and as WCCT (2011b, p.9) notes, business tourism is increasing with a constant growth rate of 6,1 percent in 2011, which implies that Middle East will surely possess high growth rates in the future also.

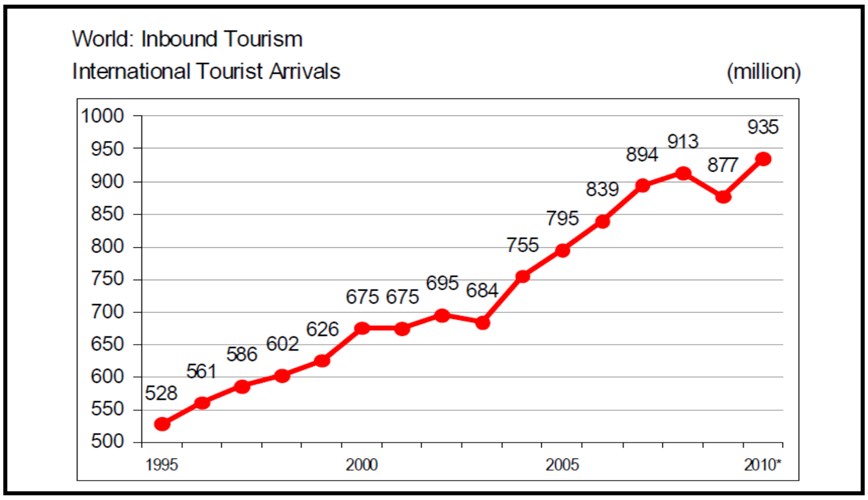

Figure 1. International tourist arrivals. (WTO, 2011, p.1)

Despite the downturn in 2009, prospects for the year 2011 and the future are promising. According to WTO (2011, p.4), the international tourist arrivals' growth will be about 4-5 percent compared to the long term average of four percent (see Appendix B.), which means that the decline did not affect the recovery of the world economy in longer term. As the main drivers of growth are Asia and Pacific, the challenges facing more advanced economies are related to the economic outlook, meaning mainly unstable unemployment rates and weak consumer confidence. Furthermore, mega events such as Olympic Games and FIFA World Cups can boost the growth of international arrivals by attracting international tourists to travel even to more unpopular destinations, which has to be estimated to growth figures of each region. WTO (2011)

When analyzing international tourism and its growth it is also important to refer to economical issues that affect the situation in markets; especially those incidents that humans cannot influence. Chen (2011) studies, how crisis affect the tourism and notes that incidents such as natural disasters, terrorism and diseases can lead to travel risks and cause cancellation or change of travel plans. These occasions can be severe to destination's economy, since several countries' economical state depends on the tourism flows and also on the revenues the economy get from tourists' spending. Similarly to Chen's ideas, according to Douglas and Douglas (2004), the effect of SARS in China and Hong Kong was harsh: cancellation of trips and drop in international tourist arrivals that led to a decline in growth and destination image. Besides to declines in growth, Chen (2011, p.201) adds up that after the crisis it is extremely important not to decrease prices to attract tourists but use governmental policy to make clear that the region is now safe and secure to travel. As a result, the growth can be sustained stable despite the crises, if right procedures are pursued.

Also WTO (2011) notes that economical crises have high effects on the growth of tourism sector. Downturns and regression in markets may affect the demand and tourist arrivals so roughly that they drop by even 20 percent in one year. WTO (ibid.) also states that the recovery from the decline is not going to happen in one year; instead the economy will usually suffer from severe losses a couple of years in a row, or even more, which in turn affects the whole international economy and tourism rates.

2.1.2 Regional Differences in Travelling

As discussed previously, the international tourism arrivals' growth has been moderate after the decline year 2009. The emerging economies are seen as the main drivers of growth but it is still important to compare the statistics of different regions in order to see which continents would be the next target markets of the cruise line industry.

As *Figure 2.* shows, the whole Africa as well as South East Asia are the only ones to report a continuous growth between 2009 and 2010, despite the crises occurrence in 2009. North East Asia has also quickly recovered from the losses and has exceeded the level of the pre-crisis in 2008. In fact, Asia has a total growth rate of 14 percent which really shows the dominance of this market and the great potential in the future.

Sub-regions that were negatively impacted by the crises but that are back at the 2008's level are Oceania and North and South America. One reason for the North America's situation may be explained by the mega event, Vancouver's Winter Olympic Games in Canada in 2010, which according to WTO (2011, p.4) surely had an impact on tourist arrivals and increased the tourist arrivals to the country.

Also Western Europe, the Caribbean and Central America could cover the losses and are back at the 2008's levels. The most challenging area is the rest of the Europe, meaning Eastern, Central, Southern and Northern Europe together with the Mediterranean. These regions have only partially covered the losses and Northern Europe still posted a negative result in 2010.

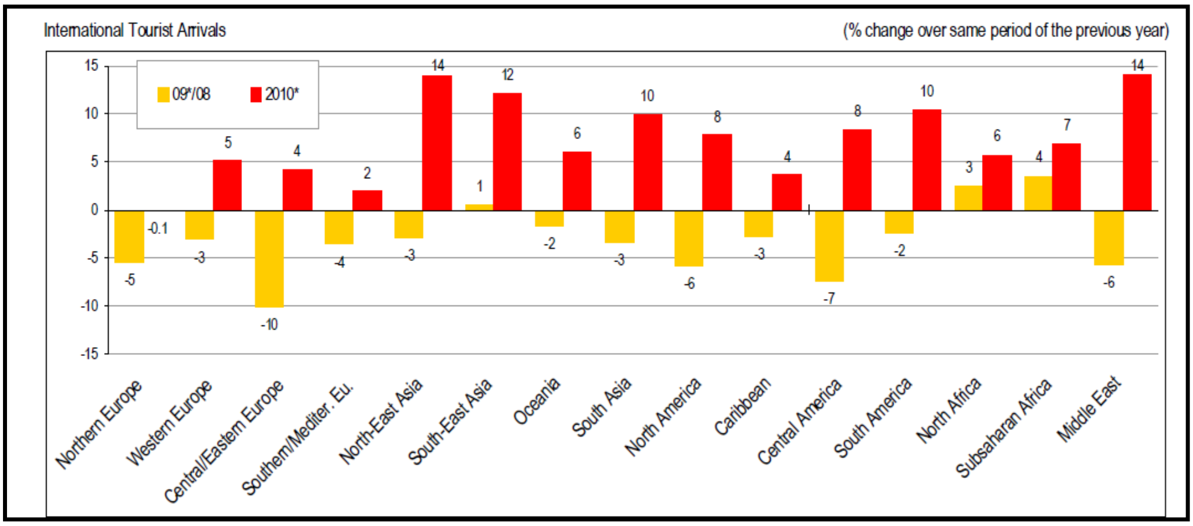

Figure 2. International Tourist Arrivals. (WTO, 2011, p.5)

Based on *Figure 2.* one may conclude that these growth figures and regional results have an enormous impact on the future. Those continents that have not been able to recover their losses will have to develop new strategies in order to attract consumers. And vice versa, those continents that show great growth rates year after year will have to sustain the situation somehow. Consequently, as the research's one main purpose is to figure out the possible target markets for the future cruise line business, these issues have to paid attention to.

To summarize: Tourism growth has been moderate during the past couple of decades. Improvements in economies and the rising living standards are perhaps the main causes why people are travelling more. Tourism can be divided to business, leisure and recreational tourism from which the second one is the focus area of this research. Despite the continuous growth in leisure travelling, crisis and economical downturns may affect the yearly variations as seen for instance in 2009. Currently, Asia as a region is seen as the most emerging area that drives the growth in the future, whilst North Europe is the one that is lacking behind and has possessed negative growth rates already two years in a row. These issues affect the market segment analysis in the empirical part, in which two case countries and their market growth are discussed. Next international cruise line business is analyzed due to give an outline of this tourism segment.

2.2 International Cruise Line Business

International cruise line business is separated from the general discussion of tourism, because the purpose of this section is to provide an overview to the international cruise line business not paying attention to the regional differences in travelling. In this section, the growth of the industry and the major cruise line providers and destinations are addressed. The business ecosystem is examined due to provide information about the participants in the cruise line industry. Finally, globalization that affects the strategy making of the cruise line organizations is discussed.

Cruise-related publications are increasing exponentially, but the research area is quite a new one and pretty fragmented, and therefore a common research interest is missing (Papathanassis and Beckmann, 2011, p.153). The interest in the subject has increased because of the fact that cruise line business has recorded a steady growth during the past 20 years that is, according to Douglas and Douglas (2004, p.251), mainly based on the corporate mergers and takeovers, the launching of mega cruisers and new destinations as well as the growing amount of people who want and choose to cruise. This leads to a conclusion that globalization has had a major influence on the expansion. Gibson (2008, p.42) characterizes cruise line business as:

"The cruise industry is a modern day success story with: sustained long-term growth; a constantly refreshing image that embodies, at one extreme, laid back luxury with hedonistic rituals and, at the other, a party 'til you drop' culture; and a relatively untapped multinational market." (Gibson, 2008, p.42)

Consequently, tourism is seen as a leisure or recreational activity rather than as business travelling.

In addition to Gibson's (2008) and Papathanassis and Beckmann's (2011) ideas of the cruise line industry, the popularity is also associated with the Love Boat TV series presented in the USA during 80s and 90s (Weaver, 2005). During that time, several companies started to build huge cruise ships that could carry about 2000 passengers. They also included health spas, casinos, exercise facilities, bars, restaurants etc. onboard. Travel writers at that time compared them to theme parks, Wal-Mart stores and McDonald's restaurants. (Weaver, 2005) In fact, Weaver (ibid.) in his study uses George Ritzer's idea of McDonalization in order to illustrate what is happening in the cruise line industry. The basic idea according to him is to search for efficiency and economies of scale that McDonalization provides. The process takes a task and breaks it down into smaller tasks. This is repeated so that all tasks are in the smallest possible level. The result is a rationalized service for consumers that is easy to handle and customize. The Mcdonalization of the cruise line industry is very close to the discussion of the modularity of the offering which is further analyzed in section 2.4. Although current cruise line business is far away from the Love Boat times, still some brands compete with that concept. The strategic advantage is currently derived by alternative ways and by combining different concepts together.

2.2.1 Cruise Line Industry's Growth

As noted before, international cruise line business has possessed growth year after year. Marti (2004) acknowledges that the growth is associated with the increased variety in the offering, since current cruises vary from short trips to nearby places to longer journeys within large regional areas or even those that go around the globe. Therefore, each consumer may select the trip that best matches his/her wants and expectations leading to an increased satisfaction derived during and after the cruise.

According to CLIA (2006, p.3), the industry has experienced an average annual growth of 8.2% since 1980. This is double compared to the long-term average growth rate of 4,0% of tourism in general (WTO, 2011, p.4). *Figure 3*. shows that the main cruise line market area is North America constituting currently over 70 percent of the total market turnover, meaning over 10 million passengers per year. Despite the North America being the major cruise line market area, the growth has been very moderate during the late 21st century. This has left space for foreign markets to grow and actually the foreign annual passenger amount has increased from 278 000 passengers in 1990 to 3,244 million passengers in 2009 (see Appendix C.). Consequently, foreign passenger's share of the total market has increased from 7,4 percent to 24 percent making the other continents more competitive against North America. Also RCCL acknowledges this issue and states that within a couple of years the situation will be equal, so that both North America and the rest of the world constitute 50 percent of the market turnover.

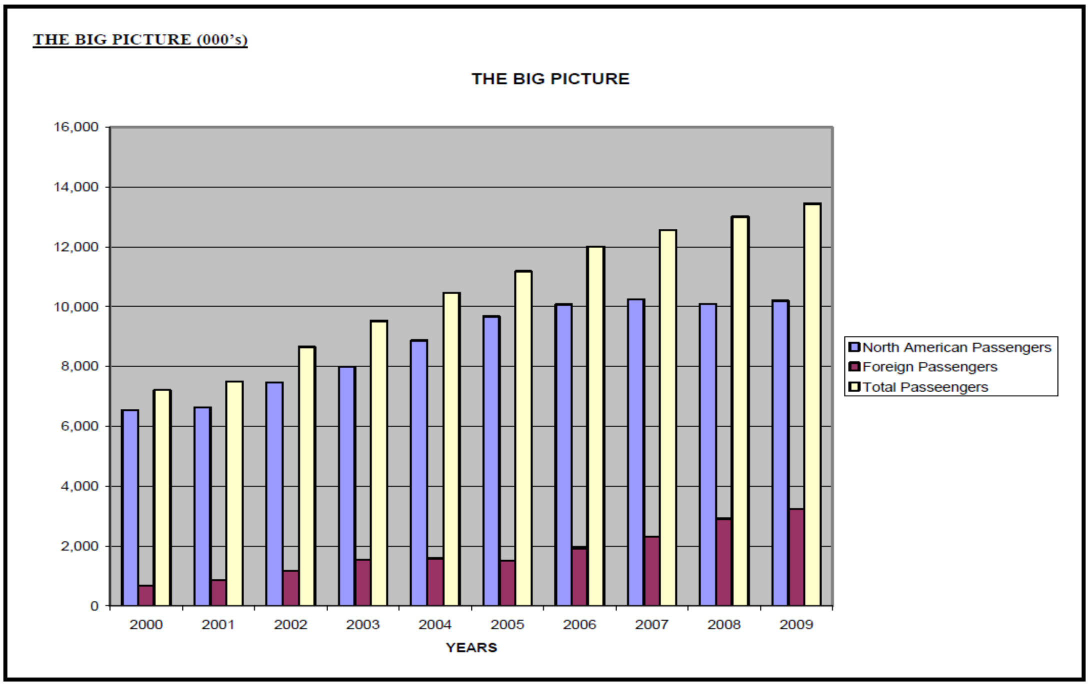

Figure 3. Cruise market Overview. (CLIA, 2010, p.2)

North America's strong situation can be partly explained by the idea of Hobson (1993). He estimates that all markets have definite expansion limits, and therefore cruise line industry cannot continue its pace much longer. However, he also sees that growth can be sustained, if organizations pay attention to the untapped market of potential cruisers, which could be the next generation passengers for cruise lines. In contrast to his own ideas, Hobson (ibid.) suggests that the cruise line industry has some advantages over hotels and other tourism organizations, which can be used as an advantage in strategies. According to him, the growth is highly associated with the benefit that location is not fixed and capacity can be transferred elsewhere, if demand weakens. Similarly, Wood (2000) states that due to the globalization the cruise line industry is freed up and industries are intertwined, so that they can benefit from each other when crisis occur. As a result, it is noteworthy that North American market has been very dominant in recent decades but is saturating soon, leaving the space for other markets to grow. Next the destinations and cruise line providers are introduced.

2.2.2 Major Market Providers and Cruise Line Destinations

In this subsection, the providers and destinations in the cruise line industry are briefly discussed in order to give a description of the industry players. The main market providers in the industry according to Veronneau and Roy (2009, p.129) are *Carnival Cruise Lines, Royal Caribbean Cruise Lines Ltd. and the Star Group*, measured by their turnovers. *Figure 4.* below shows the market shares of each organization and the whole list of cruise line providers can be found in Appendix D.

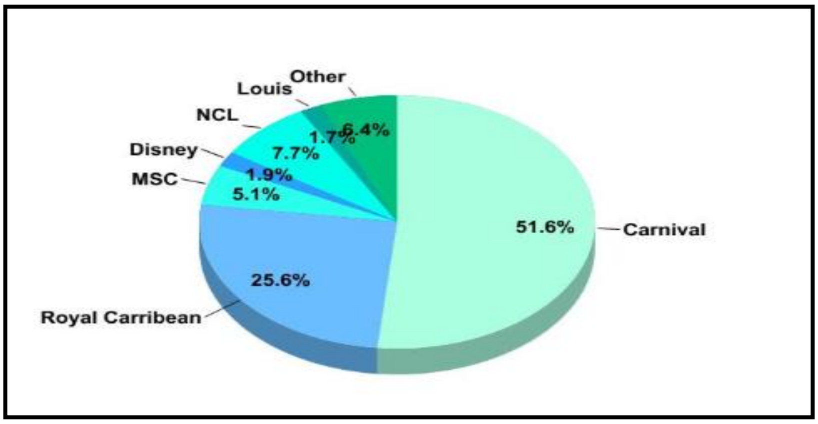

Figure 4. Market shares of cruise line organizations. (Soinila, 2011, p.4)

As one can see from the figure, CCL dominates the markets based on the turnover rates. According to Saastamoinen (2011, p.27), the differences between CCL and RCCL are clearly observed. Whilst RCCL has 41 ships in operation, CCL has 102 ships cruising in the waters. Operationally CCL is three times bigger than RCCL, which market capitalization is worth of 10 billion dollars. On the other hand, Saastamoinen (ibid.) notes that RCCL’s biggest brand Royal Caribbean International (RCI), operating 22 ships within six different ship category, is the most valuable and biggest cruise line brand in the world making it appealing to consumers. Next the three of these largest companies are briefly presented paying most attention to RCCL.

Royal Caribbean Cruise Lines Ltd. is based in Norway in 1968 and in 1970 it produced its first ship called the Song of Norway. The ship was the first cruiser produced for warm water cruising in the world and it was developed in Helsinki Finland (Soinila). According to Soinila, RCCL has been able to produce innovations in early decades of the cruise line industry, but also during the past few decades, therefore making the organization as the pioneer in the markets. The success of RCCL is based on its revolutionary technique and business planning that lead to a situation in which RCCL has the first mover advantage over its competitors, because the organization offers new cruise line concepts year after year. Furthermore, RCCL is an international cruise line provider which main market area is the Caribbean but it offers luxurious cruises in the Mediterranean, Alaska, Asia and in other parts of the world also. (Soinila, 2011)

RCCL owns three international ship brands and three local ones. Royal Caribbean International (RCI) is the biggest international brand seen as a *contemporary* ship class which is targeted to whole families. The biggest RCI cruise ship is “Oasis of the seas” which is shown in *Figure 5.* below. These cruise ships offer something for everybody such as water parks, theatres, spas, parades, ice hockey rink etc. The second brand, Celebrity Cruises, is known as *premium class* which is targeted to people who want more quality. It offers a huge variety of restaurants, a theatre and spas but is suited for adults rather than for children. The third brand, Azamara Club Cruises, is a *luxury* offering to those people that are most interested in the ports of call and want/require the best service. The cruise ship within this brand is smaller than the other two international ones, so it can cruise to smaller harbors, and therefore the concentration is on the offshore offerings. All the worldwide brands are listed in in *Figure 6.* in which the comparison between sophisticated, formal, relaxed and cheerful concepts is done.

Figure 5. Oasis of the Seas. (Soinila, 2011, p.14)

Finally, one of the main reasons for RCCL's success is the innovative design of the ships and the division of their brand categories. The worldwide coverage and the variety of offerings guarantee that everybody is able to enjoy and select the cruise she/he wants to.

Carnival Cruise Lines is the main competitor of RCCL in the world wide scale. CCL produces mostly standardized ships in order to keep the operating costs minimal (Vasama), which leads to a situation in which their key success factor is cost advantage rather than differentiation. CCL operates mainly in the Caribbean region but provides also luxurious cruises in the Mediterranean and Alaska. The organization has focused on mergers and acquisitions, since it has for instance bought Costa Cruises in Italy in order to have a better coverage in these markets (Siren). Finally, according to Soinila, CCL is best suited for people who look for fun within a cruise, and therefore the brand is situated in the left hand side of *Figure 6.*

Star Group, existent in *Figure 4*. as Star Group and Norwegian Cruise Lines (NCL), is positioned elsewhere and its dominance is on the Asia-Pacific sector giving the organization a competitive edge in Pacific cruises (CLIA, 2010). Star Cruises owns 50 % of the NCL and 100 % of Cruise Ferries brands with a total combined fleet of 22 ships (ibid.). Star Cruises serve mainly Asian passengers but also those North Americans, Europeans and Australians that are interested in Asian destinations. Currently, the destinations include Hong Kong, Japan, Malaysia, Singapore, Taiwan, Thailand and Vietnam. The offering within NCL brand is very close to CCL's one as seen in *Figure 6*, whereas the Star Cruises goes to less sophisticated and more formal direction.

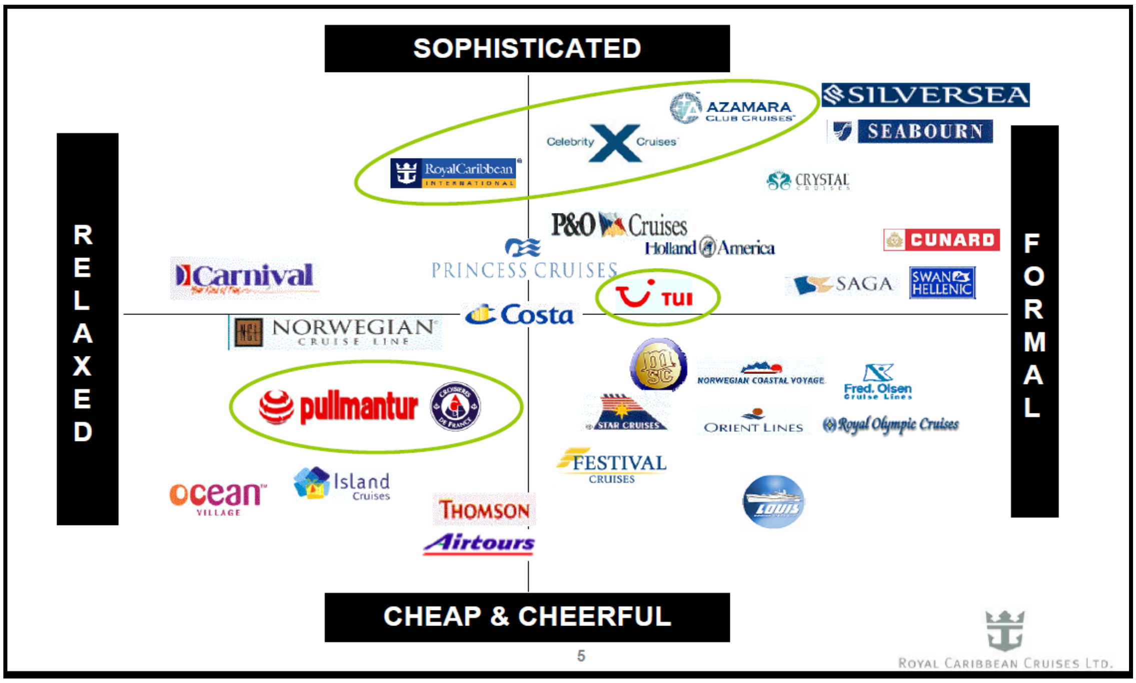

Figure 6. Strongest brands in the cruise line business. (Soinila 2011, p.5)

As one can notice from *Figure 6.*, RCCL's cruise ship brands are more sophisticated than the ships of its main competitors, CCL and Norwegian Cruise Line/Star Group. Nevertheless, Pulmantur brand that RCCL owns operates in Spain region and is known as more cheerful and relaxed option than RCCL's main brands. From the figure, one may also see the difference between RCI, Celebrity Cruises and Azamara, as the first one is more close to relaxed side whilst Azamara is a more formal choice. The main conclusion here is that RCCL wants to enhance its image as being a first class ship with superior service, whilst CCL and Start Group mainly focus on the relaxing atmosphere rather than concentrating on the service.

From the **Cruise Line Destinations,** referred also in the previous paragraphs, the Caribbean as a region has definitely the dominance in the current cruise line markets. Firstly, the small islands in eastern Caribbean have a high dependency upon tourism, and therefore cruise line business is the living term for their society (Lester and Weeden, 2004, p.39). Secondly, Caribbean owns the physical characteristics, geographical and cultural variety and a close distance to the USA, which can be seen as the world's largest cruise market (Soriani, et al. 2006, p.235). And lastly, the warm climate around the year provides consumers easy travelling in any time.

Asia and Pacific Islands and Europe and the Mediterranean can be seen as the follower destinations and they have also been researched quite a lot (e.g. Diakomihalis, 2007; Soriani et al., 2006; Douglas and Douglas, 2004). In the Mediterranean area, the Europeans are the main consumers, thus Americans are the biggest and ever growing consumer group especially in Greece (Diakomihalis, 2007, p.433). Soriani et al. (2006, p.235) state that the Mediterranean has become the second largest market area in the cruise line industry due to the warm climate around the year, new port destinations and the growing trend of American consumers. Also Siren notes that the Mediterranean has the key advantage over Caribbean, since the excurse ports are all culturally significant; such as Rome, Athens and Barcelona. On the other hand, Asia and Pacific region have grown due to the Malaysian based Star Cruises (Douglas and Douglas, 2004) that has expanded their business by mergers and acquisitions. These researches also state that Pacific's and especially Australia's cruise line potential lies in the growing international appreciation as a safe and interesting destination. Consequently, each region has its own key characteristics that enhance the supply. One has to analyze consumer behavior in order to find out how consumers appreciate different locations. The total list of cruise line destinations can be found in Appendix E.

2.2.3 Business Ecosystem in the Cruise Line Industry

Cruise line providers represent only a minor part of the whole cruise line industry. To be able to cover all the participants involved in the cruise line business, this research uses business ecosystem perspective researched by for instance Iansiti and Richards (2006), Moore (1993) and Kim and Mauborgne (2005).

Business ecosystem is characterized by Iansiti and Richards (2006, p.79) as a system that involves large number of parties who depend on each other for their mutual effectiveness and survival. Furthermore, Moore (1993) notes that to be able to sustain competitive advantage in a current business environment the organization requires new innovations and tools for strategizing. He also adds that these competencies are best managed by effective leadership that focuses on business alliances and management of suppliers and customers. Similarly, Kim and Mauborgne (2005) introduce the concept of Blue Ocean Strategy in which the main idea is to create an uncongested market place where competition becomes irrelevant. They further note that this is best achieved by creating value stars meaning new business ecosystems in which participants work for to achieve mutual goals. Kim and Mauborgne's framework is further discussed in the section 2.4 being part of the cruise line industry's business model. Next the business ecosystem is described by using *Figure 7.* as the basis.

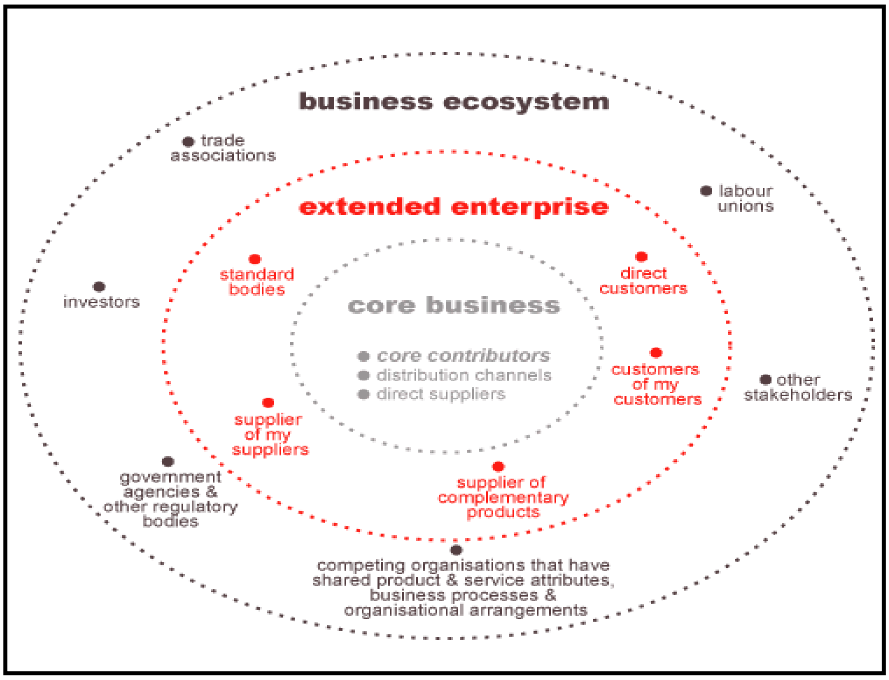

Figure 7. Business Ecosystem. (Moore, 1993, p.78)

As *Figure 7.* shows, the business ecosystem is comprised of the *core business* rounded by extended enterprise (Moore, 1993). In the cruise line industry the *core contributors* to business include ship development and construction as well as the analysis of the service providers onboard. The *distribution channels* in turn are best characterized by Douglas and Douglas (2000) and Pan and Li (2011) as they see the Internet becoming the most dominant way of searching information. They further suggests that travel agencies, the biggest distributor of the cruise line industry, benefit from the increasing coverage of Internet access, therefore being able to sell more with lower transaction costs. For instance RCCL uses a sales agent in Finland who is a connection between the organization and the travel agencies (Soinila). Finally, *direct suppliers* in the cruise line industry contain property owners, developers and real estate companies, interior design and furnishings companies, architects, management and training service providers, marketing companies, industry consultants, ICT manufacturers and shipyards for cruise ships construction

(Datamonitor, 2010a, p.13). In this research the link between RCCL and STX Europe is a key factor, due to their keen relationship that has last for 40 years already. RCCL is seen as the core business, whilst STX Europe as their direct supplier.

The *extended enterprise* in turn comprises of *direct customers* meaning current consumers of the cruise line trips that according to Datamonitor (2010a, p.13) are characterized as individuals using accommodation and services offered but also companies using events and conference venues. Furthermore, *customers of my customers* in this context mainly means end customers' business friends that are important for word-and-mouth effect, because if the onboard customers have good experiences, they will definitely tell them forward to new prospects. The *supplier of complementary products* associates with the discussion of the service segment, for instance hotels and other in-land organizations, which are discussed in the next section of the thesis. Mainly, the idea is that food and beverages, different facilities onboard, alternative ways of booking the trip etc. are necessary to enhance the service levels of the cruise line industry (Wilkins et al. 2007). In this context the complementary supplier would mean a new ship construction firm for RCCL. Finally, also *supplier of my suppliers* is included to the extended enterprise and means those organizations that support the operations of direct suppliers such as STX Europe in this case.

Finally, the *business ecosystem* is a combination of the abovementioned factors together with the analysis of other issues presented in *Figure 7*. The biggest *trade association* in the cruise line industry is CLIA. It publishes cruise line documents, market reviews and is dedicated to the promotion and growth of the industry. Some other associations include NACOA whose members have a significant interest in the cruise line product as well as the Starwood Hotel Chain that promotes cruises and destinations as well (Datamonitor, 2010a). *Core competing organizations* include other cruise line organizations in the market that were discussed previously in this section, but also hotels, since according to Toh el. al. (2005) cruise lines and hotels have very many similarities, and therefore they can be easily compared together due to seeing that the consumer behavior is pretty similar in both cases. Finally, each country and region have their own *government agencies* and *labor unions* that have to take into consideration in market researches. Nevertheless, some of the regulations are under global federations such as International Trade Union Confederation.

