

Industry Analysis

Hotels

Q4 2013

Industry Overview

Seventeen out of 4,200 passengers died when the Carnival Corporation-owned Costa Concordia partially sank after hitting a reef off the Italian coast and running aground at Isola del Giglio on 13 January 2012. The tragedy, which is being blamed on its captain for steering an unauthorized course that took the cruise ship to shallow waters, also left 64 people injured and 15 missing. According to Moody's Investor Service, insurance costs for the accident may reach \$1 billion once environmental damage and injuries are tallied. Carnival Corporation saw a sharp drop in its shares days after the capsizing. Industry analysts are saying that the sinking of Costa Concordia will leave a huge dent on the company's 2012 earnings. Forecasts by Barclays and UBS show that the tragedy will cost the world's largest cruise company about \$400 million or 20 percent of its profit – and this is before considering lawsuits and lost future business.

The company is also bracing itself for a slew of lawsuits expected to stem from the tragedy. Already, Carnival is facing two lawsuits over the fatal shipwreck. In Miami, a complaint was filed by four Americans and two Italians. The plaintiffs claim they were “in terror of catastrophic injury, death, drowning, having been placed in a situation where common sense said the vessel was sinking but the orders from the crew were to return to their cabins.” A crew member of the ship also filed a complaint in a federal court in Chicago, seeking at least \$100 million in damages. The crew member, Gary Lobaton, seeks class-action status to represent all victims of the disaster off Giglio island.

Carnival Corporation forms part of the hotels industry that encompasses owners and operators of cruise ships, hotels, resorts, tour operators and travel agencies. Players in this industry are crucial in ensuring happy, memorable and relaxing vacations.

The hotel segment is composed of two basic types of hotels: full-service and limited-service. Full-service hotels offer sophisticated ambiance, conference centers, recreation facilities, food services, Internet connections, and a range of concierge assistance. Limited-service hotels are almost entirely driven by room sales at lower prices. Owners and operators of motels and resorts are also covered in this industry.

The cruise ships segment offer leisurely trips to popular destinations such as the Bahamas, Bermuda and the Caribbean Islands. Cruise destinations have also now expanded to the Mediterranean to cater to the more-sophisticated tastes of American tourists. The Costa Concordia that can hold thousands of passengers. Yacht-like vessels or mega-yachts with thousands of passengers are also becoming popular. Likewise on the rise are wind-driven ferries.

Handling hassle-free travel arrangements falls under the turf of the tour operators. Companies in this segment take charge of booking flights, arranging airport transfers, and hosting a host of leisure activities across many destinations. In the U.S., there are many tour operators. The industry is concentrated, with the 50 largest companies accounting for more than 80 percent of the industry. Among the major tour operator associations in the U.S. are the National Tour Operators Association (USTOA).

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