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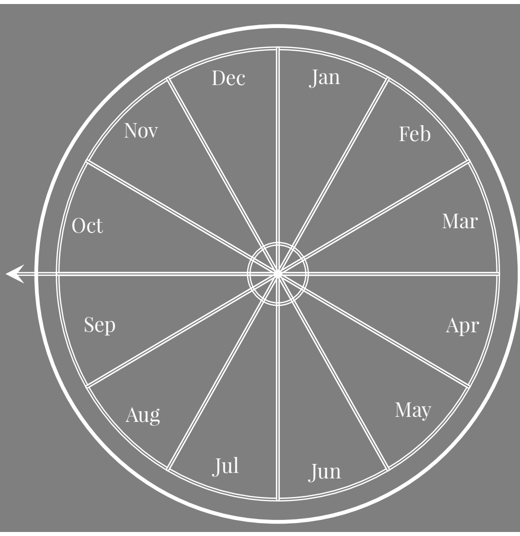

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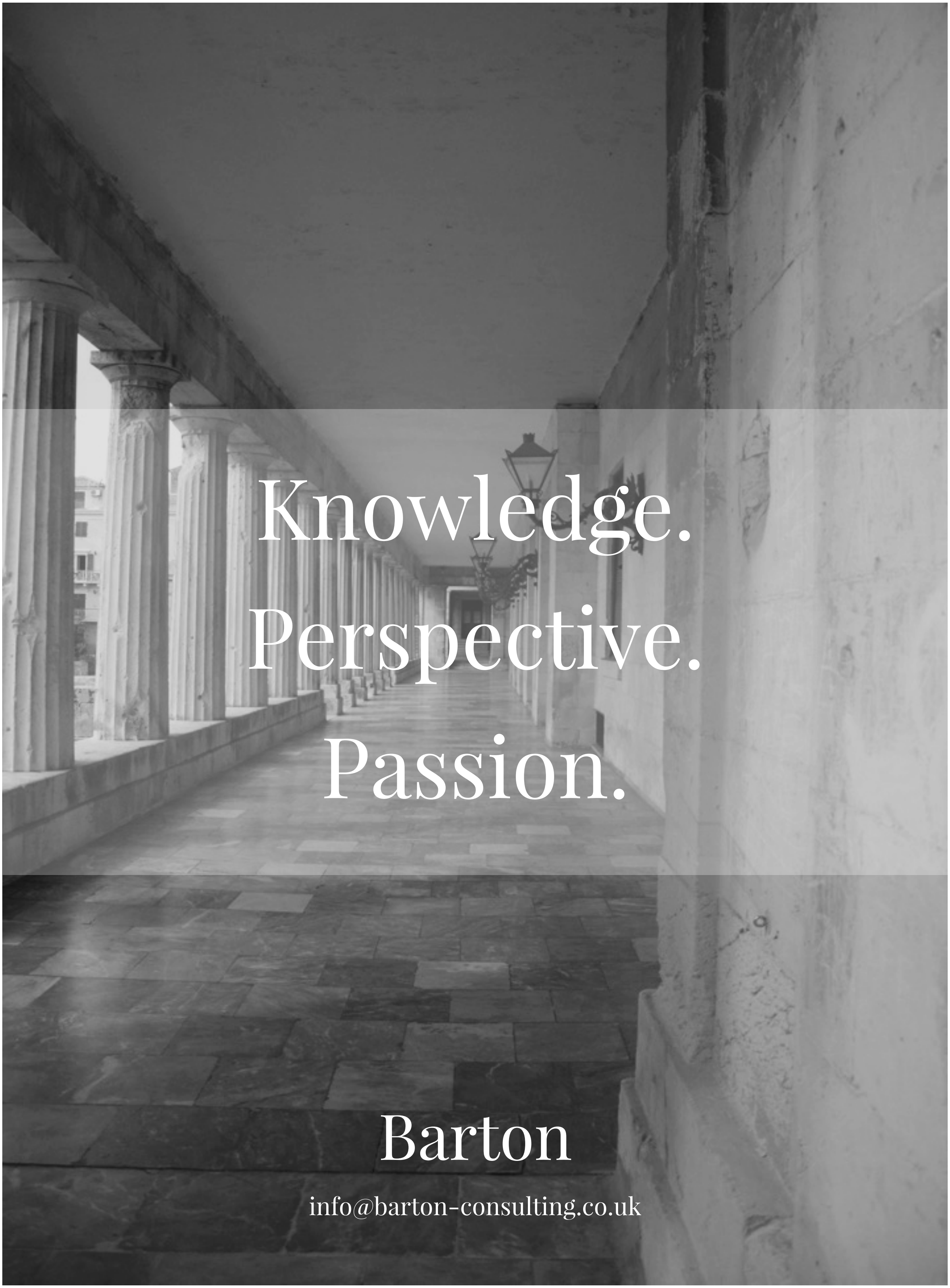
Knowledge.
Perspective.
Passion.
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CRUISE CONTROL

