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Report memo

Opportunities and challenges related to increased shore-based value creation from cruise tourism along the Norwegian coast

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PREFACE

The cruise industry has become an increasingly larger and more important part of the Norwegian travel and tourism market. In recent years Norway has experienced a strong increase of cruise passenger along the Norwegian coast and Svalbard (Spitsbergen) where both the Hurtigruten and other national and international cruise operators have expanded their offerings. Providers to cruise traffic in Norway involves not only the ship, port and pilot services, but a huge range of actors from different parts of the business world as excursion agents, experience-, activity and cultural businesses, guide service, the destination organizations and not least other industries such as transport, trade and accommodation.

In the report results from a national survey about what opportunities there are for increased land-based value creation from cruise tourism along the Norwegian coast are presented. The survey was conducted in the spring of 2017 and is based on responses from 101 commercial actors. The respondents represent the tourism industry, cruise and ship agents, port authorities, destination organizations, tourist office and business network.

The survey is designed and implemented by Nordland Research Institute and are included as part of the work of the project “Value creation from cruise tourism for sea-and land-based tourism industry in the northern regions”. The project is part of the research project Northern Insights (www.opplevelserinord.no) and is included in The Research Councils of Norway’s program NORDSATSING (2009 - 2017) (http://www.forskningsradet.no/prognett-nordsatsing/Forside/1228296261486.).

1. Introduction

The main issue that we would like to address in this study is how cruise tourism can contribute to increased all-year regional and national value creation for shore-based businesses at Norwegian cruise destinations? To do so, we will look at how such businesses operate and collaborate and what opportunities and challenges they envisage to succeed with their own activities vis-à-vis the cruise traffic. Our analyses have been delimited to studying the firm level (businesses/business activities) at the destinations. Studying the firm level involves addressing issues related to business conditions such as: what products and services they offer, strategic and financial conditions, the competitive situation and collaboration. In other words, how they assess their own situation and what opportunities and challenges they see. Consequently, the study does not consider the desires and views of the cruise operators or tourists, beyond those viewpoints which the cruise agents represent as agents for the ships and shipping companies.

2. About the respondents

The study is based on replies from an electronic questionnaire which in the spring of 2017 was distributed to 1921 businesses in the travel industry located at the 57 cruise destinations and municipalities where cruise ships or the coastal steamer Hurtigruten call (cf. the appendix for an overview). Of these, 208 responded to the questionnaire (approximately 11 per cent). Of these again, 101 businesses offer products/services and/or marketing/introductory sale to cruise operators and/or Hurtigruten. The businesses were spread throughout the country with around 37 per cent of respondents from the North of Norway (incl. Svalbard), 25 per cent from Western Norway, 18 per cent from Eastern Norway, 14 per cent from Southern Norway and 5 per cent from Central Norway. The final selection consists of businesses in the travel industry (60), port authorities (13), destination companies/tourist information offices (12), cruise/business networks (6), cruise/shipping agents (5) and others (5). In the following, we refer to this distribution between various business groups when we compare various "types" of businesses. Due to a limited number of respondents in this study, one should take care not to generalise the results onto a larger population.

3. Positive to the basis for cruise tourism along the Norwegian coast

The respondents believe that there is a foundation for value creation. In the current study, they find Norway, their own region and their own destination to be highly attractive cruise destinations (on average 5.7 to 6.3 on a scale of 7). Furthermore, suppliers to cruise ships regard this tourism as unproblematic. Most of the respondents feel that tourists arriving in Norway by cruise ships are not a strain on the local community/destination, that they do not pollute too much or have a negative impact on other tourism in Norway. The respondents also mainly agree that cruise tourism advertises Norway and contributes to cruise tourists returning to Norway as regular tourists, and that there is a high potential for increased earnings from cruise traffic along the Norwegian coast. At the same time, around half of the respondents believe that Norwegian businesses do not earn enough from the cruise tourists who come to Norway and that they do not leave enough money behind. In our opinion, there seems to be an opportunity for increased shore-based value creation.

4. What can contribute to local value creation from cruise ship calls?

There are many factors that are considered important for increased local value creation from cruise traffic. The main one is a willingness to invest in cruise tourism. In this respect, the port authorities' and destination's willingness to do so is key (score of 6.7 on a scale from 1-7). As we see it, this has a lot to do with facilitation as well as sales and marketing, which is hardly surprising. Then follow five factors that are deemed equally important (score 6.4). These factors can in many ways be characterised as an "infrastructure" which must be in place or be facilitated to succeed. They include that the cruise agent has experience and a network, that the quay capacity and a quay solution are in place at the port, that opening hours for shops and tourist attractions correspond with the arrival time of cruise ships calling at the port, that businesses can provide unique products and that the businesses at the destination are able to cooperate well. Almost equally important (score 6.3) are factors that can generally be characterised as "product and sales-oriented". They involve cruise ships selling excursions on board or that this can be arranged when booking the cruise, that tourists are offered experiences based on the local culture (including food) or local natural phenomena, that there are transport facilities from the quay to the relevant attraction at the destination and that the cruise agent is able to include the companies' products in his own portfolio. Finally, among the main factors are the need for maps and signage at the port of call, that the ships remain in the destination harbour for some time, the cruise operator's price policy for the sale of excursions and how Norway is marketed compared with other countries. One could generally say that local value creation from cruise ship visits mainly depend on a willingness to invest in cruise tourism, infrastructure (a good port, experienced cruise agent, adapted opening hours, unique products and collaboration) and facilitation of the sale of interesting products. The least important of the findings in this study are the companies' own marketing vis-à-vis the ship owner/agent and that it is possible to book experiences and services at the destination.

