

# Royal Caribbean Cruises Ltd.

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**1050 Caribbean Way**  
**Miami, Florida 33132**  
**U.S.A.**  
**Telephone: (305) 539-6000**  
**Fax: (305) 374-7354**  
**Web site: <http://www.royalcaribbean.com>**

*Public Company*

*Founded: 1968*

*Employees: 64,000 (2013)*

*Sales: \$7.96 billion (2013)*

*Stock Exchanges: New York*

*Ticker Symbol: RCL*

*NAICS: 483112 Deep Sea Passenger Transportation*



Royal Caribbean Cruises Ltd. is the world's second-largest cruise company (behind top-ranking Carnival Corporation), with 41 cruise ships in service, more than 3.5 million guests annually, and a total of 98,650 passenger berths as of 2013. Royal Caribbean offers a variety of different itineraries and its ships call at 455 destinations on all seven continents. The company, a Liberian corporation, operates under six separate brands, which are Royal Caribbean International, Celebrity Cruises, Pullmantur, Azamara Club Cruises, CDF Croisières de France and (through a 50-50 joint venture) TUI Cruises. Although the company operates globally in terms of its itineraries and destinations, nearly 60 percent of its passengers were from North America in 2012. In the early years of the 21st century,

Royal Caribbean embraced a strategy that targets higher-end customers with the largest and most luxurious ships in the industry. The company launched the largest ships in the industry with its Freedom series of ships in 2006. That was followed by larger liners with the Oasis ships that began sailing in 2009. The Quantum class, a smaller series with more amenities, was scheduled to launch in November 2014. By 2016 Royal Caribbean expected to provide more than 105,000 passenger berths on 46 ships.

## EARLY HISTORY

Royal Caribbean Cruises Ltd. can trace its history to the beginning of today's passenger cruise industry. When three major Norwegian shipping companies founded the Royal Caribbean Cruise Line in the late 1960s, a cruise was an around-the-world or trans-ocean voyage on a large passenger liner, and was something only the wealthy could afford. According to Cruise Lines International Association, an industry trade group, an estimated half a million passengers took cruises of three nights or more in 1970, the year Royal Caribbean began offering cruises.

The company built and operated three ships during the 1970s, offering cruises throughout the Caribbean. In fact, Royal Caribbean was the first line to design ships specifically for warm water year-round cruising. Prior to this, a cruise line company would use its passenger liners for cruises in the Caribbean in the months they were not transporting people across the Atlantic or Pacific oceans.

## COMPANY PERSPECTIVES

We always provide service with a friendly greeting and a smile. We anticipate the needs of our customers. We make all effort to exceed our customers' expectations. We take ownership of any problem that is brought to our attention. We engage in conduct that enhances our corporate reputation and employee morale. We are committed to act in the highest ethical manner and respect the rights and dignity of others. We are loyal to Royal Caribbean and Celebrity Cruises, and strive for continuous improvement in everything we do.

Our ships are built to WOW.

Royal Caribbean's first vessel, the 700-passenger *Song of Norway*, began service in November 1970 and introduced glass-walled dining rooms, expansive sun decks located in the middle of the ship, and the company's signature Viking Crown Lounge projecting out from the ship's funnel, high above the sea. Edwin Stephan, one of the company's founders and Royal Caribbean's president at the time, got the idea for the lounge from the revolving restaurant atop the Space Needle at the 1962 World's Fair in Seattle. He anticipated that not only would passengers have a terrific view from this cocktail and observation lounge, but its design would set the vessel apart from other ships and make Royal Caribbean vessels instantly recognizable.

In 1971 the *Nordic Prince* entered service in the Caribbean, and the company began offering passengers air/sea vacations, with the airfare to Miami, Florida, included in the price of the cruise. The following year, with the introduction of the *Sun Viking*, Royal Caribbean became the biggest cruise line in the Caribbean with weekly departures from Miami on seven- and 14-day vacations.

For the remainder of the decade, Royal Caribbean focused on establishing its name brand. To do this, it concentrated on ensuring a consistent high quality for all its cruises and on generating and meeting demand. In 1973 it opened a marketing office in London and, in 1978, took the unprecedented step of cutting the *Song of Norway* in two and adding an 85-foot midsection, increasing the passenger capacity to 1,000. This was the first cruise ship to be lengthened in this way. In 1980 the same thing was done to the *Nordic Prince*. As Royal Caribbean entered the 1980s, the three ships in its fleet

ranged in size from 18,445 to 23,149 tons, with berths for 714 to 1,012 passengers.

