“During the next 10 minutes I kept talking to the guests reminding them to stay in their cabins and did my best to keep them calm. I also spoke to the crew, telling them to remember their training and to also stay calm. And they did, both the guests and the crew did exactly what I asked of them and meanwhile I waited for the captain to tell me what was next. And what was next was that the smoke was so intense and so thick that, even with breathing apparatus on, the teams could not get close to the source.”

These were the words of Cruise Director John Heald as he reflected on the events that transpired during the early hours of Monday, November 8, 2010. Thick smoke was billowing from the aft engine room of Carnival Splendor, one of the largest vessels owned and operated by Carnival Cruise Lines, and none of the ship’s fire squads could stay in the engine room long enough to determine the cause of the smoke.

As Cruise Director, Heald was responsible for keeping the guests informed of any emergencies during the cruise, and to do so calmly, reassuringly, truthfully, and as often as possible. Thus, with limited information and a sense of urgency, Heald began making frequent updates to guests regarding the “smoke” situation. Little did he know that the thick smoke was the product of a debilitating fire that would leave Carnival Splendor without electrical power 200 miles off the coast of California. The next three days would prove to be among the most trying experiences in the company’s history as John Heald and Tim Gallagher, Carnival Cruise Lines’ Vice President of Corporate Communications, attempted to control the situation and ensure the safety and well-being of all passengers onboard the stranded cruise ship.

Carnival Cruise Lines

Carnival Cruise Lines was founded in 1972 by entrepreneur Ted Arison with the vision of making cruising, a vacation experience once reserved for the rich, available to the average. Carrying more passengers than any other cruise line, Carnival has become the largest cruise line in the world, and in 1987, earned the distinction, “The Most Popular Cruise Line in the World.” Carnival operates 1,400 voyages per year with a fleet of 22 ships, and serves approximately four million passengers per year.2

Carnival has 3,800 shoreside employees and 33,500 shipside employees. It operates voyages ranging from three-to-sixteen days in length to some of the most popular vacation destinations in the world, including The Bahamas, Caribbean, Mexican Riviera, Alaska, Hawaii,
Canada, Europe, the Panama Canal and Bermuda. The company prides itself on providing an entertaining and relaxing experience for all guests onboard its “Fun Ships.” Carnival builds all its ships with one goal in mind: “to make sure that every time you walk up the gangway, you get the sense that you’re crossing over into a whole new world of fun.”

Carnival Cruise Lines is the flagship brand in a portfolio operated by its parent company, Carnival Corporation & plc. Carnival Corporation has headquarters in Miami, Florida and London, England and is publicly traded under the ticker symbol CCL on the New York and London Stock Exchanges. Carnival Corporation & plc is the only group in the world to be included in both the S&P 500 and the FTSE 100 indices.

Operating many of the world’s best known cruise brands including Carnival, Princess, Holland America, Seabourn, Cunard, and P&O, Carnival Corporation & plc is a global cruise company. As one of the largest vacation companies in the world, the corporation’s mission is to deliver exceptional vacation experiences that cater to a variety of different geographic regions and lifestyles, while delivering outstanding value. The corporation maintains its top position in the industry by leveraging its cruise lines to penetrate a variety of markets. For instance, Carnival Cruise Lines and Princess both target families, retirees, and other upper middle class customers with competitively priced cruise packages whereas the Seabourn brand provides its upscale travelers with luxury cruises to exotic destinations. Carnival Corporation has a decentralized operating structure and each of its brands has its own headquarters and operating team. The company believes this system helps create the ownership culture it believes to be an important driver of performance.

The company maintains a strong balance sheet with the goal of investing in new and innovative ships, a strategy the company feels is critical in strengthening the leadership position of its brands. Across all brands, Carnival Corporation operates 98 ships and plans to add two to three ships annually in 2012 and beyond. Carnival Cruise Lines operates approximately 18% of Carnival Corporation’s total passenger capacity of 191,464 cabins, while serving approximately four million of Carnival Corporation’s 8.5 million guests annually.

To fuel its future growth and fill its expanding inventory of cruise ships, Carnival Corporation has expanded its number of home ports to move its cruises closer to its customers. In addition, it has invested heavily in marketing, especially targeting those consumers who have never before sailed. Since 2009, the firm has been moving away from print media and expanding its efforts in social media, such as Facebook, YouTube, Twitter, Flickr, and Podcasts. For instance, Carnival Cruise Lines manages its own “Funville” blog through its website, with the goal of engaging in two-way conversations with potential customers about the experience of cruising. Through such tools, Carnival hopes to attract new guests and create brand fans to continue its reign as the world’s largest cruise operator.

