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The next generation of cruise passengers has embarked

Personalized cruises sail away with profits

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What have they brought on board? Higher expectations for a more personalized experience. How cruise operators respond will help determine the industry's future and will be a barometer for other consumer-facing industries.

When it comes to the future of customer experience, there are few better businesses to watch than cruises: Once at the forefront of compelling customer experiences, operators now seek reinvention in an increasingly competitive market. Cruise operators not only must inject digitally enabled customer experiences into existing large-scale capital investments, but they should also forge ecosystems via co-opetition (cooperative competition), where cruise operators collaborate with travel, hospitality, and tourism competitors in their ecosystem. Customer experience will influence how cruise operators either flourish or die, with the lessons from their quest relevant across a wide swath of consumer-facing industries.

Today's competitive market is heightened as operators navigate changing cruise passenger demographics. Younger generations, who rate cruises as their favorite type of vacation,[1] are demanding enhanced features and a wider array of unique experiences. As Millennials embark on their first cruises, they have an appetite for heightened personalization and customization as compared to prior generations. In response, cruise operators are seeking to one-up competition by adding more and more unique attributes to ships. While cruise operators have excelled for generations at delivering customer experience "basics" such as an appealing environment and value-for-money, the focus is shifting—many passengers now view previously differentiating elements like a commitment to sustainability and high-quality restaurants as part of the "new" basics. The result is an even higher bar for delivering an experience that truly differentiates vis-à-vis competitors.

Another demographic factor influencing competition is dramatic growth in the Asian cruise market, which grew at a 34 percent annual rate from 2012 to 2014.[2] Anticipating increased demand from Asia, cruise operators are making capital investments (along with repositioning ships) to service the region. If demand is less than expected, the operators could be left with an oversupply that sparks elevated competitive pressure.

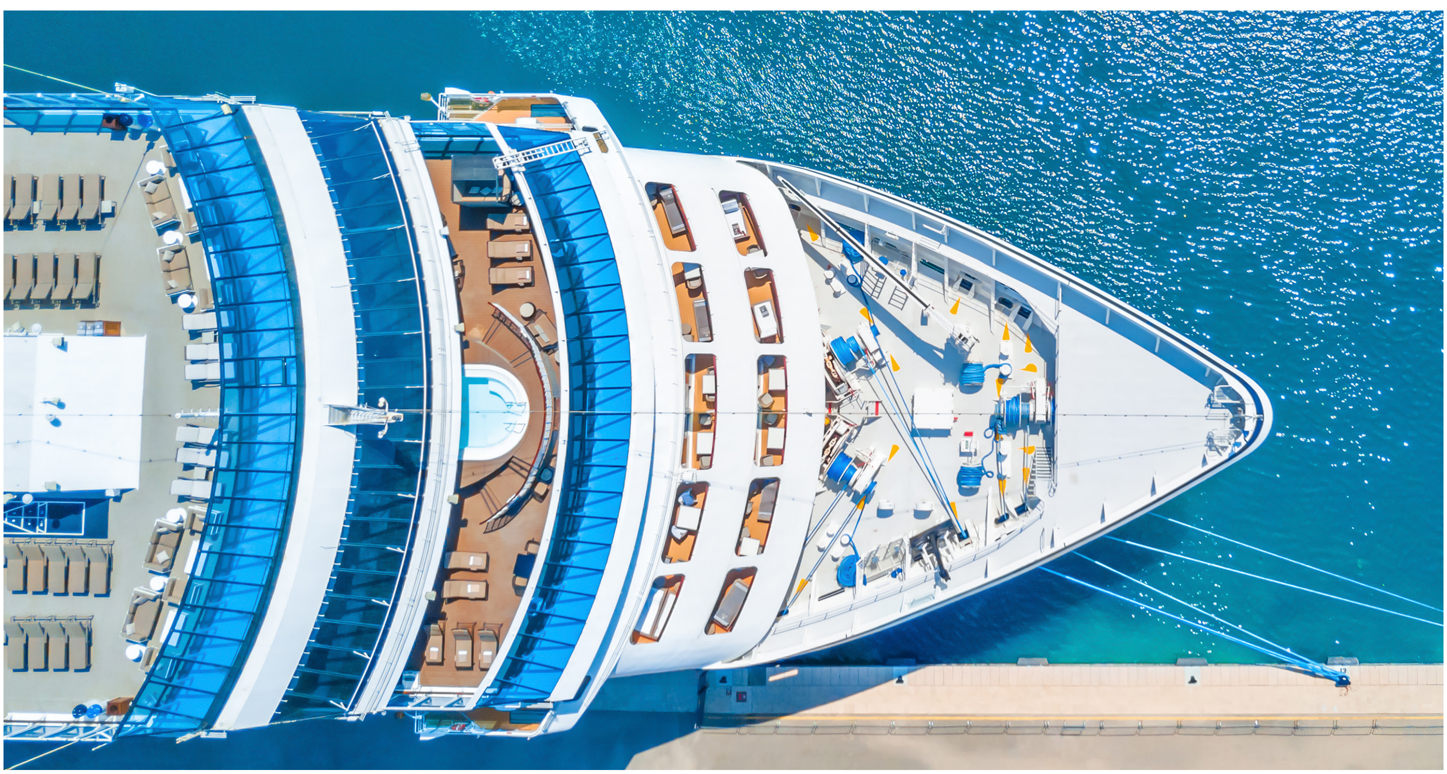
Like everyone, cruise passengers—and Millennials in particular—are digitally connected. Today, digital experiences are most common before a cruise, in the form of research, planning, and check-in, but use of digital enhancements during and after the cruise is positioned for growth. Most passengers today expect instantaneous information access and a high degree of customization. While passengers view cruises favorably compared to land-based vacations,[1] they expect a variety of experiences and ways to make each day unique, as well as a seamless experience across multiple aspects of their trip, including ground transport, port hotels, and excursions. Travel expectations may also be shaped by time spent in hotels, where operators also craft customer experiences designed to increase customer loyalty. Lessons from the hotel industry or other land-based experiences, such as theme parks, may be useful for cruise operators as well.