### RESORT-STYLE CRUISING ON MEGASHIPS

The *Song of America* debuted in 1982. Weighing 37,584 tons and with 1,402 berths, it was the largest cruise ship built in 20 years. The new ship enabled Royal Caribbean to expand its itineraries, and in 1985 it moved outside the Caribbean for the first time, offering summer cruises to Bermuda from New York City.

The cruise industry grew as the target population (middle- and upper-income people) grew older and richer, quadrupling in the 15 years Royal Caribbean had been on the seas. In 1985 more than two million passengers took cruises marketed in North America, according to a *Forbes* article, with nearly two-thirds of them heading for the Caribbean. Cruise companies began a building spree in anticipation of the demand, taking advantage of low interest rates and shipyards eager for the business. Royal Caribbean initiated its first major capital expansion program, expanding *Viking Serenade* by 536 berths and building four new ships in four years. The new ships developed the "megaship" concept and introduced resort-style cruising. The first of the new vessels, the 874-foot *Sovereign of the Seas*, entered service in 1988. It weighed more than 73,000 tons, had berths for 2,276 passengers, and featured two indoor/outdoor cafés, two glass elevators, a five-story atrium, and nearly three football fields of open deck on which passengers could stroll.

In April 1988 Richard Fain was named chairman and CEO of the company. Two months later, Royal Caribbean and Admiral Cruises, a passenger cruise service that had operated for almost 100 years, combined their operations, although each kept its separate brand identity. Later that year the company underwent a fundamental ownership change. First, one of the original founding companies, Anders Wilhelmsen & Co., became the sole owner by buying out the other two partner companies. Then Wilhelmsen entered into a joint agreement with the Pritzker family (owners of Hyatt Hotels Corp. and other holdings) and the Ofer family, owners of a large shipping company. The result, once the process was completed in 1992, was that A. Wilhelmsen A/S, a Norwegian corporation, and Cruise Associates, a Bahamian general partnership, became the principal owners of Royal Caribbean. Members of the Wilhelmsen family of Norway controlled A. Wilhelmsen A/S, and members of the Pritzker family of Chicago and of the Ofer family controlled Cruise Associates.

## KEY DATES

- 1970:** Royal Caribbean's first vessel, the 700-passenger *Song of Norway*, begins service.
- 1978:** The *Song of Norway* is cut in two to add an 85-foot midsection, which increases the passenger capacity to 1,000.
- 1982:** The *Song of America* debuts; weighing 37,584 tons and with 1,402 berths it is the largest cruise ship built in 20 years.
- 1992:** A. Wilhelmsen A.S., a Norwegian corporation, and Cruise Associates, a Bahamian general partnership, become the principal owners of Royal Caribbean.
- 1993:** Royal Caribbean goes public.
- 1996:** Celebrity Cruise Line Inc. is acquired.
- 1999:** Royal Caribbean pleads guilty to 21 counts of polluting and agrees to pay an \$18 million fine.
- 2004:** Company begins installing new advanced wastewater treatment plants on its ships.
- 2006:** Company acquires Pullmantur S.A.; new Freedom class of ships set sail.
- 2008:** TUI Cruises joint venture is formed with German firm TUI AG.
- 2009:** Company launches Oasis class vessels, largest cruise ships in the world.
- 2013:** Royal Caribbean becomes first cruise line to base trips at new Kai Tak Cruise Terminal in Hong Kong.

### NEW HEADQUARTERS, MORE MEGASHIPS

In 1990, while the ownership restructuring was going on, Royal Caribbean opened its new headquarters at the port of Miami and consolidated all functions in one location. The *Nordic Empress* entered service, the first ship built specifically for short cruises such as the company's three- and four-night cruises in the Bahamas. With the addition of *Viking Serenade*, the company also added seasonal cruises to Alaska as well as to Europe.

Travel agents played a critical part in the company's operations, with some 30,000 independent agencies making essentially all the bookings for the cruises. To simplify that process, Royal Caribbean introduced CruiseMatch 2000, the world's first automated cruise booking system for travel agents. The new computer system allowed travel agents direct access to the

company's computer reservation system, making it easy to book cruises. The year ended unhappily, however, when a shipyard fire damaged *Monarch of the Seas*, delaying its launch.

*Monarch* did enter service in 1991. Royal Caribbean's largest vessel at the time, weighing nearly 74,000 tons, with berths for more than 2,300 passengers, the new ship was based in San Juan, Puerto Rico. *Viking Serenade* was rebuilt for short cruises, adding berth capacity, a new dining room and café, and a Viking Crown Lounge. This enabled the company to enter the year-round Mexico market with three- and four-night cruises from Los Angeles. The company also established an international sales and marketing department to increase the number and percentage of its passengers from outside North America. That department oversaw operations of the company's sales offices in London, England; Oslo, Norway; and Frankfurt, Germany.

