

THE FUN SHIPS

Carnival Cruise Lines

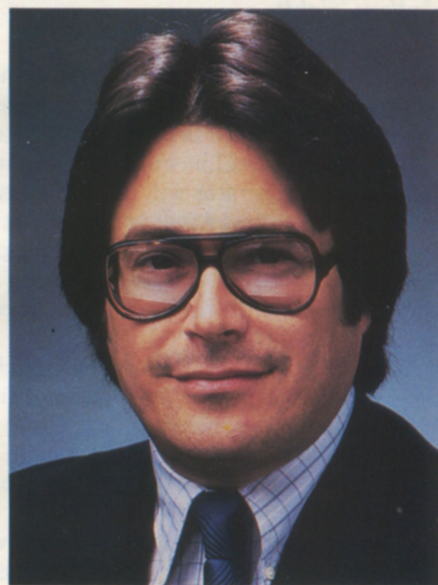
by John Sedgwick



To many, a cruise on an ocean liner may be a white-tie affair, but Carnival Cruise Lines, run by the father and son

team of Ted and Micky Arison, has become the largest in the world by offering an unabashedly laid-back style. On Carnival's "Fun Ships," as its fleet is called, discos have replaced ballrooms, neon has retired crystal chandeliers, and casual clothes substituted for evening dress. "We're not fancy," says the company's energetic 37-year-old president Micky Arison, "we're fun."

And fun sells. This year, Carnival expects to carry a total of 550,000 passengers, nearly twice the number of its nearest competitor Norwegian Caribbean Lines. With seven vast ships afloat and three more on the way, Carnival is the largest and fastest-growing cruise line in the world. Happier still for its owners, the profit margins for Carnival are tops in the industry, about 24%, pushing 1986 earnings to nearly \$100 million. And this summer, Carnival cashed in on its pre-eminence with the largest stock offering in the history of the industry. It sold 20% of the company (while leaving control securely in the hands of the Arisons) for nearly \$400 million, enough to retire all of



Patio pool area (top), Carnival's president Micky Arison

the company's outstanding debt.

All of this has combined to make Carnival's founder Ted Arison, an immigrant from Palestine, one of the dozen-or-so richest men in America. Forbes' most recent list valued his assets at \$1.8 billion and noted with astonishment that his net worth had increased an incredible 454% in the last year alone. Besides Carnival, Ted Arison owns a hotel and

Photos courtesy of Carnival Cruise Lines



Celebration (top), Lounge (bottom, left), Piano bar (bottom, right).

casino, a real estate firm, a bank, and the Miami Heat, a new entry into National Basketball Association.

Since 1979 Ted Arison has entrusted the operation of the cruise line to his son Micky, and Micky isn't doing too badly, either. He made \$530,000 last year in salary and director's fees. In preparation for his post, Micky has held most of the positions of Carnival Cruise Lines, even

that of MC for floorshows ("I couldn't see myself doing it, but I did it," he says with a shrug). But he now is confined to a spacious office overlooking Miami's Doral Golf Club that is decorated with nautical memorabilia. If Micky is daunted by the responsibility of running the world's largest cruise line, he certainly doesn't show it. "Hey," he says, "we're selling fun. That's what makes this job so great."



Jazzbar

The cruises are for the masses. Everything has been jazzed up for mass consumption. Instead of quiet elegance, a kind of noisy glamour prevails in the booming music, bright colors and fast pace of the Fun Ships. As Josephine Kling of New York's Landry and Kling Cruise Specialists puts it: "You've heard of 'Less is more'? Well, for Carnival more isn't enough." Lights swirl not only all about the walls and ceiling of the Oz disco, but wriggle about under the translucent floor as well; the Red Hot Piano Bar might be the fires of Hades, its red hot is so red hot; and in the Bus Stop Bar, a full-scale bus is parked right alongside. "This may not be what you would want in your house," admits Kling, "but the thing is, when you're there, it works. It really does."

"We're a cross between Las Vegas and the Magic Kingdom," says Micky Arison. It's Las Vegas in its casino-style gambling and floorshows, and Magic Kingdom in the fantastical sense of place evoked by the stage-set settings, be it Rick's Bar from Casablanca, the disco called Oz, or even the Carnegie Library Lounge.

If the ships are inordinately concerned

with atmosphere and place, it is because of a peculiar inversion in the cruise industry, one led by Carnival, by which the ship itself has become the destination, and the actual destination—the various ports of call—a mere incidental. Indeed, some passengers don't even know where the ship is going when they board. As Micky Arison puts it, "The ship is the product, the ports are just the greenstamps."

