

The carnival cruise lines



Carnival Cruise Lines is a global cruise company and one of the largest vacation companies in the world. CCL generates all of its revenues from the cruise industry. The company's wide-ranging product offerings provide guests with exceptional vacation experiences at an outstanding value. The success in providing quality cruise vacations has made CCL the most profitable company in the leisure travel industry. Carnival Cruise Line's stock is dually listed on both the New York Stock Exchange and on the London Stock Exchange under symbol CCL. It is the only company in the world to be included in both the S&P 500 index in the United States and the FTSE 100 index in the United Kingdom (Carnival Corporation & PLC, 2012).

Carnival Cruise Lines operates a fleet of 100 ships, with another seven ships scheduled for delivery between now and March 2016. With approximately 200, 000 guests and 77, 000 shipboard employees, there are more than 277, 000 people sailing aboard CCL's fleet at any given time (Carnival Corporation & PLC, 2012).

For the purpose of our report it is crucial to understand how the Carnival Cruise Lines Corporation works today. We need to understand how the various aspects of the business are set up and how they work together. Only after a true understanding of the current situation, we can come with proposals for improvement and indicate the impact on current ways of working.

In literature one can find many models that can be used to look at an organization with an internal perspective. In appendix X we provide an overview of some management models we have found in literature, with an

explanation why, when and how it should be used. Since our report needs to cover the implementation of a new IT management strategy, we have decided to use McKinsey's 7S model as shown in figure X. This model, developed in the 1980's, involves 7 factors, which can be categorized as hard and soft elements. Hard elements can be identified and influenced more easily. They would be driven by the organization charts and reporting lines within the business and they may include the systems you use to get work done. Soft elements are, by their very nature, more difficult to manage and may be affected by the culture of the organization. But you have to apply yourself to these as much as the hard elements, as they provide the support structure for the successful implementation of any change, and they are all interdependent on each other.

Figure 7S framework (McKinsey)

The hard elements in the 7S-model are Strategy, Structure and Systems; the soft elements are Style, Shared Values, Skills and Staff. In order to understand the 7S-model better a brief explanation is given below.

Hard elements of the 7S-model:

Strategy – by using mission and vision the organization's objectives become clear.

Structure – how is the organization structured and which hierarchical layers are there

Systems – all formal and informal methods of operation, procedures and communication flows

<https://assignbuster.com/the-carnival-cruise-lines/>

Soft elements of the 7S-model:

Style - this is about leadership and management styles

Shared values - the standards and values and other forms of ethics within an organization in which vision, corporate culture and identity are the key elements

Skills - these concern both the skills of the organization and those of the employees

Staff - this is about the employees, their competences and job descriptions

In addition to the above elements we added two paragraphs specifically on Information Management and Risk Management to give a complete overview of the situation of Carnival Cruise Lines today.

2. 1 Strategy of CCL

The mission of Carnival Cruise Lines is to take the world on vacation and deliver exceptional experiences through many of the world's best-known cruise brands that cater to a variety of different geographic regions and lifestyles, all at an outstanding value unrivaled on land or at sea (Carnival Corporation & PLC, 2012).

The vision statement of CCL is the following: to consistently deliver fun, memorable vacations at a repeat value (Carnival Corporation & PLC, 2012).

Derived from this mission and vision, Carnival Cruise Lines has set up the following strategic objectives:

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.

All initiatives that are taken by Carnival Cruise Lines need to be in line with the mission, vision and strategic objectives (Carnival Corporation & PLC, 2012).

With regard to the strategy of Carnival Cruise Lines the following strengths can be identified:

Strengths

Weaknesses

Dominant market share

Strong acquisition strategy

<https://assignbuster.com/the-carnival-cruise-lines/>

Comprehensive portfolio (target groups)

Strength

Dominant market share

The biggest strength of Carnival Cruise Lines is its huge scale and scope. The company is twice as large as its biggest competitor and competes in nearly every market and segment worldwide (Appendix X). This gives CCL enormous power over the cruise industry as a whole. It enables the company to undertake projects that grow the industry, gives it a platform for continued mergers and acquisitions activity, and helps CCL negotiate with major manufacturers of cruise ships (Levin, Jones, & Slade, 2011). In all initiatives and projects that are undertaken by the company, the incentive is always to keep that dominant market share and even to grow it further. CCL wants to be a leader, and this will be reflected in management decisions.

Strength

Strong acquisition strategy

Carnival Cruise Lines has the ability to obtain companies through acquisitions. By using an acquisition strategy, the Corporation has been able to position itself in each geographical market in the world and rank itself as number one in the cruising sector. However, this strength also results in a highly decentralized IT landscape, as described in paragraph 2. 8.

