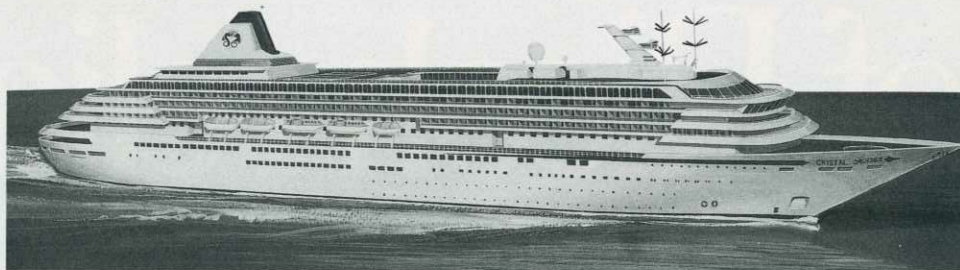


Luxury Afloat

By Takeo Fukushima



Crystal Harmony (49,400 gross tons; 960 passengers) of Nippon Yusen

This year seems to have ushered in a new era for the Japanese shipping industry—an era of passenger service. Three of Japan's biggest shipping companies, Mitsui O.S.K. Lines Ltd., Nippon Yusen Kabushiki Kaisha and Showa Line, Ltd. have all decided to take the plunge. Between them, they will unveil a total of four new luxury liners over the next two years.

Until now, there have been only six large international passenger liners registered in Japan. The largest of these was a modified version of a 16,000-ton ship originally built to be a floating exhibition hall. So the commissioning of Mitsui O.S.K. Lines' *Fuji Maru* (23,500 gross tons; 600 passengers) and Showa Line's *Oceanic Grace* (5,050 gross tons; 120 passengers) in April 1989 have created quite a stir. In the summer of 1990, Mitsui O.S.K. Lines will christen the *Fuji Maru*'s sister vessel and Nippon Yusen will put its *Crystal Harmony* (49,400 gross tons; 960 passengers) into service. The *Crystal Harmony* is already being touted as rivaling the *Queen Elizabeth 2*.

The cruise-liner industry is already enjoying a quiet boom overseas. The world market for cruises is said to be approximately 3 million passengers strong, and the industry's "big six" group of British, Greek, Dutch and Norwegian passenger shipping lines are operating 60 luxury liners. Over 80% of all ocean liner passengers, or "cruisers," are either American or Canadian.

But just because a business is successful overseas is no guarantee that it will be equally successful in Japan. Japan has typically been considered a poor market for passenger shipping, since its workaholic people have not had the time or the money to indulge in such luxuries. The major improvements in the standard of living (greater disposable income) and increased free time in the last few years, however, have enticed more Japanese to spend more time and money on leisure pursuits. This is clearly reflected in airline

travel statistics showing that over 8.5 million Japanese flew overseas in 1988—more than ever before. Clearly not all of these people were traveling on business. And the big three Japanese passenger shipping companies are banking on a continuation of this trend.

The number of Japanese traveling by ship—even including those on study or training cruises—now stands at a mere 50,000 a year, however. If the students/trainees are excluded, the actual figure is probably more like 5,000 per year, a number that pales in comparison to the millions of cruise enthusiasts in North America and Europe. The shipping industry sees massive latent demand here, and it hopes that these sparkling new ships will attract Japanese cruise lovers. The ships are being billed as "floating hotels" and are as much a part of the travel industry as they are a part of the shipping industry. This means these companies must compete on the basis of both facilities and service.

Head start

Mitsui O.S.K. has a head start on the other two companies in the business of carrying passengers. Its subsidiary, Mitsui O.S.K. Lines, (Passenger) Ltd., which was formed out of the parent company's passenger division in April 1970, has been successfully operating passenger lines for years with its *Nippon Maru* (9,745 gross tons) and *Shin Sakura Maru* (16,431 gross tons). These liners have succeeded by concentrating on tour groups and a smattering of individual travelers. The groups include young adults brought together from various countries under the government-sponsored Ship for World Youth program, "floating seminars" sponsored by various organizations, and study/training cruises chartered by major corporations. As a result, Mitsui O.S.K. (Passenger) has been operating in the black since 1986, and is now awaiting delivery of a pair of 23,500-ton luxury

