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WORLD MARITIME UNIVERSITY

Dalian, China

**Analysis and Conception of Chinese Cruise Ship
Tourism**

By

Cai Runzi

People's Republic of China

A research paper submitted to the World Maritime University in partial
Fulfilment of the requirements for the award of the degree of

MASTER OF SCIENCE

(MARITIME SAFETY AND ENVIRONMENTAL MANAGEMENT)

2013

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THE DECLARATION

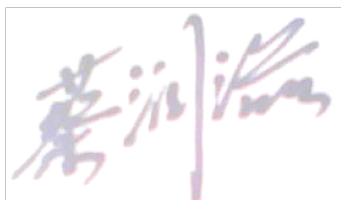
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ABSTRACT

Title of Research paper: **Analysis and Conception of Chinese Cruise Ship Tourism**

Degree: **MSc**

Cruise industry has a significant influence on a country's economy, culture and politics. Faced with the fact that Chinese cruise market is being occupied by the international cruises lines, something has to be done. To cope with this problem, China needs to form a large cruise company and build a regional competitiveness cruises ships fleet in this decade of "twelfth and thirteenth five-year plans".

Through factor analysis, data statistics and questionnaire, this paper comprehensively analyses the practical situations of today's Chinese cruise industry. The conception of Chinese luxurious cruises tourism development strategy is put forward, that is, to form a large luxury cruises branch company by COSCO Group; to regard Shanghai as the home port and to build or buy the first three cruise ships. Then according to this company, some questions such as how the new company can compete with the international Cruises lines and how to open Shanghai potential consumer market successfully have been discussed.

Finally, this paper summarizes the preliminary market promotion strategy of COSCO Cruises Branch and makes an estimation of the potential development of Chinese future Cruise travel industry. This paper also emphasizes the positive role of the national government and maritime safety administration in cruise ship tourism development

Key word: Cruise industry; COSCO; cruises company; Development Strategy; Shanghai.

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LIST OF ABBREVIATIONS

COSCO	China Ocean Shipping Company
MSC	Mediterranean Shipping Company
MSA	Maritime Safety Administration
LNG	Liquefied Natural Gas

CHAPTER 1 INTRODUCTION

1.1 Background of Cruise ship industry

Cruise ship is a kind of special passenger ship used for pleasure voyages, where the voyage itself and the ship's amenities are a part of the experience, as well as the different destinations along the way (Wikipedia, 2013). Cruise tourism has developed rapidly in the 21st century, today more than 20 countries have luxury cruise company and there are more than 15 cruise ships attend 100,000 tons in the world. In just after a few decades of China's reform and opening up, more and more Chinese ports cities open their ports to accept foreign cruise ships. Today in Shanghai, Tianjin, Xiamen, Qingdao, Sanya this five main land city, cruise ship visits number have been close to 200 times (Yang, 2009). At the same time, the luxury cruise frequent visits to Chinese Hong Kong, Macau, Taipei. Today, the growth rate of world luxury cruise industry is about 8%-9% (Yang, 2009), in addition Chinese people's material and cultural life level further enhance, in order to meet people's material and spiritual demands, China should develop its own cruise ship industry to complete the comprehensive development of national marine economy.

1.2 Domestic related research

At present, researches on the luxury cruise ship tourism mainly focus on the following six aspects: the meaning of foreign cruise industry, development history and current situation of cruise industry, China's development of cruise tourism in the feasibility study, the meaning of cruise economy and spatial strategies and conduction mechanisms of cruise tourism. Among these, the feasibility analyses not only include the feasibility analysis from overall Chinese economy and tourism

development but also have the feasibility analysis from a port city. Nowadays, most Chinese researchers put their research on the beneficial effect brought in by luxury cruise tourism, focusing on how to build a cruise wharf to greet foreign cruise company. Few people mention the feasibility of setting up a self-owned luxury cruise ship company. This paper aim to discuss the possibility of setting up a Chinese self-owned luxury cruise ship company, through detailed analysis of the market assessment, price and product strategy, publicity and marketing channel strategy to illustrate the new self-owned luxury cruise ship company, how to compete in the cruise ship tourism market with strong foreign cruise company.

1.3 The research method

According to the development status of the Chinese shipbuilding industry, shipping companies and cruise tourism, author use factor analysis, statistics, questionnaire and other research methods comprehensively analyze the current status of Chinese cruise ship tourism. It puts forward the conception of regarding Shanghai as cruise ship's home port, self-built or purchases the first batch of three cruise ships and establishment of COSCO luxury cruise branch. Then against the company discuss how to competition with international cruise company in Shanghai and how to open the cruises tourism potential market of Shanghai.

CHAPTER 2 Necessity of development of cruise ship tourism industry for China

2.1 Economic significance

First of all, the cruise industry has the potential to provide economic benefits to a port state. In the research paper of V.Castellani & S.Sala, they said:

these economic benefits arise from five principal sources: 1) spending by cruise passengers and crew; 2) the shoreside staffing by the cruise lines for their headquarters, marketing and tour operations; 3) expenditures by the cruise lines for goods and services necessary for cruise operations; 4) spending by the cruise lines for port services; 5) expenditures by cruise lines for the maintenance

(V.Castellani, 2008).

All of these spending can improve development level of port city. On the other hand, with China's rapid economic development and the improvement of national income, more and more Chinese citizens begin to choose cruise ship as their travel mode. According to statistics, in 2005 more than half guest on these cruise ship which departure from Shanghai to Japan and South Korea are come from China's domestic (Han, 2005). In 2006, all of Star Cruises, Italy Costa Cruises Group, MSC, Royal Caribbean has made the market assessment of Chinese Cruises industry, and set up an office in China. According to the above situation, the huge market of Chinese cruise industry has attracted the attention of the world. Several luxury cruise lines in the world are well ready to open to Chinese market. In this context, there is an urgent need to own Chinese luxury cruise companies to meet foreign challenges protect our market and improve China's maritime economy.

2.2 Chinese shipbuilding industry development significance

Constructing cruise ships also has a great significance in promoting national shipbuilding industry system. The world recognized, in civilian ship construction field, Super luxury cruise and Large LNG ship be known as two pearl in the crown of civilian shipbuilding. In 2009, Chinese total shipbuilding output become the first in the world, but from Table 1, we can see although the total amount of China's shipbuilding ranked first in the world, but because of lacking enough shipbuilding technology, experience in construction, design capacity and other aspects flaws, Chinese shipbuilding company have little change to build high value-added ships. Ordinary vessels and inexpensive cargo ships, bulk carriers and oil tankers are them main produces. Until in 2008, China has successful delivered five 147,000 m³ LNG carrier, achieving the breakthrough China LNG ship construction. But, the neighboring countries: South Korea and Japan according to their excellent building process won more high value-added ships orders than China and the total tonnage of their orders was just a little less than China.