Strength

Comprehensive portfolio (target groups)

The corporation has a large fleet capacity and operates ten of the most recognizable cruise brand names. CCL's portfolio of brand names appeals to

almost every niche market, from budget minded, contemporary to luxury cruises (Marketingteacher, 2012). Each cruise line operates globally and is targeted at one or more nationalities (Appendix X). This is linked to the fact that CCL wants to be the leader in the cruising industry and wants to keep the dominant market share.

2. 2 Structure of CCL

Carnival Cruise Lines Corporation & plc has two main headquarters, Carnival Place in the US and Carnival House in the UK. The constituent Corporation and plc are separate listed companies with different shareholder bodies, but they jointly own all the operating companies in the group. Both headquarters have their own management team, strategy, and IT organization. Within Carnival Cruise Lines every brand is seen as a separate business unit, with its own profit and loss statement.

With regard to the structure of Carnival Cruise Lines the following strengths and weaknesses can be identified:

Strengths

Weaknesses

Strong financial position

Clear focus on cost leadership

Strong marketing

Decentralization of business operations

Decreasing profit

Over-dependence on US market

Strength

Strong financial position

Carnival Cruise Lines is one of the most profitable cruising companies. The company's average net income (FY2005 to FY2009) amounted to 18.1% compared to the industry standard of 6.3% (Marketingteacher, 2012). The firm is dual listed on the New York Stock Exchange and the London Stock Exchange under the symbol CCL. Since the company is dual listed, it has the ability to raise more funds from investor than its competitors. With this also comes greater stability due to different markets being affected by different economic occurrences, political issues, and society's views (Levin, Jones, & Slade, 2011). Due to the strong financial position, CCL has a certain luxury to take strategic important and cutting edge decisions and, at the same time, invest the necessary funds to make it possible.

Strength

Clear focus on cost leadership

Carnival Cruise Lines has a clear focus on Cost Leadership, i. e. CCL offers its product to the mass market. Therefore the highest focus is put on the price and keeping the price as low as possible. Once the customer is on board the ship, additional revenue is created by having the customer pay for everything that was not covered in the base price. CCL is such a large company that it has significant cost advantages over most of its competitors. Unlike Royal Caribbean where the focus is on delivering the best customer experience (Appendix X, interview Vicki Freed), the focus at CCL is more on

providing the best cruise for the lowest amount. Additional revenues are generated once a customer is onboard.

Strength

Strong marketing

Carnival Cruise Lines invests explicitly and effectively in print and television media. Their promotions target the lifestyles of each group of customers (Marketingteacher, 2012). This strategy enables CCL to get name recognition in every market segment, hence the different cruise lines under the brand.

Weakness

Decentralization of business operations

Historically, CCL has been run by the Arison family as a coalition of largely independent businesses. Each cruise line largely manages its own customers, marketing, distribution, sales, ports, and logistics. This approach has had benefits: internal competition means that each line operates better than any would in isolation. The yearly capital planning process happens on both the US side as on the UK side, which might lead to duplication of effort. The business operations of the cruise lines are not centrally managed. Better coordination of these business operations could generate additional benefits for Carnival Cruise Lines (Levin, Jones, & Slade, 2011).

Figure Organization chart Carnival Cruise Lines

Figure X gives the high-level organization chart of CCL. On the left hand side all the 10 brands with their presidents are listed, with a direct line to Mickey Arison. As stated above, although there is a direct reporting line to Mickey

Arison, every brand is managed as a business unit with its own profit and loss. On right hand side all the supporting functions, such as HR, legal, IT,... are listed with their CxO or head of department. These departments have a direct reporting line to Mickey Arison as well, but in every business unit there is an own representation of each supporting function with a reporting line to the president of the brand. The communication between the business unit representation and the CxO of the supporting function is not always seamless, which can lead to duplication of effort.

Weakness

Decreasing profit

The profit of CCL has diminished over the last years. The net profit was \$1, 790 million in FY2009, a decrease of 23. 2% as compared to 2008. The profit recovered some in 2010 and 2011 but never reached the level of 2008 (see appendix X) Another weakness is that Carnival Cruise lines reports their financial statements in dollars. About half of their revenue is generated in a non-US currency, but is reported in terms of US dollars. The value of the dollar against Euro appreciated from 1. 60 in January 2010 to 1. 53 by April 2010 against the Pound. If the dollar strengthens it would record a lower revenue than is actually earned (Marketingteacher, 2012). The pressure on profit will keep on adding pressure on taking the right management decisions and investing in the right opportunities.

