Tourism Management Perspectives 16 (2015) 298–305

Contents lists available at ScienceDirect

Tourism Management Perspectives

journal homepage: www.elsevier.com/locate/tmp

Cruise shipping in Brazil: An emergent or established market?

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A R T I C L E I N F O

Article history:
Received 5 January 2015
Received in revised form 17 August 2015
Accepted 10 September 2015

Keywords:
Cruise shipping
Trip tourism
Port of Santos
Brazil
International
Market segment

A B S T R A C T

In Brazil, the cruise shipping industry has showing remarkable growth by expanding and diversifying routes, and incorporating bigger, more luxurious ships, thereby establishing cruising as the equivalent of more conventional destination based tourism. Initially the cruise shipping companies started activities in the Brazilian market to optimise fleet utilisation during the Northern Hemisphere winter season. However, while for more than a decade the Brazilian market achieved double-digit annual growth, after 2011 the numbers of passengers, ports visited and ships used have declined. This paper contends that Brazil is a mature cruise market in its own right and examines the industry in terms of both itineraries being offered and the role of Brazilian cruising in fleet deployment.

1. Introduction

The Cruise Shipping Industry is composed of numerous services that range from the basic operations of accommodation to luxury and personalised services of the cruise guests. Travelling on a cruise ship is a unique experience. It is a combination of large resort hotel, excellent gastronomy and various entertainment venues, whose events occur simultaneously within the unique infrastructure of a ship. The cruise shipping companies have to coordinate all of the activities and operations whose timing and coordination are essential. This industry is diverse and complex and presents impressive numbers; the global operator cruise market reached 21.3 million passengers with 410 ships in the 2013/2014 season, according to Cruise Lines International Association (CLIA, 2014). The same report estimated that the industry investment level was U$ 7.2 billion, including 29 new ships with an additional capacity of 34,000 passengers, for the 2013/2014 season. An additional 20 ships (with 52,000 beds capacity) are expected for the 2015/2018 season. The Caribbean and Mediterranean are traditional market areas and account for 60% of the passenger capacity of the cruise shipping industry. However, some remarkable developments are taking place in the non-traditional cruise areas such as South America, which is our focus of investigation. The global number of passengers presented an average growth rate of 7% per year in the period 1990–2013. The United States has the largest share, accounting for 51.7% of all cruise passengers in 2014 (CLIA, 2014). Brazil ranks sixth in number of passengers with 3.4% of the global share (the same as Canada, for example).

Brazil's long coastline and generally calm sea conditions provide a strong foundation for the development of the cruise industry. The Brazilian cruise shipping activities began in the late 1990s, due to new shipping and port regulations, improvement in middle-class income and local currency stability. Initially, the cruise shipping companies profited from the opposing summer seasons of northern and southern hemispheres According to Concais S/A, the only passenger terminal in the Santos (the main embarking/disembarking port in Brazil), the Brazilian cruise market has rapidly evolved and, in the 1999–2011 period, with an average growth of 13% per year in number of passengers. However, after a steady double-digit growth rate over 10 years, in the 2011–2014 period, not only the number of passengers, but also the number of calls and ships dropped year after year.

The figures are contrary to the expansion of the cruise industry on an international basis as well as the growing tourism activities on a national level in Brazil. This particular situation of the Brazilian market is remarkable and offers motivation for our research questions: Is Brazilian cruise shipping an emergent or an established market? Has the saturation point been reached? What should be the next strategic steps taken by cruise shipping companies operating in Brazil? The research aim is to provide an analysis of the cruise industry as part of the tourism activities in the context and characterisation of the Brazilian maritime cruise market. This is an exploratory study dealing with secondary data provided by ABREMAR (Brazilian Association of Maritime Cruises, founded in

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http://dx.doi.org/10.1016/j.tmp.2015.09.003

2006 and partner of CLIA in 2013) and Concais S/A. Additional data and information were gathered from CLIA and the Brazilian Ministry of Tourism. Efforts have been made to contact and interview the cruise line managers as additional industry experts, but no feedback has been received.

It is important to mention that this study builds on previous research originally started in 2009–2010 by UNISANTOS MBA (Master of Business Administration Course of Santos Catholic University), whose first results were presented at the 2011 IAME Conference in Santiago, Chile. Unfortunately, one of the researchers passed away, but her contributions remain fundamental to this investigation.

2. The tourism industry: notes on definitions

With impressive figures, the maritime cruise market is considered a niche in the tourism industry. The tourism sector consists of several activities and its development contributes economically and socially, for example, generating jobs and enhancing incomes in regions and countries. In the literature there are several definitions of tourism. Here, we highlight those relevant to the Brazilian cruise shipping market that we are investigating.

According to Beni (2000), "Tourism as a phenomenon is so great and complex that it is virtually impossible to express it properly." Beni (2000) considers that the displacement choice is part of the effort to satisfy tourists' cultural, professional, economic, ethnic, sporting, religious and social needs. For La Torre (2003), based apud Hunziker & Krap (1942) "Tourism is a set of relationships and phenomena produced by the displacement of persons who decided to be [sic] out their domicile places activities not related to work."