The various types of businesses agree that the willingness to invest is the most important factor for local value creation from cruise ship calls. There are otherwise some differences as to what they believe is most important. For instance, tourism companies have a higher focus than the cruise/shipping agents on means of transport from the quay to relevant places where services can be offered and the cruise agent's ability to include their products in his own portfolio, with a score of 6.4 versus 5.0 and 6.5 and 5.0 respectively. The differences are statically significant.

5. How important is the cruise market for turnover and profitability?

However, the cruise market is not the main source of income for the respondents. Of their annual turnover, around 27 per cent stems from ordinary cruise activities and almost 9 per cent from Hurtigruten, but their main turnover is from general tourism and other business activities. Hurtigruten is most important for destination companies/tourist information offices (approximately 20 per cent of the turnover) whereas the corresponding figures for tourism companies are around 10 per cent and 8 per cent for port authorities. According to their own estimates, neither cruise/shipping agents nor the cruise/business network receives any significant turnover from Hurtigruten.

Most of the respondents reported no change in (28 per cent) or an increase (65 per cent) in revenues over the last five years. One of five respondents reported a significant increase in revenue. Revenues from Hurtigruten were mainly unchanged, whereas 42 per cent of the respondents saw an increase in revenues from cruise tourism. During the same period, the highest increase was related to "other revenue".

As regards profitability, about half of the respondents regard their own business as highly profitable, whereas 21 per cent expressed dissatisfaction with profitability. Of the respondents, 37 per cent find that cruise tourism is not very profitable and 35 per cent find that it is fairly or very profitable. The corresponding figures for Hurtigruten are 34 and 43 per cent. The port authorities were most often satisfied with general profitability, whereas the cruise/business network was least satisfied.

6. Fairly easy competitive situation

The competitive situation seems not to be perceived as particularly demanding. The respondents find that the industry in which they operate is characterised by relatively high growth and that the cruise operators are interested in purchasing the type of products/services that they offer. Furthermore, it is not particularly difficult to meet potential customers, as they perceive it. Opinions were fairly similar between the various types of business, with one exception. In contrast to the port authorities, the tourism companies find that there are many new companies joining the industry. At the same time, it is relatively difficult for the tourism companies to anticipate the preferences of and demands from the cruise operators.

The respondents reported that their main customer group is "other customer groups", followed by cruise ships (all sizes) and other tourism (courses/conferences, other visitors, etc.) Tourism companies and destination companies/tourist information offices have equal focus on all customer groups, but compared to other types of respondents they have a higher focus on coach trips and other tourism. Hurtigruten is least important for tourism companies. However, Hurtigruten is highly important to destination companies/tourist information offices.

7. Varied shore-based business activity with a wide range of offers

The enterprises believe they offer relatively unique products and services to the cruise market. In particular, the cruise networks believe that they offer products/services with unique characteristics. Among the 20 product/service categories that were used, we find the broadest offer within activities related to museums/historical guided tours, etc., organised nature experiences, boat trips, food experiences and organised excursions. The range of experience activities offered seems to be relatively wide. In addition to the above, there are quite a lot of activities on offer from guided tours to short luxurious trips, family trips, minibus trips, cultural activities, shopping and dining. Of these various activities, around 12 per cent is offered only to cruises, whereas 65 per cent is partly tailored/adapted for cruise tourists. Organised excursions and nature experiences as well as museum/historical guided tours and boat trips are of financial importance to many of the respondents. Only very few receive significant revenues from accommodation services.

The most important sales and distribution channels for the products and services on offer are destination companies/DMC activities at the destination, cruise agents and cruise networks at the destination. Direct sales to the cruise operator from their own businesses are secondary.

The companies in the represented selection contribute significantly to local value creation through their purchasing policy. More than three out of four respondents use only or mainly local suppliers.

8. Innovative and product-oriented enterprises

Over the last three years, almost half of the respondents introduced many or very many new products/services or significant improvements related to product innovations: Only 12 per cent did not introduce any product innovations. Many service innovations were also introduced. During the three-year period, 39 per cent of the businesses introduced many or very many such service innovations. Fewest innovations took place within marketing. Around ¼ of the respondents introduced many or very many such innovations and almost ¼ of the respondents did not introduce any type of marketing innovations. The main source of innovation is their own employees. Then come customers, cruise networks and cruise operators. The tourism companies attach significantly less importance than the port authorities to using cruise operators, Cruise Norway or specialist conferences/ meetings/ fairs/ exhibitions as sources of innovation. The difference between them might, in our opinion, stem from the fact that it is mainly the port authorities that are members of the Cruise Norway network (even though some companies are also members) and that work directly with the shipping companies. The tourism companies will often be represented at major exhibitions and vis-à-vis the shipping companies through these market players and the destination companies they belong to.