Table- 1 January 2011 - December three major shipbuilding indicators of the world's major shipbuilding country / region

Unit: million dwt

Nation	The data of the completed new ship		The data of New ship orders		The data of Hand-held orders	
	tonnage	proportion	Tonnage	Proportion	Tonnage	proportion
China	65.4	41.2%	29.2	46.7%	160.5	44.9%
South Korea	54.2	34.2%	28.0	44.7%	114.3	31.9%
Japan	31.8	20.0%	2.9	4.6%	53.2	21.0%

Table 1 (resource: China State Shipbuilding Corporation, 2011)

If domestic demand and construction of one or more cruise ship can be stimulated, it must improve the level of our national shipbuilding industry. The experience and technology accumulated from overcoming the bottleneck during the construction of cruise ship can support the construction of other kind ships. This is constructing cruise ship's positive impact on China shipbuilding industry.

2.3 Political and cultural significance

From Chinese political and cultural demand, we also need to develop the cruise ship industry to manifest great power and advertise Chinese culture to world. A cruise ship with special Chinese culture will show the tremendous changes after China's reform and opening up to the world, it also disseminate Chinese harmonious cultural ideas and tourism culture with Chinese characteristics. Allowing more foreign friends understand China, Chinese ship and Chinese people, this has a positive meaning for enhancing the international image and highlighting the national culture. So, today for China, more attention to develop marine economy should be taken! Actively looking for an opportunity to develop cruise industry, making the comprehensive development of Chinese marine economy system come true are the responsibility.

Overall, establishing a larger luxury cruise company is imperative to do. Early realization of Chinese "cruise dream" not only can enrich people's spiritual and cultural life, but also has important significance to make our country marine economy go to "deep blue". Then, how can China use the existing resources to build an international competitive strength luxury cruise company? This article will discuss this question.

CHAPTER 3 The choice of homeport and operators

If we want to achieve our "cruise dream" we must choose the home port and operators. In these two questions, the home port is the problem that we must solve firstly. Because home port for cruise ship is capital for a country, if there is no home harbor, there is no rear area and no main base.

3.1 The choice of home port

3.1.1 The homeport

As Mr. Juan Gabriel Brida said in his paper:

Economic contribution of the cruise industry depends on the category of the port: homeport or port of call. A home port is a destination from which ships begin and end. While a port of call is just an intermediate stop. Normally, a cruise passenger spends less than ten hours in a port of call.

(Juan, 2009)

The cruise port is usually divided into three kinds: home port, port of call and port of destination. Among these, cruise ship's homeport means that port has equipped with many full-service facilities, equipment can service several cruise ships docked and out of the port, it also can offer economic services supporting to cruise economic activity (Yu, 2007).

The development of cruise tourism will require the region of homeport has a advanced cruise terminal, rich tourism resources and products, accessible three-dimensional land, sea and air transportation system, good service industry

system and a well-developed financial sector (Cai, 2010). In our country, Tianjin, Shanghai, Sanya, these three port cities, their location are at the three points (northern, central, and southern) of Chinese coastline, and all of these port cities are national first class port cities.

In addition, these three ports have professional cruise pier to dock luxury cruise ship have the reception experience of international luxury cruise ship, and also have opened some mature cruise travel routes. In this paper, the author regards these three cities as candidate ports for cruise ship's home port and uses the weighted average factor method to analyze this question.

3.1.2 The weighted average factor method to analyze this question

In accordance with the view of other researchers (Cai Xiaoxia & Liu Yafei), the competitiveness of the cruise terminal can be divided into seven major factors: 1. the number and quality of local attractions; 2. the professional cruise ship terminal facilities; 3. the development of local tourism enterprises; 4. the capacity of financial and insurance services; 5. comprehensive situation of urban transportation; 6. the level of urban construction; 7. economic aggregates and consumer level. Then, the author according to the importance of these 7 factors to do the value assignment work (as the table-2 shows)

Table- 2 Value assignment table

Assignment Table	
Item	weighing
The quantity and quality of local attractions	0.70
the professional cruise ship terminal facilities	0.80

the development of local tourism enterprises	0.80
the capacity of financial and insurance services	0.90
comprehensive situation of urban transportation	0.90
the level of urban construction	0.70
economic aggregates and consumer level	1.00

(Source: made by author.)

After the value assignment, we continue to divide these seven factors into more detailed item, and then score these fractionizing factors. Finally, the weighted average calculation will be done. In the table-3, every fractionizing item's full mark is 10, the lowest is 1. The author gives every fractionizing item a mark, then using this mark multiply by each main item's weighing, we can get every single item weighted points of these three cities. At last, a summary and the conclusion is given.

The calculation procedure as follows (Table-3):

Table- 3 The weighted average score table of cruise terminal competitiveness

The weighted average score table of cruise terminal competitiveness				
main items	fractionizing items	Tianjin	Shanghai	Sanya
The quantity and quality of local attractions	national level tourist attractions	8	9	10
	Folk cultural attractions	9	9	9
	Sea water quality	8	6	10
single item weighted points of three cities		17.5	16.8	20.3
the professional cruise ship terminal facilities	Channel depth	9	9	9
	number of berth	8	10	7
	receive number of cruise ship	8	9	5
	Terminal facilities	7	8	7
single item weighted points of three cities		25.6	28.8	22.4

the development of local tourism enterprises	the number of international travel agency	8	10	7
	the income of international travel agency	7	9	8
	The number of hotels which more than three-star	8	10	7
	The income of hotels which more than three-star	8	10	7
single item weighted points of three cities		24.8	31.2	23.2
the capacity of financial and insurance services	The total number of Banks	8	10	6
	Foreign bank numbers	7	9	6
	Deposits of financial institutions	8	10	6
single item weighted points of three cities		20.7	26.1	16.2
comprehensive situation of urban transportation	Highway mileage per capita	7	7	9
	Railway passenger volume	8	9	5
	air-plane passenger volume	8	10	6
	The number of bus	8	9	6
	The number of taxi	8	9	6
single item weighted points of three cities		35.1	39.6	28.8
the level of urban construction	The percentage of urban green area	7	7	9
	The percentage of mall area	8	9	6
	Number of university	8	8	3
	Total reserves of library	8	9	3
single item weighted points of three cities		21.7	23.1	14.7
economic aggregates and consumer level	GDP	9	10	7
	Total population	8	10	6
	Total amount of goods	8	10	7
	Per capita disposable income	8	9	7
single item weighted points of three cities		33	39	27
Total item weighted points of three cities		178.4	205	152.6

(Source: made by author.)

After simplification and summarization we get the following table (Table 4)

Table- 4 The weighted average score table of cruise terminal competitiveness

The weighted average score table of cruise terminal competitiveness			
Item	Tianjin	Shanghai	Sanya
The quantity and quality of local attractions	17.5	16.8	20.3
the professional cruise ship terminal facilities	25.6	28.8	22.4
the development of local tourism enterprises	24.8	31.2	23.2
the capacity of financial and insurance services	20.7	26.1	16.2
comprehensive situation of urban transportation	35.1	39.6	28.8
Total item weighted points of three cities	178.4	205	152.6

(Source: made by author.)

Form Table-4 we can conclude that the weighted average of Tianjin, Shanghai, Sanya were 178.4, 204.6 and 152.6. The score of Shanghai is obvious advantaged, so in accordance with the seven factors of cruise terminal competitiveness, Shanghai is the

best one among these three cities. Therefore, this article will regard Shanghai as new cruise ship's home port and continue to do subsequent discussion.

