

Analytical Report – Strategies for sustainable development of a Business Enterprises in the Hong Kong Tourism Industry during Corona Virus outbreak

Student Name (ID): Ray Chiang, Chun Wah (2119645)

University of Wales Trinity Saint David – MBA

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Lecturer: Dr. Che Cheong Poon

Abstract

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1. Introduction

1.1 Research Objective

Analytical Report –Strategies for sustainable development of a Genting Hong Kong Ltd in the Hong Kong Tourism Industry during Corona Virus outbreak

Objective(title), how to achieve the objective

What is the challenge

1.2 Research Framework

Your solution to achieve the objectives (2 objectives above).

How to support the solution is work? Any data support it?

Collect consumer practice for intension for comparing as support data

2. Company Background

2.1 Company Profile

Genting Hong Kong Limited ("Genting Hong Kong") is a leading global leisure, entertainment, and hospitality company with core competencies in land and sea-based businesses, including Genting Cruise Lines, which includes Star Cruises, Dream Cruises, and Crystal Cruises, as well as German shipyards MV Werften and Lloyd Werft, and Resorts World Manila ("RWM"), a Genting Hong Kong associate. The Company's largest shareholder is Golden Hope Limited (as trustee of Golden Hope Unit Trust) that is trusted owned by chairman Lim Kok Thay and his family, currently owns around 64% in Genting Hong Kong. The stock code "678" is used to identify Genting Hong Kong on the Main Board of the Hong Kong Stock Exchange Limited.

With offices and representation in Australia, China, Germany, India, Indonesia, Japan, Malaysia, the Netherlands, the Philippines, Singapore, Sweden, and the United States, Genting Hong Kong is headquartered in Hong Kong.

Genting Hong Kong, a pioneer in its own right, was founded in November 1993 with the goal of expanding the Asia Pacific region as an international cruise destination. Its fleet is operated by Star Cruises. Throughout its fleet, which includes the SuperStar Gemini, SuperStar Aquarius, Star Pisces, and The Taipan, Star Cruises has earned a reputation for providing excellent Asian hospitality.

Genting Dream has been opened in 2016 and World Dream has been launched in 2017 that are two of Dream Cruises' ships that provide the region's best guest service and spacious luxury. Dream Cruises offers customers greater choice, comfort, and value in order to create the perfect dream voyage for a wide range of consumers in China and Asia. Explorer Dream, which debuted in March 2019, will help Dream Cruises achieve its global goals, while production on two new Global Class ships, namely Global Dream and her sister ship, has begun in Germany.

Since its inception as Crystal Cruises in 1990, the company's award-winning fleet of brand experiences has been the undisputed leader in luxury. Crystal Yacht Cruises, Crystal River Cruises, Crystal AirCruises and Crystal Luxury Air, and Crystal Expedition Cruises have all been added to the company's portfolio in recent years. While each Crystal Experience has its own set of destinations, onboard amenities, and shore excursions, the globally acknowledged standard of excellence, unsurpassed personalized service, and attention to detail are consistent throughout the Crystal fleet.

Following the purchase of Lloyd Werft the previous year, Genting Hong Kong built MV Werften in Wismar, Rostock, and Stralsund, Germany, in 2016 to capitalize on the growing demand for new cruise ships and to realize the company's own expansion goals. MV Werften will be capable of manufacturing large-scale mega-ships because to the shipyards' combined expertise and infrastructure, which includes roughly 1,800 experienced management and personnel.

In August 2009, Travellers International Hotel Group, Inc. ("Travellers"), a Genting Hong Kong subsidiary, launched Resorts World Manila, its first land-based attraction in the Philippines. With

seven hotels, an iconic shopping mall, four high-end cinemas, and a multi-purpose performing arts theatre, RWM is the Philippines' first one-stop, nonstop holiday destination for top-notch entertainment and world-class leisure options.

The Genting Hong Kong operate Star cruises, Crystal cruises and Dream cruises brand that have occupied around 3% market share. The cruise's business needs high entry requirement, and regarding the business nature and characteristics, the Genting Hong Kong Ltd has had high market share in Hong Kong and their major competitor is RCI. Table-1 shows the market share of the global cruise industry in 2021. Carnival Cruise Lines is the largest operator, with 42 percent of the market share, followed by Royal Caribbean International (RCI) with 23 percent. Both businesses operate under a variety of brand names.