Weakness

Over-dependence on US market

Carnival Cruise Lines derives a majority of its revenue (nearly 52%) from US customers. In 2009 the revenue from the North American market registered a double digit decline. The over-dependence on the US market makes CCL vulnerable to the economic fluctuations of the American economy and this company is dependent on customers' disposable income (Marketingteacher, 2012). All cruise companies, CCL as well, are moving their focus from the US market to Europe and Asia. Especially in Asia there is a huge growth potential.

2.3 Systems within CCL

This paragraph gives a high level overview of systems as mentioned in the 7S model: all formal and informal methods of operation, procedures and communication flows. In paragraph 2.8 we focus on Information Technology systems and the current IT landscape.

With regard to the systems of Carnival Cruise Lines the following strengths and weaknesses can be identified:

Strengths

Weaknesses

IT incorporated in company results

No prioritization process in place

No benefits tracking

No integrated CRM process

Strength

IT incorporated in company results

In some companies IT is considered as free of charge, since IT is not incorporated in the company results. This leads to a distorted view of company/business unit results. However, Carnival Cruise Lines incorporates the costs of IT in the company/business unit results, which allows both the company/business unit itself to get a more realistic view of the results, but also the market gets a more trustworthy view of the results. This leads to a more positive ranking in the market.

Weakness

No prioritization process in place

Since every business unit is set up as an own profit and loss center, every business unit deems their own project to be the most important. Currently, there is no prioritization process in place on the business side, which leads to a continuous flow of projects that need IT resources.

Weakness

No benefits tracking

Many projects get kicked off and promise benefits. However there is no process in place to measure these benefits after the project has been delivered. This allows the business to keep on creating additional projects to deliver the same thing, again allowing business increase costs instead of reducing costs.

Weakness

No integrated CRM process

Carnival Cruise Lines does not have an integrated CRM process in place for the whole corporation. This leads to the fact that customers from the one cruise line aren't recognized as a repeat customer with a different cruise line within the group, this has an immediate effect on the pricing for repeat customers. Also, due to the lack of this process, the organization cannot target specific customers groups, based on their previous behavior on the cruise, since that information is only fragmented available.

2. 4 Style within CCL

The leadership style at Carnival Cruise Lines can be called family-like. This family-like leadership style is a management style that Ted Arison already used when he was still steering the company. Ted Arison had a non-hierarchical approach to management, meaning that he delegated a lot of work downwards in the organization, allowing him to oversee the bigger picture (Managementparadise, 2012).

With regard to the style of Carnival Cruise Lines the following strength can be identified:

Strengths

Weaknesses

Leadership style empowering people

Strength

Leadership style empowering people

People with the right skills are hired and are giving the support and room to do their jobs correctly. People are encouraged to be hands-on and take calculated risks. Taking risks also means that mistakes can occur, however CCL uses a no blame culture through which people feel empowered (Managementparadise, 2012).

2. 5 Shared values of CCL

Derived from the mission and vision of Carnival Cruise Lines (see 2. 1) the company has set some company values that were a high priority. With regard to the shared values of CCL the following strengths can be identified:

Strengths

Weaknesses

Strong company values

Focus on the environment

Strength

Strong company values

The company values are: honesty, integrity, fairness, hospitality and teamwork. The values are deemed important to do their job in a correct manner.

Strength

Focus on the environment

Carnival Cruise Lines, as all other cruise lines in the industry, takes much pride in the focus they put on the environment. They invest heavily in health and safety, both for customers and for employees. There is a very strong focus on the environment and to work in a greener way. Charity is also one of the key components of their social responsibility strategy.

2. 6 Skills at CCL

Working in the leisure industry requires some specific skills that you cannot always learn. Most important skills that someone working in the leisure industry would need, are the following: customer focused, empathy, team work, stress resistant, multi-cultural, service orientation and multi linguistic.

With regard to the skills of Carnival Cruise Lines the following strengths can be identified:

Strengths

Weaknesses

Strong attention for skills & attitude

Loyalty programs in place

Strength

Strong attention for skills & attitude

Since Carnival Cruise Lines wants to be seen as the cruise line that delivers fun, the attitude of the employees is very important as well. The employees

need to be cheerful and enthusiastic. CCL puts great effort in stimulating the desired skills and attitude of the employees.

Strength

Loyalty programs in place

CCL has its loyalty programs in place. The company introduced a new loyalty program in 2012 providing past guests with a variety of value-added benefits and features, including priority embarkation and debarkation, guaranteed supper club reservations and dining times, personalized stationery and custom-designed CCL logo items (Carnival, 2012). Contrary to what is stated in the business case, Carnival Cruise Lines has now its loyalty programs in place.