Royal Caribbean's strategy in the very competitive cruise/vacation market was to target the upper portion of the "mass" market, promising a quality product for slightly more money than other volume competitors such as Carnival Cruise Lines. However, in order to fill its ships during a recession (and a war in the Persian Gulf, which affected cruises in the Mediterranean), the company had to offer discount prices. That factor, combined with the costs of servicing the debt from its shipbuilding activities, led to a sharp drop in profits in 1991.

With the entry of the final megaship in its expansion program, the *Majesty of the Seas*, in 1992, Royal Caribbean became the first cruise line to offer year-round megaship cruises in the major Caribbean markets. The building program begun in 1987 had more than tripled the company's number of berths, to 14,228, and brought the fleet's number to nine ships. That year also saw the end of Admiral Cruises, when Royal Caribbean sold its two-ship fleet and discontinued service.

### ACQUIRING CELEBRITY

The battle for consumers' leisure dollars continued to intensify, with cruise lines, resorts, and timeshare developers concentrating on offering all-inclusive vacations. Between 1995 and 1998, Royal Caribbean undertook its second major capital expansion program, building six Vision-class ships at a cost of approximately \$1.5 billion. Each new ship used more than two acres of glass in the design and featured a seven-deck atrium with glass elevators, skylights and glass walls, a pool and entertainment complex covered by a moveable glass roof, a two-deck main dining room, a state-of-the-art show theater, a glass-encased indoor/outdoor café, and a

shopping mall. The largest of these new ships carried 2,000 passengers and weighed 75,000 tons. The smallest had 1,804 berths and weighed 70,000 tons, twice the number of people and three times the weight of the original *Song of Norway*.

The first of the new vessels, the *Legend of the Seas*, entered service in 1995, bringing the Viking Lounge silhouette to Hawaii and expanding Royal Caribbean's cruises in Alaska. The ship's amenities included an 18-hole miniature golf course with all the features, water hazards, and proportions of an average golf course.

Designed to be faster than most cruise ships, the new vessels permitted more flexibility in itinerary planning. The company entered the Far East market and was the first to offer year-round cruises there and in Southeast Asia. Two more new ships began cruises in 1996, the 1,800-berth *Splendor of the Seas* and the 1,950-berth *Grandeur of the Seas*. During 1996, some 973,000 passengers went on Royal Caribbean cruises, over 100,000 more than sailed in 1995.

In July Royal Caribbean bought Celebrity Cruise Line Inc. for \$515 million. Celebrity became a wholly owned subsidiary and continued to operate under its own brand name. Celebrity served the premium cruise vacation market, owned five ships with approximately 8,200 berths, and offered 40 different itineraries ranging from 6 to 18 nights, and stopping in more than 50 ports in Alaska, Bermuda, the Caribbean, and through the Panama Canal. The addition of Celebrity Cruises greatly enhanced the company's presence in the premium destination market of one- and two-week cruises, and its acquisition increased Royal Caribbean's total market share in 1996 to approximately 27 percent of the 4.7 million North Americans who went on cruises that year.

### OVERCOMING ROUGH SEAS

During the late 1990s, Royal Caribbean was forced to fend off negative publicity when it became embroiled in several lawsuits related to dumping oil and hazardous chemicals in coastal waters around the United States. In 1998 the company pled guilty to obstruction of justice for attempting to cover up its illegal dumping practices. Royal Caribbean faced five years' probation and agreed to pay a \$9 million fine. Trouble continued the following year, however, when the company was indicted on additional charges of dumping toxic solvents in New York Harbor and oil and toxic chemicals from its photo and dry cleaning shops in waters near Miami, the Virgin Islands, Los Angeles, and the Inside Passage in Alaska. Royal Caribbean pled guilty to 21 counts of polluting and faced an \$18 million fine. The state of Alaska also

sued the company and in 2000 the firm paid out \$3.3 million to the state to settle the charges.

During this time period, the cruise industry as a whole felt pressure from environmental groups. According to these groups, sewage from cruise ships contributed to a host of problems including contamination of the world's oceans. Oceana, an organization created to protect the ocean, launched a campaign against Royal Caribbean in the early years of the new millennium. Before ships set out to sea, the group would fly a banner behind an airplane that read, "Got Sewage? Royal Caribbean Dumps Daily." In May 2004 Royal Caribbean agreed to install new advanced wastewater treatment facilities on its ships.