3.2 The choice of operators

3.2.1 background

Looking from the existing international cruise companies, some professional international cruise companies build from small a small shipping company such as: Italy Costa cruise lines which be found in 1854 (Davide, 2010); Also have another situation that funded by wealthy businessmen in recent decades established at birth is a professional international cruise companies such as: Royal Caribbean cruise ship(found in 1969); In addition, there are some large entertainment companies to carry out cruise services such as: The Walt Disney Company has its own 100,000-ton cruise ship.

Now, Chinese Luxury cruise companies are mainly in Hong Kong, such as Hong Kong-Neptune, Hong Kong-Jimei, Hong Kong-Macau Success, Hong Kong-Star Cruises. Although Hong Kong - Star Cruises have four large cruise ships purchased from abroad, and have the routes to India, Southeast Asia and Taiwan, other companies' ships are poor, small and just focus on locate market; they can not be regarded as the true sense of the cruise ship company. In the mainland, until today there is no true sense of Cruise Company.

3.2.2 Selection of the company.

There are two ways to establish a cruise company in China: private enterprises and state-owned enterprises. In 2012 Wenzhou businessmen set up the first cruise ship

company in mainland of China - China Cruises Company Limited. Today, they just own one cruise ship – China star. Although the cruise ship is a bit small, this is the first attempt of the Chinese civil assets march in cruise tourism. This situation illustrate that the civil assets has already been willing to invest in the cruise ship project.

In another way, if Chinese state-owned enterprises want to set up a luxury cruise company, the author thinks three state-owned companies have the ability to operate the cruise ship project and already have some business item with international luxury cruise ship, there are: China Ocean Shipping (Group) Company (COSCO), China Shipping (Group) Company, China International Travel Service Corporation Limited. Because the cruise tourism is a very special travel way, operating Cruise Company need consider about the economic strength of a company, business scope, technical ability, talent pool and other conditions. Therefore, this paper argues that the China Shipping Group Company and China Ocean Shipping (Group) Company is the most promising state-owned enterprises in Chinese mainland to establish and operate a globally competitive cruise ship fleet. There are mainly three reasons as following

Firstly, these two companies have strong economic strength. In 2012, COSCO ranked 69 in the top 500 enterprises of China, China Shipping Group Company ranked 160, China International Travel Service Corporation Limited just located number 289 (Fortune, 2013). In the top 500 enterprises of world, COSCO ranked 401 in 2013 (Fortune, 2013).

Secondly, from the business scope, we can see China shipping passenger transport companies (Part of China Shipping Group Company) have accumulated decades of ro/ro passenger ship experience in Chinese Bohai Bay. This experience will help the management of the cruise ship. COSCO also set up a shipping company called

CHINA-JAPAN INTERNATIONAL FERRY CO.LTD with Japan and operate a China to Japan sea passenger transport routes. So COSCO also has the passenger transport history and experience. Although China International Travel Service Corporation Limited's business scope includes luxury cruise tourism, but it is just familiar with tour travel arrangements rather than the shipping operation. Because ship navigation safety is a top priority in the cruise ship operation, for China International Travel Service Corporation Limited who has no passenger shipping management experience, it is a bit difficult to do this job.

Lastly, from the capacity of formation of the personnel, we can see both COSCO and China Shipping have the experience for foreign cruise company training staff on board, have the ability to quickly organize a crews team and management team.

Overall, whether private or state-owned, Chinese companies are able to set up and manage well their own cruise company. Considering about the policy regime in mainland China, author believe that establishing the cruise subsidiaries by state-owned enterprises such as COSCO and China Shipping is a relatively easy road to success. Just for discuss convenience, this paper makes an assumption to establish the COSCO luxury cruise Branch, in order to provide an analytical basis for cruise tourism market analysis and development of corporate strategy.

CHAPTER 4 Shanghai market assessments of COSCO luxury cruise

Branch

Today, the Shanghai cruise market competition is more intense, and most competitive cruise companies operating in Shanghai are Italy Costa cruise lines and Royal Caribbean cruise ship company. The two companies have the same market scale in Shanghai. From April to October there are more than 20 ships navigation plan, the main routes bound for South Korea, Japan (Yang, 2004). In face of the intense competition market, if we want to set up our own cruise lines to share cruise tourism cake, we need a detailed market assessment.

4.1 Shanghai market assessments of COSCO luxury cruise Branch

4.1.1 The estimated number of potential consumers

In 2011, Shanghai's per capita GDP was 82,560 yuan (\$12,784), the total population of 2301.92 million. There are more than 100 million tourists visiting Shanghai in 2010. From Table-5 we can see the family life situation of Shanghai urban residents' family (Shanghai Statistics Bureau, 2011). According to the present cruise lowest price 5000 yuan to estimate, in the normal circumstances, a family whose annual household consumption expenditure per capita over 20,000 yuan can take the cruise ship. This indicates that in Shanghai, the family reaching middle-income line can afford cruise travel consumption.

In addition, according to Shanghai Municipal Statistics Bureau files, in 2010 these household who meet or exceed the city's average income level reach 41.9 % of the total number of households be surveyed. So, combined with the total population

2301 million, we can probably estimate the number of potential customers could attain to 964.5 million (2301.92 million×41.9%). Coupled with the potential buyers in that 1 million foreign tourists went to Shanghai every year, totally; the potential consumers should exceed 10 million.

Table- 5 The family life situation of Shanghai urban residents' family

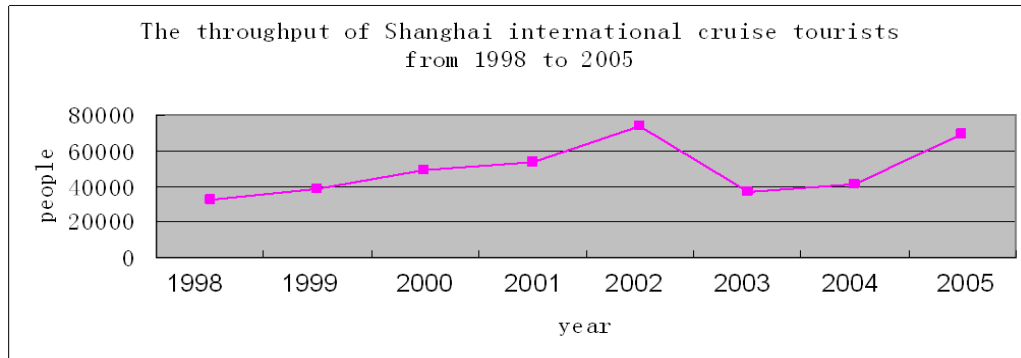
The family life situation of Shanghai urban residents' family (2010, unit: yuan)						
Indicators	grand average	Low-income households	Low-and middle-income households	middle-income households	Middle-and high-income households	high-income households
disposable income/1 person	31 838	14 996	21 780	27 484	35 120	62 465
consumption expenditure/1 person	23 200	12 555	15 970	21 611	26 773	40 744

(Source: Shanghai Statistics Bureau, 2011)

4.1.2 Cruise tourists demand forecast

By reference to other domestic scholars prediction method, and then use some data from Shanghai MSA, author use the Shanghai Port International Cruise passenger throughput (1998-2005) to make predictions. The passenger throughput of Shanghai Port International Cruise situation shown below:

Figure- 1 The throughput of Shanghai international cruise tourists from 1998 to 2005



Source: Jiang, X. M. (2006). *Research of cruise economic development potential in Shanghai*. Shanghai Maritime University, Shanghai, China.

