Strategic audit of carnival corporation

Carnival Corporation plc is a global cruise company, with a portfolio of 12 brands. It is one of the leading cruise operators in both North America and Europe. The company primarily operates in the US, the UK, Continental Europe and Canada. The company recorded revenues of $11, 839 million during the fiscal year ended November 2006, an increase of 6. 7% over 2005. The operating profit of the company was $2, 613 million during fiscal year 2006, a decrease of 1% as compared to 2005. The net profit was $2, 279 million in fiscal year 2006, an increase of 1. 2% over 2005.

Carnival's mission statements reads, " Our mission is to deliver exceptional vacation experiences through the world's best-known cruise brands that cater to a variety of different lifestyles and budgets, all at an outstanding value unrivaled on land or at sea".

To be the leading cruise operator in all segments entered and to maintain the most up-to-date fleet of cruise ships in the world

To develop new cruise segments and innovative cruise packages to reach a larger number of potential and past cruisers

Employ sophisticated promotional efforts to achieve a greater awareness by the public concerning the availability and affordability of cruise travel

Attract the first-time and younger cruisers (Carnival), experienced cruisers (Holland America), upscale cruisers (Seaborne), and cruisers wanting a sailing vacation (Windstar)

Promote cruises as an alternative to land-based vacations

Provide a variety of activities as well as ports of call

Be innovative in all respects of operations of the ship

3. Strategies:

Global growth through concentric diversification via acquisition of cruise lines and building new ships, particularly in the Asia and European markets.

High quality of the service towards the customer resulting in high customer satisfaction, leading to new and repeat customers.

Economies of scale by increasing the size of the company resulting in the lowest break-even point in the cruise industry.

Horizontal growth financed through internal funds.

4. Policies:

Sophisticated promotional efforts to gain loyalty from former customers and new customers

Remodel its ships, varying offered activities, and being innovative through RD in all aspects of ship operations.

Strategic Managers

Board of Directors

Although information is not available about most of the board members, we do know that at least two members of top management are also insiders on the Board: Micky Arison (Chairman of the Board) and Howard Frank (Vice Chairman).

The stock of Carnival Corporation is publicly traded and at least 20% of privately held stock of the Arison family has been sold to fund expansion. Arison probably controls the board.

Top Management

Members of top management are as follows:

Micky Arison, Chairman, CEO, (Carnival Corporation)

Robert Dickinson, President and COO (Carnival Cruise Lines)

Kirk Lanterman, President and CEO (Holland America Lines)

Howard Frank, Vice Chairman and COO (Carnival Corporation)

Gerald Cahill, Senior VP Finance and CFO (Carnival Corporation)

Lowell Zemnick, VP Treasurer (Carnival Corporation)

Peter T. McHugh, President and COO (Holland America Lines)

Meshulam Zonis, Senior VP of Operations (Carnival Corporation)

Carnival Corporation is a family tradition passed down from Ted Arison (founder) to his son Micky (current CEO and Chairman). Micky Arison and Bob Dickinson seem to be the main driving force behind strategic decisions in the company.

III. EXTERNAL ENVIRONMENT (EFAS Table; see Exhibit 1)

A. Natural Environment

Environmental groups

Stringent regulations on ships

Environmental and health and safety regulations

Could increase costs of compliance

Instituted Safety and Environment position

EPA – studies on waste water

Annual award program

Financially supporting ocean conservation groups

B. Societal Environment

1. Economic

Unstable economy

2. Technological

Computer and information technology extremely important

3. Political-Legal

Increased regulations are issued by the Coast Guard, U. S. Department of Health and Federal Maritime Commission.

4. Sociocultural:

Growth is slowing in the cruise travel industry (2% from 1991 – 1995). It is also estimated that only 5-7% of the North American market has ever taken a cruise.

Two-income families have more disposable income to apply towards vacations.

The aging of America means more potential customers for the Holland America Line, which serves an older, more established clientele. Increased emphasis on family vacations and a growing " family" cruise segment.

Periodic political tensions which occur in cruise an area (such as the Mideast or Mediterranean) causes cruise competition to intensify in safe waters until the tensions cease.

B. Task Environment

Threat of new entrants is low, given the recent rash of cruise line failures, mergers, and buyouts.