2. 7 Staff at CCL

Cruise ships typically operate with three classes of crew. The first is the officers: these professionals are highly paid and given ultimate command of the ship. The second is entertainers and wait staff: typically lower-paid, but from the same countries as the cruisers that they serve. Finally, most of the ships' crew is drawn from developing countries. While pay is low, the salary can represent an attractive opportunity for these workers, who often work 10-month contracts without being able to see their homes and families. Turnover is high, and few of the crew sees working on a cruise ship as a viable long-term career. Staff remains 24/7 on board of the ship, have their own cabins at the lowest two decks of the ship. Only officers are allowed to mix between guests, this at special occasions and in formal attire. Other crew members have dedicated times during which they can be present on guest decks.

<https://assignbuster.com/the-carnival-cruise-lines/>

With regard to the staff of Carnival Cruise Lines the following strengths can be identified:

Strengths

Weaknesses

Operational excellence & experience

Talent development programs in place

Strength

Operational excellence & experience

Carnival Cruise Lines has achieved below-industry-average costs and above-average revenue historically. This is largely due to the company's immense experience in owning and operating cruises, as well as some smart strategic plays. That advantage makes expanding into new markets vastly easier for CCL than for a smaller player or upstart firm.

CCL has the largest pool of data to draw on to determine what does and does not work and has the most experienced marketers of cruises in the world.

These 'soft' advantages let CCL potentially segment its customers more efficiently than competitors (Levin, Jones, & Slade, 2011).

Strength

Talent development programs in place

CCL has a separate training and development department set up in the organization. The corporation invests heavily in coaching of high potentials by giving them learning opportunities that are fit for their personal needs.

2. 8 Information Management

The current IT landscape of CCL is much diversified. First of all, the IT landscape is split in the shore side systems and the shipboard systems. This split between on shore and shipboard adds a dimension to the complexity of the landscape, since most of the shipboard systems need to be able to communicate to the shore side systems. An additional challenge in the current IT landscape is the use of legacy systems. Since there are basically only three main competitors in the cruise industry, there is not really a vendor that specializes in ‘cruise industry systems’, hence all the cruise companies use their own developed systems. Years ago, this was not really a problem, but nowadays with the globalization of industries, limitations of these legacy systems refrain CCL to be as agile as they would like to be. Figure X gives a high level overview of the current IT landscape within Carnival Cruise Lines at the time of the case description. One can assume that due to acquisitions between 2006 and 2012 this landscape has grown in complexity even more. Another type of systems now in the current landscape which were not described in the case are the risk management and internal control systems. For this CCL uses IBM ‘OpenPages Financial Controls Management’ and ‘IBM OpenPages Operational Risk Management’ (IBM Corporation, 2011).

Figure Information systems within CCL

With regard to Information Management the following strengths and weaknesses can be identified:

Strengths

Weaknesses

Excellent booking system for travel agents

Decentralized systems

Legacy systems

No overview of project portfolio

Weak resource management

TCO for IT not in place

Outsourcing level 2 & 3 support difficult

Strength

Excellent booking system for travel agents

From a travel agent's perspective CCL is easy to do business with: ' travel agents will say that Carnival is much easier to work with than Royal ' (Appendix X, interview Vicky Freed).

Carnival Cruise Lines has upgraded the booking engine within its travel agent web portal, to help agents save time when booking reservations online. A streamlined and simplified process for managing bookings, as well as an interactive toolbar that provides easier navigation between different components of the booking engine, make it easier for agents to book cruises for their clients. In addition to an entirely new design and navigation, the upgraded booking engine offers convenient links to several applications

(Travel Agent Central, 2012). ‘ The updated booking engine is designed to reflect the changing business models of travel agents and represents the latest enhancement to this comprehensive portal which serves as a one-stop-shop for travel agents to fulfill all of their sales and marketing needs’ (Lynn Torrent, senior vice president of sales and guest services CCL).

Weakness

Decentralized systems

The decentralization within Carnival Cruise Lines translates into a decentralization of systems as well. Decisions aren’t always communicated from one cruise line to the other, which leads to duplication of effort. This decentralization of the business organization translates to the IT organization as well. Every brand has its own IT department with own systems and infrastructure.

Weakness

Legacy systems

There are many legacy systems. Since there aren’t many players in the cruising sector, most of the strategic important applications are custom made. This leads to a spaghetti landscape in which integration is very difficult and which affects the time to market significantly.