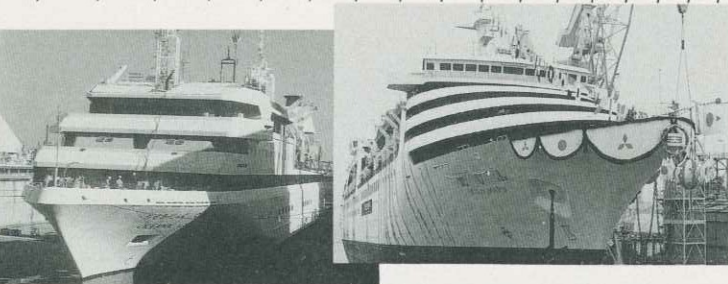
cruise liners—the *Fuji Maru* and its sister ship.

Both of these ships will be plying the waters around Japan and East Asia. Although the *Fuji Maru* will maintain Mitsui O.S.K.'s traditional emphasis on groups, its sister ship (due to go into service in the summer of 1990) is planning to concentrate on younger, non-group passengers. Thus while the *Fuji Maru* has 164 cabins for 2–4 people each, the sister ship will increase the total number of cabins to 200 by going to more double-occupancy rooms. This ship will also feature such extras as a fitness center, an indoor pool and a tropical salon. Having entered into an agreement with Club Med. in September 1988, Mitsui O.S.K. (Passenger) hopes to draw on the new partner's rich experience in the vacation industry in drawing up leisure cruise itineraries.

The *Fuji Maru*'s maiden cruise is already fully booked, with Mitsukoshi department store chartering the whole ship for all 11-day cruise to Hong Kong and Taiwan, as is its operating schedule for the next full year. Mitsukoshi said that all of the cabins were spoken for within two hours after they were opened for reservations. The *Fuji Maru* is the largest passenger ship registered in Japan, surpassing the 17,498 gross-ton *Chichibu Maru* (later called the *Kamakura Maru*) built by Nippon Yusen before World War II.

Encouraged by this reception, the company plans to beef up its retail sales organization for attracting passengers to the *Fuji Maru*'s sister ship. Although it is no easy task getting individual passengers to sign up for a cruise, the company is counting on close cooperation from the two ferry boat companies and two air travel service companies within Mitsui O.S.K. group's leisure division. They hope to increase the number of cruises that are handled completely within the group, and there are even plans to set up a separate company for planning cruise packages.

Average fares for a cruise on the *Fuji Maru* have been set at about ¥45,000



Fuji Maru (23,500 gross tons; 600 passengers) of Mitsui O.S.K. Lines

Oceanic Grace (5,050 tons; 120 passengers) of Showa Line

(about \$350 at the rate of ¥130/\$) per person per day. As Mitsui O.S.K. (Passenger) Chairman Nobuhiko Onishi said in announcing this price, "The *Fuji Maru* will not lose money. Given our 210 operating days per year and 600-passenger capacity, we can break even as long as we maintain a 70% load factor. As far as we are concerned 80% is fully booked." And the surging popularity of luxury liners would seem to indicate that the *Fuji Maru's* sister ship will have smooth sailing too.

Although turning the booking over to travel agents is a sure and painless way to sell tickets, Mitsui O.S.K. recognizes that if it increases the amount of planning and booking it does itself, it adds more value and reaps greater profits. The success of the *Fuji Maru* and its sister ship will be litmus tests of the industry's viability.

Emphasis on service

Showa Line's *Oceanic Grace* went into service in April 1989. Although it is small, it is a true luxury yacht. All 60 cabins are first-class, and the yacht employs a crew of 70, of whom 54 are dedicated to waiting hand and foot on the 120 passengers. Oceanic Travel, Ltd. is in the process of securing bookings on this luxury liner, and the schedule for 1989 has already been announced.

Although its bread-and-butter cruise is a one-week excursion around Japan, the *Oceanic Grace* can also be chartered out to China, Taiwan, Korea, Guam or Saipan. Of the 34 yearly cruises that are planned, there will be six "short" cruises lasting only 4-5 days each.