During the fiscal year ending November 30, 2010, Carnival Corporation reported earnings of $2.47 per share diluted on nearly 14.5 billion dollars in total revenue.
the engine fire aboard Splendor, in a press release dated November 16, 2010, the company estimated that the total impact from voyage disruptions for Carnival Splendor and related repair costs will result in an approximate $0.07 reduction in the company’s 2010 fourth quarter earnings per share. The company stated that impact of voyage disruptions in the first quarter of 2011 is not expected to be material to the company’s 2011 earnings.\textsuperscript{12}

\section*{The Cruise Line Industry}

According to the Carnival Corporation’s 2010 Annual Report, “The multi-night cruise industry has grown significantly [over the past decade], but still remains relatively small compared to the wider global vacation market, which includes a variety of land-based travel destinations around the world. For example, there were only about 215,000 cabins in the global cruise industry on November 30, 2010, which is less than the 265,000 rooms in just two North American vacation destinations: Orlando, Florida and Las Vegas, Nevada. Within the wider global vacation market, cruise companies compete for the discretionary income spent by vacationers. Within that context, a recent Nielsen Global Confidence Survey found that after providing for savings and living expenses, the number one global spending priority is for vacations.”\textsuperscript{13}

As a result of these factors and other favorable cruise industry characteristics, Carnival Corporation believes that the cruise industry exhibits opportunities for growth. The industry’s customers have increased at a compound annual growth rate of 5.7\% from 2005 to 2010. In 2010, the global cruise industry marketed capacity of 423,000, with Carnival Corporation & plc representing 44\% of this capacity. The cruise industry points to exceptional value proposition, wide appeal, low market penetration, positive guest demographics, and high guest satisfaction rates as positive growth dynamics that demonstrate the high potential within the industry.\textsuperscript{14}

\section*{Trouble at Sea}

The cruise industry has experienced its fair share of crises at sea. Facing issues that range from pirates to virus outbreaks to fires, cruise ships must develop and practice extensive contingency plans and drills that meet the International Maritime Organization (IMO) and U.S. Coast Guard standards. The Cruise Lines International Association (CLIA) states that these standards are internationally mandated and govern the design, construction, and operation of cruise vessels. To ensure compliance with both international and U.S. regulations, the U.S. Coast Guard examines all new cruise vessels and, thereafter, inspects each quarterly. If any deficiencies are discovered, the U.S. Coast Guard may require correction before allowing any passengers aboard the ship.\textsuperscript{15}

Despite comprehensive precautionary measures, crises aboard cruise ships still occur regularly. One of the more notable occurred on August 4, 1991 when the cruise ship Oceanos sank off the coast of South Africa. The disaster could have been avoided had the ship not been in a “state of neglect,” with loose hull plates, missing valves, and a hole in what was supposed to be
a watertight bulkhead. Although all 571 guests and crew survived, the captain and crew were widely ridiculed as cowardly and irresponsible for being among the first to leave the sinking vessel.

Unlike the Oceanos incident, which was attributed to human neglect, many cruising hazards originate outside of the cruise line’s direct control. Cruise ships are subject to a dangerous movement known as roll, which is a nautical term for rotation about the ship’s longitudinal (front to back) axis, when encountering rogue waves or making sharp turns. On April 21, 2010, sixty passengers were injured aboard Carnival Ecstasy when the ship rolled twelve degrees after suddenly turning to avoid a drifting buoy that could have caused a hole in the ship’s hull upon impact. In 2008, a P&O cruise ship operated by Carnival Corporation caught in severe storms off the coast of New Zealand sent passengers and furniture flying as waves lashed up as high as the fifth deck, injuring 42 people. More recently, on March 3, 2010, two guests were killed and six others injured when three abnormally high waves up to 26 feet high smashed glass windows in a public lounge in the forward section of Louis Majesty, sailing near the French Mediterranean port of Marseilles. Such an incident could have been avoided if only the crew had instructed passengers to remain in their cabins during the storm.