To provide meaningful and actionable industry insights in this changing competitive marketplace, Deloitte commissioned a 2017 study of the consumer preferences and attitudes that are helping to shape this competitive race. Almost 1,000 cruise passengers from across the United States and generational groups shared their attitudes about recent cruise trips.

Setting the stage: Cruise industry dynamics

More than ever, the cruise ship itself is the centerpiece of the way cruise operators compete. If the old way of competing was with a better product—the ship and its contents—the new way of competing focuses on the experiences that happen on or near the vessel. And because the cycle time to develop and enhance experiences is much shorter than the time it takes to commission new vessels, there is a greater level of competitive activity.

To attract customers, especially Millennials who have their vacationing years ahead of them, large operators are intensifying their efforts to one-up each other with new experiences, amenities, and technology. New market entrants with brand recognition and financial capital, such as Virgin Voyages, are positioning themselves to take on large legacy players by redefining the passenger experience entirely, through an adults-only experience and thoughtful design inspired by super yachts. On the other end of the scale, boutique operators are competing with legacy lines to offer niche options, such as river cruises, destination cruises, or themed cruises (for example, a wine tasting or live concert cruise). While Virgin has not yet entered the boutique cruise market, the company has launched Virgin Hotels in Chicago, designed to reimagine boutique hotels through amenities like the "Lucy" app, a personal digital concierge. This positions Virgin to leverage cross-industry perspective and learnings—across both its cruise and hotel businesses—when it comes to Millennials.



The basics never go out of style

Ports that passengers can reach easily, great value for passengers' disposable income, and a clean, well-maintained room that's part of a quiet, pleasant array of passenger areas—no new destination or amenity can make up for these essentials. The good news is that, in general, cruise operators are delivering on the basics (see figure 1).

At the same time, other elements that once may have been value-adds are now considered essentials. The "new" basics include modern fitness facilities; pleasant community spaces; high-quality bars, boardwalks, and restaurants; and an overall appealing environment. Even sustainability practices have moved from a niche to basic demand—a trend consistent with the hotel industry. LEED certification for properties, "green" guest rooms that include LED light bulbs and smart lighting, and guest incentives for reduced housekeeping can all be points of influence for the cruise industry.