The rise of the 707 jet in the sixties forced cruise ships to make this switch from, in industry lingo, the transportation business to the vacation business; the slower ships could no longer justify their existence merely by delivering people to a distant shore. And the vacation theme was boosted by the long-running TV show the Love Boat, which came on the air in 1977 to serve as a kind of weekly national ad for the romance of the sea. In retrospect, one might think that a supremely successful company like Carnival flourished because it spotted this trend early and jumped on it. Not quite. The Arisons have been shrewd and daring all right, but most of all they have been lucky.

Ted Arison came to the United States from Palestine in 1954. After trying the air freight business in New York, he moved to Miami to get into cruising. When his first partner went bankrupt, Ted found another partner, but they feuded and, in 1972, Ted broke away to compete against him with a new concern, Carnival Cruise Lines, in conjunction with yet a third partner, a boyhood friend named Mehulam Riklis. Riklis provided, besides start-up money, the name Carnival, which early-on established the spirit of a joyful whirl that is still so much in evidence today. The name came straight from Riklis' business, AITS, Inc. which sold travel packages called "Rio Carnival" and "Hawaii Carnival" and the like.

With Riklis' money, Arison scrounged up a ship, the \$6.7 million *Empress of Canada*, and renamed her the *Mardi Gras* in keeping with the Carnival theme. The *Empress* was a splendid 36,000 ton vessel in the grand tradition of transatlantic lines. But, equipped with separate facilities for the first class and second class passengers, it had to be completely refitted for Arison's use around the Caribbean. He was so short of money that he couldn't afford to put the ship in dry dock, but had to perform the work at sea, turning the ship into a floating construction site.

This did not go smoothly. For its maiden voyage, the *Mardis Gras* steamed out of Miami harbor and into the open waters of the Caribbean with three hundred travel agents aboard. A mile out, the ship ran aground on a sandbar. Young Micky Arison was riding on the bridge at the time. "I suddenly saw a ton of sand come flying over the side of the ship," he remembers. "It was not fun." The fledgling company made the best of a bad situation by opening the bar. Competitors joked that they served everyone the same cocktail: Mardi Gras on the Rocks.

Still, the Arisons persevered, lured more passengers on board, and this time they managed to stay afloat. Arison bought Carnival from Riklis for a dollar down and \$5 million later.

At that point, Carnival Cruise Lines consisted of just that one ship, the *Mardis Gras*, but in it lay the seeds of everything the business was to become. Because it had been an old-fashioned ocean-going vessel, it was larger than the other ships plying the waters of the Caribbean, giving Carnival the advantages of economies of scale that come with large size and that are still a major factor in their success today.

Secondly, because of the dual class system in the public rooms, it had a wealth of entertainment space available to its pas-

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sengers once Arison broke down the class barriers. "It meant more facilities for everybody," says Micky Arison. "There was a variety of pools, of lounges, of dining rooms."

And Ted Arison made the most of the expanse by being the first to offer casino gambling on board. "That worked out well for us because it was a good revenue source," says Micky Arison. "But it was good for the passengers, too. It had a good ambience about it. It created excitement. The whole ship stayed up later, drinking, partying. There was more happening." Thus was born the idea that ships could be an attraction all of their own, regardless of their destination.

And also, there was something about the *Mardi Gras* itself that seemed somehow festive, an inducement to good times. The crew started referring to it as the "fun ship," and marketing manager Bob Dickinson had the sense to grab the term and use it as the centerpiece of Carnival's advertising campaign, where it still remains.

The company showed its first profit in January of 1975, and continued to run at over a hundred percent occupancy that year (since more than two people could bed down in a two-person cabin). Still, Arison was unnerved by the prospect of the company's fortunes riding on the hull of one ship, and he schemed to buy the *Mardi Gras*' sister ship, the former *Empress of Britain*, which had then been taken over by the Chase Manhattan Bank after its current owner, the Greek Shipping Line, went bankrupt. No major bank would give Arison the \$3 million in financing that he required, however, so he had to turn to the then-tiny Barnet Bank of Florida, which nearly had to exceed its credit limit to take Arison's business.