Lampinen (2010, p. 43; sit. Andersson, 2008) further notes that regulations and rules in the cruise line industry are one of the seven changing forces that have to consider in the future, since they affect the whole business ecosystem. Also according to Datamonitor (2010b, p.5), the environmental legislation and regulations can affect RCCL's operations and increase their operating costs. Some environmental groups have lobbied stringent regulations, and for instance the US Congress considers new laws and regulations in order to manage ship pollution. Furthermore, the current and future leas and regulations and liabilities can increase the organization's costs of compliance that can adversely affect the profitability. Datamonitor (2010b). Ecological issues are further discussed in section 2.5 in which consumer behavior and future trends are addressed.

2.2.4 Global Supply Chains and Conglomerates

Referred to the growth section 2.1 as well as to the discussion of business ecosystems, one possible reason for the growth of the cruise line industry is its globalization that has mainly happened during the past two decades. Veronneau and Roy (2009, p.130) study the globalization from the supply chains' point of view and according to them cruise line industry has beaten every expectation in growth mainly because of its successful supply side. Furthermore, Wood (2000, p.345) complements this by stating that globalization is based on three alternative ways; restructuring of the industry in the face of global competition, capital mobility and labor migration. Consequently, the cruise line industry is the fastest growing segment in the tourism industry as it has developed in all of these ways (Wie, 2005).

To continue, Veronneau and Roy (2009) list the main challenges that globalization brings along. Firstly, the cruise line industry has to sustain contiguous global operations while still maintain the service quality for consumers. Secondly, they have to source a great variety of offerings on products and services that requires a dedicated team of specialists. Lastly, Veronneau and Roy (ibid.) state that the turnaround days and the seasonal demand requires well-coordinated planning, so that there is enough safety stock on board and enough employees to serve customers. Wood (2000, p.364) adds up that problems may exist due to the fact that for instance in the Caribbean the companies operating are usually non-Caribbean, and therefore their destinations are also under the direct control of some other party. Moreover, he says that labor force is coming outside of the region, mainly from developing countries. This in turn causes language barriers, differences in service quality assumptions and other multicultural problems and factors.

Adaptation to globalization's challenges requires flexibility and good communication. However, cruise ship providers have also seen the mergers and acquisitions as a way to remain competitive. According to Wood (2000), the biggest providers in the cruise line industry have purchased other brands to solve this problem. For instance CCL had three ships in 1980 and two decades later they owned already 43 ships with a capacity of 50000 passengers. The average yearly supply growth rate has been about 8-9 percent during 1990-2006 (Soriani et. al, 2006, p.236). As a result, this has caused some brands to disappear totally from the markets and as Wie (2005) state has caused the market to be more oligopolistic. Wie (ibid.) also sees that these capacity investment decisions are done to block new entries, to have a cost advantage, to increase market share or to encourage new cruise travel market. As a result, there are three main competitors in the field each having different strategies but still dominating the market, so that new entrants have the only possibility to focus on niche markets in the future and that way increase the market share during time.

To summarize: International cruise line business expanded during 70 s and 80s because of the Love Boat TV series in the USA. Currently, North American markets constitute about 70 percent of the total market turnover, but in few years the target is that rest of the world would increase their share to 50 percent. International cruise line business has experienced double as much as growth than tourism in general and it is estimated to continue in the 21st century. Globalization and business ecosystems have been the main cause of the success due to seeing that strategic alliances and mergers are tied in order to create competitive advantages. Currently, RCCL, CCL and Star Cruises dominate the markets, so in the future new market entrants will have to compete by niche market opportunities. Next, the rest of the sections of chapter two focus more on the pure strategic implications that service, tourism and cruise line industry organizations pursue.

2.3 Servitization of the Economy

In order to discuss and analyze tourism's market potential, new target markets and consumer behavior, it is relevant to introduce ideas of the service and hospitality segment. During this section, the nature of services is examined following the discussion of the experience economy and globalization impacts. Finally, the requirements from the service industry and the destination image are introduced. The objective of this section is to introduce ideas that are further applied to the cruise line industry in section 2.4.

Tourism segment has been given great attention in the literature compared to cruise line's market research that can be seen quite scarce (Toh et al. 2005, p.121). According to Pizam (2008) hospitality and tourism segments are continuously looking for ways to differentiate themselves by searching for creative ideas and innovative products/services. Competitive advantage can no longer be sustained by cost advantages, thus unique offerings and targeting niche markets are the current trends for the service segment (ibid.). Furthermore, as King et al. (2011, p.157) note the awareness of the market is mandatory since hotels as well as cruise lines operate in a highly dynamic environment at both international and national levels. Therefore, another competitive advantage rather than cost advantage or differentiation has to be analyzed and searched for. Moreover, the examination of key success factors in business is necessary in order to understand the DeKay et al.'s (2004, p.274) research results that indicate that cruise line organizations have less mis-booking than other hospitality organizations. Also Toh et al. (2005, p.121) acknowledge that in 2003 cruise lines occupancy rate was 95% compared to 59% in case of hotels.

Consequently, in the next subsections of section 2.3 the research focus points are the nature of services and service quality, the experience economy, the requirements wanted from services and finally the destination image.

2.3.1 Service Quality and the Nature of Services

Services are quite different from traditional products and the value generation is seen more complex than in case of straightforward product purchase decisions. Additionally, the nature of services determines the strategies that should be used in order to deliver value to consumers. It is highly important to acknowledge these factors so that the organization can sustain the competiveness in markets.

Many researchers (e.g. Grönroos, 1998; Edvardsson et al., 2005; Parasuraman et.al., 1985) have defined a service as part of the wider concept of the product. Edvardsson et al. (2005, p.108) note that products include goods, services, software etc. and they are a combination of different elements. In case of products the consumer is seen as the co-producer of the value whilst in case of services the value is derived during the performance (ibid.). According to Grönroos (1998, p.7), organizations should adopt a strong service culture in order to understand this difference in producing value. He notes that services cannot be standardized as product lines, which further suggests that employees are a major part of the service experience. Edvardsson et al. (2005) use the IHIP theory in the research of services. IHIP stands for *inseparability, heterogeneity, intangibility* and *perishability* that are the main characteristics of the service. All of these issues relate to the cruise line industry, since the provider of the service, the cruise line organization, cannot be separated from the consumer on board. Secondly, each of the services is different from each other meaning that there are no similar cruise experiences even in the mind of one consumer. Intangibility of services means that they cannot be stored which is in turn typical for products. Finally, perishability relates to the impact that consumer experiences perish after the service experience and only the memory of the service and its quality remains.

Furthermore, Grönroos (2001) adds up that service is best described by the interaction between the customer and the employee which is taken in order to provide solutions to customer's problems. Nevertheless, products also provide solutions but the main purpose of organizations is to develop offerings, whether products, services or the combination, in order to create value. Grönroos (1998, p.5) also notes that value is best derived from long-term relationship rather than from occasional and short-term experiences. He acknowledges the importance of creating sustainable relationships with consumers, since short-term relations usually cost more to develop and the consumers are not loyal to the organization. Similarly to these ideas, Parasuraman et al. (1985, p.42) address that service value and quality go hand in hand and the quality is best described as the dimension between expectations and performance. *Figure 8*. below presents the factors that affect to the service quality.

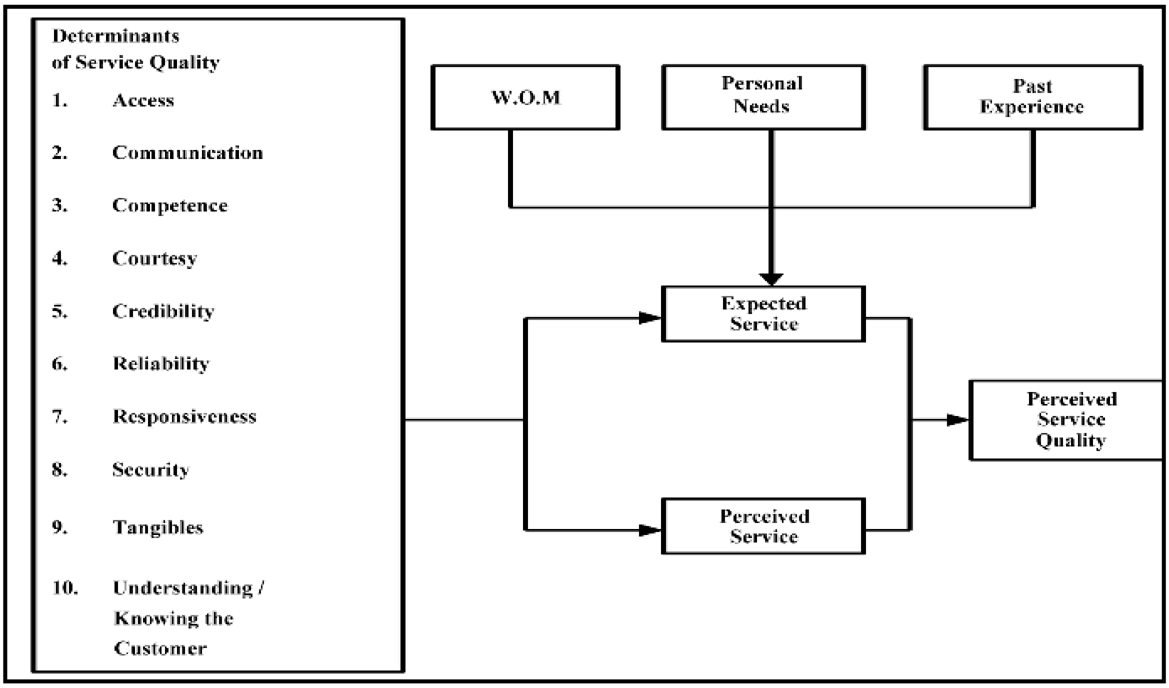

Figure 8. Determinants of Perceived Service Quality. (Parasuraman et al. 1985, p.46)

According to Parasuraman et al. (ibid.), only tangibles and credibility of the service can be known in advance. Other determinants in the left hand side of *Figure 8.* are measured during the service, and therefore it is highly essential for service organizations to focus on service whilst consumption. Consumers are also likely to measure services by comparing them to past experiences due to service's heterogeneity. This model is nowadays known as SERVQUAL that has been used by many organizations in their purposes of generating more valuable services to consumers. Next the concentration is on the experiences and globalization that also contribute to the total service value.

2.3.2 Experience Economy and Globalization

Service segment has faced a situation in which globalization has influenced the strategy making and business development. Due to the nature of services and the multi-nationality in both the supplier as well as in the producer side, the service economy is currently described as an experience economy.

Supporting the idea of experience economy, Duman and Mattila (2005) note in their research that service industry is becoming more and more dependent on consumers' experiences. They also state that this has forced marketers to concentrate on the entire consumption experience rather than just providing high quality products or services to end consumers. As a result, customers' affective needs are in constant attention (ibid.), and therefore building themed hotels, restaurants and cruises immerse consumers into new innovative experiences within geographical location, culture, time period or activities (Pizam, 2008, p489). These issues definitely affect the choices and strategies that are pursued by current organizations, thus seeing the fact that only a couple of competitors can sustain the advantage over others.

Pine and Gilmore (1998, p.98) have taken another view on the experiences. According to their research, products and services are constantly being commoditized, so customer experiences will matter the most. They have categorized the service as being differentiated, and priced it to a premium level, compared to the commodities that have an undifferentiated offering with a market price. Staging the service is not enough, since experiences have to be memorable. Similarly to Pizam's (2008) ideas, Pine and Gilmore (1998, p.102) suggest that consumers should be absorbed to services and organizations should enhance the level of active participation. These would make the service *escapist* which can be seen as the main factor when examining the duration of the buyer-seller relationship.

Pine and Gilmore (1998, p.102-104) present a strategy that can be used for developing memorable experiences. They define the process by five steps: *1) theme the experience, 2) harmonize impressions with positive cues, 3) eliminate negative cues, 4) mix in memorabilia and 5) engage all five senses.* Firstly, themes are important in order to create memories, since consumers usually remember one word that describes the whole experience. Secondly, better, more imaginary and clearer cues are necessary to enhance the total experience and the foundation of the theme. The third step is reverse to the second, as the purpose is to eliminate negative impressions that are mainly related to service staff. Fourthly, mixing the memorabilia may include buying a themed T-shirt to have a memory of the concert. In case of cruise lines this could mean buying something from the shops onboard. The main idea is that the theme is present and the customer may have something from the experience as a physical memory. Finally, combining all the senses - sight, hearing, taste, smell, and touch – is important due to seeing that in for instance restaurants people may relate the coffee taste to reading a book, and therefore have a memory of the situation.

What makes the successful development of the experience economy hard to reach, is globalization, because experiences include different nationalities in the same place. Consequently, hospitality organizations have to develop strategies that would best satisfy all the people despite the variety in cultural backgrounds. According to Jaakson (2004), most of the employees in the cruise line industry and onboard are from developing countries such as Indonesia and Philippines, and therefore tourists' contact onboard is highly controlled by the scripted service environment. Furthermore, as Testa (2009) acknowledges, the multi-cultural environment affects employee and manager levels also. As the final consumer satisfaction depends on the employee behavior, it is extremely important to analyze the manager level. Testa (ibid.) suggests that rather than doing what managers expect and think, the service concept should be mutually understood and beneficial, which in turn would impact service behavior in positive ways.

These results are also in line with DeKay et al.'s (2004) and Toh. et al.'s (2005) idea of the cruise line industry beating the service industry. Both studies express the fact that through careful management and communication, thus not forgetting the innovative strategy, cruise lines have been better in handling the globalization and multiculturalism onboard. Furthermore, cruises are less often reserved online than normal hotels (Toh et al. 2005), which leads to a conclusion that consumers have more personal guidance over the phone, which eventually means that a carefully thought and planned trip will not be cancelled as easily as online purchases.

Brownell (2008) has analyzed the human resources relating to globalization from another point of view. According to her, the service industry includes few women managers because in very many cultures women's status is lacking behind. Consequently, this situation affects the morality, equality and behavior which eventually is seen in consumer satisfaction. The gap exists, since Testa (2004) notes that supportive leaders in a multicultural environment will perform the best. They will demonstrate the concern for welfare, facilitating employee needs and promoting positive leadership, in which women tend to outperform men. As a result, the complex environment should be discussed more in the literature and hospitality segments should pay attention to these issues, so that not only consumers would buy the service but also the service should be enhanced so that the possibilities for repurchase decisions exist.

2.3.3 Requirements from the Service Economy

It is evident that service levels have to meet the most exact standards and they have to be maintained around the clock in order to create positive experiences. Therefore, requirements and needs that are existent in every service and hospitality organizations have to discussed and analyzed.

According to Wilkins et al. (2007) there are three main types of service quality in hotels: *physical product, service experience and quality of food and beverages*. The first one is associated with issues such as room quality and floor staff, whilst the second one mainly measures quality of the staff and the speediness of the service. The last one, food and beverages, is related to restaurant facilities in hospitality organizations. Wilkins et al. (2007) also note that these three variables should be intertwined and managed together rather than concentrating on two and leaving the third one behind. Similarly to Wilkins et al. (ibid.), also Choi and Chu (2001) list the factors that consumers mostly appreciate in hotels: *staff service quality, room qualities, general amenities, business services, value, security and Internet Data Distribution (IDD) facilities* from which staff service quality, room qualities and value are seen as the most determining factors that contribute to total customer satisfaction and correlate to the likelihood that consumers will return to the same hotel. Choi and Chu (ibid.) also add that staff service quality will have a high influence, because consumers are currently not just looking for basic facilities provided by a hotel but rather a personal service. Similarly as Wilkins et al. (2007), also Choi and Chu (2001, p.294) note that these factors should be maintained all the time without compromises and further state that "*having more of it will not satisfy anyone but when it breaks down, suddenly everyone becomes dissatisfied*".

In *Table 1.* Wilkins et al.'s (2007) factors have been unified with Choi and Chu's (2001) ideas. In addition, extended table of factors is presented in order to provide a more detailed list of requirements and factors for the managers of the service organizations.

Table 1. Requirements from hotels and cruise lines. A combined table from Wilkins et al.'s (2007) and Choi and Chu's (2001) frameworks.

Wilkins et. al. (2007)	**Chon and Chu (2001)**	**Chon and Chu (2001) extended**
physical product	room qualities	cleanliness comfort of bed and pillows quiteness temperature
	general amenities	availability of mini bar
	IDD facilities	questionable
	value	ambiance room
	business services	secreterial service business rooms
service experience	staff service quality	helpfulness of staff multilingual skills friendliness check-in/out
	security	responsibility of security personnel safe box availability fire alarms
	general amenities	room servive laundry service
	value	reputable chain
quality food and beverage	value	food and beverage image of restaurants

Table 1. is further used in the empirical part of the study and all of the factors are given attention in the research. The three main factors are used as themes that will include sub-factors necessary for the total value.

2.3.4 Destination Image in the Hospitality Segment

The last subsection of the service economy section is about destination image, which is described as the "*expression of all objective knowledge, impressions, prejudice, imaginations and emotional thought an individual or group might have of a particular place"* (Jenkins, 1999, p.1). As a result, destination image is important to include in the study because it will eventually determine how end consumers make their decisions and what is required from the service economy, thus being part of another means of behavior that will be analyzed further in section 2.5 of consumer choice behavior.

Jenkins (1999; sit. Stabler, 1988) provides a framework (*Figure 9.*) that explains the factors associated with the destination image. In the upper side, demand factors concentrate on the consumer's internal expectations about the place based on past experiences and own motivation. Reversely, the lower side, supply factors, mainly associates with the external world constituting issues such as media, promotion, marketing etc. Similarly, in Um and Crompton's (1990) framework (see Appendix F.) the external and internal inputs are separated and they further determine the awareness set, evoked set and lastly the travel choice. These both studies note that past experiences have high influences on future behavior as well as to the motivation to travel. However, in case of initial purchases, Chon (1991, p.72) suggests that effective marketing campaigns that would be targeted to right people is required in order to encourage the purchase and enhance the destination image of the new place. Consequently, each of the factors has its own strengths in the choice of destination but the right mix is based on the destination and target people.

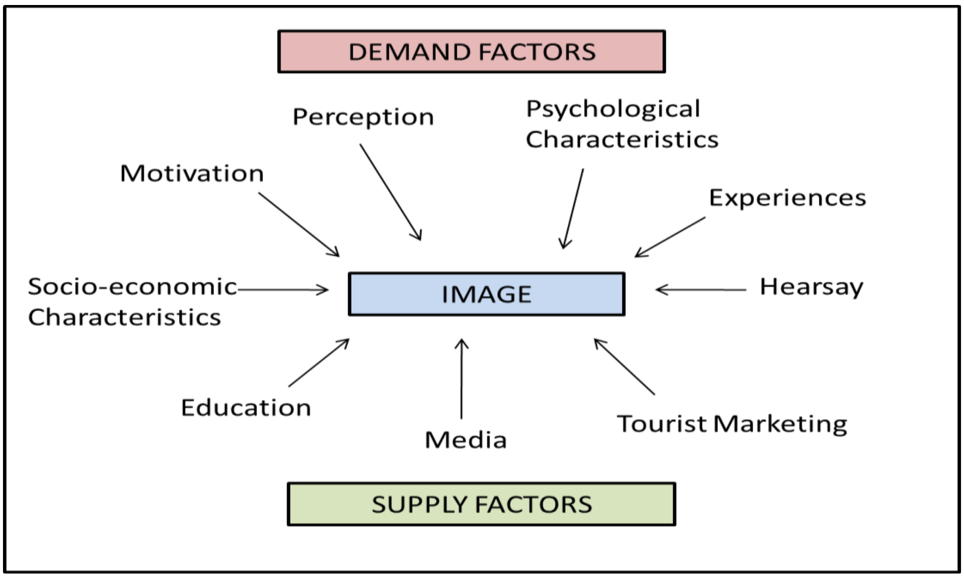

Figure 9. Factors influencing the destination image. (Jenkins, 1999. sit. Stabler, 1988, p.3)

In addition to other research on the destination image, Pan and Li (2011) note that the importance of it lies currently in the fact that people search information online. The keywords used present the mental modes and understanding of online tourism as well as the knowledge about specific destinations. Pan and Li (ibid.) continues that in order to create a destination image that really appeal to people, hospitality organizations should adopt marketing practices that serve niche markets. This means that currently most of the people use similar search words to find travel choices on the Internet, but the most effective way would be to include all kinds of phrases that would reach even the non-ordinary consumers. Similarly, Jenkins (1999) acknowledges the power of niche markets in the future and notes that there is a growing need to investigate whether the similar images of countries are perceived by all international tourists, and furthermore, if they are appropriate for new markets and consumers. Consequently, as Jenkins (ibid.) says, niche markets are becoming more popular, so according to Pan and Li's (2011) findings this should also be incorporated to destination image and promotion choices that tourism organizations make. Finally, to be able to reach niche markets and create an image to them, all the issues presented in *Figure 9.* have to be taken into account.

To summarize: Service economy is very different from pure manufacturing or product producers. According to IHIP theory and the service quality assumptions, one may see that most value is delivered during and after the service. Therefore, perceptions, expectations and experiences play a key role in producing a good and memorable service. As tourism, also service segment has experienced globalization that has affected the work force and the strategy making of the organizations. Employees are not necessarily accustomed to the culture in which they are working, which may cause some challenges. Furthermore, the requirements and needs from services are related to cultures, and therefore consumers from different regional areas may appreciate totally different things. However, the combined table of Wilkins et al. (2007) and Choi and Chu (2001) serve as the basis for further analysis. Finally, the destination image comprehends issues relevant for destination choices. Demand and supply factors influence the consumer's decision in which demand factors are consumer specific factors such as perception and experiences whilst supply factors are mainly associated with the organization and its effectiveness to market the service. As a whole, this chapter is very essential in order to understand the key characteristics in case of cruise lines also. Next, the strategic network of the cruise line business is discussed.

2.4 The Strategic Service Network of the Cruise Line Industry

In this section, the business model of the cruise line industry is discussed following the analysis of the Blue Ocean Strategy for cruise lines. The first subsection focuses on the general overview on the business models. Thereafter, the cruise line business model is analyzed by paying attention to revenue streams, value generation logic, the modularity of offerings and the main characteristics of the industry. The final subsection gives a suggestion for strategic influences existent in the cruise line business.

2.4.1 Previous Research on Business Models

Previous research on business models has varied greatly and there are different definitions for a business model. Below are two descriptions made by Osterwalder et al. (2004) and Magretta (2010).

"A business model is a conceptual tool containing a set of objects, concepts and their relationships with the objective to express the business logic of a specific firm. Therefore we must consider which concepts and relationships allow a simplified description and representation of what value is provided to customers, how this is done and with which financial consequences." (Osterwalder et al. 2004, p.3)

"Who is your customer, what does the customer value, and how do you deliver value at an appropriate cost?" (Magretta, 2010, p.88)

In addition to the description of a business model made by Magretta, she (2010, p.88) notes that business model is like writing a new story since there are variations on the generic value chains. Margetta specifies (ibid.) that this value chain has two sides. The first part includes activities that are purposed in order to make something, such as designing and manufacturing. The other side is associated with the selling, meaning finding and reaching customers and transacting with them. She concludes that business models are like plots that are created to sustain advantages. On the other hand, Casadesus-Masanell and Ricart

(2011, p.103) see business models as comprising of *choices* and *consequences*. Choices include decisions on policies, assets and governance, those things that define the decision-making structure, tangible resources and operations in the organization. Consequences in turn can be flexible or rigid. Usually, organizations think that flexibility is a key to successful business. However, according to Casadeus-Masanell and Ricart (ibid.) rigid business models are harder to imitate since businesses need time to build them, therefore creating a competitive edge and first mover advantages.

According to Osterwalder et al. (2004, p.4), the popularity of the business model is a pretty new phenomenon seeing that it rose to prominence in the end of 1990s. They distinguish that the rise was simultaneous in case of the Internet and the steep rise of NASDAQ stock market index for technology-based companies. Consequently, one may assume that business models and technology are related, thus acknowledging that business models are not solely the interest of these industries but play a key role in others also.

2.4.2 Cruise Line Industry’s Business Model

The business model of the cruise line industry has been given less attention in the literature. In this research, cruise line industry’s business model is seen as a complex matter and only the most relevant points for the research are addressed. Along with the definition of Osterwalder et al. (2004), this subsection describes the value that is provided to cruise line consumers and the revenue streams that address the financial consequences. Furthermore, the modularity of the offering is taken into consideration as a separate topic because it is a very relevant issue for the empirical part and further research purposes. Finally, the main characteristics of the cruise line concept are discussed.

2.4.2.1 Value Provided to Customers

Consumer value is usually understood as a business concept that attempts to examine the satisfaction received by a customer from a purchase. Moreover, it tries to analyze the likelihood of customers repeating their purchase. Kaze (2010, p.133) in his framework assumes that cognition, and hence values, are the prototype for attitudes and guide the purchasing behavior. Further on, values serve as determinants of forming wants and attitudes towards a market offering in which actions are being considered (ibid.).

Consequently, the purchasing decision of a consumer is based on the value proposition of the organization.

On the contrary to Kaze's ideas, in the cruise line context value can be understood by critical touch points that are necessary to form a good consumer experience. For instance, RCCL wants to measure value in order to examine the consumer engagement levels. Therefore, value to consumers is usually a combination of different touch points that cruise line organizations measure in order to improve their service (RCCL, 2007). *Table 2.* below presents the list of important touch points that RCCL takes into account when developing better business models.

Table 2. Important touch points in delivering consumer value. (RCCL, 2007, p.19)

Touch Points	Importance Score
Making the Reservation	21
Pre-cruise information	36
Check-In and boarding	11
Stateroom bedroom	21
Stateroom bathroom	21
Dining	40
Activities and events	33
Entertainment	24
Ports-of-call	16
Royal Caribbean shore excursions	11
Crown and Anchor onboard activities	19
Leaving the ship at the end of the cruise	9
Onboard communications	20
Ship appearance and facilities	36
Onboard service	41

From the table, one can see that the most important touch points that customers have rated are *pre-cruise information, dining, activities and events, ship appearance and facilities* and *onboard service.* Least attention is given to leaving the ship, shore excursions and check-in and boarding. Based on this, cruise line organizations should focus on the initial information given to consumers in order to appeal to their senses. When the consumers make their choice on whether they take the cruise in a huge mega carrier or a smaller ship, cruise line organizations should target the choices based on the market segment's requirements. The onboard service and dining and activities finally conclude to the value that consumers get from their experience.

In general, the value from the cruise is the line between perceived and expected service that was discussed in section 2.3. in which the framework on the service quality was addressed.

2.4.2.2 Revenue Streams of the Cruise Lines

Revenue streams are important parts of the cruise line business, since their business model is different from some traditional industries due to the value chain not being a unilateral one. Instead, cruise lines generate revenue both from the passengers booking the trip but also from the services on-board. This system according to Eisenmann et al. (2006) can be understood by the analysis of *two-sided markets*.

In two-sided markets, products and services bring along groups of users that form a platform. They provide infrastructure and facilitate the transactions between groups. The significant difference of two-sided markets compared to traditional ones, is that the value does not go straightforward from left to the right. Instead the platform generates costs and revenues from both sides. (Eisenmann et al., 2006, p. 94) The money side (cruise line passengers) pays an admission and some extra costs in order to enjoy the cruise. The subside side (service providers such as restaurants) pays a fee for the space in the cruise ship, thus generating revenue from their sales. These two groups are attracted to each other because of the network effects (ibid.). According to Eisennman et al. (ibid.), within these kinds of two-sided markets, the platform's value given to any user largely depends on the number of users in the other side. Therefore, the value grows as the platform matches demand from both sides.

The idea of the cruise line industry is to form a system in order to generate positive cross-side network effects. Eisenmann et al. (2006, p.96) note that in order to achieve these benefits the platform has to attract enough subsidy side users (service providers), and thereafter the money side (passengers) will reach them. However, the situation may be different, since cross-side network effects also exist if passengers make the platform more attractive to service providers, thus leading to situation in which both sides sing up in greater numbers. Despite these benefits, cruise line organizations should place the price for each side so that these effects would work as they intend to. (ibid.) Usually, as Eisenmann et al. (2006, p.95-96) note, the organizations charge the subsidy side less than if they were an independent provider, because this side is more effective in creating strong network effects. Reversely, the money side pays more than in original settings. The challenge of the cruise line organizations is therefore to measure, how much passengers are willing to pay extra for their services and what is the price for service provides in order to generate own profit.

2.4.2.3 Modularity in Offering

In order to make the cruise line business model – more specifically the ship layout – flexible, modularity issues have to be analyzed. According to Voss and Hsuan (2009, p.541), the product, process and system modularity are well addressed in the literature as well as their design methodologies. However, they note that the emerging area of services science or service science, management and engineering (SSME) have given less attention, although it will soon create the competitive advantage in the markets. Voss and Hsuan (ibid.) state that services' modularity is a more complex research topic because of the nature of services (discussed in subsection 2.3.1) but also because service design is usually seen as the front-end design rather than being a part of the total service system. Consequently, in the context of the cruise line industry, service architecture and modularity are important areas to examine because the business trends vary and change over time.

Voss and Hsuan (2009, p.546) have divided the architecture of services into four levels: *0) industry, 1) service company/supply chain, 2) service bundle* and *3) service package/component.* They note that service industry's research has been growing and there are common templates that define the value creation logic. Level 0 in cruise line context includes various players such as cruise line companies but also others such as travel agencies and air lines that are connected to the service offering. The first level comprises of the strategic network of the individual cruise line organization that has been discussed in the business ecosystem subsection 2.2.3. Noticeable is that also in case of services both the upstream and the downstream markets are taken into consideration as well as the importance of outsourcing logic. The second level, service bundle relates to individual service bundles that constitute the company's level 1 service offering in which each bundle may be seen as a set of modules (Voss and Hsuan, 2009, p.547). The service architecture in level 2 is presented in *Figure 10*.

