



## **Executive Summary- Team A4**

### **Objectives**

We forecast the short and long-term economic outlook, establish measures to navigate the recession and recovery, and lay out long-term strategies for both domestic and international markets.

### **Macroeconomic Overview**

The recession in the US market is expected to end in the first half of 2010; the ensuing recovery should be relatively long (approximately 6 years), with consumption remaining anemic even as GDP growth picks up.

In the long term, two key forces will shape consumer demand. First, asset prices, and consequently household wealth, will remain low even after earnings rise, discouraging spending. Second, a psychological “shift to thrift” will steer consumers away from conspicuous consumption.

More affluent consumers, as well as retirees and families with mortgages, will be most affected by these trends. Younger generations, on the other hand, will not decrease consumption in the long term, as they rely on income rather than wealth, and have been less affected psychologically by the recession.

### **Domestic Strategy**

In the domestic market, we propose targeting experienced cruisers in the luxury segment, a \$35mm annual opportunity. These consumers want to travel, but have suffered from a reduction in wealth. Since a typical premium cruise is priced at approximately 40% less than an equivalent luxury cruise, you do not need to lower prices in order to offer a bargain to these consumers. In fact, we recommend you increase prices 10-15% in order to offset lower margins on other passengers and pay for some of the extra perks luxury customers demand. This enables you to provide value to customers without tarnishing your brand.

As the recovery begins, you will benefit from targeting affluent professionals between the ages of 25-34, since their spending habits are unlikely to change. More importantly, given that the vast majority of this age group are first-time cruisers, this strategy guarantees a stable future source of revenue due to past cruisers’ 50-60% repeat rate. During the recession, prices should remain at decreased levels to attract these passengers. Once the recovery begins, prices should be raised moderately in tandem with expanded amenities and services, reaching pre-recession levels by 2011.

### **International Strategy**

We recommend expanding your presence in the UK and Australia markets, due to the synergies between the two and the high number of wealthy households in both regions. Current cruises in both regions focus on North American travelers flying in; however, citizens of both countries are increasingly interested in cruising, and the majority prefers regional destinations. With shorter cruises and marketing targeted to local consumers, you can expect annual revenues of approximately \$125 mm from the two markets. Annual growth rates of 26% and 12% respectively ensure that the Australian and UK cruising markets are large enough to accommodate HAL’s capacity.