As shown, the distribution of the data points is nonlinear trend, so the use of three exponential smoothing method to model the passenger throughput.

I . The principle of three exponential smoothing

To set a time sequence $y^1, y^2, \dots, y^i, \dots$, then Single exponential smoothing formula is:

$$S_t^{(1)} = \alpha y_t + (1 - \alpha) S_{t-1}^{(1)} \quad (\text{formula 1})$$

In the formula 1, $S_t^{(1)}$ is the exponential smoothing values with t cycle time, α is weighting coefficient, $0 < \alpha < 1$.

Make predictions with the above Value, is an exponential smoothing method, the forecast model is:

$$\hat{y}_{t+1} = S_t^{(1)} + \alpha y_t + (1 - \alpha) \hat{y}_t \quad (\text{formula 2})$$

Quadratic exponential smoothing is based on an exponential smoothing to do it again. So three exponential smoothing is based on the second exponential smoothing smooth once again. The formula is:

$$S_t^{(3)} = \alpha S_t^{(2)} + (1 - \alpha) S_{t-1}^{(3)} \quad (\text{formula 3})$$

Three exponential smoothing prediction model is:

$$\hat{y}_{t+T} = a_t + b_t T + c_t T^2 \quad (\text{formula 4})$$

In formula 4:

$$a_t = 3S_t^{(1)} - 3S_t^{(2)} + S_t^{(3)} \quad (\text{formula 5})$$

$$b_t = \frac{\alpha}{2(1-\alpha)^2} [(6-5\alpha)S_t^{(1)} - 2(5-4\alpha)S_t^{(2)} + (4-3\alpha)S_t^{(3)}] \quad (\text{formula 6})$$

$$c_t = \frac{\alpha^2}{2(1-\alpha)^2} [S_t^{(1)} - 2S_t^{(2)} + S_t^{(3)}] \quad (\text{formula 7})$$

II . Choice of weighting coefficient

The key to success using Exponential smoothing forecast is choice α . The value of α decide the proportion of new data and the original data in the new predictive value. A larger α will make the proportion of new data become greater and vice versa. In fact, the value of α represents both the response speed of forecasting model on time series data changes, but also reflects the predictive ability of the model smoothing error.

In the practical applications, the value of α is base on the time series change characteristics to selected. If the time series volatility is not very big, relatively stable, we should take a small α , such as 0.1 to 0.3; if the time series has a rapid and significant change tendency, we should take a large α , such as 0.6 to 0.9. In essence, α is an empirical data, through times trial calculate, which α causes the prediction error is small, then we use it.

Typically, we can use the variance to measure the prediction error, the formula is:

$$MSE = \frac{1}{n} \left[\sum_{i=1}^n (V_i - F_i)^2 \right] \quad (i = 1, 2, 3, \dots, n) \quad (\text{formula 8})$$

In formula 8: $V_i - F_i$ are the actual and predicted values of phase i respectively.

III. Confirm the value of α

The following table shows when α were taken = 0.9, 0.8, 0.7, 0.6, the predict results of passengers throughput of the international cruise ship using three exponential smoothing method.

Table- 6 Predict results of passengers' throughput of the international cruise ship

year	passengers throughput of the international cruise ship	predict results			
		0.9	0.8	0.7	0.6
1991	9433	9433	9433	9433	9433
1992	28557	23374	19223	15990	13543
1993	23839	24117	22683	20278	17502
1994	34359	31591	28971	25971	22517
1995	32294	32320	31349	29408	26461
1996	32512	32473	32160	31155	29090
1997	28752	29764	30488	30661	29855
1998	21878	23936	25885	27482	28281
1999	24739	24355	24791	25781	26816
2000	28357	27290	26531	26334	26631
2001	26321	26668	26628	26512	26590
2002	46293	40954	36693	33325	30837
2003	17683	24404	28081	29610	29766
2004	26677	25567	26320	27518	28381
2005	65358	54625	46179	40089	35861

(Source: made by author)

According to formula 8, we calculated the three exponential smoothing mean square

error when α equal different values, the result shows below:

Table- 7 Mean square error

α	0.6	0.7	0.8	0.9
MSE	117227158	82732764	47288891	15425527

(Source: made by author)

We can see When the value of α is 0.9, the mean square error is minimized. Therefore, empirical data α is taken as 0.9.

IV . Forecast results of the number of cruise passengers

According to formula 4 to formula 7, Cruise ship passenger numbers forecast model of Shanghai Port is:

$$Y_{t+T} = 65344 + 52304T + 13947T^2 \quad (\text{Formula 9})$$

In the formula 9, Y_{t+T} is the predictive value of cruise ship passenger throughput of Shanghai Port in (t + T) year. T is the specific year of trend extrapolation. 65344, 52304, 13947 are coefficients (a_t, b_t, c_t) of prediction model respectively. Using formula 9, set 2005 as the base year to predict, the target year 2013 and 2016 predictions results show as below:

Table- 8 Predictions results of target year

Forecast Year	2013	2016
2005(base year)	1114875	1983084

(Source: made by author)

As can be seen from the table, at the current pace of development, in 2013 year the number of cruise ship tourists is expected to reach 1,114,875, in 2016 year can reach 1,983,084. Compare with estimated 10 million potential consumers, we can see Chinese cruise ship potential consumer market is very huge.

4.2 Competitive situation assessment of Shanghai luxury cruise tourism industry

4.2.1 The threat from same industry is greater

So far, 10 companies carry out cruise tourism services in Shanghai, including: COSTA, MSC, Royal Caribbean Group and so on. Each year, more than 100 cruise ships visit Shanghai, so competition between different companies is already fierce in Shanghai cruise tourism industry (Yang, 2004). It can be predicted, if COSCO Group established the luxury cruise branch and found a larger cruise fleet in Shanghai, the international cruise lines will not just watch without any action. They will take a series of actions to protect their occupied market, and restrain each other for a long period of time, so large foreign cruise companies is the biggest competitive threat for COSCO luxury cruise branch. Now the Shanghai cruise tourism market has not been fully occupied by large foreign cruise company, there are many potential consumers who have not tried cruise travel, so the Shanghai market is not yet a saturated market. It still has room to compete with these competitors. But now more and more large foreign cruise liner are sent to Shanghai, so if Chinese company missed this opportunity, by the time, if they want to enter the saturation market it will lead to the price wars, advertising war, and not easy to launch new products, then the enterprise to participate in the competition, you must pay a high price.

4.2.2 The threat of new market participants is not strong

In 2011, Wenzhou businessmen founded the first luxury cruise company-China Cruises Company Limited it is a typical example of new entrant's threat, this incident shows that private entrepreneurs in China have started to notice the cruise tourism and begin to march to this field. In the future, it will have more and more private cruise company established throughout the country, naturally no exception of Shanghai. In the face of competition from private cruise company, COSCO luxury cruise Branch should establish a friendly and cooperative relationship with domestic private cruise companies and enhance the own competitiveness, which is good for COSCO luxury cruise Branch and other private cruise companies.