The competitive nature of the industry makes it unattractive to enter, and high start-up costs serve as a barrier to entry.

Rivalry between competitors is high, with six major competitors (including Princess and Royal Caribbean Cruise Lines) and eight minor competitors.

With berth capacity increasing, rivalry may grow more intense if demand doesn't rebound.

Bargaining power of suppliers (shipbuilders) is moderate since shipbuilding is a very money- and time-intensive process.

If a shipbuilder can't deliver on a contract, Carnival can't easily obtain a replacement ship.

Bargaining power of customers may grow in the future due to the combination of increased berth capacity and decreased demand.

The combination of these factors would lead cruise operators to offer deep discounts, and customers would have more affordable options in choosing the cruise they want.

Threat of substitutes is escalating with the introduction of all-inclusive combination cruise/land packages such as Disney's Big Red Boat vacations.

Other stakeholders such as the American Maritime Union pose a threat, with their continued charges against Carnival (and other operators) concerning exploitation of cruise employees.

IV. INTERNAL ENVIRONMENT (IFAS see Exhibit 2)

A. Corporate Structure

Carnival Corporation serves major market segments through Carnival, Holland America, and Seaborne (joint venture).

Decision-making is centralized, with top management and the Board of Directors controlling all strategic decisions.

The corporation attempts to reduce routine decision-making by standardizing shipboard operations when possible.

B. Corporate Culture

Carnival Corporation’s culture seems to internalize the concept of providing guests with the highest service standards while keeping a firm grip on operating costs.

There is significant corporate pride regarding Carnival’s position as the leader and innovator in the cruise industry.

C. Corporate Resources

1. Marketing

Carnival Corporation’s main marketing objective is to hold on to its 44% market share in the cruise industry.

It plans to retain the leadership position through aggressive promotional campaigns by gaining loyalty from former cruisers and by being innovative in shipboard activities and operations. Carnival’s cruise product is well-defined and positioned to serve three major markets: contemporary, premium, and luxury.

Carnival Cruise Lines (contemporary) targets young and first-time cruisers with moderately priced packages which include airfare and a variety of shipboard amenities.

Prices are competitive with those of other similar cruise and land-based packages. The “ Fun Ship” cruise theme markets the ship itself as the primary vacation destination, with ports-of-call being of secondary importance.

Holland America Lines (premium) is positioned to attract higher income travelers with cruise prices averaging 25-35% higher than Carnival Cruises.

HAL serves an older, more established clientele. Carnival provides additional vacation opportunities through Westmark Hotels, Westours, Gray Line Tours, and the McKinley Explorer railroad coaches in Alaska. These auxiliary tours and hotels are marketed primarily to satisfy growing demand for Alaskan land vacations in conjunction with Carnival’s Alaskan cruises.

Seaborne serves the luxury market with South American, Mediterranean, Southeast Asian, and Baltic cruise destinations.

Seaborne serves very wealthy clientele with worldwide cruises up to 98 days’ duration.

Windstar Sail Cruises serves a specialty cruise niche with ships that have small capacity (fewer than 150 guests) and can approach smaller, less traveled ports-of-call.

Carnival Corp. was the first cruise operator to advertise on television.

Carnival books 99% of its cruises through travel agents and has implemented an incentive program to reward travel agents who suggest a Carnival cruise before other vacations.

2. Finance

Currently Carnival Corporation’s primary financial consideration is the control of costs in order to maintain a healthy profit margin (greater than 20%).

Another main concern is the current expansion plan funded by internal growth.

The financial ratios show several areas that need to be addressed in the company.

Carnival has very low liquid assets, as evidenced by the low current and quick ratio, and has negative working capital, which may cause creditors to doubt whether Carnival can meet its current obligations.

Overall, the liquidity of the company is very poor but may be common to the industry since so much money is tied up in the fixed assets portion of the balance sheets.

In other areas, Carnival is doing much better with a profit margin of 22%, ROI of 11%, and ROE of 19%.

The company isn't overburdened by debt and has two revolving credit agreements for a total of $1 billion, $815 million of which is still available for the refurbishing and building of ships.

In the past five years the corporation has experienced losses due to the discontinuation of the Fiestamarina Line and two of its hotels.