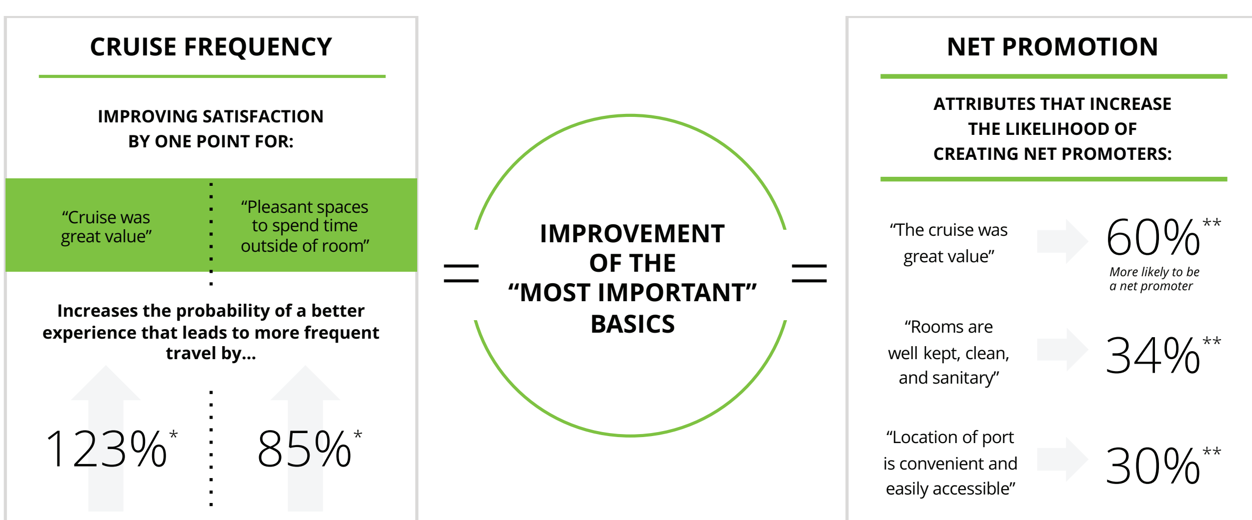
In the "old" basics, cruise operators are making the grade. Seventy-eight percent of respondents are largely satisfied on cleanliness and other classic elements of a positive customer experience in Deloitte's survey. The "new" basics, for which passengers' expectations may sometimes exceed what they look for in luxury hotels, are where experiences can provide differentiation for cruise operators. For example, "high-quality bars and/or restaurants" are rated as 1.6 times more important by respondents than luxury hotel guests; in addition, "offering pleasant spaces to spend time outside my room" is 1.5 times more important for cruise passengers than luxury hotel guests.

Consistency in meeting these standards is crucial to attract and retain critical target customer segments. Cruise Lines International Association (CLIA) reports that about 4 in 10 passengers are first-time travelers for whom a distasteful experience might put a second cruise out of the question.[3] It's also important to note that in Deloitte's survey, passengers age 18 through 24 gave many of the "new" basics categories lower satisfaction rankings than cruise passengers of other age demographics. Forty-five percent of young Millennials were unsatisfied with environmentally sustainable practices on the cruises they took. Thirty-five percent were unsatisfied with fitness facilities, and the appeal of the shipboard environment found 25 percent unsatisfied. These customers have their vacationing lives largely ahead of them, and winning their approval is important.

Another group to watch is infrequent cruisers, who account for about 40 percent of the overall market. Less familiar with the broader cruise experience, they place greater importance on the readily apparent basics: They rank pleasant community spaces as 23 percent more important than other travelers do, quality of rooms 22 percent more important, and quality of bars and restaurants 20 percent more important.

As with young passengers, first-time or infrequent cruisers represent an opportunity for future business that an operator can either secure or forfeit depending on attention to detail. Taking the basics as a whole, however, it's important to remember that while the basics represent a fundamental expectation, they do not lead to competitive differentiation. In other words, getting the basics right isn't a battle you can win. It's just one you can lose.

Figure 1. Linking the basics to frequency and net promotion



* Based on 2017 Deloitte Cruise Customer Experience Survey and Key Driver Analysis (KDA). Indicates that holding all other inputs constant, we expect a 1 point increase in satisfaction of the "cruise was great value" to increase the odds of having a great experience (and, hence, the frequency of traveling with a given cruise operator) by 123%.

** As compared to frequent travelers. Net promoter defined as someone who responded with a 9 or 10 to the question "how likely are you to recommend to a friend or colleague?" on a scale of 0 to 10.

Enhanced experience sets you apart

If the "new" basics keep you in the game, the next-level elements of the passenger experience are what can propel you to new heights—and provide a chance to stand apart from the competition.

Deloitte's Passenger-First Framework, which is based on extensive research by Deloitte's human-centered design practice on what it takes to create differentiated customer experience, takes the process of differentiating the passenger experience and breaks it into five elements that are consistent across consumer-facing industries (see figure 2).

