

CONFIDENTIAL ROLE INFORMATION FOR CAPTAIN STUART BING

Island Cruise

(From the Island Queen, Inc. Board of Directors)

As the director of cruise ship operations for Island Queen, Inc., the Board of Directors has authorized you to negotiate with the mayor of Tropical Island, Gil Egan, to secure exclusive anchoring and disembarkation rights to the island.

In order to add Tropical Island to the standard 16-day Island Queen cruise, you must remove a current port from the itinerary. This is not a problem because one port is no longer popular among passengers due to recurring outbreaks of a particularly virulent strain of Hansen's Disease (Leprosy) on the island, which has afflicted a number of previous passengers.

You are aware that one of your competitors, Island Maid, Inc., has made inquiries to Mayor Egan regarding access to Tropical Island. However, this is a smaller company with an older, less luxurious ship. More importantly, its clientele are mostly middle-class retirees on fixed incomes, who would typically generate less revenue per tourist for the island.

On 16-day cruises, an island visit typically lasts only one day. The ship anchors by 8 am, and leaves the same day at 8 pm. Visits to especially popular islands may last two days. Since Tropical Island will be new and unexploited, it is expected to quickly become very popular. An island visit of more than two days is quite rare, but would be a valuable option for the future. While not the most important consideration, you want to be sure people have enough time to really appreciate this beautiful island and feel the cruise was unique and worthwhile.

Regardless of the length of a port visit, at most only half of the passengers disembark per day. Remaining passengers are an important revenue source for the ship because they continue to patronize the ship's casino, shops and exclusive restaurants. This is fortunate, because the ferry to the island can only accommodate about 1,100 passengers per day. Thus, there is little value in negotiating daily disembarkation rights for more than this quantity. If a port does not draw more than 200 passengers per day, it is removed from the itinerary in favor of a more popular destination. It is critical for you to negotiate a deal that allows you to have the ideal number of passengers disembark – not too many, nor too few. In fact, this is the most important issue for you.

The *Island Queen* is the only one of Island Queen, Inc.'s vessels licensed to operate in the Tropical Island region. Because it takes about two weeks to prepare the ship for another voyage after a two-week cruise, the maximum trip rate is 12 trips per year. Therefore, there is no benefit to negotiating an agreement for more than 12 visits per year. Because demand fluctuates based on the season, economy, and travel fads, the number of visits to the island per year is not that important to you. As long as each trip is profitable (which it will be if the right number of passengers disembark) you will be satisfied with your agreement.

Desert Island is another island in the region that you are considering if you cannot negotiate an acceptable agreement with Tropical Island. While Desert Island is not nearly as pristine and breathtaking as Tropical Island, it does have some redeeming qualities. Like Tropical Island, Desert Island is one of the least commercialized islands in the region and there are currently no cruise ships visiting it. Since the mayor of Desert Island wants cruise tourism to play a significant role in the island's economy, you expect he will be very accommodating regarding the volume of cruise tourism permitted, but he will probably not grant exclusive visitation rights. Unfortunately, Desert Island has less tourism infrastructure than Tropical Island and few

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financial resources to remedy this situation. Your business development department has indicated that it is realistic to expect an agreement with Desert Island for monthly two-day visits of 700 passengers. But, the desolate nature of the island will preclude it from ever attracting enough demand to justify more than just a one-day visit.

Since international maritime law makes it nearly impossible to renegotiate agreements for six years from their effective date, you must be careful to ensure that any agreement is flexible enough to accommodate both current and future anticipated passenger demand.

Evaluation: In order to evaluate the viability of adding Tropical Island to the ship's itinerary, the Board of Directors has developed the following guidelines to help you understand their concerns regarding the various options. Your objective is to negotiate the most beneficial agreement for the company.