4.2.3 The threat from alternative products is not very strong

The alternative products threats existing in a market segment will make the market lost its attraction. The alternative products of luxury cruise ship are: private luxury yacht, space travel, scuba diving and other recreational activities. But some of these alternatives can not be popularized. For example: private luxury yacht and space travel, and other alternatives. But it can not totally replace the feelings of cruise products bringing to consumers, such as: scuba diving. In short, in the current the alternative products of the luxury cruise is still not obvious and the threat from alternative products is not very strong.

4.3 Analysis of demand characteristics of consumer

To further understand the consumers' demand characteristics of luxury cruise tourism, the author made a questionnaire about cruise tourism at Dalian Maritime University and "hobbyshanghai" (Which is a very famous ship web in China:

<http://www.hobbyshanghai.com.cn/forum.php>). More than 200 people were asked, combined with the questionnaire, we got four main demand characteristics in Shanghai cruise ship market:

4.3.1 Visitors need more cruise ship knowledge

In the questionnaire only 6% people said they fully understand the cruise ship and cruise tourism, 39% of people said they know something about the cruise ship and cruise tourism, 54% of people said they just heard the cruise ship and cruise tourism, as well as 1% of people have not heard of the cruise ship and cruise tourism. From the situation, we can see that for domestic tourists, cruise ship and cruise tourism still is a strange word. This is because of lacking of propaganda, too old and dull propaganda way result in that many people do not understand the true meaning of cruise tourism; some people even think that cruise tourism is representative of money worship and decadent life. In fact, they ignore the cruise tourism is a new way to have a full experience on the sea. But the good news is that when asked whether caring about our country's luxury cruise tourism issues, there are 89% of people expressed concern. So in this case, in order to develop the cruise tourism in Shanghai, COSCO luxury cruise branch must first increase the propaganda strength of luxury cruise ship and cruise tourism. Guide people regard cruise tourism as a healthy lifestyle and aspire to have a cruise travel experience; this is the first step to open the market.

4.3.2 Need to guide visitors to change the traditional travel way

In the survey, 87.5 % of people said they did not participate in cruise tourism, more than 75% of people said they will choose plane, train, tourist bus to do tourism activities, fewer than 20% of people said that they will choose cruise ship travel.

Today cruise tourism is maturing on the international market, but for most Chinese visitors, due to the traditional habits, thoughts and other psychological factors they still have high loyalty on the traditional travel way (Cheng, 2004). If we want to change the traditional concept of tourism, guide Chinese consumers to accept the new cruise tourism, it not only requires the effort from cruise ship company but also need travel agencies, television stations, newspapers, and even the education sector through advocacy, experience, documentaries, entertainment programs, newspapers, textbooks, and many other means of publicity to encourage people to update the concept of tourism and accept cruise tourism as a new travel way.

4.3.3 Lower cruise travel expenses

Undeniably, the cost of cruise ship travel is higher than the bus tour. In 2011, the cheapest cruise tourism is “Shanghai - Cheju - Fukuoka - Shanghai 5 days 4 nights trip” which be hold by Victoria cruise ship of Italian COSTA Group its inside room price was 3499 yuan(Including free food and free rides). But this price does not include Pier taxes, port charges, cruise tips, passport fees, visa fees, shore excursions fees and a variety of personal expenses, plus these cost you at least need pay 5,000 yuan for one person, but if you want to have more fun, it need around 8,000 yuan/person. This time, the questionnaire also shows that the reason why 51.6% of people do not choose a cruise ship travel is due to the high price, there are 78% of people choose to select cruise ship travel only in honeymoon. So COSCO luxury cruise branch must find a breakthrough from the price, offering price concessions, and implement the price discrimination strategy for different festivals and different crowds to attract more tourists.

4.3.4 Visitors need a shorter time cruise travel.

Cruise tourism cycle is longer. In general it can reach 5 to 8 days. In the

questionnaire there are 78.9% of people think that the best sailing time is 3-5 days, It can be seen a long time cruise sailing becomes the second largest unfavorable factors after the price factor and affecting traveler to choose cruise ship. So COSCO luxury cruise branch must break the conventional routes and developing a number of short cruise routes(Preferably within 5 days), let more people feel the charm of cruise tourism to get the loyalty of consumer in a short time.

4.4 Summary of Shanghai cruise market assessment

Overall, the basic situation of market has the following 6 points: 1. there is a huge number of potential consumers in Shanghai cruise market; 2. cruise tourism industry is developing rapidly; 3. market competition is fierce; 4.the threat from strong foreign competitors in the same industry is the biggest threat; 5. the threat of new market participants is not strong; 6. the threat from alternative products is not very strong. There are 3 basic situations from the view of consumer demand feature: 1. consumer need more cruise ship knowledge; 2. consumers need a lower cruise travel expenses; 3. consumers need a shorter time cruise travel. Therefore, in the background of vast majority of potential consumers in the market has not yet been discovered, many potential consumers have not attention to this emerging market, the core of marketing strategy of COSCO luxury cruise branch is not preempt existing markets but to open the new markets.

CHAPTER 5 The price and product strategy of COSCO luxury cruise branch

Contraposing these conclusions in the summary of Shanghai cruise market assessment, when COSCO luxury cruise branch put forward its own cruise travel services, it must be comprehensive using of penetration pricing strategy, ticket price discrimination strategy and product differentiation strategy to meet the needs of tourists.

5.1 Ticket price discrimination strategy

Price discrimination means that a firm sells the same product to different consumers at different prices (Philip, 2006). In order to open new markets, allowing more people to regard cruise tourism as a new type of travel and quickly obtain an effective customer loyalty in the target consumers, COSCO luxury cruise branch should put forward their price discrimination strategy to cover most target customer base in the early marketing promotion stage. The main tactics should include the following aspects:

5.1.1 Making the price discrimination strategy by different groups of people

In every voyage, the company can sell a part of middle-level room to disabled soldiers, students, the elderly, the disabled, infants and children with high discount (50% -70%) Let these relatively poor visitors put down the economic burden.

5.1.2 Making the price discrimination strategy by these people who have a special travel purpose.

COSCO luxury cruise branch can also making a medium discounts (70% -90%) to those people who have a special travel purpose such as: birthday trip, honeymoon trip, corporate meetings to encourage these consumer behavior.

5.1.3 Making the price discrimination strategy by the number of tourists

COSCO luxury cruise branch can make a low discount (90%) for the team whose tourism number reach 20 people; make a medium discounts (70% -90%) for the team whose tourism number reach 50 people; make a high discounts (60%-70%) for the team which tourism number reach 100 people. In this way, the new company not only can get the customer's favor, but also increase the initiative of travel agency to get more customers.

All of these price strategies for a newly established company are a very heavy economic burden on the market promotion stage. This is also the reason why in China we need a strong state-owned enterprise to establish a luxury cruise company. But for a company, profit is the fundamental purpose, so the implementation efforts of price discrimination strategy will continue changing according to the consumer's acceptance level of cruise tourism.