The *Oceanic Grace's* maiden voyage—a cruise from Yokohama to Nagasaki by way of Kagoshima from April 22 to 29—was fully booked. This luxury yacht has a draft of only four meters, enabling it to call at smaller ports. This in turn also opens new possibilities for enjoying such marine sports as water skiing and scuba diving. And of course, there is always the option of going ashore and doing some sightseeing. In February and March,

when the seas are rough, you could conceivably set anchor in the Tokyo-Yokohama area and enjoy these cities' many attractions.

Showa Line set aside 20 of the 60 cabins under a corporate membership system—15-year contracts costing ¥30 million per cabin—and has already sold them all, mostly to corporations in the Fuyo group. The corporate membership system seems to be an excellent idea for members because it works out at half the standard price charged to individual customers and for Showa Line because it offers quick recovery of the initial investment in the ship and ensures a reasonable load factor.

For individual passengers, the average fee has been set at ¥60,000 (about \$460) per person per day. The question is whether or not people will be willing to pay that much. It basically boils down to whether or not people think the service is worth it. The individual passengers that *Oceanic Grace* is now targeting include high-income earners, professionals and corporate executives, along with honeymooners and wealthy foreigners. Assuming the load factor can be kept close to 80% (not counting the corporate memberships), they expect to start turning a profit in the third year.

Other cruise lines have recently been showing an interest in offering excursions around Japan, however, and this potential

competition could alter the equation considerably. Only time will tell.

Flood of passengers

Nippon Yusen will be reentering the passenger business after a 30-year hiatus. Its new luxury liner *Crystal Harmony* (49,400 gross tons; 960 passengers) will be registered in the Bahamas, and the main thrust of its sales campaign will be directed at North America. Crystal Cruises, Inc., established by Nippon Yusen in Los Angeles in July 1988, is already actively promoting cruises on the *Crystal Harmony*, even though the ship is not scheduled to be commissioned until June 1990. As envisioned, this is a "fly and cruise" package flying people to the ship and then back home again after the cruise. The cruises will be 10-14 days long and present plans call for 32 cruises a year. Prices are slated to average \$400 per person per day.

The *Crystal Harmony* is scheduled to cruise in a different region each season. In the spring it will cruise the waters around Japan, Korea, Hong Kong and China. In the summer it will visit Alaska and the northwestern coast of North America. In the fall, it is off to Mexico, Panama and the Caribbean. And in the winter, to Australia and the South Pacific. The ship has a crew of about 460, of which more than 60 are actually concerned with

Luxury Liner Specifications

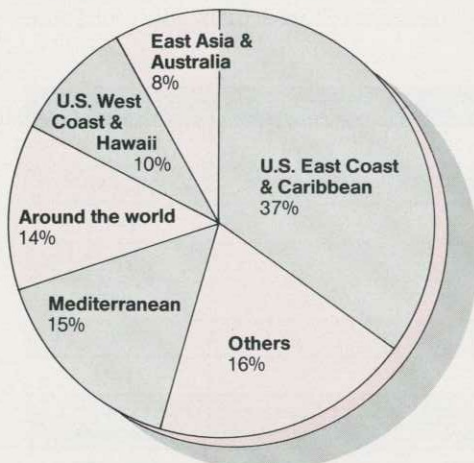
	<i>Fuji Maru</i>	<i>Oceanic Grace</i>	<i>Crystal Harmony</i>
Registration	Japan	Japan	Bahamas
Tonnage (gross tons)	23,500	5,050	49,400
Length overall (meters)	167	104	241
Draft (meters)	6.5	4.0	7.5
Maximum speed (knots)	21	19.6	23
Capacity (passengers)	600	120	960
Cost (¥ billion)	10	5	23-24
Target passengers	Mostly Japanese groups	70% Japanese 30% foreigners	Mostly Americans
Operative	April 1989	April 1989	June 1990
Average fare (¥; per person/day)	45,000	60,000	50,000

operation of the vessel. They have tied up with an Italian company to handle the food service and a Norwegian company to pilot the boat. The majority of the crew will be Filipino, and they are relying heavily on Americans for the recreation and entertainment positions.