A little Greek island awakens to the sight of five – yes, five - 3,000+ passenger cruise ships towering above its little sugar-cube buildings in the harbour. In a matter of minutes, boatload after boatload of passengers from these behemoths arrive on shore. Sitting a little way off from these floating giants is a 300 passenger, all-suite, purely luxury vessel. Noticeably smaller than its companions, it is clearly far more exclusive.

In the space of a few hours, an estimated 12,000 people from these ships collectively descend on the famous Chora (major town) of the island. It's worth noting that the population of the entire island is itself around 12,000 people.

The streets become crammed with all nationalities, all ages and all sizes of cruise tourist. Cruise ship guides with earpieces and branded placards, carried into battle like the Roman vexilla, desperately shout behind them in snaking stone streets; bewildered groups huddle with curiosity around open store fronts and cafes, blocking the pavement traffic. The only sound you can hear is a sheer cacophony of voices that mix together so furiously that it becomes impossible to focus on any one in particular.

The relatively expensive menus in the touristy cafes are scrutinized, but even the passengers themselves contemplate that there is simply no experience to be had when such vast quantities of human traffic move through the place. In all this, weave the smaller groups from the smaller ship. "Ok, I actually wish I was back onboard now" one says, making their way through the dense scrum of tourists from the other boats, who were oblivious to their plight. Terrified by the circus-like scene, these passengers – many of whom were paying an estimated minimum of $2,000 a night for the experience – appeared shocked, disappointed and underwhelmed. No wonder.

The resilience of the cruise ship market has been one of the biggest post-COVID surprises in travel. Many cruise companies' share prices were hammered during the pandemic, with investors fearing the 'incubator' factor of cruising that has long seen gastrointestinal infections rip through the entire passenger population with frightening rapidity. Some, at the peak of the panic, questioned whether cruising even had a future, given the stringency at the time in social distancing in enclosed spaces.

But cruising has roared back and is now growing at a Compound Annual Growth Rate (CAGR) of about 7.9%. Luxury travel, which has been one of the fastest growing areas of travel overall, has a CAGR of about 7.6%.

The luxury end of cruising also happens to be one of the fastest growing. Known as 'ultra-luxury' cruises or 'small-ship' cruises, the luxury cruise market this year carried over 1m passengers for the very first time, up from 600,000 in 2019. By 2030, it is projected to pass 1.5m passengers a year. This is partly due to massive increase in

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capacity. In 2018, it was estimated that across the ultra-luxury fleet, this capacity was about 544,000 guests. By 2027, it is estimated to be around 1.1m guests with an estimated 73 ships afloat purely focused on luxury cruisers.

And whilst these luxury cruises focus on providing an ever-more exclusive experience with larger, increasingly more characterful and luxurious suites on smaller ships – many of them describing their vessels (for PR purposes of course) as yachts – the rest of the cruise market has been focused on building ever larger ships. In 1996, the Carnival *Destiny* was the largest passenger ship afloat, with a length of 272m (893 ft) and a gross tonnage of 101,353 GT. By 2006, Royal Caribbean’s *Freedom of the Seas* was number one, with a length of 339m (1,111 ft) and a gross tonnage of 154,407 GT. The current largest passenger vessel is Royal Caribbean’s *Wonder of the Seas*, only slightly longer at 362m but considerably larger in volume, with a gross tonnage of 236,857 GT.