Despite the troubles brought on by the litigation, Royal Caribbean continued expansion efforts in the late 1990s and beyond. In 1999 the company launched *Voyager of the Seas*, a 142,000-ton, 3,114-passenger ship. *Explorer of the Seas* entered service the following year and was the first ship to include an atmospheric and marine laboratory on board. *Radiance of the Seas*, a 90,090-ton, 2,100-guest ship, set sail the following year and was the first Royal Caribbean vessel to use gas turbines. *Brilliance of the Seas*, *Serenade of the Seas*, and *Jewel of the Seas* (all Radiance-class ships) were launched in 2002, 2003, and 2004, respectively.

During 2004 Royal Caribbean began offering cruises to the Galapagos Islands via its Celebrity Xpeditions line. It also announced the launch of its new *Freedom of the Seas* ship in 2006. With a 3,600-guest capacity, the *Freedom* would be the largest cruise ship in the world. Even as rising fuel costs threatened company revenue in 2004 and 2005, Royal Caribbean experienced marked success. Net income grew to \$474.7 million in 2004 while earning per share increased by 59 percent over the previous year. Revenues also increased by more than 20 percent in 2004 and by 50 percent during the first half of 2005, with occupancy at an all-time high.

### THE WORLD'S LARGEST CRUISE SHIPS

When the *Freedom of the Seas* launched in 2006, the vessel surpassed Carnival's *Queen Mary 2* as the largest passenger cruise ship in the world. The first of three Freedom-class liners, the ship embodied a strategy that Royal Caribbean would follow for the next decade, namely, to offer customers the largest, most luxurious ships on the ocean. Adam Goldstein, president of Royal Caribbean International, told the *Washington Post* that most customers preferred newer, larger vessels. He added, "We would be very happy to operate smaller

ships if they could generate greater profitability than the big ships, but they don't." However, not all cruise companies took that approach. Micky Arison, chairman and CEO of Carnival, said his company preferred to offer "ships for all different types of people and all different sizes," with capacities ranging from 150 to 3,800 passengers.

Also in 2006, Royal Caribbean announced its first major acquisition in 10 years with Pullmantur S.A., a Spanish operator of cruise ships and tours. Royal Caribbean paid \$552.7 million for Pullmantur stock and assumed another \$347 million in debt. The deal presented Royal Caribbean with its first fully owned brand in Europe.

Over the next three years, Royal Caribbean would add three new brands and drop another as it fine-tuned its lines and expanded its European presence. In 2000 Royal Caribbean had entered a 50-50 partnership with TUI Travel to form Island Cruises. In 2007 First Choice merged with UK-based TUI Travel, leaving the fate of Island Cruises up in the air for more than a year. In October 2008 Royal Caribbean sold its 50 percent interest in Island Cruises to TUI for an undisclosed sum. Also that year, Royal Caribbean and TUI AG announced a joint venture to form TUI Cruises. The new company, aimed at German passengers, began operations in 2009. Royal Caribbean also created two brand new lines. Azamara Club Cruises debuted in 2007 and was aimed at an upmarket crowd. CDF Croisières de France, aimed at passengers who spoke French, debuted in 2008.

The moves into Europe reflected a larger U.S. cruise line strategy that began in the aftermath of the September 11, 2001, terrorist attacks in New York City and Washington, D.C., Hannah Sampson reported for the *Miami Herald* in 2013. With U.S. citizens afraid to fly and U.S. companies depending on domestic passengers to fill their ships, companies like Royal Caribbean that had relied on U.S.-Caribbean traffic began diversifying into other markets. Europe was attractive to U.S. cruise companies in the middle of the first decade of the 21st century, with attention later shifting to Asia, Australia and Brazil by the early 2010s, Sampson added.

Although the European moves put Royal Caribbean in a competitive position, the next several years were difficult ones. First, oil prices began rising in 2007 and reached record levels in 2008. In November 2007 Royal Caribbean and Carnival announced they would initiate a fuel surcharge of \$5 per person, per day, to help offset skyrocketing energy prices. The surcharges became controversial when Royal Caribbean and Carnival added fuel charges to reservations that were already in place when the program began. An investigation by the

Florida Attorney General's Office led to Royal Caribbean refunding \$21 million to customers in March 2008 and Carnival paying \$40 million. The surcharge also climbed as fuel prices rose, reaching \$8 a day in April 2008 (when Disney Cruise Lines also began levying the fee) and averaging around \$10 through 2013. However, the surcharge barely put a dent in fuel costs, which rose by \$180 million in the first six months of 2008 and exceeded \$500 million for 2009.