A cruising vacation may also be ruined by an outbreak of norovirus, a one-to-two day infection often transmitted through food that causes diarrhea, vomiting, nausea, and stomach cramping. The Centers for Disease Control and Prevention (CDC) warns that the norovirus can spread rapidly from person to person in crowded, closed areas such as cruise ships. Since neither a vaccine nor a treatment exists for the norovirus, many cruise ships have found themselves helpless in the face of an outbreak once the ship has already left port. If presence of the norovirus is discovered early enough in the trip, the crew may altogether cancel - or cut short the cruise as in the case of the Holland America cruise liner ms Oosterdam operated by Carnival Corporation in March of 2009.

Depending on the geographic area of cruising, pirate attacks may pose a significant threat. In November of 2005, Seabourn Spirit, a ship operated by the Carnival Corporation subsidiary Seabourn Cruise Line, was chased and attacked by Somali pirates. The cruise ship was able to repel the two speedboats carrying the pirates without returning fire by using an on-board loud acoustic bang to create the illusion of gunfire. None of the 151 terrified passengers were injured, and the cruise line spokesmen were pleased that their safety measures worked. According to the International Maritime Bureau (IMB) Annual Report 2010, a total of 445 actual and attempted pirate attacks occurred around the world, with a strong concentration of the attacks around Africa. The IMB, a non-profit division of the International Chamber of Commerce created to fight against maritime crime and malpractice, advises all mariners to exercise caution and take all necessary precautionary measures when operating in certain areas.

Finally, fires pose a serious concern for anyone sailing hundreds of miles from land. In 2006, Star Princess, another ship owned by Carnival Corporation, was set ablaze as she sailed toward Jamaica. Believed to be caused by a cigarette left on a passenger balcony, the fire killed
one guest, injured 11 others, and damaged 150 cabins before the crews could douse the flames. As a result, additional sprinklers were installed on balconies and the ship had fewer designated smoking areas.

Carnival Splendor Sets Sail

Carnival Splendor, a 113,300 ton, 952 foot long behemoth, is one of the largest vessels owned by Carnival Cruise Lines. With 13 passenger decks, Splendor’s 1,503 guest staterooms can accommodate over 3,000 guests per voyage. A ship the size of Splendor requires six diesel engines, three of which are housed in the aft engine room and the other three in the forward engine room. Two electric switchboards are connected to each engine’s generator by electric cables.

Cruise ships are governed by the laws of the country under which each ship is registered. Since Splendor is registered in Panama, any issues that arise at sea would be under the scrutiny of the Panamanian government. However, small countries such as Panama are usually reluctant to conduct strenuous investigation into any mishaps at sea because that could result in the ship operator being required to make costly improvements, which would hurt Panama’s flag of convenience business.

Carnival Splendor departed Long Beach, California on Sunday, November 7, 2010 for a weeklong cruise of the Mexican Riviera. The ship’s normal itinerary included stops in Puerto Vallarta, Mazatlan, and Cabo San Lucas, Mexico. The seven-day, six-night cruise was scheduled to arrive back in Long Beach with its 3,299 guests and 1,167 crew on Saturday, November 13 until a crisis struck during the first leg of its journey.

Fire!

By early morning on Monday, November 8, 2010, the ship was sailing in calm seas 200 miles south of San Diego, California. At 6:00 a.m., a fire started in the aft engine room and passengers reported smelling smoke and seeing it billow out of the rear of the ship. The blaze was extinguished within a few hours by crew members with the aid of the built-in fire-suppression system. No passengers or crew members were injured as a result of the engine fire.

Engineers were unable to restore ship power and auxiliary generators had to be used. Though the ship was designed by reputable Italian shipbuilders to ensure that damage to a single generator and switchboard wouldn’t inhibit the rest of the ship’s engines, the fire unexpectedly disabled all power generation onboard Splendor. The intense heat of the fire severely damaged the power lines housed in the ceiling of the aft engine room, which consequently made the forward engine room also inoperable. As a result, the destruction caused by the fire was much more widespread. The ship had previously been regularly inspected by the Coast Guard and other maritime regulators and found in regulatory compliance.