Four of the world's top designers are now working at designing both the interiors and exteriors. According to present plans, 97% of the cabins will have portholes and 55% will have private balconies. The *Crystal Harmony* will have its own casino, disco and movie theater, and the facilities and services will be as good as the best of the American and European luxury liners. Nippon Yusen's strategy is to learn the ropes in the North American market while it watches to see how the Japanese market develops.

Will there be enough passengers to make all this worthwhile? Nippon Yusen President Kimio Miyaoka grinned and said, "We'll never know unless we try, will we?" He went on, "Assuming we can maintain an 80% load factor, we should start turning a profit in the fourth year. If, however, we start out at 70% and gradually reach 80% over a period of years, it will be rough sailing for the first half-decade." In essence, it is that first year—1990—that will tell the story. And this in turn will likely be decided by whether or not they are able to establish a first-class reputation rivaling the *Queen Elizabeth 2*.

Major Luxury Liner Markets



Source: "Current State of Japanese Ocean-going Shipping," International Transport and Tourism Bureau, Ministry of Transport, July 1988

What does this mean in terms of marketing strategy? There are many factors to worry about. Is the pre-cruise advertising and promotion sufficient? Is the crew large enough and well enough trained to provide the kind of service passengers expect? Nippon Yusen Vice Chairman Shigehiro Iwamatsu emphasized, "We must continuously monitor our basic corporate strengths and re-evaluate our off-the-book assets as we make steady inroads in the luxury liner business."

He added, "In addition to plans for building a sister ship, we are also considering, depending on how things go, beginning construction of luxury liners in the 20,000-ton and 10,000-ton classes." What could be driving these ambitious thoughts? Most likely, Nippon Yusen expects Japan, East Asia and the Pacific cruises to become big business and wants to be ready for this flood of Japanese passengers. Buttressing this assumption, British and Norwegian cruise liner companies have recently been looking toward Japan as a prime source of passengers, and it only makes sense that Nippon Yusen would want to move full-scale into the Japanese market as well.

Time and money

Luxury cruise passengers have to be people who are not worried about either time or money. Although Japanese companies are moving toward a five-day work week, it is still very hard for people to take more than a week off at a time, even in the summer. Even so, there is no denying that, overall, Japan has entered an age of leisure. More and more Japanese are making leisure and recreation integral parts of their lives—as seen in the increasing number of families spending hundreds of thousands of yen to stay in comfortable hotels over the New Year holidays. Even if the Japanese luxury cruise market does not enjoy any sudden growth, the large number of cruise salesmen busily promoting their product is bound to produce a gradual but steady increase in the number of cruise aficionados in Japan.

Japanese passenger ships have typical-

ly been either second-hand liners or converted cargo ships. They were not exactly what could be called luxurious. Conversely, even though foreign luxury cruise liners were truly first-class operations, their crews spoke no Japanese, all their routes were far from Japan, and few Japanese had the time or the money to take a cruise anyway.

But things have changed. With the production of true luxury liners in Japan, it now is easier than ever for Japanese to take a cruise. Japanese have always been pushovers for fashion, and new products take root in Japan quickly. So if the mood hits the public, it is quite possible that, with the help of word-of-mouth advertising, going on a cruise will quickly become the "in" thing to do. The ocean has always been associated with romance in Japan, and they say that once you experience the out-of-the-ordinary pleasure, comfort, relaxation and luxury of a first-class cruise, you become hooked for life.

Takashi Matsui, senior managing director of Mitsui O.S.K. Lines, had this to say: "Showa Line is concentrating on excursions around Japan, Nippon Yusen is mostly into North American and Pacific cruises, and we are catering to both groups and individuals with cruises throughout Asia. Competition among us is bound to mean a sharply larger market for everyone."

But of course, risk is inherent in any new business, and the passenger liner business is no exception. Beginning operations in the cruise business is akin to starting out in a marathon race. The companies are going to need both stamina and strategy.

At the same time, this new push in luxury liners is an integral part of the three groups' restructuring and diversification efforts—spurred on by the deregulation effected in 1985, the drop in ship construction costs, and the desire to use crews more efficiently. Thus it seems safe to say that the age of giant passenger liners has already arrived, and that the competition has already begun in earnest. ■

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