Parent	Brand	Total Passengers	% of Passenger
Carnival	Carnival's lines	5,842,600	42.0%
RCI	RCI's lines	3,278,500	23.6%
Norwegian	Norwegian's lines	1,319,900	9.5%
All Other	Star Cruises	80,200	0.6%
	Crystal	40,800	0.3%
	Dream Cruises	264,100	1.9%
	Others Parent's Lines	3,079,700	22.1%
Grand Total		13,905,800	100.0%

Table-1: 2021 Worldwide Cruiser Market Share

Sources: Extracted from <https://cruisemarketwatch.com/market-share/>

2.2 The Cost Structure

The cruise industry is a high-fixed-cost enterprise that relies on getting as many passengers as possible on the ship to make a profit. When there is a rapid reduction in business, this is one reason why the operators may go out of business. The Genting Hong Kong is a typical cruiser and cost structure is included agent commission, transportation, food, onboard expenses, labor expenses, Fuel, depreciation, maintenance expense, interest expenses and others, etc. Table-2 lists the high-level cost breakdown of typical cruiser worldwide.

Cost	% of Cost	Type of Cost
Commission and transportation Expenses	18%	Variable Cost
Food Expenses	7%	Variable Cost
Onboard and other Expenses	5%	Fixed Cost
Payroll Expenses	13%	Fixed Cost
Corporate Operating Expenses	13%	Fixed Cost
Ship Fuel Expenses	12%	Fixed Cost
Depreciation/Amortization	11%	Fixed Cost
Interest Expenses	4%	Fixed Cost
Other Operating Expenses	17%	Fixed Cost

Table-2: Cost breakdown of cruiser

Sources: Extracted from <https://cruisemarketwatch.com/financial-breakdown-of-typical-cruiser/>

Refer to Table-2, the commission and transportation expenses: These are expenses that are directly related to the sale of passenger tickets. They include plane, travel agent commissions, and other transportation expenses, changeable port rates, and credit card fees. The costs account for 19% of overall operational expenses. Commission and transportation, and food expenses are variable cost and comprised 26% of the cost structure.

Corporate operating expenses, which comprised 13% of the company's operating cost, consist of direct costs related to marketing, administration, and back-office support. The other operating expenses, comprising ~17% of total operating costs, include repair and maintenance, fixed port costs, lease costs, and costs related to insurance and entertainment.

2.3 The Revenue Structure

The company's main business is the operation of passenger cruise ships. The Group's operations are grouped into three categories: cruises, shipyards, and non-cruise operations. As a result, three reportable segments have been identified: cruise and cruise-related activities, shipyard, and non-cruise activities.

"Passenger ticket revenue" and "onboard revenue" are two categories for revenue from our cruise and cruise-related activities. Revenue from the sale of passenger tickets and transportation to and from our cruise ships to the extent that customers purchase these products from the Group, makes up the majority of passenger ticket revenue. Food and beverage sales, casino gambling, spa treatments, art auctions, third-party concessionaires, shore excursions, entertainment, and other onboard services account for most of the onboard revenue. Shipbuilding, maintenance, and conversion activities generate most of the our shipyard's revenue. Non-cruise revenue is mostly made up of revenue from onshore hotels, travel agents, airlines, entertainment, and residential property unit sales, none of which are significant enough to be reported separately.

Table-3 is listed the revenue structure between year 20016 and 2020. The Cruise and Cruise-related Activities included "Passenger ticket revenue" and "onboard revenue". The Shipyard business have large portion of company revenue.

Revenue by Business	Year 2020 (% of Revenue)	Year 2019 (% of Revenue)	Year 2018 (% of Revenue)	Year 2017 (% of Revenue)	Year 2016 (% of Revenue)
Cruise and Cruise-related Activities	50.33%	88.65%	84.27%	85.35%	89.32%
Shipyard	41.39%	7.84%	11.20%	4.41%	0.00%
Non-cruise Activities	8.28%	3.52%	4.53%	10.24%	10.68%

Table-3: Revenue breakdown by business in year 2020

Source: Authors' calculation based on Genting Hong Kong annual report 2020.

Refer to Table-3, the major revenue of Genting Hong Kong are “Cruise and Cruise-related Activities” that have occupied around 76% - 88% of revenue in their business. However, the revenue has dropped around 30% in “Cruise and Cruise-related Activities” at year 2020. It has the greatest impacted on the company’s profit and business continuity.