Figure 2. The Passenger-First Framework

Deloitte's Passenger-First Framework* explores the five elements that contribute to a **differentiated customer experience**

* The Passenger-First Framework is Deloitte's proprietary customer experience methodology. This methodology has been applied to our Customer Intelligence surveys in the Hospitality and Restaurants industries, as well as across Retail and Consumer Products Sectors.

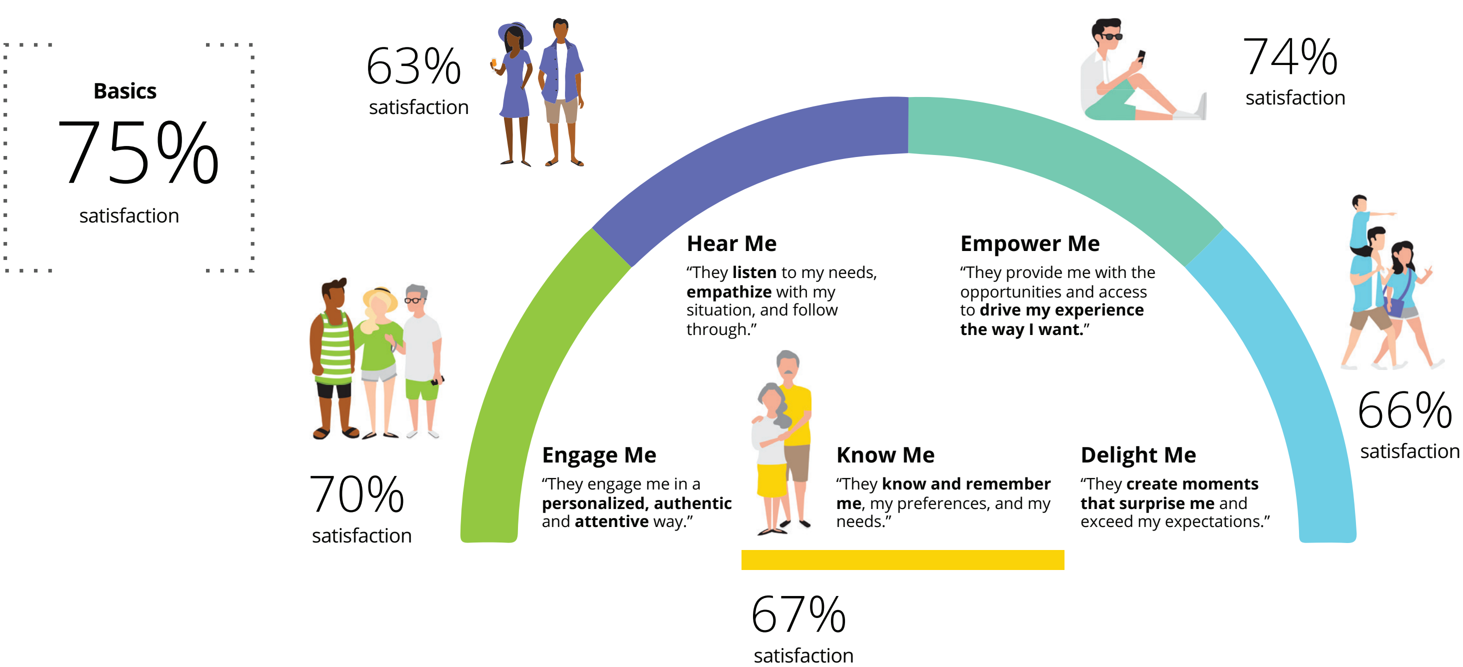
These elements are consistent across industry groups within the travel, leisure, and hospitality world. However, the relative weight of each element varies. While all five influence the extent to which cruise operators can turn passengers into loyal repeat customers, "Empower me" (opportunities and access to drive my experience the way I want) and "Delight me" (moments that surprise me and exceed my expectations) exert a disproportionate influence in the cruise business. Knowing that cruise passengers place extra emphasis on "Empower me" and "Delight me," cruise operators can style their offerings to match.

Remember that making a cruise passenger feel empowered and delighted can create a lasting benefit. A cruise operator wants passengers to be happy in the moment. It wants passengers to feel enthusiastic about coming back for another voyage. And, as net promoter scores show, creating experiences that empower and delight increases the likelihood that passengers will become voluntary brand ambassadors. Building the future of the industry begins with each step a passenger takes aboard a vessel right now.