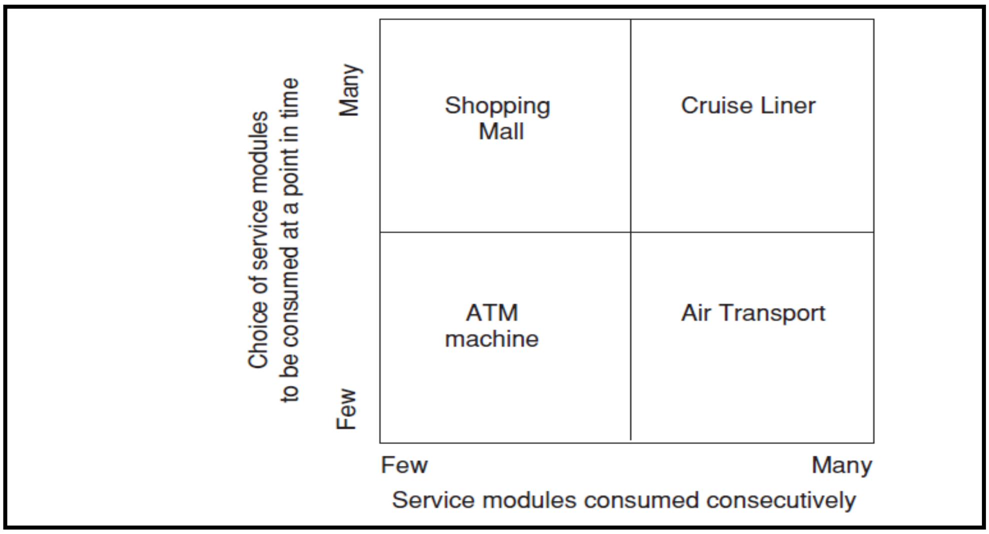

Figure 10. Service Architecture and Modularity. (Voss and Hsuan, 2009, p.548)

Based on the figure, Voss and Hsuan (ibid.) note that many services are extended with modules consumed consecutively over a period of time making the relationship more complex between elements of the service. Examples of these kinds of services are air travel and a cruise liner. Furthermore, they note that cruise line passengers may choose within services to use on-board and also when to use them, having variety in service modules such as restaurants, pools, engine rooms, cabin operations. Finally, the service bundle can be divided to service packages and components that are the smallest building blocks of the service module, contributing to the total value of the system (level 3). In the cruise ship they might be the kitchen, stateroom cleaning, laundry and room service.

The importance of the service architecture and modularity lies in the fact that modularity is a key driver of customization, and hence also customer value. For instance in the cruise ship modularity of services is a significant factor, because cruise line passengers are very different from each other and value different things. Teen agers like entertainment and activities, whereas older people appreciate shopping opportunities (RCCL, 2007). Voss and Hsuan (2006, p.559) add up that service design cannot be solely based on service architecture but also by service contact personnel. They conclude that in services, customization can either be combinatorial, in which various service processes and products are combined to create a unique service, or menu driven, in which personnel (or even the customers) select from existing services/products to meet customers' needs (ibid.). Both of the strategies are suitable for the cruise line business but if one wants to create long-term relationship the value co-producing in the latter option should be emphasized.

2.4.2.4 Main Characteristics of the Cruise Line Business Model

Cruise line industry also includes several distinct characteristics that need to be discussed. Marti (2004) divides the cruise ship characteristics into three main categories: *duration of the trip, embarkation/debarkation ports* and *cruise ship fares and prices*. Similarly, Jaakson (2004, p.47) examines the length of cruises and according to him the trip may vary from three days to the round-the-world cruises. He continues that three, four and seven days cruises are most typical and actually short cruises (categorized to two to five days) have increased their market share to 33,6% during the past couple of decades. Reversely, those longer than nine days have decreased by 11% during this period. (ibid.) The selection of embarkation and debarkation ports according to Marti (2004, p.207) can be explained by the planned itinerary and the services offered at or near ports. In addition, sufficient airline connections and capacity affect the decision. Marti also complements (ibid.) that together with these variables, people tend to consider the port's geographic proximity to the intended cruise region and its location relative to the beginning or end of a repositioning journey. Consequently, cruise line organizations should take into consideration the port selection and measure its importance individually to every customer segment.

Petrick's (2005) opinion about the prices in the cruise line industry is similar to Marti's (2004). Petrick states that cruise line industry has high fixed costs and due to this and the fact that there are very few business travelers in cruises, it is almost impossible to adopt yield management principles that have seen to be effective in air industry. Furthermore, Marti (2004, p.209) acknowledges that the eventual fare that consumers pay is greatly affected by demand and supply characteristics. Marti also adds that when a cruise is undersold, consumers are attracted by low fares and vice versa. And along this, many cruise lines have adopted value pricing to ensure that cruise ships are full, thus putting the pressure for restaurants and bars to sell more in order to generate a profit (Petrick, 2005, p.754).

Douglas and Douglas (2004) continue this discussion by providing analysis of issues that consumers appreciate in the cruise line concept. Firstly, they see that weather has a high impact on the decisions to stay on board or go ashore. As a result, if the weather is poor and consumers have sea sickness, they prefer to stay onboard. Reversely, if the port of destination offers great beaches, restaurants and activities, consumers may visit that although they have paid all the services onboard in advance. Secondly, shopping relates to cruise behavior and as Heung and Cheng (2000, p.397) state almost *50 % of the holiday budget is used for shopping* rather than another activities: for instance, duty frees appeal to people as well as clothing stores. Thirdly, Douglas and Douglas (2004) see that if the cruise line is in close connection with ashore organizations, cruise lines are able to encourage consumers to try sport activities and other entertainment for their holiday. Consequently, one may assume that these kinds of concepts are the most profitable ones, and therefore it is no wonder that Royal Caribbean Cruise Lines Ltd. and Carnival Cruise Lines succeed in their business, since they carefully consider the whole business ecosystem and the shared value between its participants.

2.4.3 The Blue Ocean Strategy for Cruise Lines

The logical implication of business ecosystems discussed in the section 2.2, is that cruise line organizations have to search for new ways of innovation in order to be able to sustain the competiveness. Kim and Mauborgne (2005) have developed an effective framework called Blue Ocean Strategy to create an uncontested market space where competition becomes irrelevant. In this subsection the framework is described, thus leaving the further discussion to the final chapter of this thesis.

The rising imperative of Blue Oceans according to Kim and Mauborgne (2005, p. 8) is that due to the globalization the supply exceeds demand. They state that simultaneously to globalization, there is no clear evidence of the increase in worldwide demand since statistics point out a decline in population which leads to a discussion of creating new ways to compete. They note that management and strategic approaches that have focused earlier on Red Oceans, consideration on competition and cost and price as the most important variables in business, are disappearing whilst the move in the 21st century has shifted to searching for non-existing market spaces (ibid.). Supporting this, Iansiti and Richards (2006) and Moore (1993) acknowledge the importance of right value propositions from the whole business ecosystem working in the markets. Iansiti and Richards (2006, p.87) suggests that improvements in the effectiveness of business ecosystems are mainly due to the converting the raw materials of value into lowered costs and new products through innovations. Moore (1993, p.76) adds up that value is sustained by new innovations done by close co-operation of business ecosystem participants, and possible new entrants are blocked by building supportive business ecosystems. Finally, Kim and Mauborgne (2005, p.12) complements the value innovation of Blue Oceans explaining that by creating a leap in value for buyers and your company the organization may open up a new and uncontested market place.

The differences of a proposed Blue Ocean Strategy and a Red Ocean one are listed in *Table 3.* The main idea is to show, how cruise line organizations can use the framework as an advantage.

Table 3 . Red Ocean versus Blue Ocean Strategy. (Kim and Mauborgne, 2005)

Red Ocean verses Blue Ocean Strategy	
Red Ocean	**Blue Ocean**
Compete in existing market space	Create uncontested market space
Beat the competition	Make the competition irrelevant
Exploit existing demand	Create and capture new demand
Make the value-cost trade-off	Break the value-cost trade-off
Align the whole system of a firm's activities with its strategic choice of differentiation or low cost	Align the whole system of a firm's activities in pursuit of differentiations and low cost

As one can notice from *Table 3.*, the Blue and Red Oceans are very different from each other. Kim and Mauborgne (2005) note that Red Oceans take the competition as given and assume that industry's structural conditions are the same over time. Reversely, Blue Ocean Strategy emphasizes capturing of new demand whilst breaking the value-cost trade-off. In Blue Ocean strategy the differentiation and low cost can be achieved simultaneously which is against of many research findings in the past (e.g. Porter 1980). Consequently, if Kim and Mauborgne's (2005) ideas are related to the cruise line industry, the main implication is that cruise line organizations should focus on value innovations and create a new market structure in which competition does not any more matter. Iansiti and Richards (2006) further suggest that in order to create this, business ecosystem has to be flexible to change seeing that all the participants have to form a coherent environment for innovations.

The issues presented in the table are strategic means that cruise line organizations could use in their operations. The framework is used in the empirical part of the study in order to support the main results of the empirical research.

To summarize: As seen during this section, international cruise line business is continuously looking for new ways to compete in the markets. The value delivered to consumers is usually understood by being part of the business model that attempts to examine the satisfaction received from the purchase. However, since cruise line business is somewhat different from the traditional service economy, cruise line organizations have created a touch point system by which they analyze the customer experience rates and the possibility for repeated purchase. The significant difference is also the idea of two-sided markets in which one assumes that the value is not going straightforward; instead the platform create costs and revenues for the passenger and the service provider sides. This ensures that all the parties of the strategic alliance work together and towards a common goal. This idea is also present in the Blue Ocean strategy, according to which, the whole business ecosystem should break the value- cost trade-off and create an uncontested market space. The sustained competitive advantage is achieved through both cost advantage and differentiation. Blue Ocean strategy serves as the new kind of a business model for cruise lines. In the following sections, consumer behavior and market segmentation are examined due to give consumers' and market's insight to business.

2.5 Consumer Choice Behavior

Consumer behavior can be seen as one of the most important factors when analyzing new target market potential and tourism growth. During the next subsections, firstly consumer satisfaction and motivation are discussed along with the analysis of pull and push factors that affect consumers' mood and their expectation formation. Finally, the growing trend of environmental sustainability is examined because it has high effects on both the consumer behavior but also for the cruise line development in the future. The objective of this chapter is to outline the most influencing issues necessary for the empirical research.

2.5.1 Consumer Satisfaction and Motivation

Consumer satisfaction and motivation are key factors when examining the existence of the service economy, tourism and the cruise line industry. Perhaps the best definition why tourism exists is done by Dann (1977) already 30 years ago. His statement on satisfaction refers only to leisure travelling, excluding business trips that are done for other purposes. Dann defines:

"The greatest reason for travel can be summed up in one word, "Escape": escape from the dull, daily routine; escape from the familiar, the commonplace, the ordinary; escape from the job, the boss, the customer, the commuting, the house, the lawn, the leaky faucets." Dann (1977, p.185)

Consequently, it is clear that consumers want experiences and satisfaction when escaping from their routines, which in turn is seen by most tourism organizations as they pose customer satisfaction and service quality to be the most important things to measure in business. Sirakaya et al. (2004) suggest that mood has high influences on customer satisfaction and perception. They further note that usually organizations are just concentrating on post-purchase intentions but the gap exists, since according to their research results, tourists will eventually form the image of satisfaction at that moment when it is asked and not after the consumption. Sirakaya et al. (ibid.) indicate that tourists that have higher mood evaluations tend to have lower satisfaction levels with the service but not actually with tangible and physical features. On the contrary, those customers that already possessed lower mood levels, rate the satisfaction also low. As a result, service quality can be seen as an extremely important factor when analyzing consumer satisfaction, since tangible features are less associated with the mood reflections that consumers formulate during the service.

As the mood may play an important role in satisfaction, also Duman and Mattila (2005) examine the satisfaction and perceived value by concluding that *affective* and *hedonistic* aspects are extremely significant as the service industry is becoming more like an experience economy. They continue that consumers seek pleasure such as fun, amusement and fantasy enjoyment which eventually turn into satisfaction. Therefore, those service and tourism organizations as well as cruise lines that can provide amusement such as movie theatres, water parks, discos etc. beside their core offering have a great advantage over others. Ryan and Glendon (1998) sum this up by noting that also other concepts than motivation and perceived benefits are important for derived satisfaction. They suggest that concepts of involvement such as *self-development, self-enhancement, ego, role fulfillment* and *responding to perceived requirements* are equally significant. Consequently, one may suggest that the activities cannot be evaluated only by consumers' needs but also by their expected outcomes.

2.5.2 Push versus Pull factors influencing Leisure Motivation

In addition to the other literature about consumer satisfaction presented above, push and pull factors are seen as equally important when analyzing consumer motivation and expected value. According to Jang and Cai (2002, p.114) push factors are the internal issues that define people's desire to travel. Reversely, they note that pull factors are associated with the external issues and affect where, when and how people travel; firstly of course taken into account that people already have the motivation to do a trip based on the push factors. Actually, Jang and Cai's (ibid.) ideas are very closely related to the destination image in service economy discussed in section 2.3 in which Jenkins (1999) divides the factors to supply and demand ones. Both Jenkins (1997) and Jang and Cai (2002) note that people travel because they are pushed to that by their internal forces that eventually raise the desire for the action, and pulled by external forces such as destination image and other attributes.

Gnoth (1997, p.297) also researches push and pull factors affecting motivation and presents an effective framework where all the factors, supply and demand, pull and push, attitudes and expectations and motivation are present (*Figure 11.*). Gnoth (ibid.) states that inner- or self-directed values include primarily emotional drives whilst outer-directed values are mostly cognitive in nature. On the contrary to this, Dann (1977) notes that these inner-directed values meaning push factors are rarely given attention, thus they contribute much to the final motivation and satisfaction. Dann (1981, p.191) acknowledges that push factors are associated with the perceived routine environment, evaluation of self, relaxation and facilitation of social interaction whilst pull factors are reflected to the resort, including issues such as sunshine and friendly natives, that both respond but also reinforce the push factor motivation. As a result, Gnoth (1997, p.299) notes that the expectations and attitudes towards an object are defined both by tourist's felt needs but also by the total value system.

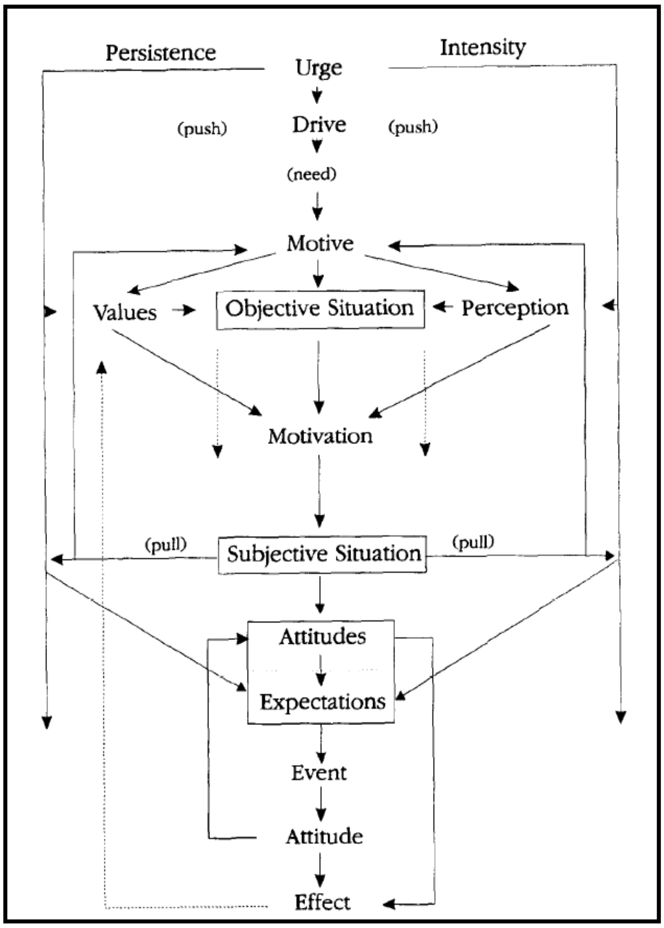

Figure 11. Push and pull factors influencing the leisure motivation. (Gnoth, 1997, p. 297)

Finally, Jang and Cai (2002) conclude their research findings by providing the most important pull and push factors that affect the consumer motivation and satisfaction. Push factors are known to be *novel experience, escape, knowledge seeking, fun and excitement, rest and relaxation*, from which knowledge seeking is the most dominating factor that motivates people to go overseas. Pull factors are stated to be *natural and historic environment, cleanliness and safety, easy-to-access and economical deal, outdoor activities, sunny and exotic atmosphere* and *family and friend togetherness*. From these Jang and Cai (ibid.) note that cleanliness and safety, following easy-to-access and economical deal and sunny and exotic atmosphere are the factors that mostly determine the destination choices. Consequently, one may see that motivation and satisfaction are mixtures of very different variables where push and pull factors affect the emotions and cognitive mindsets of travelers.

2.5.3 Environmental Movement affecting Consumer Behavior

In addition to the discussion of satisfaction and motivation, environmental trends will also determine the future trends in consumer behavior. There exists some other interesting points to research also, but they are excluded from the research, since environmental sustainability was seen as the most emerging matter and the most relevant one to research in case of the cruise line industry.

The growing concern of environmental effects to supply and consumption has been a hot topic for many researchers during the 21st century. Most of the previous literature on the topic has focused on non-consumption and post-purchase behaviors due to the lack of environmentally responsible products available in the past (Jansson, 2010a, p.192). According to Pantin (2008, p.8), the interest on the subject is seen to increase, since people depend on the nature for several reasons: the oxygen, water resources and soil resources, energy and biodiversity for game and medical purposes. Such resources are either depletable in use or renewable, thus the growing concern is concerning these both. In order to respond to the environmental discussion, businesses have developed so-called environmentally products that are often reachable and offer consumers new ways to express green values and attitudes (Jansson, 2010a, p.192). Jansson further suggests that these products should be called eco-innovations because there are less harmful impacts on the environment than in case of conventional products.

Montgomery and Stone (2009, p.38) have extended the definition of environmental responsibility as:

"State in which a person expresses an intention to take action directed toward remediation of environmental problems, acting not as an individual concerned with her/her own economic interests, but through a citizen consumer concept of societal-environmental well-being."

They further note (ibid.) that the environmental responsibility can be divided into five dimensions: *1) an attitude expressing concern for the environment, 2) awareness and knowledge of environmental issues, 3) behaviors that ecologically responsible consumers might engage in, 4) a willingness to act* and *5) a positive locus of control* with an inherent ability and skill level necessary to act upon environmental problems. According to their results, poorer countries lack the government based resources to implement environmental sorting standards that for instance most Americans enjoy. Therefore, the only solution to problems in these countries is the individual act. Nevertheless, surprising is that the cultures with lowest levels of economic development possessed the highest ecological concern. Montgomery and Stone (2009, p.51-52)

Jansson et al. (2010b) in their research analyze the eco-innovation adoption and factors that are affecting the non-usage of green products. They state that once consumers have adopted the eco-innovation, the usage of it becomes an important part of their lives. This also implies that they are more willing to purchase it again compared to the non-adopters. For marketing of eco-friendly products/services this is an important result because the adopters are likely to spread the positive word of their decision to adopt. Jansson et al. (2010b, p.358) further note that *values, beliefs, norm*s and *habit strength* are all very much associated with the decision to adopt. Consequently, consumer behavior is an integral part of the development of eco-innovations but can also contribute to the motivation of achieving a more environmentally sound future.

In case of the cruise line industry, environmental responsibility can be seen by various ways. Since there are very many different parties involved in the cruise line ecosystem, everyone should understand the importance of green operations. Orange (2010) notes that the design of eco-friendly products/services is becoming more and more significant. She adds that designers utilize the intelligence of natural systems and can create products and services that allow nature and commerce to coexist. The purpose is to develop systems that are efficient and waste free. Accordingly, considering the entire life-cycle of the product or service and integrating the eco-design in them, will assure the competitive advantage in the future, seeing that the whole ecosystem described in section 2.2 is taken into account. Orange (2010)

Figure 12. presents the results related to the eco-friendly consumption in the cruise line industry. From the supplier point of view, in the first question, one can note that only 5 percent of the replicates have stated the green policy to a major factor when deciding their suppliers. The figure is even smaller in case of consumers that are looking for a cruise (question 2.). Thus these figures present the deciding factor and remarkable is the third question in which the results show that 23 percent of the clients are interested in an eco-slant cruise line trips, and 47,5 percent are somewhat interested. This proves that there is a great market potential for green marketing in the future, thus the consumers should be motivated to do the purchase decisions based on environmental issues. Finally, the fourth

question and its results imply that the Caribbean consumers are not so interested in the environmental sustainability. On the contrary, Alaska that is also a part of North America, has a high percent, which indicates that clients who travel there are interested in green products and services. Environmental sustainability should be therefore measured by the consumer behavior, taking various countries as examples. In the empirical part of the study, two case countries are discussed and one of the purposes is to examine whether these countries and consumers are interested in the environmental sustainability and how they currently pursue it.

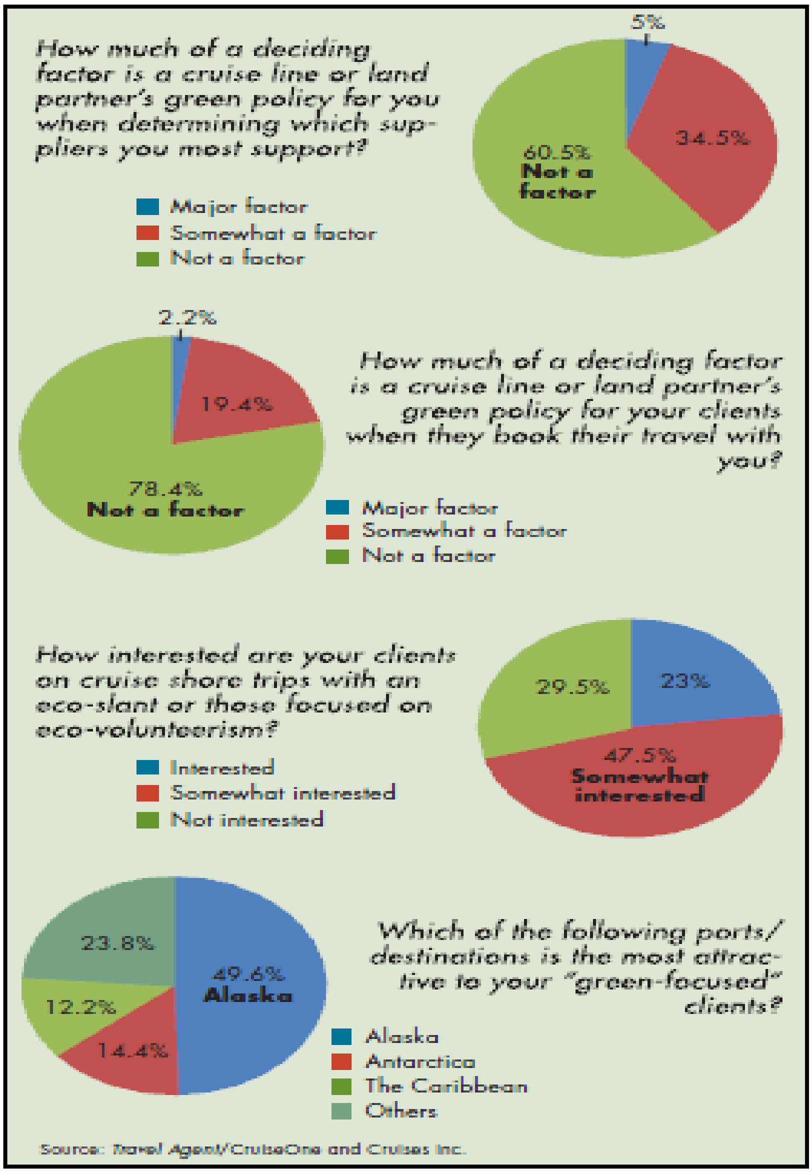

Figure 12. Green Not a Factor for Cruisers. (Travel Agent, 2010, p.1)

To summarize: Consumer behavior may be seen as the most influencing factor in the business model choice of the organizations, since satisfaction, value and perceived benefits are essential in producing a memorable experience that would appeal to a great number of people. Consumers want to escape from their routines, and therefore tourism organizations pose service quality to be one of the most significant things to measure. The experience economy affects consumers, since currently they seek pleasure such as fun and amusement from their leisure spending. Knowledge seeking is the dominant factor to go overseas and sunny and exotic atmosphere, economical deal and safety are associated with the destination choice. Finally, it should be noted that consumer behavior is changing, since people are becoming more individualistic and want more customized alternatives. Also the increasing environmental awareness affects the situation, since in the future the cruise line organizations have to take this into account. Currently, consumers are not making their decision based on environmental factors, but would choose the eco-friendly offering, if the price would be equal to the traditional choice.

2.6 Market Segmentation and Possible Target Markets

In order to figure out new target markets in tourism and especially in the cruise line business, one must incorporate market segmentation principles into the research. Here the concentration is on the common model of segmentation, following analysis of consumer loyalty and price sensitiveness being parts of the segmentation analysis. In addition, tapping the invisible market is discussed in order to acknowledge the unsearched market potential in the future. The main objective of this section is to provide information related to different market segments and social classes, and these effects on the consumer behavior.

2.6.1 Segmentation of the Cruise Line Passengers

In the literature, market segmentation is studied a lot. However, all the frameworks do not fit to the discussion of tourism segments. The purpose of this subsection is to provide a guideline for cruise line organizations and focus on the segmentation in this specific industry.

Hobson (1993) segments the cruise line market into four distinctive categories: *the mass market, the middle market, the luxury market* and *the specialty market*. The first one tends to cater lower-middle social class providing much activities and a range of restaurant services, usually in a larger cruise ship. Middle market aims to serve upper-middle class, which can be seen as the main market area with much diversity in consumers and cruise lines. Luxury market offers high staff-to-passenger ratio and superior services, so this is mainly provided for lower-upper and upper-upper social classes. Finally, the specialty market caters mostly adventurers with exclusive smaller ships and large yachts. (Hobson, 1993)

The importance of Hobson's research can be understood by comparing CLIA's market profile findings to segmentation. According to CLIA (2008, p.21), the main market of cruises comprise of people within an average age of 50 years and an average income of 80000€ per year, and 69% of them have a higher education (see Appendix G.). Consequently, one may assume that with these incomes an increasing number of luxury and specialty markets are demanded in the future, since people have enough funds to purchase these services. And as it is noted before, consumers are becoming more diverse, so niche market opportunities are huge (Pizam, 2008). On the other hand, Toh et.al. (2005, p.123) note that the cruise line market is becoming more towards a mass market phenomenon because the rates/prices decrease continuously. They also assume that due to this phenomenon the average age as well as income will drop, meaning that the mass market would comprise more of lower-middle class people, which correlates with the findings of Hobson (1993). Toh et al. (2005, p.123) further note that cruise line industry's fares unlike in hotel industry are quite uniform throughout the year, because organizations do not have seasonal peaks in the summer time; instead they operate around the year. This makes the booking and the cruise planning process easier for customers, since they do not have to consider the costs variance between different times.

Despite the finding that mass market would become more dominant in the future, Szarytz (2006) analyzes the concept of niche markets in the cruise line industry. He suggests that people who choose to use niche market providers viewed it as a positive, beneficial and rewarding experience, offering opportunities for self-development, reflection, social interaction and cross-cultural immersion and learning. As these issues are usually seen as the driving forces for greater satisfaction, one may suggest that niche market consumers have more memorable experiences after the cruise. Furthermore, as discussed in section 2.5, consumer behavior is becoming more complex and individuals are making their decisions based on both internal and external stimuli. This also means that tourism providers have to add variety to the offering, which eventually introduces more niche market opportunities for consumers.

Markets can also be segmented based on *loyalty* and *price sensitiveness*. According to Petrick (2004a), the main finding is that loyal cruise line visitors are more likely to visit the same locations in the future, and furthermore, spread positive word-of-mouth. On the contrary, first time visitors tend to be less loyal consumers, less price sensitive and spend more during the trip. Also Morais et al. (2004) note that customer's perceptions of investments made by tourism providers will eventually result in more investments made by consumers and both of those lead to increased loyalty. Consequently, as Morais et al. (ibid.) acknowledge, tourism organizations are increasingly building relationships with consumers by for instance developing different loyalty programs. Despite the enhancement of loyal consumers, Petrick (2004a) notes that loyal visitors may not be the desired visitors because of their price sensitiveness. As they are segmented as repeat consumers, they are constantly looking for lower prices for the same value as before. Therefore, niche and luxury markets are targeted mainly to initial purchasers that will spend more and perhaps become repeat purchasers after a while.

The difference of retention to a cruise is also seen by CLIA (2008, p.16) as according to them, 31% of cruisers are definitely taking a cruise again, whilst only 11% of non-cruisers think to do it. Moreover, CLIA (2008) notes that cruisers are more active in other tourism, also seen as they pursue more interest to land-based trips, vacation house rentals and non-package trips. This has also been seen by Alegre and Garau (2010) as they note that a positive previous stay has high correlations to the retention rates; also seeing that those positive attributes tend to be the same ones which consumers appreciated in the first place. Further on, Petrick (2004b, p.404) adds up that quality plays a key role over satisfaction and value in repurchase decisions, which determines the level of positive word-of-mouth effect and loyalty. Similarly to Petrick's ideas, also RCCL measures the engagement of consumers by assessing different touch points and their quality and value to consumers (RCCL, 2007). According to their research, 48 percent of the quests are secure consumers that are definitely taking a cruise again. Consequently, if the cruise line organization can segment the market and target right consumers with an appropriate offering, the retention rates and the loyalty increase.

2.6.2 Tapping the Invisible Market and Non-users

For the cruise line industry, the non-users and the invisible market segment are important to analyze since there might exist a great potential for future operations.

Park (2006) has done a great work by examining the non-current customers in the cruise line industry. According to her research, non-current customers are defined as leisure travelers who choose other leisure types, have not cruised in the last five years or have never cruised. As a result, this can be seen as the invisible market with growth and target market potential. Park further (ibid.) states that whilst cruise line providers are decreasing their prices and simultaneously increasing capital, the customer base tends to be pretty small. This is evident, as in the USA, stated to be the major cruise line market in world, 34% of the population have cruised whilst the non-current consumers constitute 66% of the population (Park, 2006, p.4). Furthermore, Hobson (1993) notes that despite the sustainable growth in the cruise line industry the growth potential in the next couple of decades is mainly associated with the untapped market due to the mass market becoming more saturated.