3. The Genting Hong Kong Ltd business performance

3.1 External Business Environment

COVID-19 has thrown the whole cruise industry, as well as the rest of the world, into chaos. The latest pandemic began in December 2019, and the new virus, COVID-19, was discovered and named in January 2020 (WHO, 2020b). Since that time, the coronavirus has been quickly spread to multiple countries. Globalization and worldwide travel habits have been cited as a significant factor in COVID-19's rapid spread. Because of the large number of ships, passengers, and varied locations around the world, the cruise industry played a dangerous role in this scenario. In addition, passengers, and staff members hail from all around the globe. Crew members are frequently transported between ships, while passengers from all over the world board and disembark at various locations each day (İlhan, 2020).

Between January and April 2020, 54 ships were infected with COVID-19 in various parts of the world, accounting for one-fifth of the entire ocean cruise fleet (Harrold, 2020). The Diamond Princess, which was quarantined off the coast of Japan, was the first and most famous example. COVID-19 was discovered on board this ship in February 2020, infecting almost 700 passengers and crew members, with nine individuals dying. There were 2670 passengers and 1100 crew members on board this ship.

The global impact of the Covid outbreak has been severe, but it has been particularly severe in tourist destinations. The Diamond Princess case have made the bad impression on consumers that cruise ships is a dangerous transportation. The consumers have stopped to join the cruise ships journey or entertainment. COVID-19, on the other hand, spread more quickly in countries that continued to welcome cruise ships until early April 2020 than in countries that quickly barred cruise ships from accessing their ports. The ships came to a halt in various parts of the world towards the end of March, and cruise lines had to deal with bringing crew members and guests home while the borders were blocked.

(citation: <https://www.sciencedirect.com/science/article/pii/S2590198221000981>)

As a result of numerous countries closing their borders in response to COVID-19, thousands of people were stranded at sea while ships looked for a port to dock. Canada barred all ships carrying more than 500 people from landing in their ports in mid-March. All ships arriving from foreign ports were barred from entering Australia, New Zealand, and the United States, and all foreign flagged ships were ordered to depart the nation. Passengers were quarantined on board for nearly a month before being repatriated as a result of this. While almost all of these cruise guests have since left, many crew members remain on ships around the world, quarantining or manning the ship until the industry restarts operations. Many cruise liners have tried and are still trying to repatriate shipboard staff, but repatriation is being delayed due to strict requirements enforced by the US Centers for Disease Control and Prevention.

(citation: <https://home.kpmg/xx/en/blogs/home/posts/2020/07/covid-19-impacts-on-global-cruise-industry.html>)

3.2 Internal Business Environment

Many countries have restricted their immigration policy to control the inbound tourism for preventing COVID-19 to spread into their country. The policy has undergone compulsory quarantine for 7 to 21 days in a designated quarantine hotel or at residence. Hong Kong is one out of the strictest of control city that has undergone compulsory quarantine for 21 days in a designated quarantine hotel. The tourism intention for visiting Hong Kong has decreased due to government policy and the visitor arrivals have dropped during the COVID-19. Table-4 is listed the statistic (year 2016 – 2020) of visitor arrivals in Hong Kong.

	Year 2020	Year 2019	Year 2018	Year 2017	Year 2016
Total Visitor Arrivals	3,568,875	55,912,609	65,147,555	58,472,157	56,654,903
% Growth	-93.62%	-14.18%	11.42%	3.21%	4.50%

Table-4: Visitor Arrivals Statistics of Hong Kong from 2016 to 2020

Source: Extracted from Visitor Arrivals Statistics of PertnerNet
(https://partnernet.hktb.com/tc/research_statistics/research_publications/index.html?id=3631)

Refer to Table-4, The visitor arrivals in Hong Kong have growth in every year before COVID-19 (year 2016 - 2018) and visitor arrivals have dropped around 93% during COVID-19 (year 2019 - 2020). Thus, the demand from tourism industry has dropped during the COVID-19 and have engendered great impact of economic crisis by COVID-19.

The cruise industry in Hong Kong have been impacted during the COVID-19. The visitor arrivals have dropped, so the number of cruise passenger also decreased in this difficult moment. Table-5 is listed the statistic (year 2017 – 2020) of cruise passenger in Hong Kong.