Improvements beyond the "new" basics

Across each of the five elements in the Passenger-First Framework, the cruise industry as a whole can do better. Recall that about 75 percent of passengers surveyed say they're satisfied with the basics. None of the five framework areas scored that high (see figure 3).

Figure 3. Satisfaction beyond the basics



Source: 2017 Deloitte Cruise Customer Experience Survey. Survey based on a total sample size of 994 respondents. Satisfaction scores refer to how satisfied passengers were (based on a score of 100%) and are statistically significant.

The cruise industry doesn't suffer alone in this respect. In fact, its customer satisfaction scores in each of the five framework areas are higher than hotel and restaurant industry survey results. In these cross-industry comparisons, cruises align more closely with hotels than with restaurants. But cruise passengers tend to be more passionate about experience: They often place much more importance on "Empower me" and "Delight me" than hotel or restaurant guests (see figure 4).

Figure 4. Comparing importance across industries

Although cruise passengers are **more satisfied** than restaurant or hotel guests, their **expectations are also higher**.

These high expectations are further underscored due to the **all-encompassing nature of cruises** (lodging, food, and activities all combined in one experience).

Compared to the restaurant and hotel industries, passengers place additional **importance on being empowered and delighted...**

...which are **opportunities for cruise operators to create additional value.**

Average Importance*

	Empower Me	Engage Me	Hear Me	Delight Me	Know Me
Cruises	106	89	85	84	76
Hotels	88	90	100	51	83
Restaurants	57	57	34	49	34

Areas where cruise passengers over-index in importance relative to hotels and restaurants

Average Importance by Element

Key <60 Low 60-89 Med >89 High

Source: 2017 Deloitte Cruise Customer Experience Survey. Survey based on a total sample size of 994 respondents.
* Importance scores are indexed scores, centered around an average of 100, and are statistically significant.

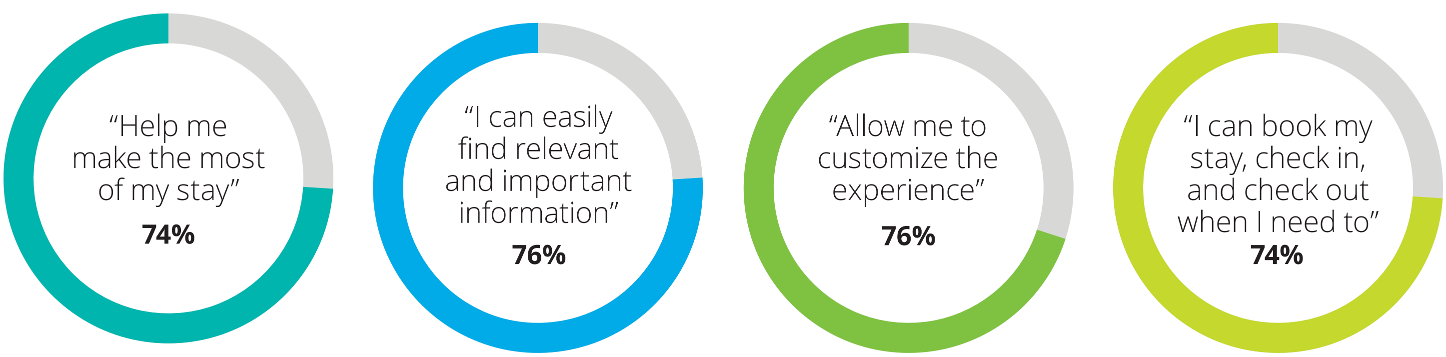
Calling for more power

"Empower me" (opportunities and access to drive my experience the way I want) scores the highest in importance and satisfaction for cruises, but there is still room for growth. The use of digital to increase personalization and customization is one promising avenue to make this happen. Don't let the mention of "digital" induce too narrow a focus on Millennials, either—older generations showed they value this category highly as well.

Across all age groups, empowerment related to the onboard experience is the attribute most important to passengers surveyed. And in many respects, cruise operators are doing well.

What does it look like when a cruise operator empowers its customers? It might use its mobile app to quiz customers on their preferences, then send recommended activities to customers at each stop via the app. Customers can then use those recommendations to build custom itineraries. Given that "Empower me" is also a greater priority for younger travelers—about 8 percent more important for a Millennial than a Baby Boomer—excelling in this area is important to attract the Millennial customer.

Satisfaction scores (in order of importance from left to right):



Investing in delight

It shouldn't seem surprising that cruise passengers put a premium on feeling delighted during a trip: *Experience* is the reason people cruise.