Weakness

No overview of project portfolio

Projects can start within a business unit or on a corporate level within CCL. Since the business is set up in separate business units, with their own IT departments, there is a lot of duplication of effort. There is not one global IT

Program Management Office that oversees all the current projects and their requirements for IT. This has both an impact on the IT resource management as on the IT landscape that runs the risk to get even more diversified.

Weakness

Weak resource management

Due to the lack of a prioritization process for projects, the first-in-first-out principle is often used, this means that resources get allocated either to the project that came in the pipeline first or either to the project that has a business owner or project manager who is very persuasive. Without the prioritization process in place, it is very difficult for the IT management to decide where to allocate resources to. The lack of prioritization leads to frustration on the business side, because there is the perception that IT is not able to deliver in time.

Weakness

TCO for IT not in place

To really understand the total cost of IT for the business all costs of IT should be made transparent and understandable for any business owner. Currently CCL has no total cost of ownership for IT in place. Reasons for not having TCO for IT in place are miscellaneous; it is very difficult to really get cost like network transparent, an IT service catalogue needs to be in place, IT management needs to be committed,... However implementing TCO for IT will help the IT management get the multitude of costs as a result of duplication of effort visible to the business.

Weakness

Outsourcing level 2 & 3 support difficult

As already stated above, most of the applications of CCL are custom made.

This in-house development induces resources with a very specific knowledge. Often, this knowledge is both on the system side as on the business process side and therefore confidential. Outsourcing level 2 and 3 support is very difficult, due to these specific knowledge.

2.9 Risk Management

Enterprise Risk Management is a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives (COSO, 2004). Organizations which manage risk effectively and efficiently are more likely to achieve their goals and to achieve this at a lower overall cost. Risk management is therefore good management. Risk management should be a multi-faceted discipline: often referred to as enterprise, integrated, holistic or practical risk management (The Institute of Risk Management, 2012). The objective of a risk management framework is to help ensure that appropriate technical and administrative controls are identified and implemented to protect information resources and help ensure continuity of business operations (Hillson, 2006).

With regard to Risk Management the following strengths and weaknesses can be identified for CCL:

Strengths

Weaknesses

Enterprise Risk Management in place

Good frameworks

Strong focus on security & privacy regulations

Poor safety record

Strength

Enterprise Risk Management in place

Carnival Cruise Lines has introduced the Enterprise Risk Management (ERM) program. This program is designed to identify, assess, manage and report the most significant business and strategic risks faced by the company to senior management and the Board of Directors. The ERM program is overseen by a team within the Corporate Risk Advisory & Assurance Services Department, based in the Miami headquarters. CCL also maintains onsite teams at each of its brands, in order to stay aligned with the corporation's generally decentralized management structure and to develop on-site audit expertise at each of the major brands. (IBM Corporation, 2011).

Within CCL's business units risk management and internal control is an ongoing process. It is designed to identify, evaluate and manage the significant risks faced by the units and is embedded in each of the operations. A system of internal controls has been established to be capable of responding quickly to evolving risks in the business. It includes procedures for the direct reporting of material internal control deficiencies together with

the appropriate corrective action. The corporate executive management team receives periodic information regarding internal control issues arising at the business units. The primary focus of this aspect of the system is the corporate Management Advisory Services (MAS) Department. MAS is responsible for monitoring the process, ensuring that issues common to more than one business unit are identified and that all relevant matters are brought to the attention of the boards as a whole. The MAS Department is supported by the Corporate Finance and Corporate Legal Departments, as well as the CEO, COO and the CFO (CCL, 2010).

Strength

Good frameworks

CCL has adopted the Committee of Sponsoring Organizations of the Treadway Commission (COSO) guidance for implementing its internal control framework as part of the Sarbanes-Oxley Act Section 404 compliance plan (CCL, 2010). The COSO framework for ERM provides key principles and concepts, a common language, and clear direction and guidance for organizations to evaluate and improve their enterprise risk management (COSO, 2004).

Carnival Cruise Lines has a structured approach to monitoring and managing operational, financial and compliance risk across the corporation's spectrum of cruise brands. The system allows a high degree of comparability across the brand portfolio while recognizing the differences that make each individual operating company unique (IBM Corporation, 2011). The key to CCL's approach to auditing risk is the conceptualization of each of its brands as a set of business processes. Despite the differences in organizational

structures, IT infrastructures and market segments, Carnival Cruise Lines' operating companies all operate primarily in the cruise industry, which enables the organization to establish a common analytical framework. CCL has identified over 300 individual processes that are organized into 13 sections as shown in figure X (CCL, 2010).

1. Understand ma