5.2 Composition of product strategy

Luxury cruise ship can provide complex and various products to visitors. These products can be divided into three aspects: sailing line products, luxury cruise ship

products and onboard autonomous consumer products. This section, the author will focus on how can COSCO luxury cruise branch make the luxury cruise product portfolio elaborate.

5.2.1 Sailing line products

Sailing line are most important products of a cruise lines offered to customers. Offering an attractive voyage and appropriate sailing time for tourists is far greater than the ticket price discounts. In my questionnaire, we can see many Chinese tourists are not satisfied with the length of travel cycle. Although we know that sea travel must spend more time than other travel patterns, but in order to open the potential consumers market of Chinese cruise tourism, I think we can try to design some shorter voyage itinerary.

Because most ordinary domestic visitors want cruise travel period less than 5 days, in order to meet the demand of domestic tourists and according to geographical features of Shanghai, we can design some short voyage lines on 3 different directions. The northward route can be opened to North Korea, South Korea and Japan; eastward route to Taiwan; southward routes to Hong Kong, Macau and Southeast Asian countries. In order to comprehensive coverage these 3 voyage lines, the author thinks COSCO luxury cruise branch at least need 3 cruise ships. In this paper these 3 cruise ship be named 1#, 2#, 3# respectively. The author reference the existing sailing lines of other international cruise company in Shanghai to design a few short-haul routes (see Table 6).

Actually, only carrying on the 5 days short-haul routes is not enough to feel the charm of cruise tourism and these short-haul routes will also make a relatively high cost for company. This is also the reason why those international cruise companies do not

reduce their voyage cycle when they enter Chinese market. Considering about enough time is a necessary condition to enjoy cruise tourism, in addition to setting these short-haul routes, COSCO luxury cruise branch also need to develop some long-haul routes which cost about 6-8 days and even exceed 10 days. Especially in the "National holiday" and the winter and summer holiday COSCO luxury cruise branch could operate these long-range routes, allowing visitors to experience a long life on the sea. In this paper, the author also designed a few long-haul routes (see Table 7), its meaning is only in throwing out a brick to attract a jade.

Table- 9 Short-haul routes of COSCO luxury cruise branch

short-haul routes of COSCO luxury cruise branch (January to June , November to January)		
Northward routes (1#,2# cruise ships)	Eastward route (3# cruise ships)	Southward routes (3# cruise ships)
Shanghai - Yokohama - Osaka – Shanghai (5 days)	Shanghai - Taipei - Tainan – Shanghai (4 days)	Shanghai - Macau - Hong Kong (4 days)
Shanghai - Fukuoka – Shanghai (5 days)		Shanghai - Sanya - Shanghai (5 days)
Shanghai - Jeju Island - Busan – Shanghai (5 days)		

(Source: Made by author)

Table- 10 Long-haul routes of COSCO luxury cruise branch

long-haul routes of COSCO luxury cruise branch		
National holiday	Summer holiday	Winter holiday

(1#,2#,3# cruise ships)	(2# cruise ship)	(3# cruise ship)
Shanghai - Jeju Island –Fukuoka- Yokohama– Shanghai (7 days)	Shanghai – Xiamen – Hong Kong –Sanya– Shanghai (10 days)	Hawaiian Islands Tour Shanghai –Taipei –Hawaiian Islands –Shanghai (15 days)
Shanghai - Singapore – Shanghai (7 days)	Special line to Vladivostok, Russia Shanghai – Jeju Island – Vladivostok – Shanghai (12 days)	Australia tour Shanghai –Tainan –Australia–New zealand –Shanghai (25 days)

(Source: Made by author)

In addition to the short and long-haul sailing routes, COSCO luxury cruise branch can also send a largest tonnage and best performance cruise ship to carry out a voyage a round the world at regular intervals. These ship tickets of circumnavigation can be sold to customers in a special way. In this way customers can be free to choose destination and length of their voyage, they can choose whether go over the earth with the ship or go ashore from ship in any destination port city. These tickets are sold like the way of selling train tickets. In this way, the cruise ship can replace tourists in any port she arrives. The significance of global navigation not only through using of space and increasing passenger traffic to get huge profits for the cruise ship company but also for a country it can show a modern Chinese style cruise ship to the world, promoting Chinese culture and making foreign friends understand China and enhance China's international status.

Overall, in the preliminary stage, developing some short-haul routes in the daily and

some long-range routes at specific period (long holiday) is needed. This kind of sailing line product portfolio for COSCO luxury cruise branch concerned is imperative.

5.2.2 Luxury cruise ship product

Actually, cruise ship itself is also one kind of service products in a cruise travel. Offering huge hull, beautiful shape, clean environment, luxurious decor for tourists is an appreciation and enjoyment, so cruise design work is very important. A cruise ship which has its own unique design characteristics is destined to become a star in the world cruise ship family. Every luxury cruise ship of famous cruise ship company in the world have its own characteristics, such as those cruise ships of Royal Caribbean Cruise Lines and COSTA; they are known for huge and luxurious furnishing. Until now they still attracts numerous successful people who pursuit exquisite life and high-end consumption. Those cruise ship of Disney adhering to Disneyland style, like building up a floating paradise on the sea, became the most popular cruise ship for children in the world. As we see because of the success of design their ship tickets usually can sell good.

For our country, a country which has 5000 years history and culture, we are not lack of design material when we want to construct a cruise ship fleet with Chinese cultural characteristics. COSCO luxury cruise branch should seize this advantage of a long history of cultural, let design experts design a cruise ship fleet which can fully reflect the Chinese elements. Even if there are some problems on construction techniques for domestic ship building company, we can still construct the first Chinese elements cruise ship fleet in foreign shipyard. Today, “China Style” increasingly popular, for the peoples of the world, the first Chinese elements cruise ship fleet is bound to get strong market attractiveness. Especially for those tourists in Europe and America who