"Delight me" is a satisfaction area (66 percent) with broad room to improve. Even with an ever-growing list of activities and large investments in ship upgrades, 28 percent of passengers say they're unsatisfied with the experiences and activities they find on board. Since Generation X and Millennials are the groups that value "Delight me" the most, enhancing "Delight me" can pay long-term dividends.

The survey findings can help point the way to some solutions. For example, only about two-thirds of passengers say they're satisfied with how well cruise operators help them learn about the locations they visit. By working with local partners in their ecosystems, cruise operators can add destination-specific surprise and delight at moments throughout the journey. A current leader in this space is Celebrity Cruise Line's Galapagos Island cruises, which offers an Xperiential Travel program where certified naturalists guide passengers through tours of the wonders of the Galapagos Islands.[4] When it comes to leveraging co-opetition to establish mutually beneficial partnerships, the hotel industry offers inspiration that can be labeled "work-life integration." In its quest to provide memorable experiences to guests, Marriott International recently invested in PlacePass, which offers travelers a search platform for unique experiences at their destination.[5]

Helping passengers "seamlessly connect" a cruise to other parts of the travel experience, such as air travel or onshore activities, is another opportunity area: Increasing satisfaction from "moderately" to "very" satisfied can result in increased cruise frequency. Similarly, increasing satisfaction with the way a cruise "predicts and meets my needs based on the type of trip I'm taking" leads to a 50 percent increase in a traveler's becoming a net promoter, for passengers surveyed. To help create a more seamless end-to-end travel experience, several hotel chains and airlines have established partnerships with the major ride-sharing companies—an approach that could also benefit cruise operators.

It all starts with knowledge

Creating a differentiated experience requires knowing your customers. Yet even dedicated cruisers don't "frequent" ships the way they might frequent their favorite restaurants and hotels. "Know me" doesn't take the form of having a weekly corner table reservation or theater tickets waiting upon arrival. But the right kind of knowledge can help a cruise operator interact with the passenger in a satisfying way—and given the infrequent nature of cruises, the opportunity to "get it right the first time" is critical.

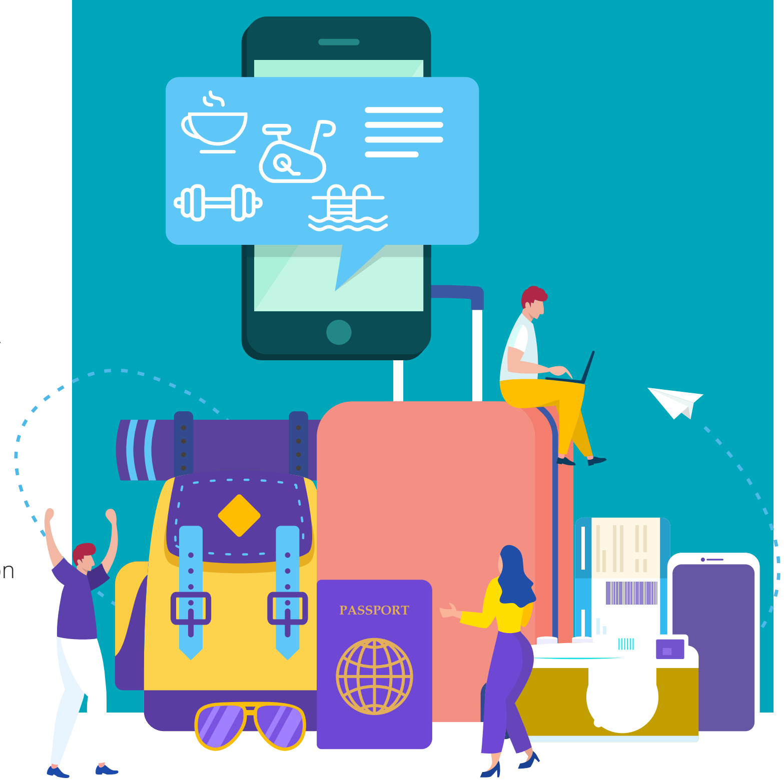
The importance of "Know me" is measured largely in staff interactions. An employee recognizing a passenger and interacting in a personal way paves the way for other satisfying parts of the experience. Some of what a cruise "knows" about its customers can be inferred from market research and social and digital tools. Some of it may be expressly stated by the passenger—for example, when a passenger fills out an interactive itinerary builder before the cruise that results in an onboard "welcome gift" built around that person's interests.