Raymore (2002) has further examined the situation of non-current customers and non-participation by providing the framework of influence factors to participation (*Figure 13.*). She acknowledges that *intrapersonal, interpersonal* and *structural* factors all contribute to participation levels. Consequently, when studying the non-current customers there may be three reasons behind. Firstly, those intrapersonal variables such as past experiences and beliefs influence consumer's own perception of participation. Secondly, the group's voice meaning interpersonal enhancement has huge influences on behavior. And lastly, structural factors meaning the external world will eventually determine the participation and non-participation levels. (Raymore, 2002, p.42-43)

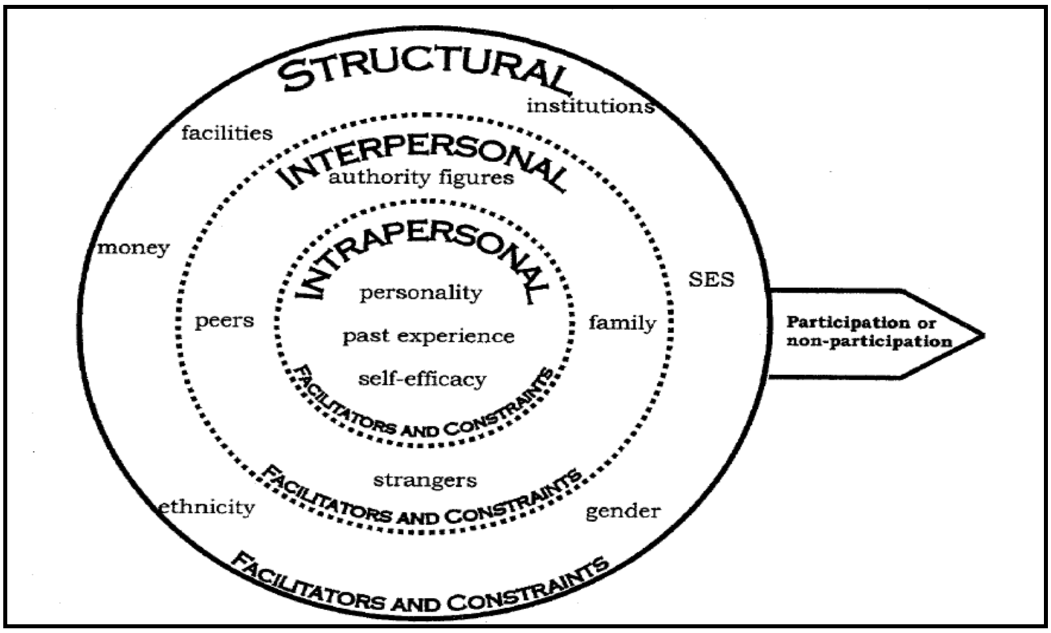

Figure 13. Influences of participation/non-participation to leisure activity. (Raymore, 2002, p.43)

Further on, Park and Petrick (2009) suggest that non-current consumers have negative feelings and perceptions towards cruise lines, although these might be misperceptions. They note that the usual benefits derived from leisure are understood differently between these two groups: non-current consumers may obtain similar benefits from other leisure activities rather than from cruises, and therefore the destination decision is harder to make. Taken the Raymore's (2002) framework into account, marketers should therefore enhance the structural influence in order to communicate the cruise line's image and potential more clearly to the untapped segments. Finally, Park and Petrick (2009) suggest that marketers should acknowledge the need to change non-current customers misbelieve of disasters, costly service and negative beliefs, so that the untapped markets could be reached and a positive image of the cruises could be formed.

Meaning of leisure time to consumers and non-users is also somewhat different. When analyzing the non-users and their market potential, it is important to address the benefits that those tourists are seeking from leisure. According to CLIA (2008), there are a great number of benefits that people are seeking from cruising (*Table 4.*). These can also be contrasted to general tourism since similar findings are found by WTO (2010).

Table 4. Benefits that cruisers are searching for (CLIA, 2008, p.48)

	Past Cruisers (%)	Non-cruisers (%)
Explore a vacation area to return later	62	30
Good value for money	53	22
Offers something for everyone	59	31
Reliable	49	22
Safe	45	18
Relax/Get away from it all	**63**	**37**
Hassie-free	58	32
Fun vacation	53	28

According to *Table 4.*, the major benefit derived and required from leisure time is *relaxation* in both past-cruisers and non-cruisers category. This is in line with Iso-Ahola's (1982, p.258) finding that people are seeking the escape feeling from their routines, and therefore travelling is the best option. The second benefit within past-cruisers category is to *explore a vacation area to return later* whilst non-cruises see *offers something for everyone* as a second biggest benefit. Iso-Ahola (ibid.) state that whilst tourists are escaping from their routines they also seek new experiences that provide rewards such as feelings of mastery and competence. Therefore, the CLIA's market research findings (2008) are seen competent against Iso-Ahola's research results. Finally, the safe category has given the lowest scores, which is similar to Choi and Chu's (2001) finding in section 2.3. Consequently, one may assume that tourists are searching for experiences and relaxation from their leisure in which safety and security issues are given a minor importance.

Further on, Iso-Ahola (1994) notes that a tendency to seek novelty through new leisure activities declines with advancing life stages, whilst the stability is mainly maintained through old and familiar leisure activities, which in turn increases with life stages. As a result, the findings from previous parts can be seen true as in *Table 4.* the area that could be returned later was the biggest benefit for past cruisers. Reversely, according to Hudson and Gilbert (1999), the success for many tourist organizations in the long-term is dependent on the non-users, since the tourism demand has saturated, which in turn implicates that for new target markets, mainly niche ones, the novelty of experience may be the most influencing factor to a decision. Furthermore, Park and Petrick (2009) note that there has been much research on leisure behavior of current tourists but not exactly reasoning why people are not choosing it, thus implicating that new experiences should be marketed more and the right people should be targeted with more positioned offerings.

To summarize: Cruise line market can be divided to mass, middle, luxury and specialty markets from which middle market will grow the most in the future. However, luxury and specialty opportunities are becoming more interesting to consumers since those offerings provide high service levels and extraordinary experiences. High service levels will reflect to positive retention rates as seen in case of RCCL. These loyal customers will also spread positive word-of-mouth effect, but not necessarily contribute more revenue for cruise line organizations. Therefore, the untapped market potential has to be researched for. These unknown consumers should be targeted and a business model should be accustomed to their specific needs. The biggest challenge for organizations is to figure out who are these non-users and how they can be targeted. In today's competitive market environment it is not enough to compete by existing capabilities, instead new consumers and market segments have to be researched for.

3 RESEARCH FRAMEWORK AND METHODOLOGY

In this chapter the research framework is introduced and thereafter the methodology of the research is discussed. The framework's main purpose is to illustrate the main issues and factors that were derived from the literature and show how these will be used in the empirical part. It is also an effective way to demonstrate the chronology of the rest of the research. The methodology section considers research methods, data collection and analysis and the reliability and validity of the study. The objective is to illustrate which sources of evidence are used in each part of the empirical study.

3.1 Research Framework

The theoretical discussion was divided into six different sections, which presented several aspects for the analysis of the new business model in order to satisfy various consumer segments in the cruise line industry. The growth of tourism as well as the cruise line business, the nature of the service economy, the strategic network business model, consumer behavior and market segmentation were examined, since they are the key factors influencing the empirical part of the study.

From the previous literature on the topic, it is evident that the new business model for cruise line organizations includes many issues to take into consideration. In order to analyze future trends, one requires knowledge of the market growth, the economical situation, the concept of destination image and current globalization issues. In addition, consumer satisfaction and motivation need consideration, since people are becoming more individualistic, and therefore the variety of offerings is seemed to be growing.

On the other hand, the requirements from the hospitality segment are based on cultural varieties and further determine which kind of a new cruise line concept would appeal to different market segments. Consumer behavior, multiculturalism, marketing purposes etc. determine the destination choices that people make. Based on the previous literature, there are categories that people appreciate in the hospitality segment as seen in the Wilkins et al.'s (2007) and Choi and Chu's (2001) framework in subsection 2.3.3, thus seeing that these are generalizations and therefore the researchers have not focused on some specific market areas and their needs. As a result, the literature part also covered the critical touch points for the cruise line business that are used as an advantage in the empirical part.

Finally, business models should be developed after the requirements and consumer behavior are analyzed. In order to form a complete analysis that would lead to business success, possible market areas need consideration. One needs to examine people's purchasing behavior and relate it to the analysis of possible target markets: specifically the interest is on which kind of transportation, accommodation, food and service they require in order to be satisfied.

Abovementioned issues and the six main sections in the literature part are revised for the framework in *Figure 14.*

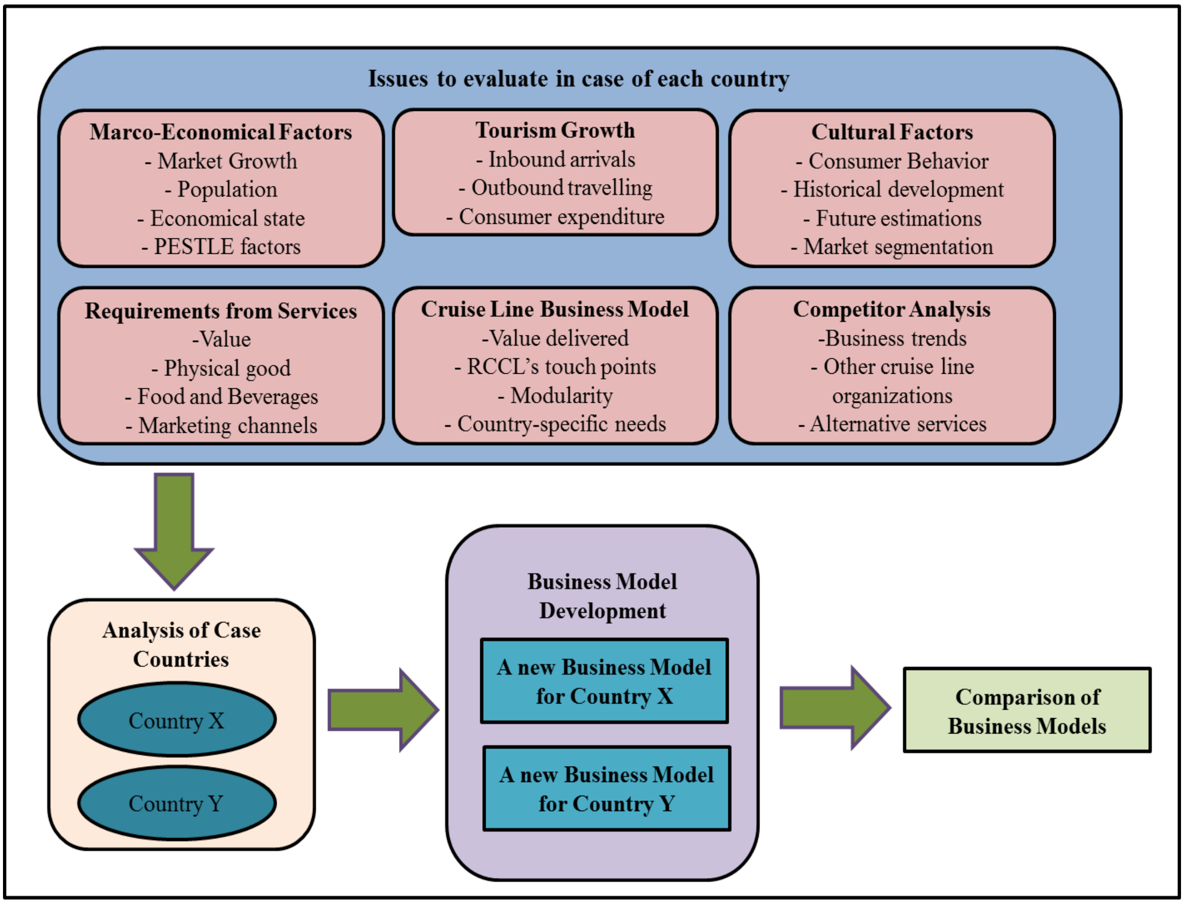

Figure 14. Framework of the study

In the framework, the relevant issues to evaluate in case of each country presents the knowledge derived from the literature but also assesses the factors that are analyzed through the empirical study. Six main factors are presented in the boxes and beneath them one may find the issues that need specific consideration. *Macro-economical factors* consist of country specific data that are necessary in order to formulate the future estimations of the nation. These issues have not been covered in the literature part but exist in the empirical study due to give an overview of the market segment in consideration. *Tourism growth* has been referred in section 2.1 in which the whole world was discussed. The regional differences are evaluated as well as the country-specific data of international arrivals, outbound travelling and consumers' expenditure levels. By this division, the predictions for future tourism flows can be done. *Cultural factors* include consumer behavior discussed in section 2.5 and the market segmentation principles in section 2.6. In addition, the history of the market area is examined due to acknowledge some kind of consumer trends in the future. Fourthly, *requirements from services* reflect to section 2.3 in which service economy was discussed. Main issues are value, physical goods, food and beverages and marketing channels. These present the issues that are usually existent in consumers' requirements, thus seeing that others may become evident through the empirical research. *Cruise line business model* is a combination of sections 2.2 and 2.4. This issue's objective is to analyze the market specific cruise line trends and discuss which factors are relevant in each country's business model. Finally, *competitor analysis* refers to section 2.4 but also assesses business trends through the empirical research that are necessary in order to formulate competitive strategies in the future.

These six main issues are analyzed in case of each country, and therefore in the framework, country x and country y represent the market segments. From this case country analysis new business model development for country x and y are derived and finally a comparison of business models can be done. As a whole, the issues to evaluate are presented in clear chronology in chapter 4, from sections 4.2 to 4.7. Thereafter, a comparison of countries is done in section 4.8 and finally the most significant issues in these new suggested business models are discussed in section 4.9. Next, the methodology on how these results are derived is introduced.

3.2 Methodology

According to Silverman (2010, p.331) the methodology in research clarifies the research methods, data sampling and collection as well as the reasoning why this method was chosen. In addition, data analysis and forms used in the research are significant parts of the methodology chapter. Therefore, these areas will be discussed in this section together with addressing the reliability and validity of the study.

3.2.1 Research Methods

The reasoning method in this study is *descriptive* as its main purpose is to describe the nature, commonness and historical development of some specific phenomenon, situation or occasion (Uusitalo, 1995, p.63), which in this case is mainly associated with the reasoning behind consumer behavior in different countries as well as the business model to use in these segments. Uusitalo (ibid.) also notes that without statistics and descriptive studies the current economies could not work, and therefore suggests that market researches and opinion surveys are main parts of descriptive studies. In this research a combined viewpoint is pursued as statistics and market data are used to find explanations and generalization for market growth and consumer behavior, whilst interviews and focus groups are used to find qualitative data to support conclusions.

The research was conducted by both as a *qualitative* and *quantitative* study as its main aim is to find and expose and also to verify existing propositions, from which the former one is the purpose of a qualitative study and the latter one of a quantitative one (Hirsjärvi et al. 1997). Yin (2009, p.132) suggest that by using both of these methods will be demanding, but usually these methods support each other since certain case studies may include huge amounts of quantitative data that has to be supported by real-life phenomenon. Furthermore, Uusitalo (1995, p.81) points out that quantitative research is mainly about testing the theory whereas qualitative is about developing the theory to the further levels. Therefore, qualitative research can be seen to increase the understanding of a certain area and it is explanatory in nature, whilst quantitative studies can be used to confirm which of the hypothesis are true.

The strengths of the qualitative research lie in the fact that those researches focus on naturally occurring and ordinary events that give a strong sense of real life (Miles and Huberman, 1994, p.10). Miles and Huberman (ibid.) further note that it is very helpful if the research phenomenon is completely new or unclear or little research is done about the topic, because then new hypotheses can be formulated and searched knowledge is explanatory, therefore making the research more flexible. Despite the great benefits of the qualitative research, quantitative methods are very useful for concluding ideas from past researches. According to Hirsjärvi et al. (1997, p.139), quantitative methods are simple to use due to their numerical mode, distinctiveness, commonness and verity. Similarly, Uusitalo (1995, p.82) notes that the strength of quantitative researches is that they test the existing theory by forming a sample from which new statistics and facts may be derived.

Altogether, Hirsjärvi et al. (1997, p.160) suggest that qualitative researches are usually *inductive* rather than deductive meaning that a generalized theory is formed based on the observations of one single phenomenon or individual. Furthermore, Johnson and Christensen (2007, p.14) distinguish inductive reasoning as a process of drawing a conclusion that is probably true. They also acknowledge the problem of inductive reasoning by providing an example in which in everyday situation the inductive reasoning might not necessary occur and the true is actually false. Consequently, quantitative research is applied due to its *deductive* nature in order to support the results. According to Hirjärvi et. al (1997, p.139), the relation between the theory and the empirical study is essential in quantitative researches. *Figure 15.* below complements this.

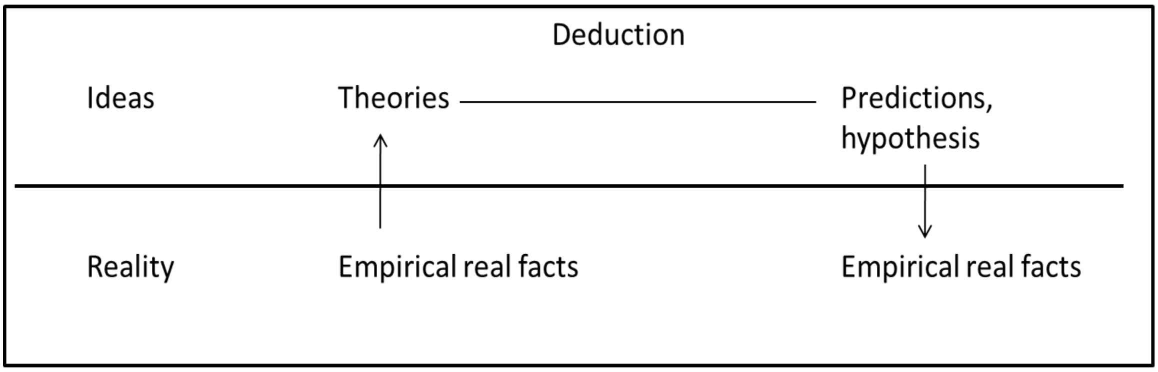

Figure 15. The relation between theory and empirical: hyphotetical-dedictive method. (Hirsjärvi et al. 1997, p.139)

As *Figure 15.* shows the chronology of the quantitative research starts with the idea that theories are derived from real-life information. These theories are reformulated and new predictions and hypothesis are done, which are further applied to real-life empirical issues. Hisjärvi et al. (ibid.) Deductive reasoning is therefore a method of gaining knowledge that is firstly limited to a specific sample and will finally represent the total group of interest.

The study was further conducted as a *case study*, which can be understood as an empirical study, in which some phenomenon is examined in its natural setting taking advantage of several different empirical information (Yin, 2009, p.18). Therefore, a case study belongs to the qualitative research area where the main purpose is to understand why and how things happen. In reality, the case study is not necessarily a pure qualitative study but it can also use evidence and data from multiple sources, such as quantitative research data (Uusitalo, 1997, p.76). Also Johnson and Christensen (2007, p.51) note that using mixed approaches is appropriate in order to produce a superior research. They further suggest that qualitative study can be pursued first so that data can be used for quantitative framework or vice versa. This thesis uses a mix-approach in order to produce information that is mainly gained by qualitative methods but supported by quantitative data.

Further on, Hirsjärvi et al. (1997, p.131) note that case studies usually explore the dynamics of present settings and the research can include single or multiple cases, in which the latter one's main emphasis is on the interrelation of the cases. Based on this, case studies usually concentrate on only one or few cases in order to be able to understand unique phenomenon and further provide a several-sided view of it. However, Miles and Huberman (1994, p.26, sit. Yin 1984) note that several researches may have sub-cases embedded to them which alternatively suggests that multiple units of analysis will be needed. Also according to Yin (2009, p.53), case studies can cover *multiple cases* and then draw a single set of *cross-case conclusions*. In this study, this method is conducted because there are two case countries in question and one of the purposes is to compare them together in order to find a framework that RCCL can use in the future.

Yin (2009) also further suggests that different case methods can be used. Based on the framework presented, there are many issues to consider, so three alternative methods are conducted in order to gain all the information needed: archival records, semi-structured interviews and focus groups. The idea is that by combining these three methods and their results, one would gain a business model suggestion for both case countries, and by further comparing these countries, general conclusions on market segments could be done.

3.2.2 Data Collection

In this part, the three sources of evidence are addressed. The data collection methods used are described, such as how, where, when and what information is needed for the study. The strengths and weaknesses of each source of evidence are discussed following the analysis on how this information is collected in this particular study.

The first method used was *archival records*. They often take the form of computer files and records and example evidence include public use files, service records, maps and charts and survey data (Yin, 2009, p.105). According to Yin (ibid.) there are several strengths and problems when using archival records seeing that they vary from case to case. He notes that these records are usually precise and quantitative making the research setting stable and exact with a broad coverage, meaning that the evidence usually represent a long time span and many sources. However, he also notes the problems facing the research, if archival records are used, because their selection and reporting may be biased and the data may be hard to find due to withheld and security reasons. Nevertheless, as Uusitalo (1995, p.95) states the importance of archival records and statistics is that the researcher can form a new statistics based on the combination of different data derived from the study. Consequently, archival records are seen as an effective way to search for generalization to different research questions and cases.

When using archival records as the source of evidence, the sample is subject to the information that can be found and accessed. In this research, information was collected mainly from the archival records provided by the university’s library, institutions close to cruise line business, from RCCL and also from governmental databases. The data included public use files, survey data as well as organizational records. The data from RCCL was limited because of the privacy reasons, but it is used in this study to support other records. Archival records were primarily used in macro-economical forces, tourism growth and the cultural issues existent in the framework in section 3.1, because statistics, other quantitative data and qualitative reports were required to make evaluations.

As a second source of evidence for the study, *semi-structured interviews* were used. According to Koskinen et al. (2005, p.104), semi-structured interviews are the most used qualitative data collection method in business studies. They are also known as thematic interviews because the interview is based on the theme about some specific subject. Furthermore, in semi-structured interviews the researcher has prepared a set of questions, thus seeing that during the conversation they might be changed in order to clarify some issues or exclude some before thought ones. As a result, the interviewer can ask specific questions that the interviewee answers with his/her words that do not necessarily benefit the researcher in any way. Koskinen et al. (2005) Finally, the strength of semi-structured interviews is that they are free-formed, thus still controllable, and they are close to conversations, which implies that the person is committed to the research being reachable also after the initial setting (Hirsjärvi et al. 1997, p.200).

Overall, interviews are an essential source of evidence because most case studies handle with human or behavioral matter (Yin, 2009, p.108). Yin (2009, p.107) points out that well-informed interviewees can provide important insights to business and suggest some other persons to interview as well as other sources of evidence. Consequently, in semi-structured interviews one may use open-ended questions to which the well-informed interviewee answers proposing his/her own insights to the matter. And finally, as in every research method, also interviews are subject to bias. According to Yin (ibid.), biases include poorly articulated questions and response bias. In addition, in some situations interviewee might response the way that he/she would think that the respondent wants to hear, therefore making the situation subject to weaknesses.

The semi-structured interviews' sample was limited to five interviews that were chosen from RCCL, STX Europe and other organizations related to cruise line business. The list of interviewees can be found in the Appendix H. Altogether, the interviewees had been associated with the business and some of them have acted in the integrator's role.. The interviews were recorded on the tape and the tapes were transcribed. The basic form of interviews can be found in Appendix I. The themes shown in the form were discussed, thus leaving the outline flexible and adaptive. From these interviews, one gained knowledge mainly of the cruise line business model's existence and the competitor analysis presented in the framework in section 3.1.

As the third source of evidence, *focus groups* were used. According to Morgan (1997, p.3), focus groups are an effective way to support other data sources although the research would be quantitative in nature. He further notes that focus groups can be used to produce information to surveys and reversely produce follow-up information to support conclusions. Focus groups can be seen as a mixture of interviews and participant observation, since according to Morgan (1997, p.7), they are conducted as discussions with a larger amount of people rather than only one which is essential in interview. However, he notes that in contrast to participant observation, the leader of the focus group has control over discussion and can directly ask and interview participating people based on his/her own interest. Consequently, focus groups carry benefits over these other two methods but still pose a disadvantage compared to observation: participant observation usually happens in its natural setting but in case of focus groups the people are aware of the situation and may behave in other way than usually.

However, the main strength of using focus groups is their ability to produce much information, easily and in a limited time, because the researcher may ask only relevant questions and direct the conversation as he/she wants. In addition, this method is effective compared to individual interviews due to having more participants in the discussion at the same time. Morgan (1997, p.14). Also Stewart et al. (2007, p.40) acknowledge the advantage of focus groups. They note that by using focus groups people may reveal other information related to the topic that has not given consideration in the theory. They also see that due to the synergy between group members some important comparisons and misbelieves may be exposed that further lead to valuable insights to behavior and motivation. Reversely, as in every research method, also focus groups carry disadvantages. The main weaknesses according to Morgan (1997, p.15) relate to the involvement levels of people in the group and also the researcher's role in the conversation. He notes that the results may be biased, if the motivation on the subject is too low. Accordingly, also researcher's too controlling behavior may limit the research results because people are not encouraged to present their own opinions. Finally, Stewart et al. (2007, p.47) state that focus groups' limitations are mainly due to their open-ended nature and flexibility, imposing a situation where conclusions are harder to make.

The focus group's sample in this research was collected by the university students from the case countries. The students' age varied from 20 to 28 years representing the next generation consumers of the cruise line industry. Similar questions than in semi-structured interviews were the basis for conversation. However, the focus groups mainly focused on the main themes in the study. Altogether, there were two focus group sessions to which eighteen students participated. The focus group themes are presented in Appendix J. The results mainly included knowledge of the requirements from services, the cruise line business model and the cultural variety in each country evident in the framework presented in section 3.1.

All in all, these three sources of evidence form a data collection method that Yin (2009, p.114) refers as the *multiple sources of evidence.* Yin (ibid.) sees that the strength of multiple sources of evidence is that many methods are used to analyze the same phenomenon, thus imposing a greater burden for the researcher. Also Johnson and Christensen (2007, p.51) support the idea of combining different methods and evidence because that way the researcher is more able to avoid a mistake due to the combination of different strengths and weaknesses.

3.2.3 Data Analysis

Next, the data analysis for each of the research method is presented. Research method literature does not include one way of analyzing the data, since the research problems may limit the choice of methodology and analysis (Hirsjärvi et al. 1997, p.216). Yin (2009, p.127) notes that analysis of the case study evidence is the basic element of the study, however being the least developed and controlled and the most demanding part of it. Miles and Huberman (1994, p.41) add up that there is not such a thing as qualitative data analysis. By this they mean that during the analysis quantitative data may support the qualitative evidence by providing for instance background data or help to avoid bias. They further note that research should be conducted so that the data is easily handled and analyzed, so that there are not 1000 pages of interview transcripts ahead. Reversely, quantitative data analysis can be seen quite straightforward due to the several existing theories and the clear chronology of the analysis.

Archival records were analyzed by using both qualitative and quantitative measures, since the data was both in written and numerical form. In qualitative analysis, the themes were divided according to the framework. During the data collection period, the material was divided under these themes and further to sub-themes. As a result, the analysis part was easy to accomplish and the results were simple to write down. In the quantitative study, radar test with MS Excel was used because it was seen as the best way to illustrate the differences in country profiles. The data from the countries focused on the economical variables such as GDP, life expectancy, consumer price indexes and tourism growth but also included variables such as environmental concerns and consumer behavior. The analysis with Excel was easy to accomplish but it required that the data was separated from the qualitative information in order to express the most important variables from the numerical statistics.

Silverman (2010, p.221) suggests that data analysis in qualitative research should be started during the data collection period and not after all the data is collected. This is important in order to show whether one is satisfied with the research method of analysis and also to test the data in light of research questions (ibid.). Supporting the idea of Silverman, also Hirsjärvi et al. (1997, p.217) acknowledge the importance of transcription in *interviews*. They note that transcription can be done from the whole sample or it can be selected according to themes, and state that data transcription is more usual than conclusions derived directly from the data. In this research, the transcription of interviews was divided based on the themes that are listed in the framework. *Figure 16*. below presents the suggested phases of analysis according to Hirsjärvi and Hurme. (2009, p.144).

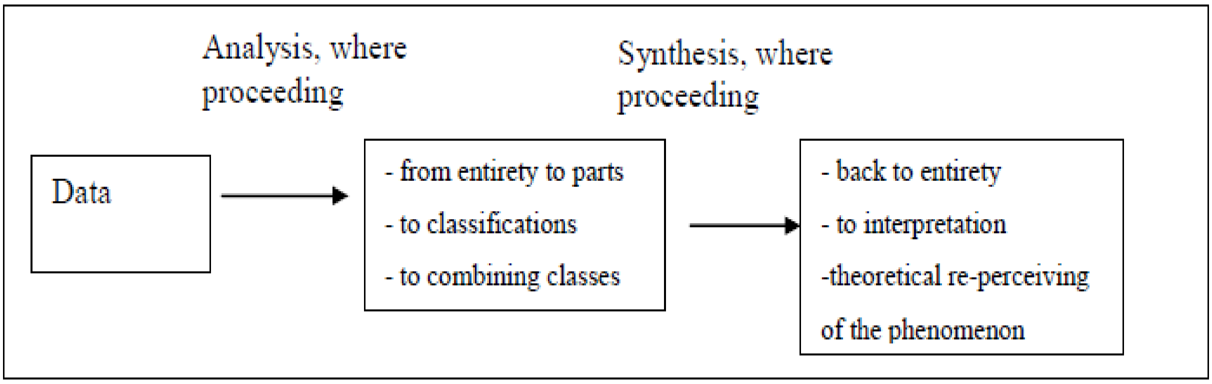

Figure 16. The phases for interview data. (Hirsjärvi and Hurme 2009, p.144)

In this study the chronology of *Figure 16*. was pursued. Firstly, the analysis included reading through the material derived from the interviews and thereafter dividing them into parts according to different themes found in them. The themes were set before based on the literature part of the study and the suggested framework. Furthermore, before the rest of the interviews were conducted the theory was modified according to the derived interview themes. When all the interviews were done and the combination was ready based on them, the data was divided into more detailed and accurate sub-classes in order to identify the individual issues related to the market trends, a new business model for the cruise line industry and future trends such as competitors within the industry. Finally, the classes were finalized so that analysis could be written based on them. The synthesis part of *Figure 16.* is discussed in the final chapter of the thesis because the phenomenon is there analyzed from the theoretical perspective.