Initial speculation about the cause of the fire was that one of the generators for an aft engine ignited and damaged its accompanying switchboard. The damage to the switchboard and
overhead power lines prevented electrical transmission to propulsion, communication, and other operating systems, leaving the ship dead in the water.\textsuperscript{36} Gerry Cahill, CEO of Carnival Cruise Lines, later confirmed that the fire was a result of a catastrophic failure in one of six diesel generators. Cahill said he doubted that any of the other ships in the company’s fleet were at risk.\textsuperscript{37}

Because the ship was registered in Panama, the Panamanian government would be responsible for probing into the official cause of the fire. However, because most of the passengers traveling aboard Splendor were American citizens, Panama agreed to allow the U.S. Coast Guard and the National Transportation Safety Board, an independent U.S. federal agency charged with determining the probable cause of transportation accidents and promoting transportation safety, to join the investigation. The three parties would conduct a full examination into the causes of the fire after first ensuring the safety of the passengers and the crew.\textsuperscript{38}

At 6:30 a.m. on Monday, passengers were awakened by a message transmitted over the ship’s public address system from Splendor Cruise Director John Heald. Guests were initially instructed to remain in their cabins but were soon evacuated to the ship’s upper deck.\textsuperscript{39} Although passengers were later allowed to return to their cabins, many spent the majority of the remainder of the voyage on the upper levels of the ship. By the afternoon, the U.S. Coast Guard had dispatched three cutters and an airplane to provide aid and medical assistance to Splendor. The Mexican navy also responded with aircraft and relief boats.\textsuperscript{40} Ongoing announcements from Heald about the fire, decisions, and progress kept passengers informed about the situation.

\textbf{Atmosphere Aboard the Splendor}

In one of his first public statements about the incident, CEO Gerry Cahill acknowledged that the passengers endured “an extremely trying” situation aboard the Carnival Splendor. He publicly apologized for the distress and inconvenience of the passengers. Guests endured challenging circumstances including no electrical power, no Internet service, no refrigerated food, very long lines to obtain food, sanitation problems, and boredom. Air conditioning and hot food service were also unavailable, and the disabled elevators due to the lack of electrical power meant that passengers would have to climb as many as 13 floors to get to the food. Some passengers reported that plumbing was almost to capacity and that the odor in sections of the ship smelled of vomit.\textsuperscript{41}

Cahill admitted that after 35 years of business, nothing like the Splendor situation had happened before.\textsuperscript{42} Cruise Director John Heald tried to keep passengers’ spirits up with frequent announcements from the bridge using the ship’s PA system. Heald, an avid blogger of johnhealdsblog.com, a blog featured on Carnival Corporation’s website, told his eight million readers in a post on Wednesday, November 10 that he didn’t know how his attempts to add humor in his announcements were being received by the guests. Heald praised the passengers saying, “…the guests have been magnificent and have risen to the obvious challenges and difficult conditions onboard.”\textsuperscript{43}
After the fire, Carnival Splendor was about 200 miles south of San Diego and dead in the water. Originally scheduled as a seven-day cruise from Long Beach to Puerto Vallarta, the new objective was to safely transport the passengers to a port as soon as possible. Within two hours of the fire, Gallagher had opened and fully staffed the crisis command center at the Carnival corporate office and worked collectively to aid the Splendor crew and passengers. Their initial plan was to tow Splendor to the Mexican port of Ensenada; however, the crisis response team soon decided to change the destination to San Diego. The rationale was that passengers would be more comfortable onboard the ship and that the new plan would not require the customers to go through the difficult customs process in Mexico.

The Mexican navy sent multiple tugboats to the aid of Splendor, one of which had to turn back because it wasn’t powerful enough. Tug boats reached the cruise ship at midday on Tuesday, November 9, 2010. In addition, to the good fortune of Carnival Cruise Lines, the U.S. Navy was doing regularly scheduled training in the area. At the request of the Coast Guard, the U.S. Navy resupplied the ship on Tuesday with 70,000 pounds of bread, canned milk, and other food including Pop Tarts and Spam, and supplies that had been flown from North Island Naval Station in Coronado. The supplies were then ferried by helicopter from the USS Ronald Reagan (CVN-76), an aircraft carrier diverted from maneuvers nearby. According to Navy officials, maritime tradition, customs, and treaties demand that ships in the area must respond to other vessels in distress whenever possible.

Toilet service to all public bathrooms and most cabin rooms as well as cold running water was restored late Monday night much to the relief of uncomfortable passengers. One passenger considered the voyage a “diet cruise” because of the lack of hot food. Instead of the fine dining expected aboard any cruise line, passengers were served salads, fruit, small sandwiches, and canned crab meat. First-time Carnival guest Peg Fisher said, “This could be the only cruise ever where people lost weight instead of gaining weight.” With no power, swimming pools were closed due to lack of filtration and casinos were also closed. Interior state rooms were pitch black and stuffy due to the lack of electricity and air flow. Passengers passed the time with live music, scavenger hunts, trivia contests, and card games. However, bars were open and offered free drinks.