More impressive – or frightening - is the growth in capacity of these ships. Carnival *Destiny* carried about 2,642 passengers at capacity. *Freedom of the Seas* has a maximum occupancy of 4,515, but *Wonder of the Seas* can carry a quite intimidating 6,988 maximum passengers, with at least 5,700 at double occupancy – more than double the passengers carried on the *Destiny*. Whilst the cruise industry argues that these truly massive vessels are actually more sustainable due to their scale of carrying more passengers, therefore requiring fewer ships, this clearly has an impact on the ports they visit, some of which will have a smaller population than the cruise ship. Whilst these visitors represent an economic boost, there is always a downside to the presence of so many people descending all at once.

Of course, the other challenge at play here is how the ultra-luxury and non-luxury cruise market will co-exist together. In the great ocean, there is no issue, but as witnessed on the little Greek island, when they make port, there is no way they can avoid each other.

One of the biggest problems on the horizon is that some popular destinations have started to impose restrictions on how many cruise ships can visit in a day. In January last year, the Balearic Government and the Balearic Islands Port Authority reached an agreement to receive 14.5% fewer cruise ships into Palma. Only a maximum total of three cruise ships will arrive in Palma on the same day, and only one of them is allowed to have a capacity of more than 5,000 passengers.

Whilst this may look like good news for luxury cruise ships, the restriction applies equally to them and reduces the number of total cruise ship stopovers, forcing them to port elsewhere, potentially alongside behemoths that see over 5,000 passengers disembarking ahead of them. As ultra-luxury cruises grow, this conflict is likely to appear more and more, and companies will have to become more innovative and imaginative with itineraries and the total experience.

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Sector updates

Image: Japan Airlines

Japan Airlines – otherwise known as JAL – have launched a new luxurious First Class cabin product on their new long haul Airbus A350-1000 aircraft, replacing their old Boeing 777 fleet. The first new planes will be flying a premium-heavy route from Tokyo Haneda to New York JFK by the end of this year, but most importantly, the First Class seat upgrades the JAL experience significantly. Like Etihad and Singapore Airlines on the A380, JAL have created a fully enclosed First Class suite with doors, which Barton notes, are the biggest trend in Business and First Class seats of late, and of which one can expect a furious level of retrofitting in the next year or so. An even bigger sell is that the seat will convert into a double bed. The airline will also do away with overhead bins in first class, instead having hand baggage stowed under the seat and providing passengers with a wardrobe and with a new sound system by Euphony, will provide passengers with a headset-free individual sound experience by fitting two bespoke loudspeakers on each side of a standard headrest

Never a brand for a discount at any time, Chanel announced that it will be increasing prices of its goods in China, Taiwan, Thailand, Malaysia, Australia and Japan by between 6% and 8%. "This is something we regularly do, in line with our commitments made in terms of price harmonisation" a representative from the French fashion house claimed. The timing of it is certainly interesting to Barton, as many of the aspirational buyers that brands have relied upon have slowed or even stopped their spending in the midst of global inflation, rising interest rates and a less than certain future employment market. Raising prices at this point is hardly likely to make the brand more attractive to them, although it may serve the brand well in catering towards a more exclusive clientele who aren't affected by such price increases. However, there is a longer game at play, as brands such as Chanel see their products as investment grade, with high prices achieved on the secondary market. Increasing prices in this environment is about maintaining that prestige.

Image: Chanel

Image: Birkenstock

Birkenstock is about to list on the NYSE in one of the most long-awaited IPOs of the year. The estimated valuation is at around $10bn with around 32m shares being sold. The brand, though ancient (250 years) and iconic, has felt like a usurper in the world of luxury as it is known for its rather dull and practical (albeit durable and comfortable) sandals. It's quite a valuation for the business which is currently 100% owned by L Catterton, the LVMH-backed private equity house. Obviously, Birkenstock's value is clearly something to do with the increased casualisation in society since the COVID-19 pandemic, not least in the consumer championing the comfortable (sneakers at meetings, working from home etc). However, could it be that the valuation on this expectation is already out of date? Though the business comes with the sprinkling of Arnault family magic fairy dust (certain to reassure early buyers), the brand doesn't feel like it has much more headroom in the luxury world, unless they can successfully pivot into other product categories which has, historically, been difficult for shoe brands.