Carnival recently purchased $101 million of secured notes issued by Kloster Cruise Lid. (Norwegian Cruise Lines).

Kloster has experienced financial difficulties, and if the company fails, Carnival will be in position to claim a portion of Kloster's assets.

A financial strength of Carnival Corp. is that it is registered as a Controlled Foreign Corporation and thus is exempt from U. S. Federal income taxes at the corporate level.

3. Research and Development

Carnival relies on RD on the part of its shipbuilders to produce faster, more fuel efficient, technologically advanced ships.

Carnival also uses service RD to implement and improve shipboard entertainment and activities to serve the disparate needs of the three market segments they serve.

4. Operations

Main operations consist of the twelve cruise lines and the auxiliary tours and hotels mentioned in the analysis of marketing.

The company expects to take delivery of ten new ships (including several “ superliners”) in the next four years; seven for the Carnival Line, two for the Holland America Line, and one for Windstar. These ships will result in a 20, 484 passenger increase over Carnival Corp.’s current capacity and cost $3. 3 billion.

This expansion will enable Carnival to stay competitive with its rivals, who are also expanding, but if future demand remains depressed, the extra capacity could negatively affect future profitability.

The major strength of Carnival’s operations is that they are very efficient; it has the lowest break-even point of any organization in the cruise industry.

It has also been able to achieve significant economies of scale by standardizing layout and shipboard operations on its ships.

Carnival's fixed costs make up 33% of the company's operating expenses, and they can't be reduced in proportion to decreases in passenger loads and revenues.

Major variable costs as a percent of operating expense are as follows: airfare (25-30%), travel agent fees (10%), and labor (13-15%).

Shipboard operations are very labor-intensive, which results in high labor costs.

Carnival Corporation's cruises are also subject to general threats in the environment such as political conflicts and natural disasters in areas where they cruise.

Human Resource Management

Cruises are labor-intensive, requiring extensive screening and hiring of employees.

Employees work on contracts of 3-9 months and are recruited mostly from third-world countries.

Carnival has employees from 51 nations

Carnival has been cited by the American Maritime Union for exploitation of employees, but the average employment period is approximately eight years, and supply exceeds demand for all cruise employee positions.

Information Systems

Although it is not mentioned in the case, Carnival Corporation's information system is assumed to be quite extensive, in order to record passenger reservations taken from hundreds of travel agents and to orchestrate the daily operations of this large company.

The information system also appears to give very detailed breakdowns of expenses between cruise divisions and within cost categories.

Analysis of Strategic Factors

Situational Analysis (SWOT) (SFAS Matrix; see Exhibit 3)

1. Strengths

Largest cruise operator

Strong brand portfolio

Strong geographic presence

2. Weakness

High debt burden in FY 2006

3. Opportunities

Expansion of cruise operations

growing travel and tourism in China

reopening of cruise centers

4. Threats

Economic slowdown in the US

Increased minimum wages in the US

Intense Competition

VI. Strategic Alternatives and Recommended Strategy

A. Strategic Alternatives

1. Growth Strategies: Move more aggressively into the family cruise market segment.

Pros: Taps a new, growing market with fewer competitors than the traditional cruise industry. It allows alternate use of ships that aren't being used if future demand remains depressed. This strategy allows Carnival to keep ahead of its competitors, and the company's low break-even point puts it at an advantage over competitors who are pursuing a similar expansion plan. Pursuing moderate expansion allows Carnival to maintain its position as the market leader. This seems to be the strategy that the company wants to pursue, and management has been successful in bucking negative industry trends in the past.

Cons: This strategy requires a new way of thinking to be successful in satisfying family needs. In addition, a lower price may be necessary to attract families who are looking for affordable vacations. Competitor Disney is a major force in the vacation industry. If demand doesn't rebound, the industry may face price wars and deep discounts. This effect will be compounded by Carnival's inability to cut fixed costs in the face of decreasing demand, and profitability may be sharply reduced.

2. Pause Strategy: Considering the possibility of decreased demand and the uncertainty of future demand, it may be prudent to delay contracting for any additional ships until it is apparent whether cruise demand will rebound.

Pros: The company wouldn’t be tying up capital in additional ships when demand may not merit it. This would allow the company to concentrate on refining its current operations and marketing strategy. It may also lead to an improvement in the liquidity ratios.