This product orientation is also reflected in the choice of strategy. The main issue for businesses is related to product strategy. In particular, they focus on improvement and modification of existing products and having a stable product portfolio/ product range. As regards market strategy, they believe that they are mainly aggressive with regard to new marketing initiatives. They have least focus on price strategy, but if they focus on it, they are mainly concerned that their own products must have lower prices than their competitors'. Looking at how entrepreneurial the businesses are, i.e. how innovative, proactive and willing they are to take risks, we find that the businesses are innovative and proactive, but not very willing to take risks. Within innovation, they are particularly involved in developing new products, whereas their pro-activity mainly focuses on continuous development of their own business concept and use of resources to find new opportunities in the market.

9. Collaboration with potential for improvement

To succeed, the businesses need to cooperate with others. Trust management or customer contact and collaboration can be regarded as a company's actions relating to "flexibility, solidarity and conflict resolution". The cruise/shipping agents that can be said to represent the cruise operators/ships (i.e. the buyers) believe the flexibility, solidarity and the ability for conflict resolution are more substantial than experienced by the suppliers (sellers – other businesses). However, all businesses have a relatively high focus on efficient collaboration. Especially the cruise/company networks and the port authorities score relatively high on conflict resolution, flexibility and solidarity. However, they expect that the collaboration conditions can be developed/improved from the current situation. In particular, there is a strong wish that the situation should be changed with regard to how conflict resolution is handled.

Moreover, collaboration at their own destination could be improved. Whereas scores for general business collaboration at the destination are not particularly high, the score for collaboration regarding cruises at the destination is even lower. On average, a particularly high number of companies do not agree that the municipality is a good facilitator and cooperation partner. Moreover, quite few find that the collaboration climate nationally within the cruise market functions optimally between destinations, ports and regions in Norway. The companies are most positive to Cruise Norway's role, partly also Innovation Norway, but the impression is that there is a great potential for more extensive collaboration and strengthening of confidence between the parties involved in cruise activities in Norway. In particular, it appears that the ports could collaborate more closely on sailing routes for the cruise operators and that there is a potential for closer cooperation on the development of new products and services for the cruise market. However, the views on collaboration at national level vary significantly between the various market players. Of the various types of business, the port authorities consider the collaboration to be most positive and they are by far more positive to the collaboration than the tourism companies.

10. Opportunities and challenges relating to continued investment in the cruise market?

Most of the respondents (except five) are likely or highly likely to continue to supply the cruise market. Of these, 70 per cent will concentrate more on the cruise market, whereas 30 per cent will continue their current operations. They also believe there is a great potential for increased earnings from cruise traffic. There is definitely willingness to continue focusing on cruise traffic. What, then, should be in place or, if necessary, be improved/further developed to benefit even more from cruise tourism along the Norwegian coast? Based on the findings presented in this report, we will below assess and summarise some of the existing needs/gaps. Here we show what might have *significant potential for improvement*, *potential for improvement* or where most factors seem to be in place, in other words what is *generally satisfactory*.

For *products and services,* it seems that most factors are in place. The scope and variation of what is on offer seem substantial and it seems suppliers are eager to provide unique products. At the same time, relatively few of the products/services (12 per cent) have been specially developed for the cruise industry and it might be relevant to consider whether there is a potential for further development here. About *innovation*, the product innovation work in the companies seems to be relatively extensive. However, there are fewer service innovations and market innovation is limited. For *sales and distribution channels*, one might ask if other channels could or should be developed. This is particularly relevant relating to the tourism industry's limited use of Cruise Norway and direct sales channels. According to the respondents, the potential earnings are substantial, but *profitability* from the cruise traffic could be better, and there is a potential for improvement here. About *collaboration and networks*, however, there is a significant potential for improvement regarding collaboration at the destinations as well as nationally. In total, this provides a rough overview of some of the potential for improvements in the work with cruise tourism along the Norwegian coast. A summary of the assessments is provided below.

Assessment of the improvement potential for increased value creation from cruise tourism along the Norwegian coast.

Function/area	Assessment
Products and services	
– Product range	●
– Product uniqueness	●
– Tailored cruises	◍
Innovation	
– Product innovation	●
– Service innovation	◍
– Market innovation	○
Sales and distribution channels	◍
Financial aspects	
– Profitability from cruises	◍
Collaboration and networks	
– Supplier collaboration with cruise operators/agents	◍
– Collaboration at destination	○
– National collaboration	○

● = mainly satisfactory ◍ = potential for improvement ○ = significant improvement potential