At the same time, cruise bookings began to fall as the global economy entered a prolonged recession, accompanied by fluctuations in currency rates. In July 2008 Royal Caribbean eliminated 400 jobs and cut operating expenses by \$125 million, as well as reducing ticket prices during the year. For the fourth quarter of 2008, company revenues were flat at \$1.5 billion. Total 2008 revenues were \$6.5 billion and climbed another 15 percent to \$6.8 billion in 2009 as the company implemented more cost-cutting measures and took other steps to lure clients.

#### A TRULY GLOBAL COMPETITOR

Having survived the economic challenges of the global recession, Royal Caribbean pressed ahead with long-term plans to build ever-larger cruise ships. In 2009 the company launched the \$1.4 billion *Oasis of the Seas*. The first of two Oasis-class ships, the 18-deck *Oasis of the Seas* surpassed the Freedom liners as the largest cruise ship in the world. The new ships featured ice skating rinks, rock climbing walls, and eight-story zip line courses.

"If Carnival is threatened by the 220,000-ton vessel, it isn't letting on," Jaclyn Giovis reported for the *Fort Lauderdale Sun-Sentinel* in March 2009. Giovis noted that according to Howard Frank, Carnival COO, Carnival had considered a 220,000-ton ship years earlier but decided it was too risky. Industry experts said the two companies were "oceans apart" in their strategies, with Carnival targeting middle-income families while Royal Caribbean charged larger fares for bigger-than-life experiences. "Carnival is a conservative spender with a mix of ship sizes and a bottom-line mentality," the report noted. "Royal's large ships splurge on frills and thrills in hopes of wowing guests, and that allows the company to lead the industry into the future, executives contend." Company leaders also said the new Oasis ships offered solutions to long-standing environmental issues such as pollution and energy efficiency.

Even while preparing to launch its second Oasis-class ship, *Allure of the Seas* in 2010, Royal Caribbean was already working on its next generation of craft. In February 2011 the company said it had entered a letter

of intent with German shipyard Meyer Werft to build "Project Sunshine." The 167,000-ton, 16-deck ships (later designated the Quantum class) would hold 4,100 passengers and ranked second in size to the Oasis class. Three ships had been put under contract by 2013, with the *Quantum of the Seas* set to launch in November 2014 and the *Anthem of the Seas* following in 2015.

In early 2014, *Quantum of the Seas* had "generated more excitement than Norwegian Cruise Line's *Norwegian Getaway* (maiden voyage Jan. 16) and Carnival Prince Cruise's *Regal Princess* (maiden voyage May 20)," Dan Moskowitz reported for *The Motley Fool*. The Quantum class added a number of innovative new amenities, including a skydiving experience; an amusement park with bumper cars and a circus school; and "virtual balconies" with real-time ocean views in 373 interior cabins. Moskowitz added, "The standout and most talked about feature is the North Star, which is a mechanical arm that lifts up to 14 passengers toward the sky for bird's-eye views of the ship, ocean and stars."

Royal Caribbean also pressed forward with plans to expand into emerging global markets, despite setbacks in the early years of the 2010s. As Royal Caribbean was entering Japan, the earthquake and tsunami in that country in 2011 forced all cruise lines to abandon their routes, the *Miami Herald* reported in 2013. The Arab Spring of 2012 disrupted travel to Africa, while the poor European economy and the sinking of the cruise ship *Costa Concordia* off the coast of Italy in January 2012 crushed cruise demand in the region. Company revenues, after dropping to \$6.75 billion in 2010, rebounded to \$7.5 billion in 2011 and \$7.68 billion for 2012. However, the company also reported a 96 percent decline in profit to \$18.2 million in 2012.

By 2013 U.S. cruise lines were flooding the emerging markets of Asia and Australia. In June 2013 Royal Caribbean announced it would be the first to use the new Kai Tak Cruise Terminal in Hong Kong as a home port. Amy Nip reported for the *South China Morning Post* that the *Mariner of the Seas* would offer round-trip voyages from the facility. At 138,000 tons and a passenger capacity exceeding 3,000, "It is the largest cruise liner to set up home port in Asia, where it also operates out of Singapore and Shanghai," Nip wrote.

The company laid off 100 employees in September 2013, but with its global strategy finally paying off, and its building of the world's biggest and best ships show-

ing continued success, Royal Caribbean seemed poised in 2014 to continue its growth for years to come.

Ellen D. Wernick

Updated, Christina M. Stansell; Bobby L. Hickman

## PRINCIPAL DIVISIONS

Royal Caribbean International; Celebrity Cruises; Azamara Club Cruises; Pullmantur; CDF Croisières de France; TUI Cruises (50 percent).

## PRINCIPAL COMPETITORS

Carnival Corporation; NCL Corporation; Walt Disney Parks and Resorts.

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