Cons: If demand does rebound and Carnival hasn’t ordered additional ships, there will be a time lag until it receives new ships. In addition, if Carnival’s competitors continue expansion, then the company runs the risk of losing its leadership position in the industry.

3. Retrenchment Strategy: Carnival currently isn’t in a position where retrenchment is recommended. However, if demand doesn’t rebound, retrenchment could become a necessity in the future.

B. Recommended Strategy

Recommend that the company continue to pursue its current growth plan.

This strategy allows Carnival to stay current with its competitors.

If demand remains depressed in future years, there will still be ample time for Carnival to reassess its corporate strategy as long as they don’t delay indefinitely.

IMPLEMENTATION

The recommended strategy doesn't require any extensive changes in current programs.

Top management should closely monitor the industry and general economic trends to determine whether demand will rebound as expected.

If not, management should formulate alternate strategies that adjust to these conditions.

EVALUATION CONTROL

Carnival's management needs to address the poor state of the company's working capital and current ratio.

These are of concern since a low current ratio may cause the company to default on certain debt covenants.

However, the state of the working capital and current ratio may be normal when compared with industry standards, since a large portion of the balance sheet assets is concentrated in fixed assets.

The company's information systems are sufficient to evaluate the performance of the recommended strategy and to separate costs associated with the expansion.

Carefully monitors future demand and makes necessary adjustments, I think it is in a good position to maintain its leadership position in the industry and continue to be financially successful.

IX. EFAS, IFAS, and SFAS EXHIBITS

Exhibit 1

EFAS (External Factor Analysis Summary)

Key External Factors

Weight

Rating

Weighted Score

Comments

Opportunities

Only 5-7% of N. American market has cruised

. 12

5

. 60

Great number of potential customers

More emphasis on family vacations

. 08

3

. 24

Developing market segment

Two-income family – more disposable income

. 08

3

. 24

Cruises are an option

Changing industry

. 13

4

. 42

Threats

000000. 0000

00000

Slowing growth in the cruise industry

. 10

5

. 50

2% in 1991-1995

Very competitive industry

. 20

4

. 80

Six major competitors

Demographic changes

. 08

4

. 32

Aging population

Strong economic conditions

. 15

5

. 75

Threat of substitutes

. 06

3

. 18

air, car

TOTAL SCORES

1. 00

4. 05

IX. IFAS, EFAS, and SFAS EXHIBITS

Exhibit 2

IFAS (Internal Factor Analysis Summary)

Key Internal Factors

Weight

Rating

Weighted Score

Comments

New larger ships

. 05

4

. 20

Future over capacity

104% capacity

. 10

4

. 50

#1

“ Fun Ship” cruise theme

. 05

4

. 20

Effective

Clients – only tap 5%

. 05

4

. 20

Hard to get rest

Strong management team

. 15

5

. 75

Best in industry

Marketing/travel agents

. 12

5

. 60

strong team

Corporate culture

. 10

5

. 50

Strong

Acquisitions – concentric diversification

. 14

4

. 56

Great acquisition

HRM – exploiting employees

. 05

4

. 20

Stay 8 years

Financially strong

. 10

4

. 40

Low B/E and cash for new ships

Market share – 26%

. 10

5

. 50

#1

Healthy profit margins

. 04

4

. 16

TOTAL SCORES

1. 05

4. 77

IX. SFAS, EFAS, and IFAS EXHIBITS

Exhibit 3

SFAS (Strategic Factor Analysis Summary)

Key Strategic Factors

Weight

Rating

Weighted Score

Duration

S I L

Comments

Only 5-7% of Americans have taken a cruise

. 15

4

. 60

X

Potential customers

Growing family vacation market segment

. 10

3

. 30

X

Potential customers

Very competitive industry

. 15

4

. 60

X

Six competitors

Escalating threat of substitutes

. 10

3

. 30

X

Disney

26% market share

. 15

5

. 75

X

Industry leader

Lowest break-even point

. 15

4

. 60

X

Efficient

High fixed costs

. 10

4

. 40

X

Standardization

Poor liquidity ratios

. 10

2

. 20

X

Cash-poor

TOTAL SCORES

1. 00

3. 75