The cruise operator's loyalty program could remember passenger preferences and interests, providing bespoke recommendations throughout the customer journey—from digital engagement when a cruise enthusiast is selecting the destination for her next journey, to providing recommendations for onboard activities based on ratings from previous trips, and prompting recollections of favorite excursions on social media in the months following. Cruise operators may need to invest in enhancing their information systems to cultivate this knowledge of the passenger, but it is the backbone to empowering and delighting the passenger.

Putting it all together

Knowing a passenger's preferences, habits, and desires gives the cruise operator the raw materials to empower and delight its passengers.

Here's how the elements might appear in narrative order: When a passenger uses a mobile app to check in, the crew has immediate access to the passenger's profile data and preferences, allowing employees to "push" local experiences to the passenger using the app, which might lead to the passenger signing up for a local cooking class at the next port. From data to cooking classes to a satisfied customer, all in a way that is more personalized than traditional onboard programming could ever have achieved. The cruise operator's mastery of the supporting data, analytics, and digital capabilities can help make that a reality.



Transform passenger experience

The information a cruise operator uses to empower and delight passengers can flow through more than one channel; utilizing multiple channels allows cruise operators to take a multifaceted approach to passenger experience. *Hybrid* channels represent the combination of digital and in-person interaction that provides crew members with the insights they need to address each passenger's needs.

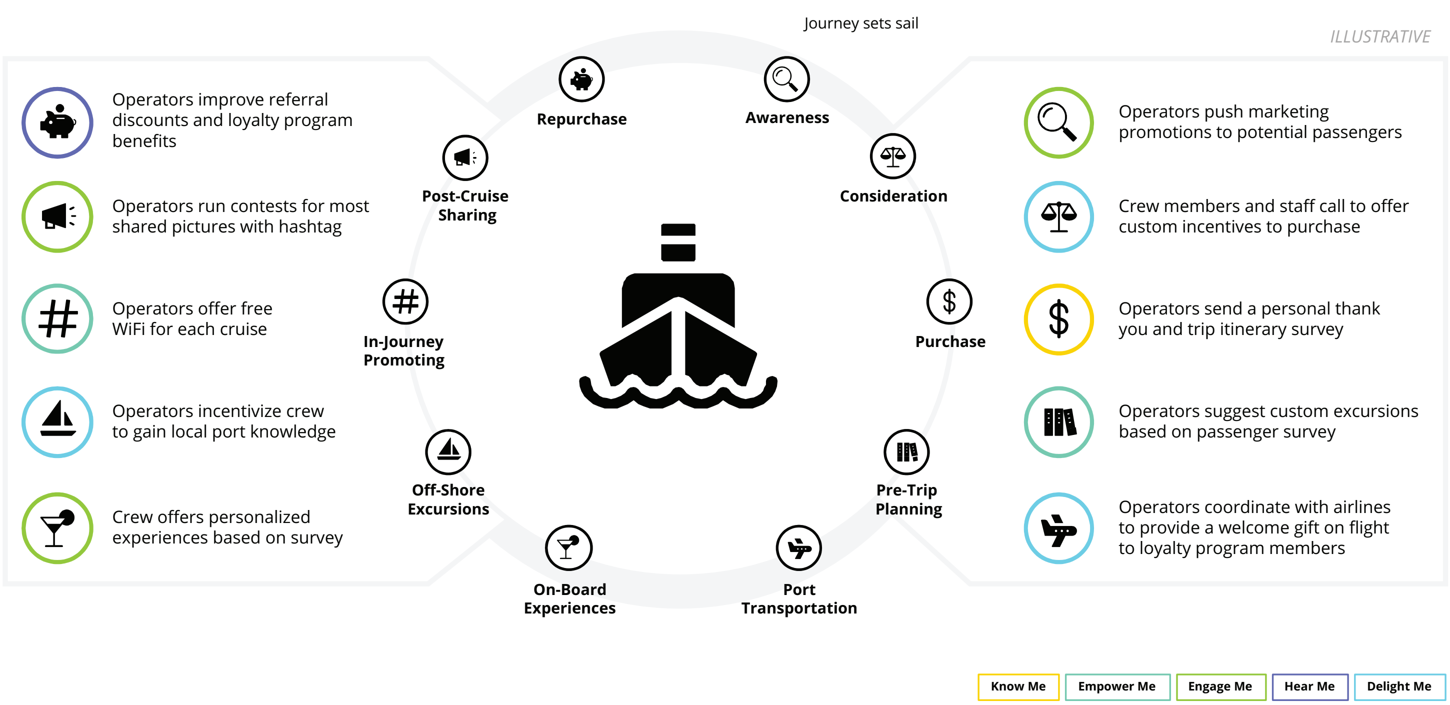
Interaction before the cruise, such as sending relevant offers, depends more on digital channels. Interaction during the cruise, such as personal recognition from staff members, naturally is more about hybrid channels, where staff access to information about passengers prompts more personalized interactions. Some aspects of the experience rely on both digital and hybrid channels—for example, recognition by loyalty programs, predicting and meeting passenger needs, or helping passengers get to know destination areas. The use of both digital and hybrid channels makes it possible for passenger touchpoints to be at the optimal time and place, serving as the foundation of any effort to transform the passenger experience.