The *Empress of Britain* was renamed *Carnivale*, and it ran at nearly a hundred percent occupancy as well. In 1977, Carnival purchased a third ship, the 38,000-ton S.A. *Vaal*, which the company re-christened the *Festivale*. And then, in the fall of 1978, Arison did something really extraordinary. He invited the presidents of all his rival firms to dinner and along with their entrees, he gave them the shock of their lives. He announced that the Carnival was going to build a brand-new passenger ship.

To understand why this was so startling one has to understand that at this point in the late seventies, the shipbuilding industry had been subjected to such whopping inflation that a ship that might have cost \$10 million just five years before now cost \$100 million. That was an awful



Celebration returning.

lot of money. Industry sages assumed that new ships were simply unaffordable, but Arison had figured that the inflation that had come to construction prices would eventually come to ticket prices as well, allowing him to recoup his investment. And in this he was right—and the rest of the industry eventually followed suit with \$1 billion worth of construction of its own.

When Micky Arison succeeded his father, he acted just as boldly, quickly announcing that he would build three more ships over the next four years. And, after those ships were added to the fleet, he made the unprecedented stock offering this summer to pay off his debt, adding a \$15 million tip for his father. And now the Arisons' have announced plans to build three more ships—at a tidy \$200 million apiece.

"The number got bigger," says Micky, "but the decisions get less scary. Nothing will be as scary as that first loan from Barnet to build *Carnivale*. Back then we were doing a million a year, and asking for three million. That was scary."

Still, not everyone is entirely sanguine about the company's future. Critics charge that the industry is getting overbuilt, and that it would be severely shaken by a recession. Micky Arison takes issue with both claims. As to the first, he points to his occupancy rate of 119%. "If Texas Air was flying at 100%, would anyone say it had too many planes in the sky? If Marriott was at 100%, would they say it had too many hotels? If we were down at 60% I could understand, but we're not." He isn't worried about a recession, either. Carnival came through the 1981-82 recession "very, very well"



and expects to weather another one just as easily since Americans are loath to give up their vacations, even in hard times. And if the economy stays healthy, Carnival should do even better. According to industry surveys, 28% of the population is inclined to take a cruise, but only 5% have. And Carnival, the only company to advertise on national network TV is well-positioned to attract the remainder. Carnival, in short, is riding high.

Curiously, Micky himself believes that the key to Carnival's success does not lie in the fundamental Fun Ship concept, the marketing campaign or its economies of scale, but in each ship's basic "passenger flow" which somehow embraces all of these things. On the Fun Ships, everyone is channeled together along a main street on their way to the public rooms. "There's a kind of a street scene on board," he explains, "with sidewalk cafes and bars. People can see each other, kind of like it's a small town." And one can almost visualize the ship as a floating South Succatash—a townful of people all brought together to have fun.

But, of course, a Carnival ship is a small town the way Rick's Bar is a bar. It's Small Town Land, an idealized image. Ironically, people can get along so well in this small town aboard ship precisely because they don't know each other. As Micky himself points out, "There are no repercussions to anything people do on board. The cruise ends in a week, and the gossip ends with it. So there are none of the inhibitions that a small town creates." You are free to do whatever you want, be whoever you want, for a week.

In this sense, the "flow" becomes more mystical, involving not just the way peo-

ple move through the ship, but the way their personality evolves as they cruise the warm sea to nowhere. Sure enough, people do change markedly in the course of a week, and this may be the essence of the customer satisfaction. "You'd be amazed," says Micky. "The ones who start with the big bands switch over to disco. Everybody kind of shifts and merges. The ship is a big melting pot. You can see it in the dining room. The first night of a seven day cruise everybody is very conservative. They sit huddled together at their table with the people they came with, looking over their shoulder at everyone else. At the end, everybody is with everybody, and the whole place is roaring and having a ball."

If so, the Carnival line can take a lot of the credit. The lights, the music, the fun—it can all be intoxicating. Cruise specialist Josephine Kling remembers dining one night on a Fun Ship. The lights dimmed when the waiters brought out the desserts, baked Alaska and cherries jubilee, then started flashing wildly. The band struck up a lively dance number, some waiters started boogying, others did the limbo, and still others were balancing desserts on their heads. "It was disco desserts," says Kling. "It was wild! It was ridiculous! But I looked around, and I saw that everybody around me was smiling, and then I saw myself in the mirror. I think of myself as a fairly sophisticated person, but do you know what? I was smiling from ear to ear."

And Micky Arison is smiling too, cheered by rising profits and his customers' pleasure. Is he a happy man? "Let me say this," he declares, "I'm having fun."

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