Less than one day after the engine fire, Carnival Cruise Lines announced that they would offer all passengers a full refund for the cruise and a credit equal to the price they paid for a future Carnival cruise. In addition, Carnival arranged and paid for all necessary hotels and flights for passengers arriving in San Diego. The ship was expected to arrive in San Diego the morning of Thursday, November 11, more than 62 hours after the fire disabled Splendor. Initially, it was unknown how long the ship would be out of service until the necessary repairs could be made.

News & Social Media Response

The events on Monday and Tuesday happened outside of cellular phone service range. In addition, Internet service was knocked out due to the loss of power. Passengers were unable to personally update friends and family of their safety until the ship drew closer to the coast on
On Wednesday, individuals could finally assure loved ones of their safety and share their experiences on the cruise. Passengers called home and sent text messages to communicate with family about arrival in San Diego. Witnesses tweeted pictures and messages about the ship’s arrival. In addition, national news outlets began interviewing passengers aboard the ship via cell phones and their reports covered the evening news.

Carnival used Twitter, Facebook, and its Funville blog primarily as push mechanisms to provide factual updates about the cruise. John Heald also used his personal blog to provide a brief update to readers about the cruise ship on Wednesday, November 10. Passengers had been taking pictures and videos throughout the cruise and many videos were uploaded to YouTube following arrival. The increasing volume of social media that mentioned Carnival Splendor created significant buzz on the Internet.

After learning about the delivery of Spam to Splendor, some media outlets used “Spam Cruise” as a tagline for articles about the event. Carnival attempted to use Twitter to address the incorrect view that Spam was served to its passengers: “Despite media reports to the contrary, Carnival Splendor guests were never served Spam!” However, news and social media outlets continued to embrace the Spam angle, and a new phrase, “Spamcation” emerged online. As passengers departed the ship on Thursday, November 11, they were eager to buy $20 T-shirts emblazoned with the phrase: “I survived the 2010 Carnival Cruise Spamcation.”

Decision Point

As Carnival Splendor approached the San Diego port at 8:30 a.m. on the morning of Thursday, November 11, Gerry Cahill and Tim Gallagher knew that their work was just beginning. Carnival Cruise Lines had already announced that all guests would receive reimbursement for the trip and travel costs. Cahill and Gallagher had been working around the clock to coordinate the arrival of the ship by arranging transportation and hotels for all guests. But unless Gallagher and his team could quickly address the other issues, Carnival Cruise Lines was at risk of losing a lot more than simply one week of cruise revenues.

- Should the company have done anything differently in their communication efforts while the ship was being brought back to port?
- Who are the key stakeholders? Who, in your opinion, is (are) the most important stakeholder(s)?
- What channels of communication should Carnival Cruise Lines use and what should the message be? What audiences do they need to address?
- How does Carnival Cruise Lines manage its brand reputation in the aftermath of this event? What damage, if any, has been caused? How can it be mitigated? What measures of reputation should the company use?
- What should Carnival Cruise Lines do to prepare for similar situations in the future? What, if any, performance issues does Carnival Cruise Lines need to address?
How may this situation impact future business for Carnival Cruise Lines and the entire cruising industry?

Writing Assignment

Please respond in writing to the issues presented in this case by preparing two documents: a communication strategy memo and a professional business letter.

In preparing these documents, you may assume one of two roles: you may identify yourself as a Carnival Corporation senior manager who has been asked to provide advice to Mr. Gerry Cahill regarding the issues he and his company are facing. Or, you may identify yourself as an external management consultant who has been asked by the company to provide advice to Mr. Cahill.

Either way, you must prepare a strategy memo addressed to Gerry Cahill, President and CEO, Carnival Cruise Lines, that summarizes the details of the case, rank orders the critical issues, discusses their implications (what they mean and why they matter), offers specific recommendations for action (assigning ownership and suspense dates for each), and shows how to communicate the solution to all who are affected by the recommendations.

You must also prepare a professional business letter for Mr. Cahill’s signature. That document should be addressed to all Carnival Splendor cruisers who have been inconvenienced or disappointed by the events described in the case.
References


34 Telephone interview with Tim Gallagher, Carnival Cruise Lines’ Vice President of Corporate Communications, 1 Mar. 2011.

Ibid.


Telephone interview with Tim Gallagher, Carnival Cruise Lines’ Vice President of Corporate Communications, 1 Mar. 2011.


Ibid.