Issue #1: Number of Visits (per year)

<u>Visits</u>	<u>Comment</u>
0-2 Visits	Because of the logistics and expense of adding Tropical Island to the ship's itinerary, it is not viable to schedule less than three visits per year. This would also not provide enough opportunity for expansion should passenger demand exceed expectations. Planning fewer visits per year with more passengers per visit could be a solution. However, the island's limited infrastructure precludes allowing an excessive number of passengers to disembark per visit.
3 Visits	If enough passengers were permitted extended stays of two or more days on the island, this option might be acceptable, because it could accommodate anticipated passenger demand for the island.
4-11 Visits	Increasing the number of allowed visits will increase the value of an agreement, because it provides you with greater flexibility to meet current and anticipated passenger disembarkation demands.
12 Visits	The maximum trip rate is 12 trips per year. While current demand may not warrant a trip every month, it is valuable to have this option in order to meet potential future demand.

Issue #2: Length of Visit (days)

<u>Length</u>	<u>Comment</u>
1 Day	While most port visits are currently only one day, market research indicates that passenger demand for Tropical Island will probably exceed the capacity that the island can reasonably accommodate in a single day.
2 Day	The option of a two-day port visit to Tropical Island should meet our anticipated requirements for the next six years considering the island's limited infrastructure.
3-5 Days	While these options provide additional flexibility, they are not especially valuable because we do not expect passenger demand to justify such extended port visits.

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Issue #3: Number of passengers on shore per day (in increments of 100 passengers)

<u>Passengers</u>	<u>Comment</u>
100-200	This level of disembarkation is very restrictive and would require a longer visit many more times a year in order to accommodate anticipated demand levels. The idea of many passengers remaining on the ship to provide additional revenue is tempting. However, if passenger demand were this low, we would remove the port from our itinerary since it is obviously not an attractive destination.
300-600	While less restrictive, these options are still not ideal considering our anticipated passenger demand. Such a small allocation would require multi-day visits at the expense of other ports. Until we have actual experience with the demand created by Tropical Island, it would be foolish to lock ourselves into such low numbers.
700-1000	Typically, about 700 passengers disembark per day during a two-day port visit. However, these levels would not support anticipated demand for single-day visits.
1100	This would be the most valuable option because it should be sufficient for all anticipated levels of demand for the foreseeable future.
1200-1500	These options provide additional flexibility, yet experience shows it is rare for more than half of our passengers to disembark on a given day for a one-day visit.
1600-2000	This level of disembarkation has some value since it provides additional flexibility. However, there is little value in negotiating such a large number at the expense of the other two issues, since it is not realistic to expect we will exercise this right in the foreseeable future. About half of our passengers typically remain on-board during port visits to patronize casinos, spas, restaurants, and other revenue centers. This provides a valuable source of income for the ship and we want to maintain this level of ship-board activity. Also, such a large number of passengers disembarking onto the island will likely degrade the facilities making the port less enjoyable for future passenger visits.

The Board of Directors requests that you negotiate an agreement providing a realistic and flexible path to meet anticipated demand, while accounting for current economic conditions, and the island's lack of infrastructure to support expanded cruise tourism. An acceptable agreement would include monthly two-day visits for 1,100 passengers. Negotiating such an agreement can be expected to ensure your promotion to commodore, and earn you a coveted seat on the Island Queen, Inc. board of directors.

If you are unable to secure an agreement with Mayor Egan that adequately addresses our corporate interests, then you are authorized to pursue a dialog with the mayor of Desert Island in order to secure an agreement more beneficial to Island Queen, Inc.

Note: Negotiations must be based solely upon information provided in this simulation and no external sources. At the completion of your negotiation, please fill out one negotiation summary worksheet per negotiating pair and return it to your instructor for discussion.

ISLAND CRUISE

NEGOTIATION SUMMARY WORKSHEET

Pair # _____

Check one:

We were unable to reach an agreement: _____

We reached an agreement, shown below: _____

Options

Option Agreement

Issue #1 - **Number of Visits** (per year): _____

Visits: 0 1 2 3 4 5 6 7 8 9 10 11 12

Issue #2 - **Length of Visit** (days): _____

Length: 1 2 3 4 5

Issue #3 - **Number of passengers on shore per day** (increments of 100): _____

Passengers: 100 200 300 400 500 - - - 1900 2000

Any additional points or mutual understandings negotiated within your agreement:

1) _____

2) _____

3) _____

Signed,

for Captain Stuart Bing

for Mayor Gil Egan