Ignarra (2003) defines tourism as a complex phenomenon and suggests that it is composed of four elements: trip, place of residence, stay length and leisure reasons. Gee and Fayos-Solá (2003) define tourism displacement as "the act of one person going out of his community for business or pleasure, but not as a daily commute back and forth from work or school."

Finally, tourism, argues Cobra (2001), presents a service typology ranging from touristic merits, trip reasons and transportation means, to tourist group profile and accommodation, and relates tourism products to special niches such as Religion, Ecotourism, Rural, Adventure, Culture, Gastronomy, LGBT (lesbian, gay, bisexual and transgender), Health Tourism, Shopping, Urban, Industrial and others. Beni (2000) noted that, "The supply of Tourism services can be conceived as a set of natural and cultural aspects […] made up by numerous elements tangible and intangibles".

The Brazilian Tourism Ministry (Brazil, 2010) includes cruise shipping as part of Nautical Tourism. However, for the purpose of this investigation, the argument proposed by Rodrigue and Notteboom (2012) will be used: "We argue that the cruise industry sells itineraries, not destinations, implying a level of flexibility in the selection of ports of call." Therefore, within the scope of this paper, cruise shipping is defined as *Travel Tourism* in opposition to *Destination Tourism*. This implies that the product to be consumed is the travel itself consisting of certain combinations of ports, routes, calls, on board services and eventually categories like college associations, religious groups, LGBT and so on. These are key aspects to understand what and how the cruise shipping companies set up their marketing strategies.

The marketing of the tourism sector is guided by the principles of service marketing. However, tourism services differentiate themselves from other services, as they usually depend on a combination of multiple services coordinated in a specific location. Ignarra (2003) lists some of the most relevant components of tourism services: goods, services, auxiliary services, resources, infrastructure and equipment, management, image, brand and price. Lumsdon (1997) defines Tourism Marketing as a "managerial process of anticipating and satisfying existing and potential visitor wants more effectively than competitive suppliers or destinations." According to Beni (2000), it is "an administrative process by which companies and other Tourism organizations identify their customers (tourists), real and potential, in order to formulate and adapt their products to achieve optimal satisfaction of demand (sic)".

In this sense, to be effective in their business, the tourism service providers usually make use of market segmentation as a tool to accomplish their marketing strategy. Segmenting a market consists of dividing consumers into homogeneous groups with similar purchase processes. Montejano (2001), for example, defines segmentation into two groups: based on age or on participants' family or business members. We understand that this is a valid basic segmentation, but it requires complementing by other relevant factors that shape the needs of the tourism activity.

The precision of market segmentation is highly correlated to the effectiveness of the marketing strategy. Over time, it seems that the cruise shipping companies have learnt how to sharpen their segmentation, bearing in mind that their "product" is actually a specific combination of hotel, leisure, restaurant and transportation, calling at a sequence of ports in a given time. According to Rodrigue and Notteboom (2012), "since the cruise industry appears fundamentally to be driven by supply, it is likely that supply saturation, as opposed to demand saturation, will constrain future developments and impose a maturity on an industry that has continued to grow rapidly." That is, cruise shipping companies drive their market segmentation to avoid reaching the saturation point.

3. The maritime cruise industry: past, present and relevant trends

Cruise liners emerged during the nineteenth century when wealthy people began to choose ships for leisure travel. The first cruise was reported in 1857 in the Mediterranean Sea, the voyage of the British passenger ship Ceylon, which was owned by Peninsular & Oriental Steam Navigation Company Limited (P&O).

Until the late 1950s, passenger ships were not primarily a leisure option, but used for transporting people between different destinations worldwide (Conejo, 2006). During the 1960s, with the evolution of air travel, intercontinental flights became much easier and faster than sailing ships. Airline companies pushed for tourism industry growth, while shipping companies saw their passenger numbers decline, which induced them to rethink their business (Amaral, 2002). In this process, some companies gradually changed their focus from passengers to cargo (such as Hamburg Südamerikanische Dampfffahrtshiff Geselschaft[2]), while others started their entrepreneurship as new cruise companies (like Royal Caribbean, founded in 1968), and by doing so, established the new parameters of this new tourism segment. In the 1980s and 1990s, maritime cruise gained popularity with the introduction of technological innovations and new ship sizes and amenities.

This investigation makes use of the multiple ways to characterise the cruise industry: the geographical scope, the market operators and cruise trip typology. The first is related to the cruise activity per region. As pointed out by Rodrigue and Notteboom (2012), the Caribbean Sea and the Mediterranean Coast have the largest number of cruise visitors as the cruise ships operate there on a regular and year-round basis. The data provided by CLIA (2013 and 2014), and shown in Table 1, clearly demonstrate cruise shipping companies' fleet deployment. The Caribbean region capacity share decreased from 45.7% in 2003 to 37.7% in 2014, while the Mediterranean region increased from 11.5% to 18.9% in the same period. The South American share was still considered as minor in this context, but grew significantly from 2.4% in 2003 to 3.3% in 2014. Despite these changes in the share of deployed capacity, the Caribbean remains the most important region.

Consideration of cruise market operators by number of passengers constitutes the second element in this analysis. The strategy of multiple

[2] Company history is available at http://www.hamburg-sued.com/group/en/corporatehome/aboutus/history/hamburgsdhistory.html.