While the *focus group* method is widely researched, the critique towards it has mainly associated with the lack of techniques in the analysis phase (Massey, 2011, p.22). Supporting this, Morgan (1997) suggests that analysis is not described in more detail due to the tacit understanding, according to which, analysis can take many forms based on the purpose of the study. He continues that the method of data collection should match the purpose, and analysis may be different based on the expressed purpose of the group and the needs of the research. Nevertheless, for evaluation, some general qualitative methods are suggested: grounded theory, phenomenological approaches and thematic analysis, from which the last one was applied in this research (Massey, 2011).

The main purpose of the *thematic analysis* is to figure out the underlying themes and relationships that explain the behavior, functioning or impacts associated with a research question (Massey, 2011, p.22). Similarly as in the analysis of semi-structured interviews, focus groups were analyzed by themes that further led to classifications. According to Massey (ibid.), the emerging dynamics and the open interplay among focus group participants are also important as these themes may reflect the range of individual attitudes, opinions and beliefs that can be led to norms and social values. Furthermore, thematic analysis is seen as an inductive research method because the chronology of the analysis starts from the individuals and groups, and the results are further contrasted to a bigger context.

Further on, Massey (2011, p.23) notes that thematic analysis is the most used method in case of focus groups, thus there appears to be a few techniques to use it. He divides the data collected from the focus group conversation to three groups: *articulated, attributional and emergent data.* The first one is defined as the data that arises from the direct response to the questions presented, thus providing insights to participants' own interpretations and interest to the topic. The second is mainly associated with the data that relates to theories and research questions. It is analyzed as the indicator contrasts across groups and respondents. The final data categorization relates to the data that gives new value for the study: new insights, comments and issues that can be further developed as a theory. The strength of analyzing these three forms separately will reduce the data and increase the specificity and transparency of the data analysis process. (Massey, 2011, p.23-27). Consequently, by the thematic analysis, the research forms a new generalization to results.

3.2.4 Assessing Reliability and Validity

Researchers have usually defined research *reliability* and *validity* by four criteria; construct validity, internal validity, external validity and reliability (Yin, 2009, p. 40; Hirsjärvi et al. 1997, p.227). These all apply to empirical studies and the main objective is to avoid data analysis errors whilst the results' credibility and trustworthiness vary. In short, Hirsjärvi et al. (1997, p.226) and Uusitalo (1995, p.84) note that reliability means the reproducibility of the study and validity in turn concerns if the measures chosen measure what they were supposed to. Both of these quality measures are important for the success of the study since the researcher tries to gain access to an objective truth.

Construct validity refers mainly to the data collection phase of the research as its main goal is to identify correct measures for the concepts being studied that would further truly represent the studies phenomenon (Yin, 2009, p.41-42). Yin (ibid.) notes that there are three main tactics to enhance the construct validity. Firstly, *using multiple sources of evidence* in the data collection phase ensures that alternative lines of inquire are used. Secondly, one should use *chain of evidence* in the data collection phase which means that an external reader should be able to follow the structure from the initial research questions to conclusions. Finally, the third tactic refers to the composition phase and Yin suggests that the case study report should be *reviewed by key informants* in order to be able to correct the mistakes and therefore enhance the accuracy of the study. In this study, all of these tactics were used since three sources of evidence were pursued and the study was reviewed by RCCL people.

Internal validity refers to the data analysis phase (Yin, 2009, p.41) and means that causal relationships between the variables and the results are well reasoned (Hirsjärvi and Hurme, 2009, p.185). However, Yin (2009, p. 42) notes that internal validity is not applicable to descriptive and explanatory studies because their purpose is not concerned with the causality. He suggests four tactics for internal validity: *1) pattern matching, 2) explanation* *building, 3) addressing rival explanations* and *4) using logic models.* Although this research is descriptive in nature, some of the techniques were used. For instance, using rival explanations was done because multiple sources of evidence gave results for the same phenomenon. Therefore, pattern matching was important since the data derived from interviews may have been different than the data from focus groups, or the two of them may induce similar outcomes.

External validity according to Uusitalo (1995, p.86) occurs if the studied phenomenon can be used to represent the whole population (in quantitative studies) or if the phenomenon can be generalized to a broader context (in qualitative studies). Yin (2009, p.41) notes that external validity is mainly associated with the whole research design as it affects the case from questions to conclusions. Debate has also emerged between the external validity of single and multiple case studies. As this research is conducted by a multiple-case study and cross-case analysis is done, the external validity is increased (Yin, 2009, p. 56).

The final criterion, reliability, measures the repeatability of the research, not the randomness of it (Uusitalo, 1995, p. 84). According to Yin (2009, p.45), the main goal of the reliability is to minimize errors and biases of the research by following the same procedures as described by an earlier investigator. Therefore, the later investigator should end up to the same conclusions. The reliability is familiar in the quantitative research settings as there are many statistical techniques to use (Hirsjärvi et al. 1997, p.226). However, in qualitative case studies the research reliability may be more difficult to pursue. For instance, when conducting interviews, achieving the same results is unlikely because they are context-related and subject to observer bias. Therefore, in qualitative studies the reliability is better measured by the actions of the researcher, for instance the correct transcribing procedures and taking all the data into account (Hirsjärvi and Hurme, 2009, p.185). Consequently, Yin (2009, p.45) suggests two alternative tactics to overcome this issue: *1) conducting a case study protocol* meaning the set of interview questions and *2) developing a case study database* which concentrates on your own notes of the issue. In this study, the qualitative reliability was pursued by using Yin's suggestions.

4 RESEARCH ANALYSIS AND FINDINGS

In this chapter the research analysis and findings are addressed. The chapter is divided into nine separate sections because each of the section gives value for final conclusions separately. In the first section, case countries China and Russia are briefly introduced and the main aim is to discuss why these were taken to the study. Sections 4.2-4.9 present the issues existent in the framework. Firstly, PESTLE framework is used to represent the macro-economical issues affecting the economies. Secondly, the growth of tourism and traveling in these countries are analyzed. In the third section cultural differences in consumer behavior are studied following the fourth section in which requirements from the service economy are analyzed. The fifth section concentrates on the cruise line industry whereas the sixth section focuses on the competitor analysis of the cruise line industry. After these six points are examined, the cross-case analysis is done which main purpose is to express the differences of China and Russia and express some future trends in business. The chapter ends with the suggested cruise line business models for each country.

The three methods – archival records, semi-structured interviews and focus groups – are used interchangeably in the study, thus seeing that each of them are the main contributors to different sections. Results for macro-economical forces, tourism growth and cultural factors are mainly derived from archival records, whilst requirements from services and the cruise line business from focus group findings. Finally, competitor analysis and business trends are analyzed based on the semi-structured interviews.

4.1 Introduction of the Case Countries – China and Russia

The case countries, China and Russia, are previewed next and also the reasoning behind the choice is discussed. Altogether, it is worth of noticing that these case countries were chosen subjectively assuming that they will induce value to the study and for RCCL. Rest of the Europe, rather than Russia, and America were not taken into consideration since the cruise line industry already has a strong existence in them and research on the topic has been done. Excluded were also the African countries, because currently the people living there do not have reasonable income levels to spend on travelling, and furthermore, because the more developed Northern African countries have a close proximity to the Mediterranean markets. As a result, Asia is seen to be an important market to analyze due its emergent nature seen in the first chapter of this study.

China was thought to be the main area of interest due to seeing that the country is becoming more and more developed in the future, and therefore a huge market potential lies there. China's population has been growing constantly during the past decades and it is estimated to grow over 1,4 milliard people during the next 50 years, as it is currently about 1,34 milliard (World Bank, 2011). As seen from *Table 5.*, the GDP per capita has also possessed a strong growth during the past two decades, which implies that consumers have more money to spend. Supporting this statement, the household consumption expenditure has increased to being ten times bigger in 2009 compared to the level in 1989. All of these facts lead to an interesting situation, in which China is seen as the most emergent economy in the world, which means that a huge potential for future exist and the first mover advantage in the cruise line market is still to be fulfilled.

Table 5. Economic variables of China. (Calculated in the World Databank)

China series	1989	1999	2009
Household final consumption expenditure, ($), '000	301.716,211	938.079,005	2928.299,670
GDP per capita, ($)	748	2152	6828
Unemployment, total (% of total labor force)	3	3	..
Population, total	1118.650,000	1252.735,000	1331.460,000
Population ages 0-14 (% of total)	29	26	20
Population ages 15-64 (% of total)	66	67	72
Population ages 65 and above (% of total)	5	7	8

Russia was thought to be the other one of the case countries, because it has a huge market potential based on the population: population of Russia in 2010 was 141,85 million people according to the World Bank (2009). Despite the estimated decline in population in the future, the projected market size in 2050 is still 116,350 million people (ibid.). Russia's market coverage spreads to both European and Asian markets which can be seen as a huge benefit for marketers. With the population stated below, Russia is the seventh largest country in the world (ibid.). Furthermore, Russia's income levels and the economic situation have improved steadily during the decades as seen in *Table 6*. The household final consumption expenditure has more than tripled whilst also GDP per capita has increased to 18963$ (13382 €) from 7979$ (5631 €) in 20 years, noticing the drop in 90s due to the world wide regression.

Table 6. Economic variables of Russia. (Calculated in the World Databank)

Russia series	1989	1999	2009
Household final consumption expenditure, ($), '000	..	398.884,676	1270.833,385
GDP per capita, ($)	7979	5951	18963
Unemployment, total (% of total labor force)	..	14	..
Population, total	147.721,000	146.309,000	141.850,000
Population ages 0-14 (% of total)	23	19	15
Population ages 15-64 (% of total)	67	69	72
Population ages 65 and above (% of total)	10	12	13

As a whole, China and Russia, were seen interesting countries to research for due to their great potential according to population, market size, GDP and household expenditure rates. Next, other macro-economical forces are analyzed due to give a more proper overview of the factors affecting the future state of these markets.

4.2 Macro-economical Factors affecting the Future Situation

This section's purpose is to cover issues that affect the market growth of China and Russia including the analysis of political, economical, social, technological, legal and environmental factors (PESTLE). Most emphasis is given to the economical, social and environmental factors since they are mostly related to the study of the new cruise line business model. The objective of this chapter is to give an overview of the factors affecting the future market potential of these countries as well as to acknowledge the possible challenges and drawbacks that hinder the growth. PESTLE analysis is used because it includes all the factors needed in order to examine the industry position and contrast the current state to the future estimations.

4.2.1 PESTLE Analysis of China

During the recent years and past few decades China has been very effective in increasing the political and economical situation in relation to other countries, which has led the country to strengthen its existence as one of the most emerging economy in the world. According to Datamonitor (2010c, p.1), in January 2010, China-ASEAN Free Trade Area agreement was completed and 90% of trade products were subject to zero tariffs and the service trade market was also substantively opened up. This has led to improved ties between China and for instance Russia, UK, USA and India. Despite these great effects on the economy, there exist a couple of future risks. For instance, the increasing education rates in China mean that new graduates may not have work places, thus leading to more unemployment. In addition, industrialization leads to possible environmental risk factors imposing more pollution. (Datamonitor, 2010c, p.1-2). *Table 7.* below presents the PESTLE analysis and the main macro-economical forces affecting China that have to take into account when analyzing its future market potential.

Table 7. China's PESTLE analysis, a combined table from Datamonitor 2010c

	Strengths/Opportunities	**Challenges/Risks**
Political	Government's focus on equitable growth Increasing geopolitical influence Free trade agreement with ASEAN	Lack of co-ordination between central and local authorities Rising corruption and inequality
Economical	Robust growth rate Strong infrastructural development Improving trade relations	Rising unemployment Competition between state-run and private enterprises
Social	One-child policy Educational investment Decline in poverty Increase in life expectancy	Gender imbalance Ageing population Graduate unemployment Urban migration
Technological	Large number of R&D institutions International co-operation Increasing number of patents	Misguided investment Government interference
Legal	Decentralized court system Lucrative co-operative joint ventures	Lack of qualified judges Reporting and accounting standards Obtaining tax benefits Weak corporate law
Environmental	Rich biodiversity Evolving environmental policies Construction of eco-provinces Development of renewable energy	High pollution levels Water contamination Balance between growth and environmental sustainability Greenhouse gas emissions, global warming

As one can notice from the table, the *political* situation in China can be estimated to improve its image due to more liberalization and freeing up the trade. However, there still exists the risk of co-operation to lack between central and local authorities, which is related to the inability to maintain smooth relations between the local and central levels. The *economical* state of the country seems promising since the growth has been enormous and estimated to continue. Also infrastructure and improving trade relations are associated with a more international focus that will induce the agriculture to decrease and services to be the main market in the future. Although China has been very good in *social* circumstances and they have enhanced the education levels and poverty of people, the ageing population and graduates' unemployment will eventually affect the economy. The one-child policy affects the future state of the economy and especially labor force, inducing a situation in which the aged people constitute most of the economy also due to the increase in life expectancy. *Technological* and *legal* state have not been so successful to improve, thus cooperativeness between international parties offer great changes in the future. Finally, because of the industrialization of China, the *environmental* concerns have been rising during the 21st century. There are several risks such as water contamination, greenhouse gas emissions and global warming that are tried to keep in control by different policies and renewable energy. Actually, China has been very effective in environmental sustainability compared to other emerging markets.

In summary, China's PESTLE analysis can be seen as the basis for analysis in the future. All these factors definitely affect the tourism and the cruise line business. Mostly, economical, social and environmental issues are under consideration because they are related to population growth, international trade, income levels and Chinese motivation to travel.

4.2.2 PESTLE analysis of Russia

Russia's economical and political state has been under consideration for decades already. When Vladimir Putin became the president in 1999, the political state was stabilized (Datamonitor 2010d, p.1). Despite the current stable political structure, Russia is still considered to be one of the most corrupt countries in the world (ibid.), which eventually affects the other macro-economical forces. As seen before in this study, Russia has been able to strengthen its financial position during recent years, thus the future unemployment is a major risk for the nation. According to Datamonitor (2010d, p.2), Russia is currently recording an unemployment rate of 8,4%, meaning that for instance in 2007 there were 4,6 million unemployed whereas in 2009 the figure was already 6,4 million. Another possible risk for the economy is the high mortality rate which affects the future population of the Russia. According to Datamonitor (ibid.), it is expected that the population will fall by 30% by 2050. Despite these downturns, Russians are more and more educated and their real wages increase constantly inducing a positive shift in consumption. The major macro-economical forces are gathered to *Table 8.* below.

Table 8. Russia's PESTLE analysis, a combined view from Datamonitor 2010d

	Strengths/Opportunities	**Challenges/Risks**
Political	Continuity in polices International integration Growing international relations	Corruption and crime Terrorism Pressure from bureaucracy
Economical	Successful economic reforms Strong current account surplus Growing foreign investments	Unemployment Dependence on foreign money Adverse balance of payments
Social	Improvement in real income/wages Educated population Tax benefits to healthcare and education	High AIDS rate High mortality rate Widening income inequality and rising poverty
Technological	Increasing presence of IT sector Increasing number of skilled workers	Weak science and technology systems Piracy and poor infrastructure
Legal	Easy immigration policy Judicial reforms International co-operation for legal assistance	Weak judicial system Unfair competitive practices
Environmental	Environmental management systems Environmental security system International co-operation Global environmental facility	Spillages causing environmental hazards Lack of resources to tackle environmental problems Deteriorating water quality Difficulties with environmental monitoring

Russia's *political* state has been increasing its image during the 21st century, but crime and corruption and the threat of terrorism are major risk factors. If one considers the international cruise line business, the terrorism's effect would be a major drawback to the industry because it would lead people to avoid cruise lines not only for a short period of time but perhaps for even decades. The *economic* state of Russia looks promising if one considers the factors in the left hand side of the table. The economy has been able to increase its account surplus and foreign investments, but the rising unemployment can be seen as the biggest threat in the future state of Russia. As the political and economical forces, also *social* situation is adverse, since there are great opportunities but also huge challenges facing the future. Russians income levels have increased, which supports the statement that they are more willing to invest for instance in travelling. Nevertheless, the high mortality rate, currently being 16 deaths per 1000 people, results in a supply constraint of labor that is expected to become a major impediment to economic growth. *Technological* and *legal* forces show positive as well as negative issues. Skilled workers and juridical reforms are necessary in possessing a more trustworthy economy to international parties. Thus the corruption stated before leads to a situation in which piracy and unfairness of competitive practices increases. As China, also Russia, has huge *environmental* concerns and the economy has been trying to tackle them with management systems and international co-operation. Nevertheless, if the economical state of Russia gets weaker, there is huge threat that difficulties continue to arise.

As a result, the situation in Russia compared to China is much more unstable and the opportunities for future need much more attention. China has been able to sustain its growth and simultaneously enhance the image of other factors. In case of Russia, there exist huge potential but because of the unemployment, high mortality rates and corruption, the economy faces a situation in which nobody can properly estimate the future.

4.3 Tourism Growth

As noted in the section 4.1 in which the case countries were selected, both China and Russia pose a great market potential according to their population, GDP and consumer price indexes. In this section, the concentration is on the tourism growth, and Russia and China are separately discussed. Thus the section ends with a cross-case analysis about tourism growth. The analysis and results of this section are mainly based on the archival records, but also interviews and focus group findings are used. It should be noticed here, that both China and Russia are parts of the so called BRIC countries (Brasilia, Russia, India and China) that are estimated to dominate the global tourism growth during the next 10 to 20 years, growing double to an average country (WTTC, 2011b, p.3). This means an average growth rate of 7,8 percent (ibid.) compared to the average rate of 4 percent worldwide (WTO, 2011).

4.3.1 China expanding its Growth through Internationalization

As seen in the first section of the chapter two, international tourism, Asia as a region records biggest positive growth figures year after year. The total growth rate in tourism was 14 percent compared to the world average of 4 percent in 2010. Asia comprises of emergent markets that develop with a huge pace, to which also China is included.

One of the main reasons for Chinese tourism growth is that the Chinese government loosened the restrictions on the outbound tourism market in 1983 with the introduction of the Approved Destination Status (ADS) scheme (Sparks and Pan, 2009, p.483, which allowed Chinese people to travel overseas for individual leisure purposes rather than only for business trips (Li et al., 2011, p.741). This has affected the increasing trend of outbound travelling in China, and as Li et al. (2011, p.743) note, the outbound tourism has grown at an average speed of 21 percent per year from 1997 to 2007. China is moreover an emergent market with high growth potential. Thanks to its fast economic development and the rising individual wealth (Datamonitor, 2010c), China has become the fourth most popular travel destination in the world (WTO, 2010, p.7). See Appendix K for the top ten countries.

Furthermore, China has also been the fastest grower with regard to the expenditure in international tourism, being now in the fourth position after UK (ibid.). Chinese's expenditure was 43,7 billion dollars in 2009 compared to the figure of 13,1 billion dollars in 2000 (*Table 9.)*, which means that in under ten years the expenditure has more than tripled. Interestingly, Russia has also seen a rapid growth discussed more closely in the next subsection, since their expenditure has increased from 8,8 to 20,8 billion dollars in five years.

Table 9. International Tourism Expenditure. (WTO, 2010, p.8)

		US$						Monthly or quarterly data series Local currencies, current prices (% change over same period of the previous year)											
		2000	2005	2006	2007	2008	2009*	Series	07/06	08/07	09/08	2009*				2008			
							(billion)					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
World		475	679	744	859	942	852												
1	Germany	53.0	74.4	73.9	83.1	91.0	80.8		2.9	2.0	-6.3	-8.6	-4.3	-8.4	-2.7	5.8	4.9	1.2	-3.2
2	United States	64.7	69.0	72.1	76.4	79.7	73.1	sa	5.9	4.4	-8.4	-8.5	-13.1	-6.5	-5.2	9.3	7.0	3.0	-1.1
3	United Kingdom	38.4	59.6	63.1	71.4	68.5	48.5	sa	4.1	4.4	-16.5	-16.4	-17.1	-19.5	-12.7	13.6	4.2	4.6	-4.3
4	China	13.1	21.8	24.3	29.8	36.2	43.7	$	22.5	21.4	20.9	19.6	19.6	22.1	22.1	20.9	20.9	21.9	21.9
5	France	17.8	30.5	31.2	36.7	43.1	38.9		7.9	9.6	-4.9	1.3	-9.4	-6.6	-2.4	13.5	16.5	0.1	12.9
6	Italy	15.7	22.4	23.1	27.3	30.8	27.8		8.4	4.9	-4.6	-1.6	-3.6	-5.0	-8.1	4.7	7.8	1.1	9.2
7	Japan	31.9	27.3	26.9	26.5	27.9	25.1		-0.2	-7.6	-18.4	-21.3	-25.1	-12.6	-14.8	-3.9	-6.8	-9.5	-10.1
8	Canada	12.4	18.0	20.6	24.7	26.9	24.3		13.3	8.4	-3.4	-6.2	-4.7	-2.3	1.1	18.5	14.0	4.9	-5.3
9	Russian Federation	8.8	17.3	18.1	21.2	23.8	20.8	$	17.1	12.1	-12.5	-20.4	-18.0	-9.6	-3.5	19.9	19.8	10.7	0.2
10	Netherlands	12.2	16.2	17.0	19.1	21.7	20.7		2.6	6.2	0.4	4.1	3.9	0.0	-6.0	2.9	8.5	7.4	4.3

According to Tse (2008), the increase of Chinese travelling for private purposes is due to the increase in their income and free time, travel and vacation becoming more fashionable, increase of communication between Chinese private entrepreneurs and the outside world and the increase in number of destinations with Approved Destination Status (ADS). Actually, according to Li et al. (2011, p.743), the estimated Chinese outbound travel market is 22 million people who have traveled or plan to travel to destinations outside mainland China, Hong Kong and Macao. From them 11,5 million are interested in destinations outside Asia. Accordingly, it is predicted that the outbound travel of Chinese people will expand to 100 million by 2020 being only 41 million in 2007 (Sparks and Pan, 2009, p.483; sit. WTO 2003). The most favored destination among Chinese people is currently Australia (ibid.) which has to be taken into account when analyzing the cruise line potential of China.

Giele (2009) has distinguished, that although China as a whole is an emergent market area, the country can still be divided into *growth, emerging* and *untapped* market areas. The growth market consists of South and East China that are close to Japan and Hong Kong. These are the most developed areas where for instance education is the best. Furthermore, the population is among the most affluent in China and these people easily adopt new and luxurious goods. The emerging market areas instead are North, Central and Southwest China in which the economic state has been growing during the past years. Finally, the untapped market areas mean mostly Northeast and Northwest China since those are the least developed market areas and the people are uneducated and poor. Giele (2009, p.6-7). It seems however, that the next generation of travelers can be derived from all of these market areas, since Sparks and Pan (2009, p.492) note, that young singles (under the age of 35) are potentially more adventurous than mature travelers and would like to explore new things and seek new experiences that could be told to friends. As a result, this would imply a new mainstream market for China.

4.3.2 Russia Increasing its Outbound Tourism

Central and Eastern Europe experienced the biggest drop, 10 percent, in tourist arrivals in 2009 but could turn that to a positive figure of 4 percent in 2010. Nevertheless, it has been stated that Europe as a whole has had most challenges after the economic downturn in 2009 and the countries are now trying to enhance the tourism with economical incentives. Although Russia is leveraged to both Asian and European markets, in this study it is mostly handled as European because the most developed areas are situated close to Finland and Baltic countries.

The openness of Russia as a travel destination and its increasing quality in offerings have been the main reasons for the growing number of tourist arrivals during the 90s and 21st century (Stepchenkov and Morrison, 2006, p.943). Stepchenkov and Morrison (ibid., sit. WTO 2003) estimate that Russia's tourism potential could be 47 million travelers by the year 2020 compared to the statistics of only 22,51 million in 2003. Despite the rapid growth of Russia's inbound tourism, the outbound tourism has incurred even more growth. According to *Table 10.*, the international tourist departures from Russia constitute of 36,218 million passengers whilst the figure for arrivals was 25,086 million in 2009. As we compare the figures together, the departures have grown double compared to inbound tourism in five years, from 2004 to 2009. The statistics also show a remarkable increase in tourism expenditure which is associated with the fact that Russians are travelling abroad more.

Table10 . Russia's travel rates between 2004 and 2009. (Russia Forecast, 2010, p.268)

	2004	2005	2006	2007	2008	2009
International tourism, arrivals ('000)	20,779	21,445	22,260	23,169	24,087	25,086
International tourism, departures ('000)	25,317	27,591	29,730	31,814	33,989	36,218
International tourism, expenditure (US$ m)	17,088	20,012	22,749	24,334	25,992	28,040
International tourism, receipts (US$ m)	5,710	6,326	6,893	7,253	7,458	7,720
Consumer expenditure: hotels & restaurants (US$ m)	7,693	10,027	12,203	13,913	15,558	17,460

One possible reason for the increasing outbound tourism compared to inbound rates is analyzed by Ovcharov (2008). According to this research, the average price for trips to for instance Turkey has increased by 15 percent and to Spain by 35 percent in last five years. These might seem quite big, but as Ovcharov (2008, p.62) states, the inbound trips in Russia have more than doubled their prices. Consequently, as Russian economy is becoming wealthier and people have more money to consume, they will rationally invest into outbound trips rather than inbound travelling, because the former is a relatively cheaper choice. Interestingly, China was the unquestioned leader in Russia's outbound tourism since for instance in 2002 41,3 percent of Russian tourists visited there (Ovcharov, 2008, p.58). This can also be explained by the fact that trips to China have not become more expensive, only a slight increase is seen. In addition to China and Asia in general, Dubai and Turkey are becoming favorable destinations for Russian travelers (Siren).

According to Stepchenkov and Morrison (2008) and Siren, one of the biggest problems for Russian tourism is the fragmented network channel, such as the lack of travel agencies and online marketing. Siren acknowledges that many of the Russian travel agents have called for help from Finland in adjusting the cruise line trips. Therefore, it is seen that Russian travel agents are not trained for the profession and they are quire unsecure in selling the trips. Stepchenkov and Morrison (2008, p.954) also note that web sites of Russian tour operators need to be made more professional in order to inspire people. As Russia's main themes in tourism relate to *cultural*, *historical* and *arts* as well as to the natural features of Russian geography (ibid.), the shift for a more consistent marketing is definitely needed in order to increase the inbound travelling.

4.3.3 Comparing Tourism Statistics of China and Russia

As the study has now analyzed tourism growth in both China and Russia, it is necessary to compare these statistics together in order to see their main differences and similarities. The analysis and results are based on the WTTC's market reports on BRIC countries, China and Russia (WTTC, 2011a, 2011b, 2011c). Radar analysis with Excel is used and the results are shown below. Figure 17. is helpful in configuring the profiles of these countries whilst Table 11. represents the numerical form of the data. The objective is to show the growth statistics from 2011 to 2021. The exact figures for year 2011 and 2021 can be found in Appendix L.

Table 11. Numerical data for radar analysis. (WTTC, 2011b)

Growth	**China (%)**	**Russia (%)**
Travel & Tourism's Total Contribution to GDP	9,1	4
Travel & Tourism's Total Contribution to Employment	2,6	0
Travel & Tourism Investment	8,5	6,4
Visitor Exports	4,9	3,3
Domestic spending	9,5	4,2
Leisure spending	9	3,8
Business spending	8,6	5
Capital investment	8,5	6,4

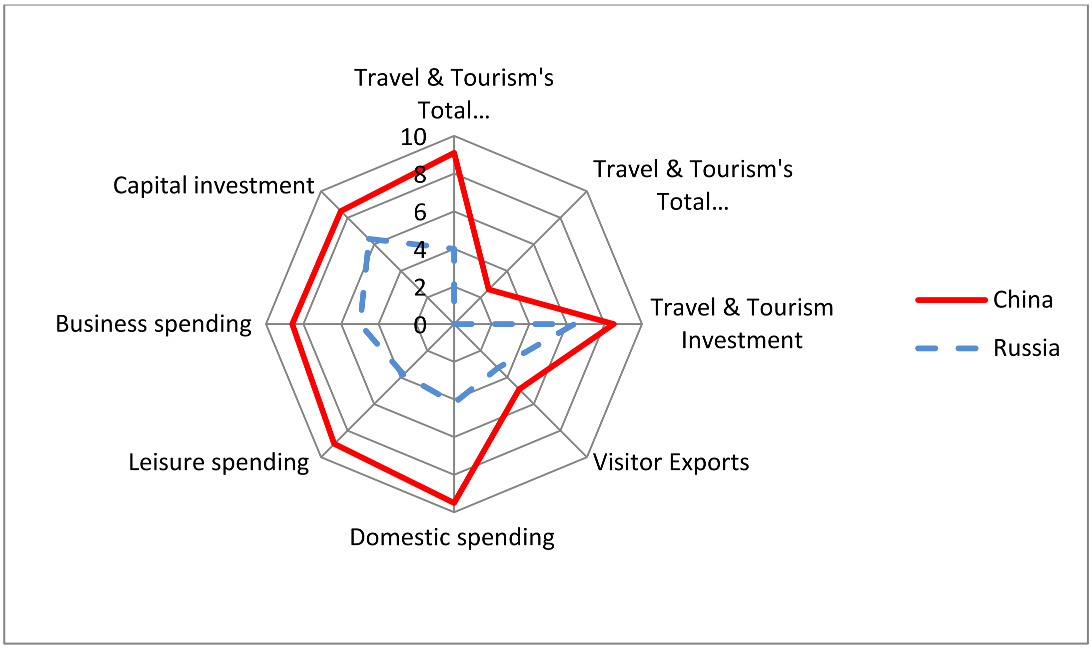

Figure 17. The Profile of Tourism Growth in China and Russia

According to *Figure 17.* China is able to expand its growth more than Russia since all the variables are situated in the outer circle. The least difference between countries is seen in *visitor exports,* which implies that the outbound travel constitutes most part of the total exports of the country. The least growth in turn is seen in the *travel and tourism's total contribution to employment* which in case of Russia is zero and in case of China 2,6 percent. Russia's figure may be explained by the fact stated in the previous subsection: the country's inbound tourism is estimated to only slightly increase during next decades. Also in case of China, the contribution to employment lacks behind the growth trend, since more work force is coming outside the region. The differences between *travel and tourism investment* and *capital investment* are not remarkable but prove that China has more ability to generate money from tourism. Finally, the other variables – *business, leisure and domestic spending and travel and tourism's total contribution to GDP* – have high growth rates in China, thus leaving the Russia behind the development. One important note can be made from the spending patterns of these countries. In China the leisure travelling is growing more than business travelling but in Russia the situation is reverse. In Russian markets business travelling is growing constantly with the rate of 5 percent which emphasizes the potential of this market segment.