Use digital to enhance interactions

Today, passengers of all generations both want and use the self-service aspect of the digital channel to address their needs throughout the journey. Cruise operators can continue to refine self-serve options for booking, check-in and check-out, and activity selection. But successfully embedding digital in this new customer-centric world is about more than enabling passenger self-sufficiency through onboard apps—when digital and in-person interactions combine in the hybrid channel, the new touchpoints that result provide an opportunity for the crew to surprise and delight their passengers. Today, 86 percent of cruise passengers surveyed report satisfaction with how friendly the staff members are, but only 69 percent surveyed are satisfied with how well the staff is able to predict and meet their needs during a trip. Establishing hybrid channels that bring together passenger data with in-person interactions can bring those scores into better alignment.

Passenger experience transformation also helps reallocate the crew's time in ways that can boost satisfaction. With the right self-service tools, staff members can spend less time on rote tasks like check-in and check-out, distributing basic onboard information, and fielding complaints. They can spend more time discussing personalized information about destinations, anticipating passenger needs, and helping passengers plan activities and itineraries (see figure 5).

Figure 5. Passenger experience transformation



Where to begin

The results of Deloitte's passenger survey, the course of technology, and the competitive landscape all point to the same conclusion: To create a differentiated experience in a highly competitive market with increasingly savvy consumers, cruise operators should invest disproportionately in enhancing passenger experience—as well as in the data and digital tools required—to deliver self-service and a bespoke in-person experience powered by an underlying decisioning and insights capability.

As with any experience-focused transformation, this one is phased and iterative. Operators should beware of shiny "next big things" and proceed deliberately. It begins with assessing a starting point by sensing and framing their customer experience opportunities, developing a perspective on what customers want and why, understanding implications on economic value, and then delivering truly personalized experiences to reach passengers in new and compelling ways. This will require operators to make investments in amassing "smart" customer data and structuring it in such a way that it powers real-time decisioning, content, delivery, and a differentiated customer experience across all channels—eliminating siloed, channel-driven business decisions. Then it's time to "fail fast" by trying new approaches, validating hypotheses, measuring results, and trying again.

By empowering and delighting the young, first-time, and infrequent cruisers of today, operators can provide experiences that will entice passengers to fall in love with the cruising experience, ensuring competitive differentiation in the cruise industry of tomorrow.

Assess:
What is your passenger experience model today?

Understand your company's Guest Experience DNA—what defines your organization's customer & digital capabilities—to own disruption and unlock your passenger experience transformation.

Enable:
What could your CX be tomorrow?

Dive into data and analytics to create customizable, sustainable, and customer-enabled onboard and off-shore experiences. Determine the minimum viable changes that are needed to splice digital customer DNA into your organization.

Transform:
Where do you see your company in 2030?

Own the seas. Implement a digitally enhanced, CX framework focused on the next-gen customer to reimagine your passenger experience and drive sustainable monetary growth.

Methodology

Deloitte's Customer Intelligence (CI) Lab combines customized research with proprietary data sets to collect and reveal customer preferences. The CI Lab has completed research in the hospitality, restaurant, retail, and consumer products sectors.

Deloitte's CI Lab surveyed cruise ship passengers to understand what makes great customer experience. The 2017 Deloitte CI Lab cruise survey included 994 cruise passengers, demographically representative of the US population.

Survey respondents represented three generation groups: Millennials (ages 18–34); Gen X (ages 35–54), and Baby Boomers (ages 55–70). Various cruise types were assessed, including spring break cruises, family cruises, romantic cruises, river cruises, and senior cruises. Five cruise operators were included, selected for inclusion based on size and longevity in the market. As such, this study does not reflect a comprehensive view of all cruise lines.

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