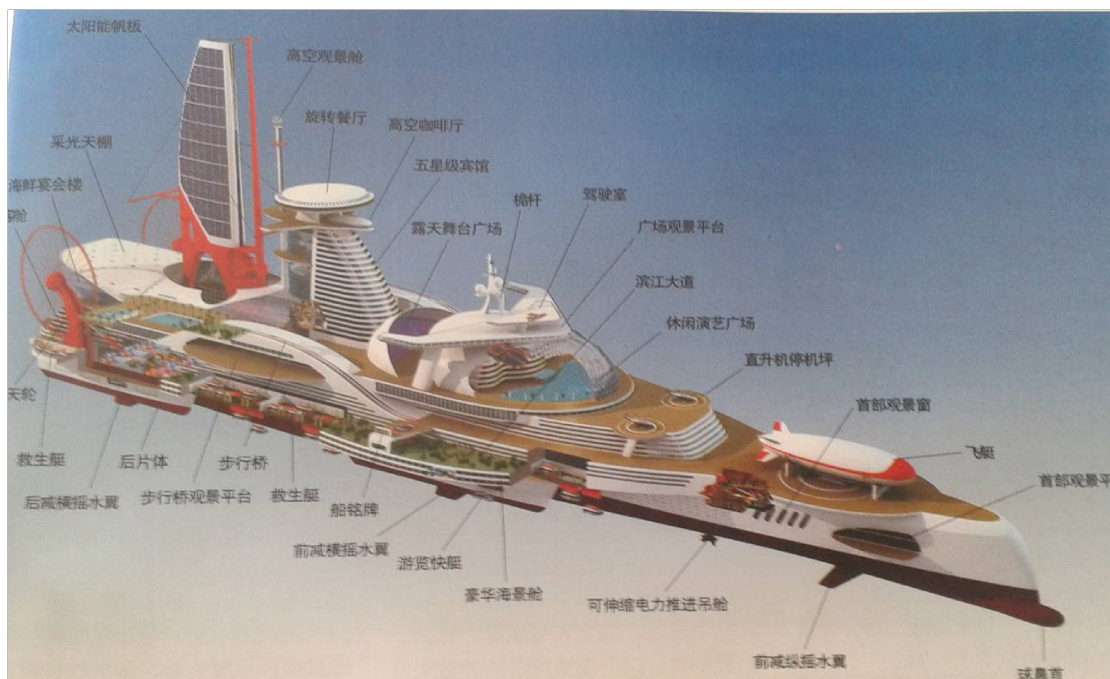
are adapted to cruise tourism, Chinese cruise ship will become a mystery cruise fleet for them, sparking their desire to take our ship. These following two pictures are peacock princess cruise ship's envisaged figure which is the first prize works of CSSC Future Ship Award Final.

Figure- 2 peacock princess cruise ship



Resource: China shipbuilding and Marine engineering design and research institute

Figure- 3 Overall structure diagram of peacock princess cruise ship



Resource: China shipbuilding and Marine engineering design and research institute

5.2.3 Onboard autonomous consumer products

Normally, the revenues of all kinds of autonomous consumer products on the cruise ship are as same as the revenues of ship tickets and sometimes they are even higher than tickets revenues (Wang, 2006). So, as one important part of cruise ship revenues, those various autonomous consumer products need keeping renew and multiformity to continually attract customers, and autonomous consumer products also need plenty of customers. So to some extent, lower price of the ticket is a necessary, because tourists' onboard spending usually can make up for the loss of lower ticket price to the cruise company. So, whether having a good onboard autonomous consumer products, in a certain sense, is a determine factor for the profitability of one cruise ship.

Each cruise ship of COSCO luxury cruise branch must make a series of high-quality onboard autonomous consumer products as the ship's rechargeable entertainment services. COSCO luxury cruise branch must determine which item should be charged, avoiding the situation that some onboard tourists can not enjoy the necessary high-quality services because they do not pay for any autonomous consumer products, even letting them have a negative evaluation for cruise tourism. Setting charging items should be on one basic principle that does not affect tourists' normal enjoyment activities. That means autonomous consumer products are set for those tourists who want to further consumer to obtain better quality and luxury service and goods. So onboard autonomous consumer products can not involve normal breakfast, lunch and supper and some basic entertainment items such as: swimming pool, gym, karaoke, theaters and so on. Onboard autonomous consumer products can mainly focus on shopping, beauty care items, bars, tea rooms, fine dining restaurants and so on. In order to reflect the "Chinese style design" of cruise ship, these onboard autonomous consumer products may include the following areas:

1) Commercial Street

Today on the most international luxury cruise ship, commercial street use Western style decoration and sold luxury brands, so for these cruise ships of COSCO luxury cruise branch, the commercial street should not only reflect luxurious decoration, more is with Chinese style. Furthermore, except of luxury brands, we also sold Chinese jade, porcelain, gold and silver ware, Chinese cheongsam, Chinese painting and calligraphy. We can use tax-free luxury brands to attract Chinese young consumers, meanwhile using Chinese goods to attract foreign tourists to gain maximum profit.

2) Profession beauty care items

Beauty care shops, and massage parlors have been the most pleasant place on the cruise ship. Ladies can do a SPA in the beauty care shop before sleeping. For men, after sport they also can go to the massage parlors to relax.

3) Bar and tea rooms

After enjoying the delicious food provided by cruise ship's kitchen, some visitors want to stay at the deck to blow the sea wind, but some tourists want to have a chat platform enjoying drink, food or have a party. Bar and tea rooms provides tourists an opportunity. Especially the tea room, so far a bar on the cruise ship is a very normal thing, but no cruise has a special tea room yet. What's more, Chinese people have the habit of tea drinking from the ancient time and for foreign tourists drinking tea also is a luxury enjoyment. So for COSCO luxury cruise branch, established tea room on their cruise ship is a very necessary thing. It not only can give the visitors a dinner pastime and entertainment destination, but also hold regular tea-making performances for domestic and foreign tourists to explain the Chinese tea culture.

After determining the prices, routes, cruise ship design and autonomous consumer

products items, the company's publicity and marketing channel strategy can be decided.

CHAPTER 6 Publicity and marketing channel strategy of COSCO

luxury cruise Branch

6.1 Publicity Strategy

The significance of publicity work of cruise market is also very important. In foreign countries, the concept of cruise travel has gradually matured and eventually accepted by consumers after several decades of propaganda and experience. Today, for COSCO luxury cruise branch, they need to open new markets to compete with international foreign cruise companies, but at the same time they have not much time to do the propaganda working to the domestic consumer. So how in a relatively short period to do a larger range and deeper depth propaganda working to consumers and making more Chinese mainland potential consumers willing to take part in cruise tourism consumption has become a problem that must be solved. Meanwhile, in the promotion process for these potential customers, company should establish a correct consumption view of cruise travel and let them understand the positive significance of cruise tourism and remove some Chinese mainland consumers' psychological conflict and misunderstanding of luxury cruise travel. If they have not do this, the situation will turn out to be like China Cruises Company Limited founded by Wenzhou businessmen in 2012. They want to become China's first cruise company to obtain support; but due to various reasons, most Chinese people regard their publicity working as a flaunting wealth action of successful businessmen. From this, it is easy to see that a correct promotional plan for the Chinese cruise travel market is very important. If publicity is unsuccessful, the new market can not be opened. Then market we can only snatch existing markets with those strong foreign competitors and increasing the likelihood of failure. In this background, if COSCO luxury cruise

branch want to open the potential market successfully, the propaganda work must be carried out step by step.

6.1.1 The prophase drumbeating of COSCO luxury cruise branch

At this stage, the company has just been registered. The company is preparing to build the organizational structure; cruise ship is still in the test state. In the registration day, company can announce to the nation: a true large Chinese state-owned cruise ship enterprises have born, and Chinese tourists will soon be able to get their own country's cruise ship to enjoy cruise life at sea. Then COSCO luxury cruise branch can invite television filming a documentary about the process of company founding and the construction of cruise ship. Meanwhile, in order to cover a larger customer base, the company can also use newspaper and online media to advertise. In the publicity process, company's operational characteristics, namely, Chinese style design of cruise ship, low price, short, medium and long-haul routes and perfect entertainment services, must be highlight. Through all of these ways, people may know that a state-owned cruise company has been established in Shanghai and gradually they may begin to accept this healthy travel style.