All in all, the radar analysis and the results show the difference of these economies. Both are growing but the pace is very different. During the next chapters, the concentration is on consumer behavior, requirements from services, the cruise line business and the cultural factors of these societies.

4.4 Consumer Behavior relating to Culture

In this section the emphasis is to show how cultural variety may affect the consumer behavior. Excluded is the deeper analysis of Chinese and Russian cultures since the main objective is to cover cultural factors that affect the destination choice and travelling decisions. Archival records and past surveys are the main sources of evidence, but also focus groups results and interviews are used for reasoning.

4.4.1 The Chinese respect for Friends, Family and Co-operation

Exploring Chinese culture may be very challenging because huge variety exists due to China's big regional area. People in East are extremely different in their choices than people from West because most of the development has been experienced in areas close to Japan and southern parts of China. Therefore, the results are mainly associated with the region close to the coastal area of China.

As discussed in section 2.5, consumer behavior is associated with push and pull factors that affect the choice to travel. From focus group responses, knowledge seeking, friend and family togetherness and economical deal were most important factors for Chinese people. This is in line with Tse's (2008, p.138) statement that as Chinese population will get older the quality is seen more important, thus currently 95 percent of Chinese are *price sensitive*. In addition, Spark and Pan (2009) note that Chinese are more likely to visit some special destination when other people such as friends and family or travel agents consider that as a positive option. The collectivist nature of Chinese culture means that social influences are very strong and they affect the behavioral intentions of consumers. This *interpersonal behavior* researched by Raymore (2002) in section 2.6 will eventually lead to a situation in which also friends and family are preferably taken along to the trip. Interestingly, however, Spark and Pan (2009, p.492) note that females are more likely to feel this social pressure of reference groups than males.

Tsang (2011) researches the *collectivistic* nature of Chinese culture and notes that for Chinese people co-operation and harmony are the most important values in life. He adds up that group orientation and the value of hard work are emphasized in Chinese culture, which may be seen quite different from the values in Western cultures. The sense of belongings was also seen in focus group settings, since Chinese people came as a group to the meeting and were very open to this project, whilst for instance Russian people were much harder to even reach. Chinese people are very motivated to travel with a bigger group or even with a friend rather than alone, because they do not feel safe otherwise. They are also willing to test new experiences and are very open-minded to suggestions and new circumstances which became evident during the group sessions.

Always when analyzing the consumer behavior, the interest is also placed to marketing of products and services. According to Tse (2008, p.317), friends and family is the major source of information (41,9%) whilst Internet being the second one (25,5%). Because China is developing continuously and with a rapid pace, more people are able to connect to the Internet and the logical implication is that Internet is becoming a major channel in the future. Actually, according to the focus group results all the young adults said that they would search travel information from the Internet. Of course, they are university students that are used to use Internet, but as said previously, they are also the next generation travelers. On the contrary, Spark and Pan (2009, p.490) suggest TV programs to be the major source of information for Chinese. In addition, they list that travel books and newspapers would be used extensively in research for information.

Li and Xiao (1999) divide Beijing consumers to four types: *pragmatic, commercialized, sociable and conservative type*. The first, pragmatic type is mostly interested in the functional aspects of the product and its price. The second, commercialized consumer, has more brand awareness and uses commercial information in purchase decisions. Li and Xiao (ibid.) note that this group of consumers will increase along with the economic development of China that has actually already happened. The sociable type obtains product information from friends and is happy with his current life. Finally, the conservatives prefer the old times and do not want to change their pattern of living. Although the research made by Li and Xiao is ten years old by now, Giele (2009) notes that most attention should be currently paid to commercialized and sociable classes that along with the industrialization will increase. Li and Su (2009, p.251-252) acknowledge that these next generation consumers are hard-working and earn more, thus spending sometimes to luxurious goods and services. In general, Asian consumers must purchase luxury products to enhance, maintain or save their image which is in comparison with the fact that in everyday consumption they are very thrifty (ibid.).

Finally, based on these results, Chinese economy and its consumers can be seen very different from Western countries, but actually the young generation is becoming more and more individualistic in their choices. As China develops with a rapid pace, also the consumer behavior changes along the way. Consequently, only the latest researchers are valuable to further research purposes.

4.4.2 Russian Consumer Behavior reflected to its History

Russia's geographical area leverages to Asian and European markets, so the culture also vary whether analyzing the East or the West side of the country. As the idea of this research is to explore cruise line business through the biggest cities of Russia that are mainly situated in the Eastern part of the country, this section also focuses on the areas near Saint Petersburg and Moscow.

The area near Saint Petersburg is the most developed within Russia and the people living there are most educated with higher income levels (Vasama). Consequently, those people can be easily compared to Western countries and the main conclusion is that they are quite open and social compared to for instance people coming from Moscow. Saint Petersburg is close to Finland so they can easily reach Finland by car, and therefore Finnish people are used to see Russians in Lapland's ski centers and also in Eastern part of Finland. Compared to Saint Petersburg, people living in Moscow can be seen as the real Russians as they possess different values and are more *collectivistic* (Vasama). Actually, as well as China, also Russia can be characterized as a collectivistic country, thus seeing that Russians value group's goals and opinions more than individual achievements (Conway and Moustafaeva, 2004, p. 76, sit. Elenkov, 1998). When taking into account the political state of the country and its history analyzed in section 4.2 in PESTLE analysis, this finding is not surprising.

Also referred to Raymore's (2002) framework in subsection 2.6.2, the *interpersonal values* of Russians are extremely important (Conway and Moustafeava, 2004, p.77). This means that family, friends and for instance business associates are valued and their opinions are taken seriously. Russians do not see time as important, they focus on learning by observing others, they are characterized by a lack of personal space, they emphasize disposable goods and live in extended family units, admire age and are male dominant (ibid.). Conway and Moustafaeva (2004, p.77) also note that today's Russian consumer value *quality over price* which is different than in China. They are willing to pay more for brand named products and services, although they may not afford them. This is consistent with the idea of Chinese consumers; luxury goods sometimes pose self-enhancement needs that are becoming more important in the current economy. One interesting point according to Conway and Moustafaeva (2004, p. 78) is that Russian parents are willing to pay more and prefer to buy things for their children rather than for themselves. Consequently, one may assume that this is because of the history of Russia and due to the times when Russian people were pretty poor.

Russia has thus experienced an internationalization that affects the consumer behavior especially in developed areas of the country. According to focus group results, the young generation of Russia is more close to Western cultures and they think positively about travelling. They have courage to travel alone but prefer travelling with a couple of friends. They are interested in other cultures, but still appreciate their own culture the most. Young adults are more individualistic but still have a great concern for their friends and family. Although they would live here in Finland, the family is the mainstay of their lives which supports the finding of a collectivistic culture and the importance of interpersonal values. As Russia is developing all the time, people are using the Internet more often. Despite this, the major drawback is the fragmented travel agency culture, which became obvious through focus groups also. All in all, the Russia's culture is becoming more close to Western cultures but still has several similarities than usual Asian ones.

4.5 Requirements from the Service Industry

In this section of the chapter four, the focus is on analyzing the service industry and more specifically the issues that Chinese and Russian consumers require from their services. The factors presented in section 2.3 are contrasted to the empirical results and the framework done by Wilkins et al. (2007) and Choi and Chu (2001) in subsection 2.3.3 is there for the reasoning. The results are mainly drawn from focus groups conversations but also archival records and interviews are used.

4.5.1 The Chinese Preference for Food and Travel Packages

As said before, Chinese travelers are usually seen very price sensitive rather than focusing on the value of the service. Consequently, Li et al. (2011, p.743) note that Chinese usually prefer *package travel* instead of self-organized trips due to they being more convenient and reasonable priced. Furthermore, these package travel opportunities offer safety and security, that Spark and Pan (2009, p.493) have considered to be one of the main requirements of Chinese tourists. Hence, safety issues have to be marketed to Chinese when considering the possible destination choices. Package travel trips usually include a tour guide and they offer an easy possibility to see the famous attractions, different cultures and the scenic beauty of destinations that are seen very important for Chinese travelers according to Li et. al (2011, p.743). Li et al. (2011, p.747) further suggest that package trip tour guides should be bilingual, friendly, professional and they should have knowledge about the local culture and its history for knowledge seeking purposes.

If Chinese tourist expectations from hotels are analyzed, Tse (2008, p.319) notes that the most significant issues to include are *Chinese TV channel, Chinese newspaper, hot water or kettle, breakfast with a touch of Asia, Chinese speaking staff and menu in Chinese*. This became also obvious through the focus group results since most of the Chinese there emphasized the meaning of their own culture and language in service and in food preferences. According to these results, Asians prefer to eat lightly and a variety of vegetarian dishes is a necessity, they consume little or no milk and eat more salty rather than sweet foods. Also after lunch or dinner, they want to have their tea. Consequently, service industries, especially hotels and cruise lines, should modify their service according to Chinese requirements if they want to attract this market segment. Hotels and cruise lines should include a variety of Western dishes for those who want to taste local cuisine but still include Asian dishes for those who want to stick to their habits.

When considering the total service industry, the convenience of hotel location and transportation are important, that according to Li et al. (2011, p.747) can be a reason for Chinese preferences of utility and function, particularly when they are faced with new the environment and circumstances. If this fact is considered in the cruise line business, it is not surprising that Chinese preferred to take cruises from near ports or would be interested in the package trip option in which the flight and the cruise would be combined. Finally, Li et al. (ibid.) note that the collectivistic culture of China lead to a situation in which family duty and caring for the children is emphasized. As a result, Li et al. (ibid.) suggest that possibilities for purchasing gifts is almost an obligation for many Chinese, and therefore cruise lines and hotels should include varying shopping possibilities to their service offering.

Consequently, it can be interpreted that Chinese consumers are willing to get familiar with other cultures and are open to new experiences. However, the interesting point, also evident from the focus groups, is that many Chinese still prefer price and physical product over quality and value. When focus group participants were asked about service quality and physical characteristics, they either preferred physical product, such as Internet connection, or rate that equal to the total value. Nevertheless, if the comparison with Wilkins et al.’s (2007) and Choi and Chu’s (2001) framework in section 2.3 is done, actually the requirements from the service industry follow a pattern in which the individual issues are under the value concept rather than physical product: *multi-lingual staff, food and beverages and security*. Therefore, the main conclusion may be that the image of the service should be changed in order to attract more Chinese tourists to try it.

4.5.2 Russians' Choices reflect to their own Expectations

Although Russian people are stated to be collectivistic in nature, their consumer behavior and the choices made reflect highly to their own expectations and experiences rather than the external environment from which they may have limited information (Griffin et al., 2000, p.38). This is line with the earlier prediction in which it was stated that Russian travel agencies should have a more professional manner so that Russian consumers would be attracted to travelling. Griffin et al. (2000, p.36) note that Russian consumers, especially those outside of Moscow and Saint Petersburg, can expect low variety of brand named products and services. The situation has improved from Soviet days, but still those consumers sometimes struggle in searching for a special product. Consequently, Russian consumers experience high emotional responses from purchasing since it is noticed to be a quite difficult process.

There is not much research done on the requirements that Russian consumers are expecting from their service. From focus group results, one may assume that Russian consumers are more individualistic than Chinese ones, since they base their decision on their own expectations. Furthermore, Russians were most likely to travel with one or two friends rather than in a big group. The most important factors in the service are stated to be: *pre-travel information, dining, entertainment and activities* and *service quality*. Price is not a big factor for Russians, since they prefer luxurious services with high quality rather than paying and deserving less. According to Wilkins et al.'s (2007) framework in subsection 2.3.3 the most significant service requirements are reflected to the service experience and food and beverages. With the extended framework done by Choi and Chu (2001), staff service quality, room services, reputable chain and the value of food and beverages are the emphasized issues.

Unlike Chinese, Russian consumers do not choose their food based on their own culture or healthy issues. According to Honkanen and Frewer (2009, p.367), taste and sensory features are found to be the major factors in food choices. Thus Honkanen and Frewer (ibid.) acknowledge that there are differences due to the regional areas of Russia. The availability is another factor to consider as well as the price of the food. Finally, the environmental aspect was not rated high implying that Russian consumers do not appreciate eco-friendly products. This is actually in line with Russia Forecast 2005 (p.269) made by Travel and Tourism organization in which it is noted that fast food chains such as

McDonald's are increasing in Russia. As a result of these studies, one might say that Russians' requirements from the service sector are very different from Chinese ones.

4.6 A Cruise Line Business Model for Chinese and Russian Consumers

This section concentrates on the current cruise line business in China and Russia. More specifically, it discusses the potential of cruise lines to spread their business to these areas and reflects to the needs and requirements that culture and habits cause. Cultural dimensions are taken into consideration, and expectations from the cruise line concept and the value driven are discussed. Results are mainly based on the focus group results and information derived from the semi-structured interviews. This section provides essential information on the cruise line business, thus seeing that final suggestions on the business models in China and Russia are gathered to section 4.9.

4.6.1 Chinese expecting Gambling and Family-oriented Entertainment

The cruise line business in China is very different from the Western world, and therefore the cruise line concept should be modified to meet the needs and expectations of the Asian markets. According to Clayton, the main issues involved in Chinese cruise line business are *gambling*, *family-oriented entertainment* and *Asian food*. These are the focus points of this subsection together with other issues relevant from focus group interviews.

Clayton notes that when considering Chinese markets for cruise line business, the concept of their leisure time should be paid attention to. In Western countries, the cruise line business models consist of lots of entertainment, a huge food variety onboard, several swimming pool areas and several ports of call for sightseeing. Nevertheless, this concept is not applicable to Chinese due to their different society. Asian people do not taste the Western food similarly than Western people; they rather prefer their own food. Chinese are not so interested in show business but expect some happenings whilst onboard. Furthermore, in Chinese society tanned people are seen as lower class citizens, and therefore the upper classes avoid sun preferring to stay on shadow. Finally, gambling is the most important thing related to cruises, and therefore those cruise lines that want to succeed in these markets should include casinos to cruise ships. (Clayton)

Star Cruises have been the first cruise line to introduce itself in Asia. Their concept is based on the “eat and gamble” business model, in which Chinese can eat their food, smoke a lot and play until they are out of money. Star Cruises offer so called “cheap experience” cruises targeted to Chinese and Asian people. The ships leave every day from Hong Kong and the cruise lasts normally one or two days. (Clayton) The success of this concept is based on the enhancement on Asian culture but also because Chinese people cannot take longer holidays than one week. Actually, they prefer two or three days holidays since they have used to hard working (Spark and Pan, 2009). The other cruise lines positioned in Asian markets are RCCL and Costa Cruises. From these two, RCCL has been better in producing cruises for Asian taste, and therefore according to Soinila (2011) are the biggest cruise line brand in China.

In addition to these key issues, Clayton notes that the key success factors in Chinese cruise line business are *brand positioning* and *awareness*. Because Chinese are usually known as very brand aware people, they prefer purchasing trips from acknowledged cruise line providers that offer luxurious cruises. Since the product and service is then categorized as premium class, usually only the upper middle class people can afford to cruise. Clayton also acknowledges the family-oriented culture in China and suggests that Chinese cruise in big groups and require also activities for children instead of only casinos for older generation. Younger people (20-30 years) do not usually cruise, because they cannot afford that and they do not longer go there with their parents. Awareness, in turn, is related to the Park and Petrick’s (2009) research on untapped market potential discussed in section 2.6. Since most of the Chinese are not aware of the cruise line industry and have never taken a cruise, the concept should be communicated more properly to those segments. The untapped market has to be researched for and the main idea is to encourage the non-users to cruise and see what they appreciate onboard.

Furthermore, from focus group results one may notice that Chinese do not any longer want to explore China. They want that the ports of call are planned so that they can get to know other cultures. This is actually complicated, since as Clayton says, China does not have good relations with other Asian countries. Therefore, the closest market is Australia to which you cannot cruise in one night. Furthermore, many of the Chinese ports are used for cargo shipping and they do not offer passengers any shore experiences.

There was also discussion about Chinese appreciating package tours because of safety and security issues as well as their easiness. According to Clayton and focus group results, this may be one option for future business model since Chinese are known as less adventurous than Western people. Clayton states that the most interesting cruise line destination for Chinese is currently *Alaska*, second is *the Mediterranean* and third is *Australia*. Also from focus groups results, the Mediterranean was ranked high because of the varying ports of call. As a result, the cruise line organization that could offer package tour opportunities to these regions, could be very successful in longer term. In addition to ports of call and dining's importance, focus group results show that Chinese rate *entertainment*, *onboard service* and *pre-cruise information* to be the major issues reflected to their choice.

Asian and Chinese markets could also benefit from the increasing amount of European and American travelers who could participate on the three or four days cruise. Currently, according to Clayton about 1-2 percent of cruisers in Star Cruises are other than Asian, whilst the figure in RCCL's cruises is 5-15 percent. The growing existence of Western travelers could enhance the brand and image that would in turn attract more Chinese to cruise. According to Hobson (1993) in section 2.6, Chinese cruise line consumers are mostly segmented to luxury market, since only the upper classes of the society can afford to cruise. Therefore, the RCCL's brand *Celebrity Cruises* is perhaps the best option for Chinese due it being more formal than RCI but still because it offers entertainment and a high service to passenger ratio. One interesting point related to cruise ship layout is that Chinese would be attracted to the sea views and balconies in cabins, although they would buy them based on the brand rather than the sun and the views. Therefore, the RCCL should acknowledge this and develop enough suites onboard.

One significant thing that has to be thought of is the language barrier onboard. Most Chinese know English but they prefer being served by their own language. However, according to Clayton, many of the Chinese passengers are still very satisfied with the service by RCCL, if there are some people that can communicate with Mandarin. They expect that announcements are done in English and Mandarin and the TVs in cabins include Chinese channels. Also menus should be written in Mandarin so that the older generation, who does not speak English well, can order room service as well as select the food in restaurants.

Finally, according to the Hulme (2005), Chinese culture sets some typical requirements for cruise ship layouts. As many of us recognize *feng shui* being part of the Chinese culture, cruise line organizations should take this into account when developing cabins. Feng shui is believed to block negative energies that might have bad effects and it also enhances healthy life. Normally, feng shui is pursued by placing and shifting pieces of furniture according to right manners. This idea is also related to the popularity of *gardens* in Chinese culture. Hulme (2005) notes that including flowers, trees and gardens to the services targeted to Chinese will definitely affect positively to their responses. As a result, the central park which is part of the Oasis of the Sea cruise ship could be very popular within Chinese passengers. Perhaps they would even prefer to have a cabin near garden rather than with a sea view. In the future, gardens could be placed inside the balconies so that each of the passengers could enjoy the existence of flowers and trees. Actually, this idea got a lot of positive attention during the focus groups.

Consequently, the business model in China has to be thoroughly thought of and adjusted to local markets, if more success and turnover want to be made. The issues discussed in this subsection are the most important ones when adopting a business model that would compete internationally, thus providing cruise lines in Asian region. Clayton also suggest that a completely new and unique service offering would compete the best in China, thus seeing that it would also consist of some elements from the Western cruise line business models.

4.6.2 Russia expanding through Saint Petersburg and Moscow

In Russia, cruise line business is quite an *unfamiliar concept*, although Baltic and Volga cruises offer trips in Northern Europe and through Volga River. Most of the Russian consumers have not taken a cruise in the past according to the focus group results. The non-usage can be explained by the fact that most of Russian consumers are not aware of the opportunities and have not been educated to know about different cruise line concepts. Furthermore, if the comparison between Volga cruises to RCCL's offerings is made, the former one cannot be categorized as a luxurious cruise. Usually, Volga cruises are done with a smaller yacht rather than by huge cruise ships and they offer less activities and facilities onboard. Consequently, Russian consumers have totally different *image* and expectations about cruises than they should have. According to Siren, the travel agencies in Russia have not been educated well enough to tell about cruise line options to their customers. If cruise line organizations want to expand to Russian markets, they should highly focus on this issue in order to guarantee that cruises meet consumers' expectations.

Second issue, which was discussed with Soinila, is that Russia has quite a limited coastal area compared to most of the countries. In northern part, it is too cold to cruise and there are no interesting ports of call to offer. Thus, in the southern part of the country, the region spreads to the Black and Caspian Sea in which cruise line potential could lie. Secondly, the region near Saint Petersburg is appealing to consumers, since there is much to see in the city. As a result, the current concentration should be paid to Saint Petersburg and Moscow, the biggest cities in Russia, as well as the opportunity for Black Sea cruises. Finally, the option of package tours has to be searched and analyzed.

If Saint Petersburg is considered to be the embarkation port for cruises, the route is either within the *Baltic Sea* or to Moscow through a river. The former one provides interesting cities in the countries of Northern Europe that Russians would not probably normally travel to. The ports of call in Baltic area could spread to Finland, Sweden, Norway, Denmark, Deutschland, Poland, Lithuania, Latvia, Estonia and Russia. Each of these countries have interesting cities to see from which Copenhagen was the number one according to focus group results. Baltic Sea offers the opportunity for even large cruise ship usage, and therefore the concept could be very successful especially during the summer time. Furthermore, if concentrating on the *Moscow* and *Saint Petersburg* area, these cruises should be done with smaller ships, for instance with *Azamara* brand, due to the smaller ports and narrower water area. However, both Moscow and Saint Petersburg are appealing cities for both Russians but also for tourists. Actually, according Siren, about 3,2 million tourists arrived to Saint Petersburg in 2009 whilst the figure for Moscow is 3,6 million. This implies that also tourists could be attracted to the cruises since they could experience both of the cities during the same trip. The concept would be different than in Baltic Sea cruises since the trip would take only one or two days onboard. As a result the main focus would be to offer variety of food options and provide information about the target destinations.

The third opportunity related to Russian cruise line potential relates to outbound travelling, both for leisure and business purposes. According to Siren, the Russians are more often choosing *Turkey* as their destination, since as discussed earlier in this chapter, the prices to Turkey have not increased so much than to other locations. Therefore, the opportunity to create *package trip* options for Russian consumers, would definitely affect the cruise line demand. One possible suggestion made by Soinila would be to offer a leisure flight either from Moscow or Saint Petersburg to Turkey and arrange a cruise package in the Mediterranean or Black Sea for a combined fee. On the other hand, in case of *business travelers, Duba*i is becoming a popular destination for Russians. Therefore, creating shorter cruises in Dubai region for business people could generate success and as Siren notes business travelling surely generates more income than normal leisure cruises.

In all of these potential concepts, the popularity of spas and sanatoria has to be thought of. Developing luxury cabins with own Jacuzzis could be one option, but if one wants to go even further, the most expensive cabins could be surrounded by the spa area so that in the other side would be a balcony with a sea view and in the other a private spa area for luxury cabin passengers. The concept has not been tested before, but according to focus groups this might be a very appealing factor affecting the purchasing decision.

One final thing to include into the Russian cruise line discussion is that few researches have been done on the topic, and therefore the focus on this segment should be more intensive in the future. The focus points have been gone through in this subsection, thus leaving other alternatives outside the scope. In addition, similar results than in case of China were impossible to obtain since the research is very fragmented. Therefore, the outline was to figure out the potential in larger scale. In the future, the possible cruise line destinations for Russian could be those countries to which Russian people do not require *visa* since most of the focus groups participants noted that visas may complicate the travelling abroad. In addition, the untapped market potential should be focused on since there might be the next generation cruisers that currently are not aware of the possibilities that cruise lines provide.

4.7 The Threat of Competitors from Other Service Segments

As the consideration is on the potential of the cruise line businesses to spread their existence to Chinese and Russian markets, it is extremely important to analyze the threat of competitors not only by other cruise line providers but also by other industries in tourism and service business. In subsections below, China and Russia are separately discussed as their cultural variety eventually lead to different service industries that compete against cruise lines. Semi-structured interviews and archival records are used for the reasoning.

4.7.1 Threat of Casinos and Package Trip Options

In China, as noted in the section before, gambling is the most common way of spending leisure time. Because Chinese may not afford to cruise or trip to abroad, or they do not have time to get off from work, *casinos* are becoming increasingly popular. Actually, in 2010 five out of ten biggest casinos in the world were situated in China (Baigorri, 2009, p.1). The Venetian Macao, the biggest casino in the world, has a square feet of 546 000, has 3000 gaming machines, 870 table and poker games, 24 restaurants and bars and 3000 hotel rooms (ibid.). The American William P. Weidner, who is also a president and COO of Las Vegas casino, opened the Venetian in the early 21st century and noticed that the most important thing was to adjust the offering to Asian and Chinese taste, including for instance tea service and gardens around the area (Hulme, 2005). As in the cruise line business, in this case also, the situation was not easy and it took a lot of time and effort to adapt to Chinese culture.

Clayton also notes that casinos may be the biggest competitor for cruise lines in China since both of them offer the same kind of experiences. Nevertheless, as casinos are only land based entertainment facilities, cruise lines have the advantage of taking Chinese consumers to other places such as Indonesia and Australia. If the situation is thought properly, taking into account the strategic business ecosystem discussed in section 2.4, it would be no wonder if casinos and cruise line organizations could do co-operation in the future, since as Wood (2000) states the industry is freed up due to the globalization, and therefore the industries may support each other when crisis happen. However, in the current situation casinos and cruise lines are competitors, and therefore cruise line organizations should differentiate themselves and creating a competitive advantage in the markets. This requires the attendance of the significant issues presented throughout this chapter, which is only possible if all the parties in the business ecosystem drive for the same direction.

Another competitor against cruise line organizations in China is the growing outbound tourism. Because Chinese travel more and more, they are accustomed to *package trip options* in which they fly to some destination and have booked the hotel and the tours in advance. As a result, they do not have time either extra money to consume in the destination, and therefore arranging a cruise during that trip is harder to accomplish. Cruise lines should therefore market their package trip opportunities more keenly. Finally, the *threat of other cruise line organizations* should be taken seriously. If RCCL wants to expand the sales in China, they have to focus on the Blue Ocean strategy in which the advantage is created through both cost advantage and differentiation. The competition is therefore made irrelevant and the value-cost tradeoff is freed up due to their luxurious service elements. By focusing on this strategy, the offering is targeted to Chinese, and RCCL becomes a total market leader, leaving Star Group, CCL and others as market followers. This is not an easy task but can be achieved by cutting down the planning, construction and production costs, but still keeping the image in the high level.

4.7.2 Spas and Sanatoria dominating the Markets

In Russia, the main competitors for travelling in general have been *health spas* and *sanatoria*. Currently, the amount of spas is decreasing but still Russians value these services and their experiences. Consequently, cruise line organizations have huge advantages over some other leisure choices because most of them have luxurious swimming pool areas and Jacuzzis with other extra facilities onboard. The organizations should extensively market these options for Russian consumers so that they would be aware of the different alternatives. By providing spas and sanatoria together with other valuable services, Russians would eventually derive more satisfaction from cruises than from other leisure activities.

Secondly, Ovcharov (2009, p.58) notes that Russians are usually interested in the transportation and accommodation, thus leaving space and advantage to extra services. Nevertheless, this leads to a situation in which *low cost airlines* will compete against other transportation models, since if and when Russians travel, they prefer to get to the destination quick and with a low price. Low cost airlines are actually very popular for inbound travelling in Russia. However, if Russians want to travel abroad, normally all the flights go through the Moscow and Saint Petersburg terminals. The flight prices in Russia are relatively expensive, which limits the amount of people flying (Vasama). Ovcharov (2009) notes that most of the Russian travelers, who use straight flights, are business travelers, who can afford it. Finally, according to Vasama, the terminals in Russia are very militaristic, meaning that even Russians may avoid them. The situation is solved by constructing an effective train network from Western part of the Russia to the Eastern part of it. Cruise line organizations could solve this problem by arranging a leisure flight to the embarkation port of the cruise ship.

Finally, as said before, the cruise line business in Russia is still very unpopular. Only the *Volga cruises* are apparent and marketed well. Therefore, RCCL could have four options to beat the competition: 1) offer cruises directly from Saint Petersburg, 2) offer cruises in the Volga river from Moscow to Caspian Sea, 3) arrange a package cruise trip to Black Sea or other parts of world by incorporating a leisure flight to a destination that would be included to the total cost of the cruise trip or 4) develop the offering for business travelers especially in Dubai. By offering variety and differentiation with low cost could be the key advantage over other competitors.

4.8 A Cross-Case Analysis of the Case Countries

The idea of this section is to summarize the differences and similarities in China and Russia and discuss some general future trends related to tourism and the cruise line sector. The objective is to illustrate the general results of the empirical study, since the next section discusses the specific results of the cruise line business model. In *Table 12.* below, the main differences of China and Russia are presented using the topics from section 4.2 to 4.7. Thereafter, a proper analysis of them is presented.

Table 12. Cross-case analysis of China and Russia

	CHINA	**RUSSIA**
Macro-economical forces (risks)	Environmental concerns Ageing population Corruption	Terrorism Unemployment Mortality Political instability
Tourism Growth	Emergent market area Fourth most popular destination Expenditure increasing	Downturn due to 2009 crisis Outbound travel increasing Fragmented marketing channels
Consumer Behavior and Culture	Price sensitiveness Collectivism Brand awareness	Collectivism Interpersonal values Quality over price
Requirements from Service Economy	Package travel trips Asian food Multilingual staff Safety and security	Expectations and experiences Service quality Pre-travel information Variety in food
Cruise Line Business	Gambling Family-orientation Asian food Chinese staff Ports of call Alaska, Mediterranean, Australia	Saint Petersburg and Moscow Baltic Sea, Black Sea and Mediterranean cruises for leisure Dubai region for business travelers Changing image of cruise lines
Competitor Analysis	Casinos Package trips Star Group & Costa Cruises	Spas and sanatoria Low cost airlines Volga cruises

From the table, one may see that these two countries are pretty different from each other. The *macro-economical forces* discussed in section 4.2 show that China as a market area is more lucrative for business purposes. The economy is more stable and the growth potential is huge compared to Russia in which corruption, unemployment and terrorism are the major threats to the economy. Due to the emergent nature and industrialization of China, the *tourism growth* looks very promising. Chinese outbound travelling increases continuously, the country is becoming a more popular place to visit and Chinese expenditure levels are rising. Despite the outbound travel increases in Russia, the other factors compared to China lack behind. Russia is part of the region which has not been able to cover from the crisis in year 2009. In addition, the fragmented marketing channels hinder the growth, since people may not have enough information about the travelling alternatives. In all, the future of Russia is seem to more unstable than in China.