6.1.2 The middle drumbeating of COSCO luxury cruise branch.

In the following three years after the cruise ship delivery, the maiden voyage begins. In addition to continuing the use of domestic television, print and online media to advertise the features of our cruise travel, company should also invite the famous entertainment, tourism travel TV programs to aboard the their cruise ship for free. This is a great to publicize publicity the cruise life to viewers. Meanwhile the company should actively undertake various national and world-class fashion shows, beauty contest, film festivals, public presentation and other major competitions or

ceremony to further enhance the popularity of the cruise ship. In this way, the company can save promotional costs and provide a platform for these programs. In the middle drumbeating stage, the publicity goal is letting each Chinese see the cruise ship on the TV, making most Chinese people aware of the cruise travel and letting these tourists who have not take cruise ship want to have a cruise travel.

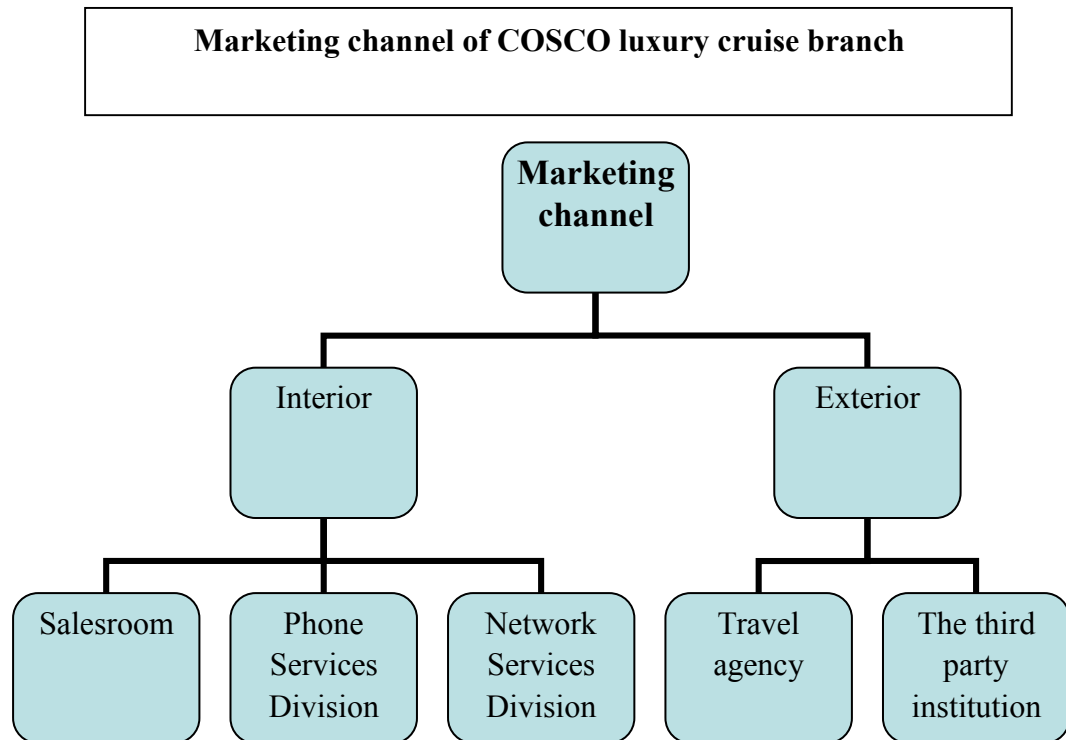
6.1.3 The later publicity of COSCO luxury cruise branch

If company can successfully complete the prophase and middle publicity purpose, it proves that the potential Chinese luxury cruise market has been opened, and cruise travel have be accepted by Chinese, then company can focus on different regional, city, and crowd to make their later publicity strategy according to the company's next objectives.

6.2 Marketing channel strategy

In addition to promotional strategies, marketing channels are also very important, traditional shops, telephone calls and other means of selling tickets are needed. The increasingly developing network technology should also be used. Cruise Company not only should establish their own marketing channels but also make full use of existing outside marketing channels to expand enterprise market. Now, these existing outside marketing channels mainly include two parties: travel agencies and professional third party travel information services agency, such as: Ctrip (<http://vacations.ctrip.com/cruise>) and Love Cruise Network (<http://www.i3youlun.com/>). Integrated use of these channels can help to faster and more effectively cover the entire market.

Figure- 4 Diagrammatic drawing marketing channel of COSCO luxury cruise branch



CHAPTER 7 Conclusion

7.1 Initial development strategy of Chinese new luxury Cruise Company

Overall, the present development of China's luxury cruise market situation is good, and some large state-owned enterprises and private enterprises have the ability to create a large cruise company. The new cruise company (The author assumed to establish COSCO luxury cruise Branch in this paper) can first self-build or purchase three 80000-100000 tons large luxury cruise ship with Chinese design features and set up the home port in Shanghai. The company can also regard "Creating a Chinese luxury Cruise Company with strong international competitiveness" as the company mission and regard Shanghai cruise tourism potential consumer market as the main target market. From the products strategy aspect, the company can mainly introduce short sea travel and also launch the long-distance sea travel in a specific period, make reasonable arrangements for cruise recreational facilities, and create high quality of cruise life with Chinese characteristics. Moreover, in order to fully open Chinese potential cruise market, the company should strive to complete the prophase and middle publicity purpose and implement the price discrimination strategy while taking advantage of multi-channel marketing approach to maximize the range of tourists.

7.2 Future prospects of Chinese new luxury Cruise Company

After 5-10 years initial development, the author believes the new luxury cruise company can have a foothold in Shanghai and get a lot of regular clientele, letting Chinese people know the charm of cruise tourism.

After some years, with the development of world's luxury cruise market, Chinese sustained economic growth, the gradual improvement of Chinese people's living standards and the change of people's tradition travel consciousness, millions of Chinese people will start to focus on the world cruise market. The new company's exploration experience in the Shanghai market can accumulate experience and lessons and help company extends its business for other port city. The business in Shanghai also can accumulate capital, technology and professional personnel for the expansion of the cruise fleet. So then, this cruise company must consolidate its leading domestic place, to meet China cruise market expansion era and prepare for a new challenge brought from international cruise company.

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Appendices1:

The questionnaire of Chinese luxury cruise knowledge

1. Your age is_____. 2. Your monthly income is_____.
3. Do you have the luxury cruise travel experience? _____
4. Do you want to have a luxury cruise travel, if you have not this experience?_____
5. Do you know the cruise ship?
A. fully understand it B. know something about it C. just heard about it D. have not heard about it
6. Currently, which travel way is you and your family's first choice?
A. Independent travel B. Team travel C. Cruise tourism D. Other new ways to travel
7. What is the main reason for not choosing cruise tourism?
A. High cost B. Non adapt to life at sea C. Do not like the ocean scenery
D. Afraid of shipwreck
8. In what situation, you and your family will consider to choose cruise travel?
A. Holiday B. Birthday C. Honeymoon D. Never
9. In your mind, how many days is an appropriate nautical journey?

A.3-5 days B.5-8 days C.10-20 days D.More than one month

10. If you can take a cruise ship from Shanghai, your dream destination is_____.