Consumer behavior in these countries is thus seen quite similar due to the collectivistic economies. People appreciate family and friends and interpersonal values are important. Chinese are price sensitive people, who still make luxury purchases because of the brands. Russians in turn value quality over price and are willing to pay more for special service. In case of both countries, historical development is seen and currently the consumers are turning to be more Western in their choices. Especially, Russians base their decision on their own expectations whilst in China family and friends still play a major role in decisions. Consumer behavior also relates to the *requirements* that these consumers have for services. Chinese respect their own language and Asian food as well as prefer package travel options due to safety and security reasons. On the contrary, Russians value service quality, variety in food choices and pre-cruise information. This is an interesting point to note, since despite the similarities in consumer behavior the top requirements are pretty different.

Table 12. also illustrates the differences and similarities of the *cruise line business model* and *competitor analysis* of these countries. They are further discussed in the next subsection, but noteworthy is that results really proved that different strategies have to be made according to each market segment. This finding can be generalized to a larger scale, and one may note that cruise lines as well as other service organizations should position their offering to local needs and wants in order to be successful. As the table shows, both the business model factors and also the competitors are different in case of China and Russia.

All in all, the *future trends* of the economies are mainly associated with the growth of the market and its economical situation. As both Chinese and Russian markets are becoming more industrialized and developed, environmental sustainability becomes an important issue to consider. In order to maintain and improve environmental image, both countries have created international ties and different policies. As seen in part 2.6, most of the people do not currently base their decision on the environmental issues but if the price would be the same in each offering, they would choose the eco-friendly service/product. Organizations should react to this trend in markets and educate both consumers both also other parties in the business ecosystem to act for the improvement. The future will show how this trend is going to affect the business. Next, the specific results for business models from these generalizations are discussed.

4.9 A Summary of the Suggested Business Models

This final section of the empirical analysis summarizes the potential cruise line business models for Chinese and Russian markets. All the issues in chapter five are present, thus the focus is to give a specific list of issues that need concentration in the suggested cruise line concepts. Also some theoretical frameworks are used for the reasoning. Firstly, the cruise line concept is reviewed and then a general list of the most significant touch points is presented. Thereafter, country profiles are illustrated in which the radar analysis is used. The profiles and the data are derived from focus group results. In all, the main objective of this subsection is to generalize the ideas derived from many sources and present a coherent view of the business models.

4.9.1 A Business Model focusing on Service, Information and Dining

As seen during the chapter five, the cruise line business model in China has to compete against casinos and package trip options. Moreover, adapting the business model to Chinese markets requires positioning strategy in which the country- and consumer-specific needs and wants are taken into account. The general results were summarized in the previous section, in which the market potential, economical state and requirements from the service economy were existent. In addition to this, the main issues to consider that are specific to the cruise line concept are listed below under the marketing strategy, ship layout and service elements.

- **Marketing Strategy**
    - Increase Chinese awareness of cruises and brands
    - Focus on the untapped market potential, meaning current non-users
    - Offer package trip options especially to Alaska, Mediterranean and Australia
    - Limit the duration of the cruise to 5 days maximum
- **Ship Layout**
    - Include a huge casino onboard
    - Create gardens into the ship layout
    - Design varying cabins: for couples, families and big groups
    - Create cabins according to feng shui
    - Add balconies with gardens to luxury cabins and suites

- **Service Elements**
    - Include Chinese speaking staff onboard
    - Provide tea service in rooms but also in public areas
    - Arrange some family-oriented entertainment
    - Develop the food variety so that Asian food exists together with Western specialties

The list above is not exhaustive but gives a proper understanding of the main issues relevant for Chinese markets. As discussed through the chapter five, cruise line organizations should focus more on the awareness and brand positioning strategies to be able to leverage their business in China. This requires that both users and non-users are targeted and the destination image discussed in section 2.3.4 is taken into account. As Jenkins (1999. sit. Stabler, 1988) notes, both demand as well as supply factors are required in order to influence the consumers' mindset but also in order to be able to create marketing campaigns that focus on the media and tourism marketing. Moreover, the offering in China should be developed according to cultural factors discussed in section 4.4, so that package trip opportunities to popular destinations would be included and the duration of the cruise should be limited to five days, because Chinese hardly get off from work more than this.

Ship layout should also be modified according to the empirical results presented mainly in section 4.6. Chinese prefer spending their leisure time in casinos, therefore leading to a conclusion that casinos should be a big part of the layout. In addition, gardens could be an interesting way to show respect for their culture, as Chinese value the nature such as trees and flowers. Varying cabins may be a necessity, since Chinese usually travel within a big group and want to stay near their friends and family. Cabins should also be developed according to feng shui that would enhance the service image in Chinese minds, and they would also be more satisfied with the service. Finally, suites and luxury cabins could include a small garden in their balconies, since Chinese possibly enjoy being around the nature rather than having a balcony with sea views. Although Chinese may not spend much time in cabins, they can still show their status by affording them. Therefore, designing suites so that other people know which kind of cabins they have could be important for suite passengers.

Service elements are also necessary to focus on, and especially those issues that became obvious through the framework presented in subsection 2.3.3. Providing Chinese speaking staff onboard as well as tea service in rooms and in public areas will be appreciated as a valuable thing. Some entertainment should be included but not so much than in Western concepts. Also much discussion has been done on the food variety and according to the results Chinese want Asian food onboard, since they are not accustomed to Western tastes. Therefore, the ship should consist of both Western and Asian restaurants. If we compare these findings to the issues presented in Wilkins et al. (2007) and Choi and Chu's (2001) framework in subsection 2.3.3, one may conclude that service experience and food and beverages will finally determine the satisfaction levels of Chinese consumers.

In addition to this list, *Figure 18*. gathers the touch points that RCCL uses in their marker researches, seen in subsection 2.4.2. The ratings have been done by Likert scale based on the focus groups results.

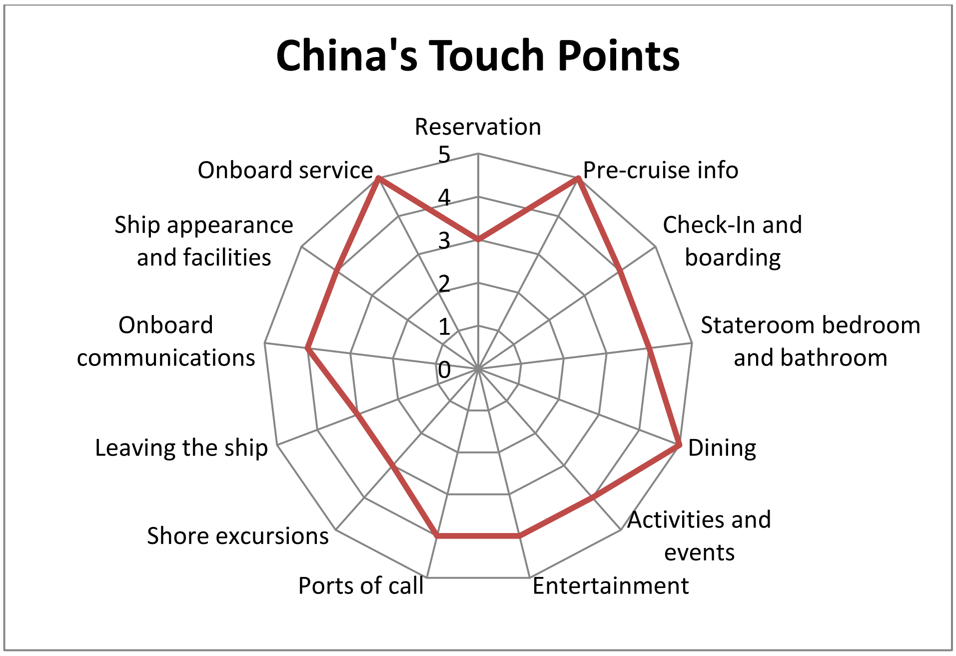

Figure 18. The Profile of Touch Points in Chinese markets

As seen from the figure, the most important factors according to focus group results were *pre-cruise information, dining* and *onboard service.* The results are in line with other research findings, as Chinese markets should be educated more in order to tell and market the cruise line business more effectively. During the cruise, the dining according to Asian taste and the service staff being multilingual are the key factors for success. Least points were given to reservation, leaving the ship and shore excursions since those were understood by extra services along with other significant factors. If cruise line organizations could enhance the understanding of the concept and provide a cruise for instance in the Mediterranean, possibly the shore excursions would gain more importance. Currently, Chinese consumers are going for a cruise to gamble but are not aware of other alternatives. Therefore, the key point is to address all these issues and chance the mindset of Chinese, so that they are aware of the cruise line opportunities.

All in all, Chinese cruise line business has a promising future, because of the tourism and market growth as well as based on the PESTLE analysis in section 4.2. The idea is to pay attention to the service requirements of Chinese consumers that are highly reflected to their consumer behavior and cultural background discussed in section 4.4. Also the cruise line business model and the critical touch points need close consideration, because that way the Western concept can be modified to Asian and Chinese requirements and taste. To make this all happen, marketing channels need to be effective, so that the cruise line business model reaches even the non-users, and encourages them onboard.

4.9.2 A Business Model enhancing Value and Pre-Cruise Information

The discussion of the Russian cruise line business was very different than the Chinese one, because little research has been done on the topic. However, the results from sections 4.1, 4.2 and 4.3 in which the market growth was analyzed, proved that Russia may have promising cruise line potential in the future, and the first way to accomplish this is to focus on the biggest cities near Western markets. One of the objectives of the empirical study was to find out which issues Russians appreciate in the cruise ship as well as its service. On the contrary to China, the results for Russia were primarily derived from focus group results since the research is quite fragmented and no archival records on the topic were found. Below is the list of issues to take into consideration when developing a business model for Russian markets.

- **Marketing Strategy**
  - Focus on big cities: Saint Petersburg and Moscow
  - Offer Celebrity/RCI brand in Baltic Sea, Black sea and the Mediterranean, and Celebrity/Azamara in river cruises
  - Create a package trip option from Saint Petersburg or Moscow that would include leisure flight and the cruise experience
  - Develop an opportunity for business travelers especially in Dubai
  - Research the untapped market and how the non-users could be encouraged to cruises
  - Offer variety in the cruise length; from 2 days cruise to a week
- **Ship Layout**
  - Design varying cabins to every taste
  - Include health spas and sanatoria onboard
  - Create a private area in which the luxury cabins and suites are surrounded by the spa area and sea views
- **Service Elements**
  - Focus on pre-cruise information, service and cleanliness
  - Offer variety in food choices

- Formulate the service according to Russians expectations and experiences

As seen from the list, the marketing strategy is the most important thing to focus on in case of Russia. The business model development should start from the big cities, Saint Petersburg and Moscow, and the offering should be adjusted to these consumers' preferences. Creating a package trip option for Russians may also be successful, since the flight prices are normally pretty high in Russia. Therefore, creating a leisure flight to the popular destination such as Turkey and providing a cruise package with a combined price would be one alternative to test. Moreover, as the results showed, Russian business people are continuously increasing their travelling to Dubai, so incorporating the cruise to this trip could be worth of thinking. In all, river cruises should be done by Celebrity or Azamara brand, but Baltic, Mediterranean and Black Sea cruises by RCI or Celebrity brand. Finally, the most important thing to focus on is to educate the travel agents but also the non-users to be aware of the alternatives. All of the issues from the destination image in subsection 2.4.4 need consideration as well as the push and pull factors affecting leisure motivation. Jenkins (1997) in subsection 2.5.2 notes, that people travel because they are pushed to that by their internal forces that raise the desire and pulled by external forces such as destination image and attributes. By understanding this and incorporating these issues to the strategy, Russians would be encouraged to take cruises more.

Ship layout for Russian markets should include spas and sanatoria, since Russians appreciate and value these services. Health spas should be public areas, but incorporating a private spa area for suites and luxury cabins could be one option. This would mean that suite passengers would have a room surrounded by the spa area but still have their own privacy and balconies with sea views. Finally, cabins should also be variable, so that families, friends and couples could have several choices to book from. Russians also appreciate luxurious things, seen in section 4.4 and 4.5, and therefore cruise ship layout could be enhanced and new luxury items and software could be included onboard. That would increase the satisfaction levels and increase the opportunity of returning to a cruise.

Service elements are very important for Russian consumers, since they are known to value quality over price. The SERVQUAL value model presented in subsection 2.3.1 reflects to Russians, since expectations and experiences play a key role in their minds, and therefore the total value is a combination of expected and received service. If they are satisfied with the cruise, the retention rate also increases as well as the positive word-of-mouth effect.

Concentration in Russian markets should be on the pre-cruise information, cleanliness and varying food alternatives. Russians require knowledge of cruises before the trip and this information should meet the actual service onboard. In addition, a clean environment is a necessity for them as well as the food choices onboard. Using the framework of Wilkins et al. (2007) and Choi and Chu (2001) in subsection 2.3.3, the service experience is definitely rated above physical good and food and beverages.

Together with this list of issues, *Figure 19.* presents the focus group results using Likert scaling.

Figure 19. The Profile of Touch Points in Russian markets

From the figure, one may see that in case of Russia the most significant factors associated with the cruise line business model are *pre-cruise information, stateroom bedroom and bathroom, ship appearance and facilities* and *onboard service* that are in line with the general research results. The least score were the same as in case of China. Based on the focus group interviews, Russians expected more information before the cruise, since currently travel agencies do not offer any. They want to have expectations on travelling to which they mirror their end result and value derived from the service. Russians also require cleanliness and the practical layout of the ship and cabins. They prefer to travel on a luxurious ship rather than one with no brand, and onboard service should meet their expectations. From focus group results, it became evident that cruise line organizations should focus on the marketing channels and educate both users and non-users to be aware of the concept. Finally, from the current RCCL brands, Celebrity is closest to Russians' taste due to its high service to passenger ratio.

All in all, the possible business model for Russian markets was harder to achieve, because of the limited information of Russian markets. Nevertheless, seen in sections 4.1, 4.2 and 4.3, tourism organizations, and especially cruise lines, may have a great potential in the future, if they are able to adapt their service to the consumer-specific needs. Cruise lines have several opportunities to cover the Russian markets, from Baltic cruises to package trip opportunities. The requirements and service elements play a key role in delivered value, and Russians' expectations and experiences affect their destination choices. The future of Russian markets is not so promising than in China, but still the nation is becoming more westernized, which affects the service concept that cruise line organizations offer to this market segment.

The cruise line business model for Russian markets does not need so much modification than in China, because the concept is very close to the North American and Mediterranean one. Therefore, the business model remains quite similar but the most significant thing to focus on is the brand awareness and marketing strategies. Currently Russians do not know enough about the alternatives, and they are therefore choosing the traditional travelling packages, such as package trips to Spain. If close communication between RCCL, travel agencies and potential consumers would be enhanced, that would increase the rates of Russian cruise line passengers. As a service concept, RCI and Celebrity Cruises match to their tastes pretty well. Consequently, one may see that Russia is a country of great potential from which revenues and profits may be gained by making only slight changes to the concept.

5 DISCUSSION AND CONCLUSION

The objective of the study was to produce a new kind of a cruise line business model to cruise line organizations and especially for Royal Caribbean Cruise Lines Ltd. that they could use in their strategy development and business planning. Case countries China and Russia were analyzed in order to provide knowledge of these market segments but also in order to show how this business model can be used in practice. The influencing factors to the framework were identified by using earlier researchers and theory, and they were further analyzed by several empirical methods. The study generates both theoretical and managerial implications that are discussed first in this chapter. Thereafter, the main conclusions of the research are presented and possible limitations of the study and some further research ideas are discussed.

5.1 Theoretical Implications

There were six sections in the theoretical part which all are associated with producing a new business model for the cruise line industry. *Tourism growth*, *regional differences* and the *current cruise line industry* reflect to the cruise line potential in Chinese and Russian markets, seeing that China is the most emerging economy in the world, whilst Russia has been able to improve its image, thus lagging behind China's market growth. Current competitors in the cruise line industry were also covered, which influences the competitor analysis in the empirical research. In all, the statistics in sections 2.1 and 2.2 provided information about the market growth and regional differences in the worldwide scale, which were applied to the discussion in the empirical part.

Secondly, the existing nature of *service economy* presented in section 2.3, and the increasing globalization set barriers but also frees up the business between different countries and continents, which is seen in the increasing amount of international trade associations both in China but also in Russia. Servitization of the economy also means that pure product producers are developing their offering and introducing service elements to their concepts. This kind of a service economy also influences consumer behavior and furthermore assesses which kind of requirements consumers have currently and in the future. Service quality was also examined, and the empirical results proved that experiences and perceptions have a high influence on the total derived value. Therefore, SERVQUAL model presented by Parasuraman et al. (1985) correlates also with the current performance measures that organizations pursue.

The current cruise line industry and its main competitors affect the potential of new alternative business models, seeing that they influence the brand decisions and ships targeted to different market segments. All these issues were tied to the discussion of the *Blue Ocean strategy* and *business networks* in section 2.4, seeing that they in today's economy will provide competitive advantages. The business model of the cruise line industry, according to the theory, consists mainly of value and revenue generation methodology as well as the modularity of the offering. This is seen evident, since cruise line organizations have to adapt their service according to different market segments. Furthermore, the organizations should be able to differentiate themselves from competitors and offer services that are customized to various consumers. The main theoretical conclusion was that organizations are not competing by either cost or differentiation advantage but they incorporate these two advantages together, which makes the competition irrelevant and breaks the value-cost trade-off in services.

Consumer behavior and *market segmentation* in sections 2.5 and 2.6 are also related to the discussion of the cruise line industry and its future potential. Leisure travelling can be seen as escaping from the daily routine, and therefore expectations and experiences as well as the derived value are even more emphasized by consumers in their decision making process. It should be noted that both external and internal stimuli affect the choice to travel as well as to the destination decisions. Based on the consumer behavior and market segmentation principles, consumer markets were therefore divided to four categories – mass, middle, luxury and specialty markets – and also untapped market potential was recognized. These served as a basis for market area research and provided implications to both China and Russia. The untapped market potential was emphasized in the theory part, which also gained importance in the empirical part of the research.

As seen during the study, the results from focus groups and semi-structured interviews correlated with the theory part, since the requirements from the service economy as well as the touch points of RCCL were all mentioned in the conversations and interviews. The results showed that despite the fragmented research in this area, there are some general issues to take into consideration when analyzing new market areas and business models for the cruise line industry. The validity and reliability of the research remained good enough, since through the selected methods, proper information was gained. Through focus-groups both qualitative and quantitative information was gained whereas semi-structured interviews were seen supportive to the research findings. Archival records were reliable as governmental databases and public used documents were used. As a whole, these three sources of evidence measured what they were supposed to, thus seeing that similar study is hard to attain due to the qualitative nature of the methods. Results from the focus groups, semi-structured interviews and archival records were all quite consistent with each other and supported the theoretical part pretty well.

The theory part was the basis for the empirical one and based on the selected measures, the research framework was established. The main idea of the framework was to incorporate the most significant issues existent in earlier research, and therefore to be able to contrast them to this specific case. Some factors were excluded and some of them were analyzed more deeply, since based on the empirical information the emphasis was given to country-specific matters. The business model that was generated serves as a good starting point for cruise line organizations in their strategy development, thus seeing that this study is easy to reproduce with this model but similar findings are hard to attain due to its subjectivity and qualitative information. As a whole, the business model can be used as a valid method when analyzing the potential of new target markets in the cruise line industry.

5.2 Managerial Implications

As the main idea of the research was to produce a consistent view to the cruise line business and especially provide information about the market potential of China and Russia, the main implication is that cruise line organizations should focus on the *awareness* and *brand positioning* more carefully. The results showed that a huge untapped market potential could lie especially in China but also in Russia, but the success requires the education of both consumers and travel agencies. By increasing the knowledge of the cruise line concept, more people would be attracted to participate to the cruise, and therefore expectations would finally meet the service level onboard leading to increasing satisfaction levels. Celebrity brand was seen as the best choice for Russian markets, but in China all of the brands could be used, thus seeing that they should be marketed to different consumer segments and by a different way.

Cruise line organizations should also focus on the idea of the *strategic business network* and form ties with other industry players. This would guarantee the first mover advantage in the markets but also improve the business planning due to seeing that co-operation would introduce more alternatives. Since cruise line organizations are not only competing against other cruise line organizations, they should acknowledge the threat of alternative market players that produce similar offerings for leisure purposes. In China, casinos are the main competitor for cruise line organizations and in Russia people are enthusiastic about spas and sanatoria. Learning and focusing on the competitor analysis will provide other insights to business, rather than only measuring the cruise line concept against other cruise line organizations. This is the main idea of the Blue Ocean strategy in which competition is tried to make irrelevant and the focus is on producing differentiated services with lower costs. This in turn is achievable, if co-operation through the whole business ecosystem is pursued; from the core business, to an extended enterprise and finally to the business ecosystem.

Managers should also continuously measure the *value* and *service levels* in order to improve the cruise line concept. In case of China the prices should correlate the offering seeing that Chinese consumers are very brand aware and price sensitive people. On the other hand, Russian consumers appreciate value over price and are ready to pay for extra services, if they think they are valuable to them. Consequently, cruise line organizations should develop market area specific measures due to the variety of consumers and establish a common checklist for each of the area alone. As evident from the empirical research, value and service levels are the most important factors for consumer's derived value and satisfaction. Also expectations and perceived value gain attention. By concentrating on these issues and measures, cruise line passengers would appreciate the offering and be more satisfied with it, and that would in turn increase the level of repetition and the amount of loyal consumers.

Finally, *market segmentation* and evaluating *different consumer segments* are necessary in order to be able to produce a service that changes within market trends. People are becoming more individualistic in their choices and tourism in general is increasing continuously. This means that every tourism organization should be able to adjust their offering to local needs and wants, thus having a global strategy. A common phrase – think global, act local – is very suitable for the cruise line business, since the basic concept usually remains the same but modifications and adaptation have to be done in order to meet the market specific requirements. In the cruise line industry, American markets will be saturated soon, so the interest is therefore on other markets and their potential. To produce a concept that would gain as much as attention than in America is challenging but by focusing on the *consumer-driven business model* and the cultural variety of people, the development is possible. By targeting the right people and constructing the right positioning strategy, the cruise line business model can be enhanced so that even the non-users are encouraged to cruise instead of taking their usual travelling routines such as package trip to Greece in which leisure flight and a hotel is bought by a combined fee.

All in all, the managerial implications correlate with the theoretical findings, thus providing a more specific list of issues that need close consideration. Main findings can be summarized to brand awareness, positioning strategy, creating Blue Oceans and developing a model that is consumer-driven and emphasizes the value creation logic of the cruise line business. Appendix M. in which venue briefs for Chinese and Russian markets are presented gathers these most important country-specific managerial implications together. The purpose of these venue briefs is to conclude the business concept and to describe the position statement, target group, service facilities, descriptive words and the summary of the cabin area. In all, venue briefs are usually done by marketing apartments which transfer them to other departments. They are the first step in the business model planning for RCCL, which is followed by a deeper analysis of each issue discussed in this section. Next the main conclusions of the research are presented.

5.3 Conclusions

The main aim of the research was to identify a new business model for the cruise line industry that could be especially used in Chinese and Russian markets. This was pursued by first analyzing the theoretical findings from earlier researches and constructing a framework according to the most relevant issues. Thereafter these factors were measured by using different sources of evidence in the empirical part of the study.

The primary research question "*How to adapt the cruise line business model to fit to the needs of various market segments*" was analyzed by comparing Chinese and Russian cruise line concepts together. The main conclusion was that each market segment has its own requirements from the service industry, and if one wants to succeed in the future the whole business model should be adjusted to meet these market-specific needs. The Western, and especially the Caribbean, concept do not apply to China and Russia, and therefore other alternatives and opportunities have to be developed. In China, the cruise line concept should include casinos, Asian food, gardens and family oriented entertainment whilst in Russia the cabins should be developed practically, the cruise ship should include spas and sanatoria and the expectations for service quality are very significant. Every cruise line organization should firstly measure the market growth of the specific segment, then analyze the service economy that sets the requirements and then specify the cultural variety that affects the consumer behavior especially onboard. Consequently, the business model development should meet the market-specific needs, wants and the expectations that these consumers have for the service. The key for the success is to develop a consumer-driven business model that contains the most appreciated issues within each consumer segment.

Research question 1. was associated with recognizing potential areas for future business development, and it was actually answered by choosing China and Russia as case countries, and therefore excluding other areas from the research. Nevertheless, based on the section 2.1 one may conclude that new target markets for the cruise line business are mostly in Asian region as its market growth has been continuous and this market area has been able to overcome the economical crisis especially in 2009. The estimation that half of the cruise line market's turnover will constitute of other than the Caribbean region sales in the forthcoming years, means that other parts of the world are becoming more attractive to consumers. In addition, due to the economic downturn in 2009 many market areas have not been able to increase their tourist arrivals even by now. BRIC countries (Brasilia, Russia, India and China) are seen as the main drivers of growth and Asia as a region is more and more attractive to tourists. Therefore, Asia as well as BRIC countries are seen to be appealing to both tourist organizations but also for consumers.

The second research question focused on the standards and requirements that different consumers are expecting from their service. The theoretical framework by Wilkins et al. (2007) and Choi and Chu (2001) was used as the basis for discussion (subsection 2.3.3). Also RCCL's touch points were used in case of focus group settings, since the idea was to research how these factors correlate with the general findings of RCCL, and whether there are differences in case of China and Russia. The results supported the theoretical implications, since value was seen as the main ingredient of the good experience. Food and beverages and safe and security played a key role in China, whereas Russians based their travel choice to experiences and expectations. The common thing in both countries was the collectivistic nature of the society which led to a situation in which family and friends have an important place in their lives. This means that these consumers expect family-oriented entertainment onboard but also induces an idea to marketing organizations, since they have to acknowledge that Chinese and Russians are very much affluent to friend's opinions and ideas. All in all, the requirements and standards were proved to be country- and culture-specific, since the issues presented in the theoretical frameworks were existent in Chinese and Russian markets but they were given different importance and emphasis.

The final question was associated with consumer trends in the future. Based on the theory as well as from the empirical results, it is seen that consumers are becoming more individualistic and are interested in tourism for knowledge seeking purposes. Environmental effects were seen very important due to the increasing pollution levels. Environmental sustainability was recognized by organizations, although consumers and suppliers did not yet make their decisions according to eco-friendly products/services. However, in the future the situation is estimated to change, and then cruise line organizations should adjust their offering to those needs. In conclusion, the trends are seen to change with a rapid speed especially in emerging countries, since people are becoming more wealthy and internationalized. In the future, all the regions will probably become more similar due to the globalization and freeing up trade.

Finally, the new business models for China and Russia, presented in section 4.9, are suggestions based on this research and the research problems. This study is mainly about market-specific knowledge and economical issues in the cruise line industry, which affect the business model development, whereas the technical and artistic points of view are provided by the other students from the research group. Altogether, the combined view of economical, technical and artistic factors associated with this issue will offer some new insights to RCCL's business which they can use in their strategy implementation and business planning.

5.4 Limitations of the Study and Further Research

It should be noted that this study is based on the data gathered from focus groups, semi-structured interviews and archival records. The focus group results were limited to 18 people from China and Russia. The study could have been extended and made more valid, if a bigger sample would have been possible. Also a possibility to conduct a survey in China and Russia would have overcome this shortfall. The same problem exists in case of semi-structured interviews. There were five people who were interviewed and the main objective was to get industry and business specific information. The research could have been enriched by incorporating more interviews possibly from other parties also, such as from competitors and suppliers. Archival records are a quite reliable source and provide quantitative data that is easier to interpret. However, the earlier research on the topic is quite fragmented and much information is not available especially from the Russian cruise line industry. Because of the withheld reasons, it is sometimes hard to find relevant information.

The data and information gained about China and Russia could have been enriched by doing field surveys in those countries. By analyzing the behavior in the natural location, instead of asking questions from the Chinese and Russians living in Finland, could have affected the research results. By observing the consumers within a cruise could have also been an opportunity to test. If somebody wants to supplement these research findings, one possible way is to take part into the cruise in the Asian region and participate to the Volga Cruises. By doing this, one could analyze consumer behavior in real-time and the interview errors would be minimized.

One of the other limitations of this study is associated with the case country selection, because China and Russia were selected subjectively. They were assumed to give value to the study and for RCCL as they are lucrative market segments to research for. Nevertheless, different research findings could have been interpreted in case of other case selection. Despite this shortfall, the results from this study can be used for further purposes of RCCL and the conclusions enrich the discussion of Chinese and Russian consumer behavior as well as provide other insights to the cruise line business. More value is offered to RCCL and other cruise line associates, thus seeing that also academic literature may benefit from this study because China and Russia have been less focused on in past researches.

A similar study is hard to conduct, but there exist some future research ideas to complement the findings. Future researches could focus on China and Russia more deeply and one could try to understand the regional differences within those countries that are due to different social classes living in different parts of these countries. China and Russia are leveraged to a big regional area, so it can be supposed that consumers vary whether examining the area in Southern, Western, Northern or Eastern part of the whole region.

Secondly, conducting a different kind of survey that would focus only on to the significant touch points in the cruise line business model, would offer a great potential to address the onboard factors more thoroughly. In this research the idea was to measure the service in general and figure out the significant factors contributing to the total value and business model development. In the future, the concentration could be only targeted to the cruise line onboard service levels and the layout of the ship. More specifically, the interest should be laid to individual service elements onboard, such as cabins, restaurants, swimming areas etc. These would be worth of examining individually due to their importance for the total service.

Since there was discussion about the BRIC countries' future potential, the third research opportunity could be to analyze the other countries, Brasilia and India, by using the model generated through this research. The results could be compared together, therefore having a consistent view of these most emergent countries in current tourism. China and Russia were selected subjectively by the research project team, but Brasilia and India could be as interesting countries as the researched ones in longer term.

The future research in all of these abovementioned suggestions should include the technical and artistic view of the business development. The issues presented here serve as the market knowledge, but still technical construction and the artistic view for the ship layout are necessary to implement the service offerings and successful business models. For this special research, both technical and artistic views could be used for producing a cruise ship according to Chinese and Russian's requirements and tastes. Section 4.9 suggested some general touch points to Chinese and Russian's ship layouts, so it would interesting to see, how the development can be done. The market-specific factors should be taken into account, but the key problem is how to modify and develop the spaces so that every one of them could be included to the ship.

The service modularity discussed in section 2.4 is also seen important, since the cruise ships are usually transferred to other markets after some time. Therefore, it should be researched how the American concept could be modified to meet the Chinese and Russian markets so that the ships could be transferred to these locations. The layout would be different, since cabins, public spaces, pool areas etc. should be modified to consumers' tastes. On the other hand, the ships from Chinese and Russian markets will also be used somewhere else after years, so the business development cycle is reverse. The ship modularity is a question to which technical and artistic views are required.

The two of the final future research questions can be applied to the research team setting within the Aalto University. As it was discussed in the introduction, this thesis is part of the research project within the Cruise and Ferry business, and therefore also students from Aalto University of Science and Technology and Art and Design are parts of it. The modularity issues could be the next target areas for them, since the general layouts for the Chinese and Russian business models are presented here, thus lacking the technical and artistic issues from them. These consumer-driven business models can be used as an input for future research purposes.

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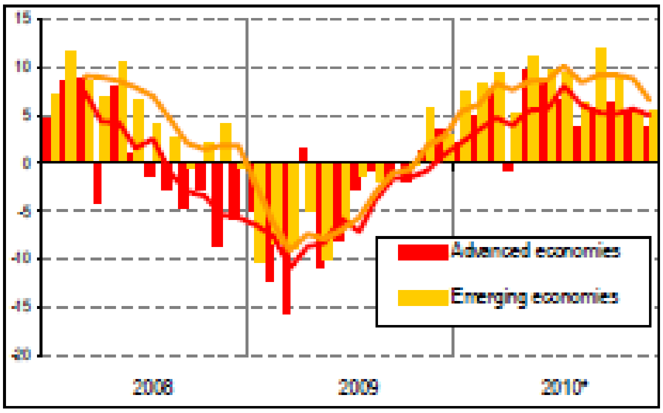
APPENDIXES

Appendix A. International Tourist Arrivals. (WTO, 2011, p.3)

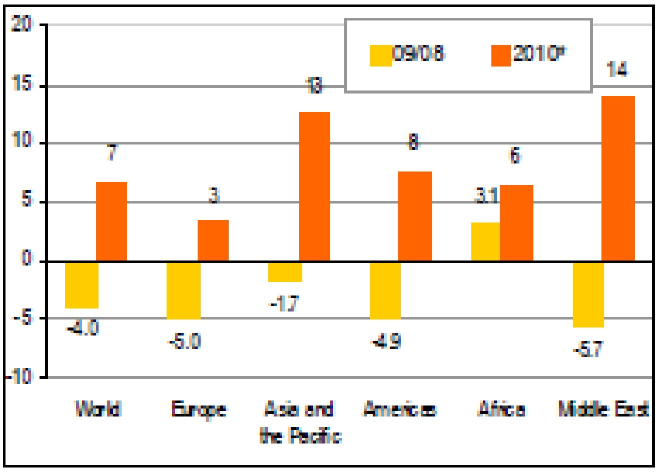
International Tourist Arrivals, monthly evolution

Advanced economies & Emerging economies (% change)



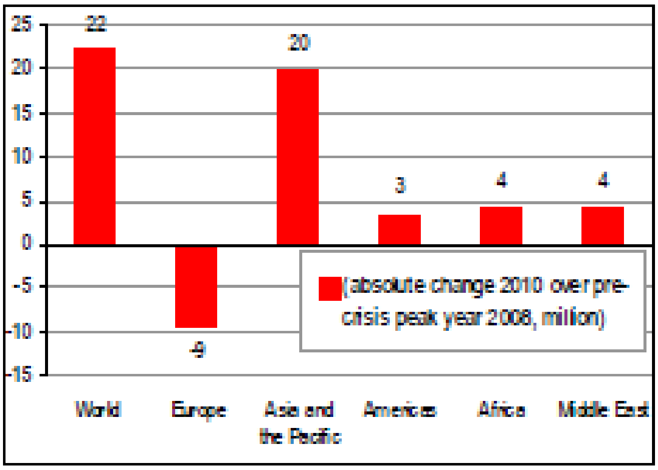
Source: World Tourism Organization (UNWTO) ©

International Tourist Arrivals (% change)



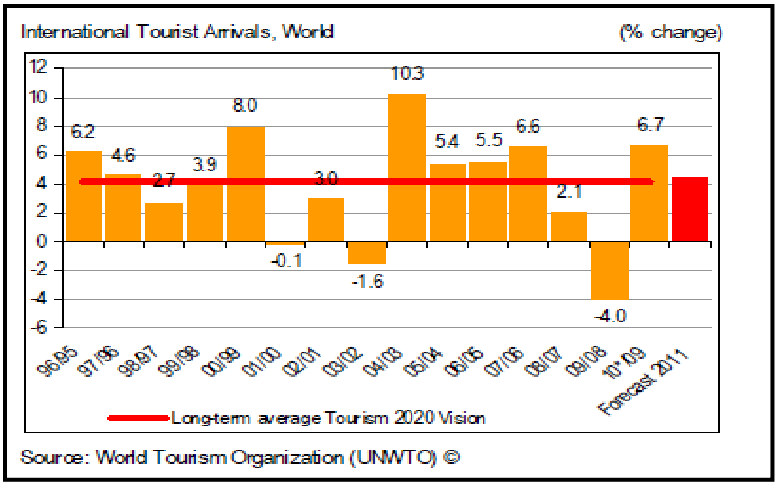
Source: World Tourism Organization (UNWTO) ©

International Tourist Arrivals (change 2010/2008, million)



Source: World Tourism Organization (UNWTO) ©

Appendix B. International Tourist Arrivals, Change. (WTO, 2011, p.4)



Appendix C. Recent growth trends in the cruise line industry. (CLIA, 2010, p.3)

RECENT GROWTH TRENDS

	Annual Passenger Growth		
	Actual (000's)		
	North America	**Foreign**	**Worldwide**
1990	3,496	278	3,774
1991	3,834	334	4,168
1992	4,023	362	4,385
1993	4,318	410	4,728
1994	4,314	486	4,800
1995	4,223	498	4,721
1996	4,477	493	4,970
1997	4,864	516	5,380
1998	5,243	625	5,868
1999	5,690	647	6,337
2000	6,546	668	7,214
2001	6,637	862	7,499
2002	7,472	1,176	8,648
2003	7,990	1,536	9,526
2004	8,870	1,590	10,460
2005	9,671	1,509	11,180
2006	10,078	1,928	12,006
2007	10,247	2,316	12,563
2008	10,093	2,912	13,005
2009	10,198	3,244	13,442
Average Growth Rate 1990-2009			7.2%

SOURCE: CLIA 2009 Year End Passenger Carryings Report as reported by CLIA member cruise lines only.

Appendix D. Cruise Line Providers. (CLIA, Cruise Lines&Ships)

21.3 Cruise Lines

The following are the largest cruise lines as of year-end 2009 (source: CLIA):

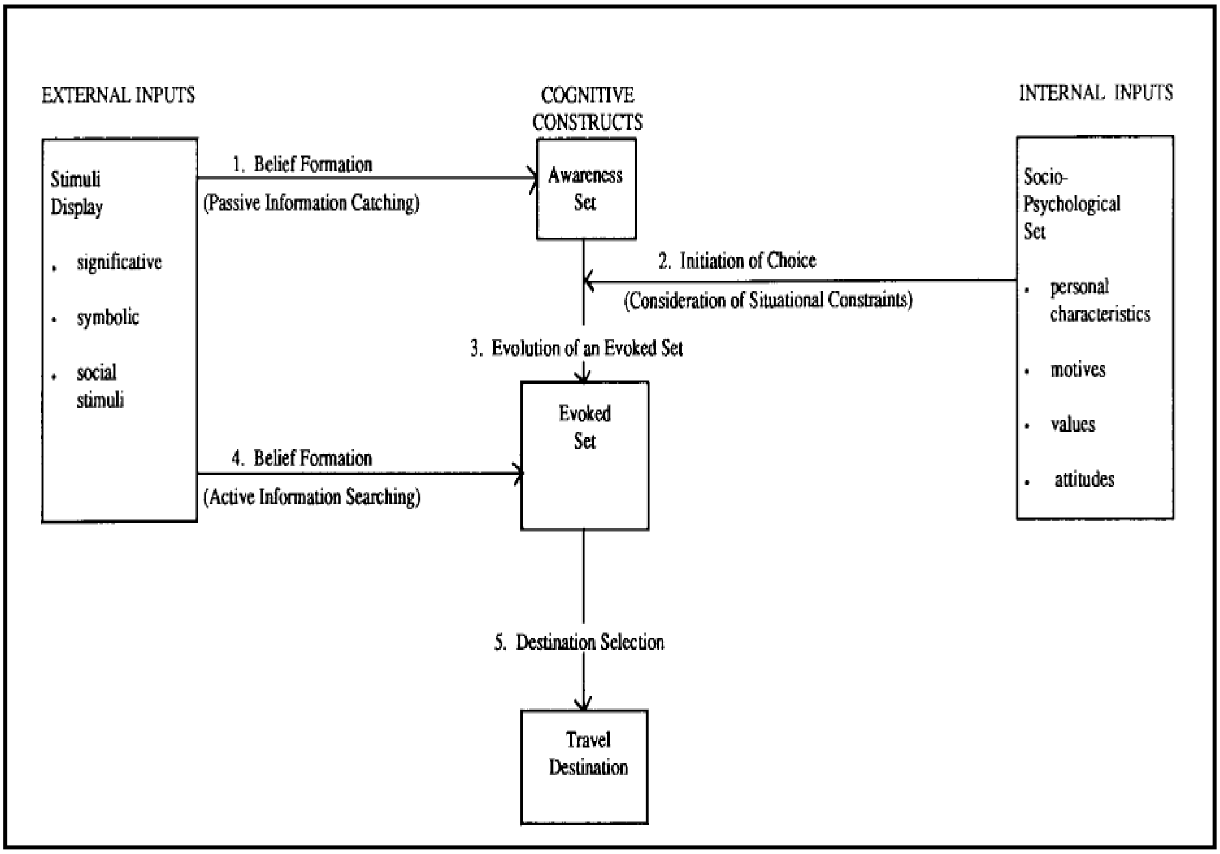
	Berths	Ships
• Royal Caribbean International (www.royalcaribbean.com):	56,868	21
• Carnival Cruise Lines (www.carnival.com):	54,608	22
• Princess Cruises (www.princess.com):	37,380	17
• Costa Cruise Lines (www.costacruises.com):	28,590	14
• Norwegian Cruise Lines (www.ncl.com):	26,346	11
• MSC Cruises USA (www.msccruisesusa.com):	21,620	10
• Holland America Line (www.hollandamerica.com):	21,337	14
• Celebrity Cruises (www.celebrity.com):	14,727	7
• American Cruise Lines (www.americancruiselines.com):	7,800	4
• Disney Cruise Line (www.disneycruise.com):	5,400	2
• Cunard Line (www.cunard.com):	4,606	2
• Oceania Cruises (www.oceaniacruises.com):	3,310	4
• Silversea Cruises (www.silversea.com):	2,032	6
• Crystal Cruises (www.crystalcruises.com):	2,000	2
• Regent Seven Seas Cruises (www.rssc.com):	1,890	3
• Seabourn Cruise Lines (www.seabourn.com):	1,074	4
• Windstar Cruises (www.windstarcruises.com):	608	3

Appendix E. Cruise Line Destinations. (CLIA, Destinations)

DESTINATIONS

- Africa
- Alaska
- Antarctica
- Australia and New Zealand
- Bahamas & Caribbean
- Bermuda
- Canada, New England, & The US Coast
- Central America & The Panama Canal
- Europe (Western)
- Far East and the Orient
- Hawaii, Polynesia, Tahiti, & The South Pacific
- Mexico
- Northern Europe, Scandinavia, & Baltic Russia
- South America
- Southern Europe and The Mediterranean
- Transatlantic

Appendix F. A Model of Destination Choice. (UM and Crompton, 1990, p.435)



Appendix G. Demographic summary of Cruisers. (CLIA, 2008, p.21)

Demographics Summary

	Rep. Sample 2002	Rep. Sample 2004	Rep. Sample 2006	Rep. Sample 2008	Non-Cruiser Vaca-tioners	CRUISERS	CRUISERS exc. River	Non-Cruiser/ Non-Vacationer
Age								
25 – 29	6%	6%	7%	7%	8%	6%	5%	6%
30 – 39	22	23	24	22	25	21	21	14
40 – 49	26	28	30	28	28	27	27	27
50 – 59	19	24	21	24	23	24	24	29
60 – 74	19	17	15	17	14	19	19	20
75+	8	2	3	3	2	4	4	4
Total	100%	100%	100%	100%	100%	100%	100%	100%
Average	50	48	47	48	46	50	50	51
Median	46	44	43	45	43	46	46	48
Income (Different Categories 2002)								
$20k to $39,000	18%	-	-	-	-	-	-	-
$39k to $50k	14	10%	15%	14%	17%	10%	10%	19%
$50k to $60k	13	15	14	11	13	9	9	20
$60k to $75k	19	21	18	18	19	15	15	25
$75k to $100k	11	23	21	20	21	20	21	19
$100k to $200k	8	27	27	30	25	39	38	16
$200k to $300k	1	3	3	4	3	5	5	3
$300k+	1	1	2	2	1	3	3	0
No answer	5							
Total	67%	100%	100%	99%	99%	100%	100%	102%
Average (in 1,000s)	$64	$90	$94	$98	$92	$109	$109	$78
Median (in 1,000s)	$50	$71	$75	$79	$73	$93	$93	$63
Gender								
Male	49%	49%	46%	50%	50%	50%	49%	55%
Marital Status								
Married	74%	82%	80%	84%	83%	86%	86%	82%
Employment Status								
Full-time	56%	63%	56%	63%	64%	62%	61%	60%
Retired	23	13	13	14	11	17	17	20
Educational Attainment								
College Grad (inc Post-Grad)	49%	58%	52%	62%	59%	69%	69%	49%
Race								
White	92%	93%	90%	89%	88%	91%	91%	89%
Black	3	3	5	5	6	5	4	5
Other	5	4	5	5	5	4	5	6

Base: Total*

A2

Appendix H. List of Interviewees

Name	Company	Position
Petri Siren	RCCL	Sales Representative
Byron Clayton	Clayton Shipping	CEO
Jarno Soinila	RCCL	Manager Business Admistration
Juhani Hietala	RCCL	Sales Manager
Jukka Vasama	STX Europe	Manager Naval Architecture

Appendix I. The interview form

Cruise Line Business
Is there a growth to be seen in the future or does the level of sales remain stable or even decrease?
How do the legal matters affect the cruise line industry?
Who are the participants in the cruise line business?
How much decision-making power have the suppliers and other actors in the industry?
Customer point of view
Who are your end customers?
Who would be your ideal customer?
How have the role of customers changed during years? Are they along with producing value?
Requirements on board
What are the most important issues affecting the experience on board? (e.g. restaurants, cleanliness, safety, layout)
How is the service quality seen by customers?
How do you measure value?
Business Model
Should the cruise line development be changed, and if so, how?
Are the cruise ships developed taken into consideration the future trends in consumer behavior and markets or just according to the current situation?
How is the revenue shared between participants in the industry?
Market Areas
What could be the new target market of the cruise line industry?
How do you measure the potential of new market segments?
Is the consumer purchasing barometer significant in the choice? What about country's GDP?
China and Russia
What do these people want from their leisure time?
What kind of approach would be appropriate for these segments?
Which kind of cruise line business does already exist there?
What is the estimation of future market potential in these areas?

Appendix J. Focus Group Themes

Leisure time, e.g. how does one spend it
The knowledge of cruises in general and if one has ever taken a cruise
The estimated cost of a cruise being part of the total cruise line image
Searching of information, e.g. how to book a cruise trip
Services within a cruise ship (RCCL's Touch Points)
○ Reservation
○ Pre-cruise info
○ Check-In and boarding
○ Stateroom bedroom and bathroom
○ Dining
○ Activities and events
○ Entertainment
○ Ports of call
○ Shore excursions
○ Leaving the ship
○ Onboard communications
○ Ship appearance and facilities
○ Onboard service
Meaning of service quality and pure physical product
Means of travelling, e.g. alone or within a group
Cabin interest and what one expects from it
Embarkation (whether to take from a near port or travel by air to a location from which the ship leaves)
Any other issues relevant? Any questions?

Appendix K. International Tourist Arrivals by Country of Destination. (WTO, 2010, p.7)

International Tourist Arrivals by Country of Destination

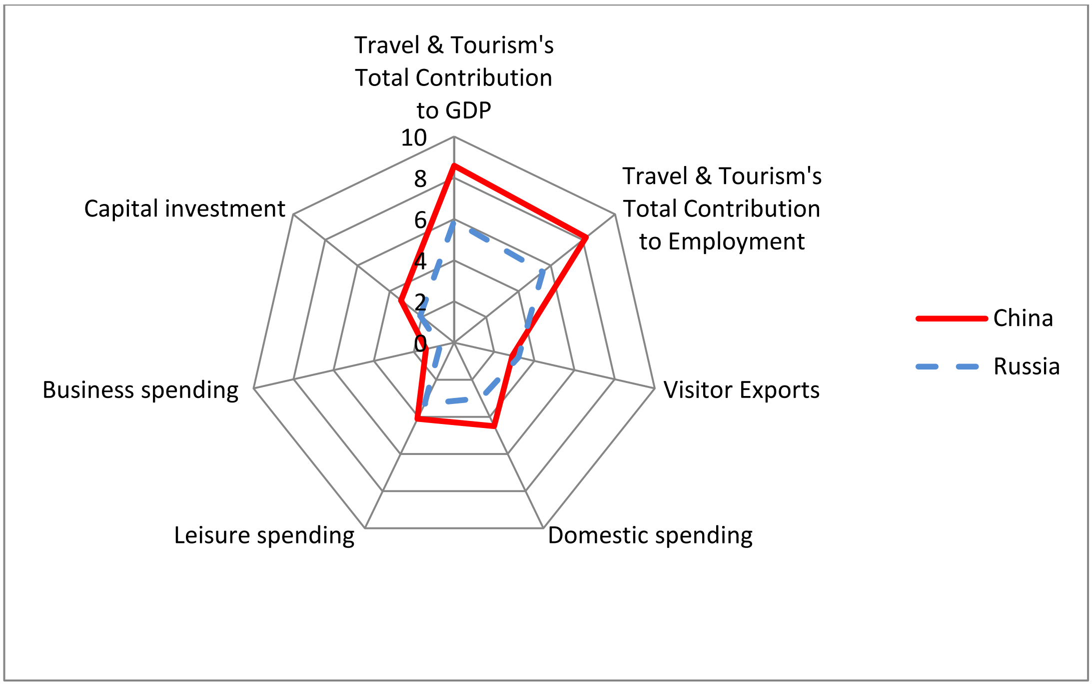
		Full year								Monthly or quarterly data series (percentage change over same period of the previous year)									
	Series	2000	2005	2006	2007	2008	2009*	08/07	09*/08	Series	2009*					2008			
							(million)		(%)		YTD	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
World		*682*	*801*	*846*	*900*	*919*	*880*	*2.1*	*-4.3*		-4.3	-10.4	-6.8	-2.3	1.6	8.0	4.1	-0.9	-1.6
1 France	TF	77.2	75.0	77.9	80.9	79.2	74.2	-2.0	-6.3	TCE	-8.1	-19.6	-10.8	-1.9	-9.2	6.1	-2.7	-5.6	-5.2
2 United States	TF	51.2	49.2	51.0	56.0	57.9	54.9	3.5	-5.3	TF(1)	-5.5	-14.3	-6.5	-3.9	2.3	15.4	7.6	3.2	-6.0
3 Spain	TF	46.4	55.9	58.0	58.7	57.2	52.2	-2.5	-8.7	TF	-8.8	-16.9	-8.2	-7.8	-3.5	5.2	1.2	-5.4	-9.0
4 China	TF	31.2	46.8	49.9	54.7	53.0	50.9	-3.1	-4.1	TF	-4.1	-11.3	-5.1	-0.1	0.3	9.6	-3.0	-9.3	-7.7
5 Italy	TF	41.2	36.5	41.1	43.7	42.7	43.2	-2.1	1.2	TF	1.2	-5.4	-3.4	5.8	5.8	-2.6	2.6	-3.7	-5.1
6 United Kingdom	TF	23.2	28.0	30.7	30.9	30.1	28.0	-2.4	-7.0	VF	-6.8	-13.9	-6.0	-7.0	-0.3	6.8	-1.2	-2.1	-13.0
7 Turkey	TF	9.6	20.3	18.9	22.2	25.0	25.5	12.3	2.0	TF	2.5	-1.1	-1.0	3.2	8.6	-2.3	17.4	9.4	10.0
8 Germany	TCE	19.0	21.5	23.6	24.4	24.9	24.2	1.9	-2.7	TCE	-2.7	-8.9	-6.7	0.1	3.5	5.4	4.3	0.8	-2.1
9 Malaysia	TF	10.2	16.4	17.5	21.0	22.1	23.6	5.1	7.2	TF	7.2	2.2	4.7	12.4	9.5	1.2	3.9	8.2	7.5
10 Mexico	TF	20.6	21.9	21.4	21.4	22.6	21.5	5.9	-5.2	TF	-5.2	7.7	-19.2	-8.0	-1.2	5.4	2.9	6.5	9.1

Source: World Tourism Organization (UNWTO) © (Data as collected by UNWTO April 2010)

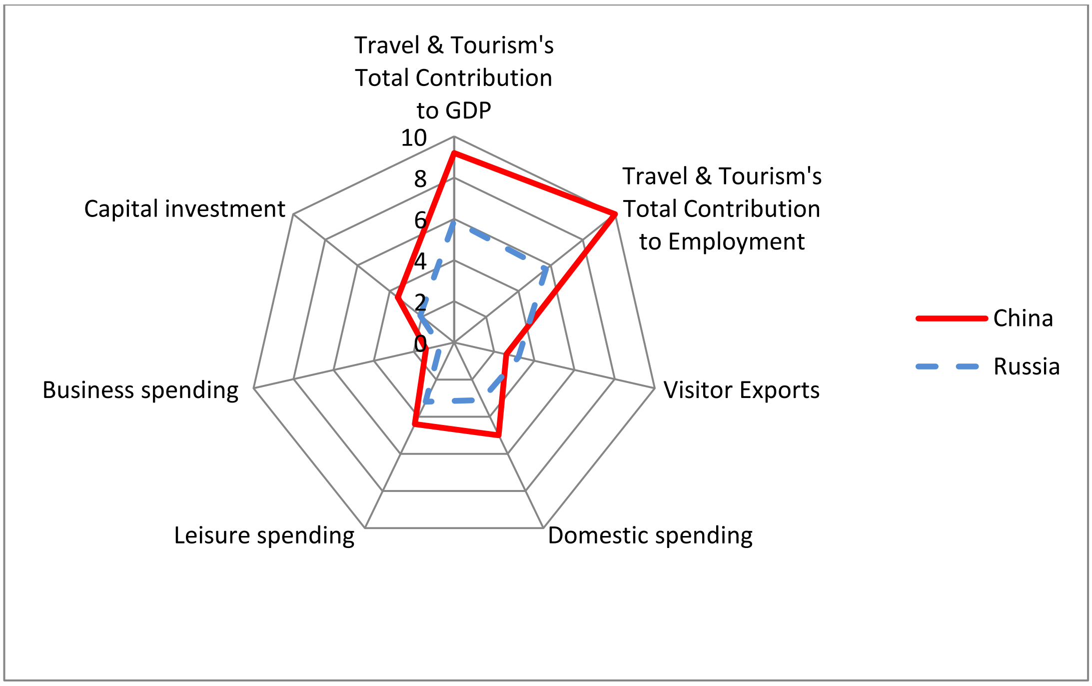
See box at page 2 for explanation of abbreviations and signs used

Appendix L. The profile Chinese and Russian travel growth

2011 (measured in % share)	China	Russia
Travel & Tourism's Total Contribution to GDP	8,6	5,9
Travel & Tourism's Total Contribution to Employment	8,2	5,5
Visitor Exports	2,9	3,2
Domestic spending	4,5	3
Leisure spending	4,1	3,3
Business spending	1,4	0,7
Capital investment	3,3	2,1



2021 (measured in % share)	China	Russia
Travel & Tourism's Total Contribution to GDP	9,2	5,9
Travel & Tourism's Total Contribution to Employment	10	5,7
Visitor Exports	2,6	3,2
Domestic spending	5	3,1
Leisure spending	4,4	3,2
Business spending	1,4	0,7
Capital investment	3,5	2,1



Appendix M. Venue Briefs of Chine and Russian Markets

Venue Brief of Chinese Markets
1 Concept
Position Statement: Chinese economy is experiencing a rapid growth which reflects to its increasing potential in the cruise line business. Competition is relevant, since casinos and package trip options compete with cruise lines' offerings. The economical situation is seem to improve even more and Chinese are continuously increasing their outbound travelling. This leaves space for package trip opportunities, thus seeing that Chinese do not take long holidays from work. There is a huge untapped market potential in China that should be reached somehow. The cruise line concept should be marketed, so that each consumer would know about the possibilities.
Target Group: Chinese consumers are becoming more wealthy, but are still quite price sensitive. However, if they can gain status by purchasing something luxurious, then they are willing to take it. Chinese base their decisions according to family's and friends' opinions, so word-of-mouth effect is important. They are also willing to travel in big groups that increases safety and security. Chinese appreciate knowledge seeking possibilities, and therefore Alaska is rated as the most appealing destination choice following the Mediterranean and Australia. In all, Chinese respect their own culture and nature, which is seen in their food choices and consumer behavior.
Service Facilities: The service should include Asian food together with Western specialties. Tea is necessary for Chinese, and therefore placing tea kettles to each cabin is important. Family-oriented entertainment and enough big cabins for families would be appreciated. Developing a huge casino onboard is a necessity. Chinese do not usually sunbath and prefer to stay on shadow. Therefore, the pool area should be developed according to their interests, thus seeing that children want to stay at water and want pools to be part of the area.
Descriptive Words: Casinos, Asian food, family-oriented entertainment, price sensitiveness, tea service, shopping possibilities, Chinese speaking staff, safety and security, package trip options
Summary: The cruise line business model for Chinese markets differ from the Western one in many cases. The cruise line business has not been long in Asian region, and therefore the information sharing, brand positioning and awareness need consideration. When modifying the service to Chinese and Asian markets, the consumer behavior related to the cultural background has to be understood. Developing the service according to Chinese expectations is a necessity in order to increase the satisfaction and retention rates to board.
2 Cabin Area
Position Statement: Cabin area for normal Chinese is not a significant issue. However, upper class Chinese would like to buy suites in order to increase and show their high status. The cabins should be developed modular, so that varying alternatives could be possible. Sometimes 15 people want to stay in the same cabin, whereas couples want their own peace in a normal room. Gardens, flowers and trees could also be existent in the cabin area and the rooms should be planned according to feng shui principles.
Target Group: Cabins should be developed to varying age, gender and group size. Normally Chinese travel with big groups and they bring children along with the cruise, but still normal cabins are needed. Because of the one child policy in China, the families will constitute only one or two children in the future that emphasizes the meaning of normal family cabins. Currently, only upper class Chinese can afford the cabin rates but in the future the situation is seem to change.
Service Facilities: Cabins should include tea service, Chinese TV channels, menus in Chinese and possible some elements of gardens. For instance fresh flowers and some kind of a tree could be arranged to every cabin. The cabin area could highlight the meaning of the nature and the surroundings could be developed according to Chinese taste. In all, Chinese prefer to spend their time in public spaces with other people, so the effort related to cabin area modification can be kept minimal.
Descriptive Words: Gardens, Chinese TV channels and menus, varying cabin alternatives, modularity, tea service, feng shui
Summary: The cabin area for Chinese is quite different from the Western concept, since Chinese prefer to stay in public spaces. There are still distinct characteristics that need consideration. If the planning and development takes into account the Chinese needs, wants and expectations, then the delivered value is increased. All the issues mentioned above will improve the satisfaction levels that Chinese gain from the cruise experience.

Venue Brief of Russian Markets
1 Concept
Position Statement: Russian economy and the political state have stabilized during the past few decades. Outbound tourism has increased whilst inbound trips have decreased. Russians are becoming more wealthy, especially around the regions of Saint Petersburg and Moscow. Despite these positive effects, Russian population is going to fall and the threat of corruption and terrorism is existent. The future of the economy is harder to predict, thus it is seen that cruise line business may have great potential in there, if the information sharing about the cruise line concept improves.
Target Group: Russians are collectivistic, so family and friends influence much to their decisions. However, during the recent years they have become more western-like, and therefore their own individual mindset, expectations and perceptions play a key role in destination choices. Russians value quality over price and require the best service that can be provided. They also travel in big groups but are recently started to take package travel trips with only one friend along. Turkey is the most popular destination for Russian leisure travelers, whilst business people travel most to Dubai region.
Service Facilities: From onboard facilities, spas and sanatoria are the most important ones to include into Russian business model. Also varying food options, pre-cruise information and cleanliness should be emphasized. Russians respect luxury so the ship could be developed similarly than in Western concept.
Descriptive Words: Spas and sanatoria, brand awareness and positioning, Moscow and Saint Petersburg, RCI/Celebrity brand, business trips, expectations, experiences and quality
Summary: Russian consumer behavior is becoming close to the Western one, so the cruise ship modification is seem to be pretty easy. The most significant thing is to educate Russian travel agencies to tell more about the options and develop better marketing channels in order to reach the Russian consumers and non-users. As a whole, the RCI and Celebrity Cruises are quite close to Russians expectations.
2 Cabin Area
Position Statement: As stated before, Russians appreciate cleanliness and good service. Therefore, the cabin area should be kept clean and the room service should include varying food alternatives. Russians travel either as a couple, with a family or in a big group, and therefore the cabin area could be modular. Normal cabins are enough for traditional families, thus business people and the upper-class Russians would like to have their own privacy in luxury suites.
Target Group: Russian target group is huge, from children to old people and from normal consumers to business partners. Those Russians that come to the cruise, do not care about money consumption, they rather spend much to emphasize the feeling of holidays and leisure time.
Service Facilities: The surroundings of the cabin area are important for Russians, since they form their value and derived satisfaction while the experience and mirror it to their expectations. One possible alternative for suite passengers would be to develop a private spa area to which only those consumers could join. The suites would have a view to the spa and also a balcony with a sea view. In all, the significant thing is to keep the cabins clean and ensure that service is available around the clock.
Descriptive Words: Varying cabins, private spa area for suites, quality over price, cleanliness, modularity
Summary: The cabin area of most RCCL's cruise ships correlates with the suggestions for Russian markets. Therefore, less modification is required, thus seeing that there are important touch points to take into consideration. For instance cleanliness of cabins and service elements will lead to improved satisfaction and positive word-of-mouth effects. Also brand awareness needs more attention.