	Year 2020	Year 2019	Year 2018	Year 2017	Year 2016
Total Passenger Throughput	135,763	1,585,929	1,732,800	1,677,095	1,605,737
% Growth	-91.44%	-8.48%	3.32%	4.44%	4.10%

Table-5: Cruise Passenger Statistics of Hong Kong from 2016 to 2020

Source: Extracted from Cruise Passenger Statistics of PertnerNet
(https://partnernet.hktb.com/en/research_statistics/research_publications/index.html?id=5217)

Refer to Table-5, The cruise passengers have increased in every year from 2016 to 2018, but total passengers have dropped since COVID-19 began in year 2019. At year 2020, the total passengers

have seen a “cliff-like” drop around 91% and the business almost have been frozen. However, the company cannot increase the markup price for ticket to compensate the number of passenger drop. It is because consumers could be found the substitutions of the facilities and services such as food and beverage sales, spa treatments that have been provided by cruise ships. The cruise ships have supplied the elastic goods and services.

The tourism industry in Hong Kong cannot be supported by tourists due to government policy of countries. The company needs to change their business strategic for overcoming the challenges from COVID-19. The demand of visitors has decreased because travel have been stopped by inbound tourism policy. At the same time, local customers demand increase because they cannot go out for travel and only have had consumption in Hong Kong. The companies of tourism industry in Hong Kong have changed the target customers from tourists to local customers. The productions, goods and services have been created and are focus on local customers (e.g., local tour, staycation, etc.) for sustainable their business during COVID-19.

3.3 Summary of the Impact on the Genting Hong Kong’s Profitability

The government have restricted the policy to prevent COVID-19 that have affected the visitors outgoing from and incoming to Hong Kong, so the number of visitor passengers have dropped during COVID-19. The revenue of Genting Hong Kong has mainly relied on two channels that are passenger ticket and onboard consumption. The total profit has decreased due to the number of visitor passengers have dropped in this situation.

	Year 2020 US\$'000	Year 2019 US\$'000	Year 2018 US\$'000	Year 2017 US\$'000	Year 2016 US\$'000
Total Revenue	\$366,822	\$1,560,921	\$1,600,101	\$1,190,415	\$1,016,668
% Growth	-76.50%	-2.45%	34.42%	17.09%	47.35%

Table-6: Genting Hong Kong’s Revenue from External Customers from 2016 to 2020.

Source: Authors' calculation based on Genting Hong Kong annual report from 2016 to 2020.

Refer to Table-6, the revenue of Genting Hong Kong has been affected by COVID-19. The total revenue has decreased from year 2019 and have expanded the decrease to 75% in year 2020.

4. Analysis and Discussion

4.1 Identification of the Major Challenges

During COVID-19, the world witnessed a severe health crisis for humanity and the economy that was unprecedented and unforeseeable. With the continuous impact of COVID-19 (including new strains of the virus), differing rates of vaccination in different countries, the timing of border openings, worldwide economic recovery, and global geopolitical tensions, the cruise industry has surely struggled.

As a result of the COVID-19 epidemic, almost every country on the planet has implemented some sort of travel restriction. The majority of the restrictions remain in force, though some have been eased over time. The Genting Hong Kong Ltd also have faced different challenges that are:

1. To stop the virus from spreading, governments all around the world enacted lockdowns and travel restrictions. The demand has been decreased from visitors.
2. The reduction of cruise customers and occupancy of cruise ships.
3. The customers have lost the trust and confidence after had the case of Diamond Princess that was quarantined off the coast of Japan. These stories are causing significant damage to the cruise industry's reputation.

The consumer has reduced the demand for cruise ships due to border closures by countries and the cruise market have been shared by the other competitors. The demand has been expanded reduction even the company has high market share in cruise industry. The cruise ships are high fixed cost business. As mentioned in Table-2 in previous section, the fixed cost of cruise ships is around 75%. It is necessary cost once the company have run the operations. The major revenue of cruise ships is passengers' ticket and onboard services, but the passenger occupancy percentage is lower than year 2018 and 2019. Table-7 is Genting Hong Kong's Cruise Ship Occupancy Statistic from 2016 to 2020. The occupancy percentage is the ratio of passenger cruise days" to capacity days that has had only 60% during COVID-19 and compared to last two years that have dropped 30%.

	Year 2020	Year 2019	Year 2018	Year 2017	Year 2016
Passenger Cruise Days	944,376	4,986,423	5,178,075	3,692,223	2,922,480
Capacity Days	1,602,991	5,345,827	5,667,420	4,781,990	3,576,660
Occupancy Percentage	59%	93%	91%	77%	82%

Table-7: Genting Hong Kong's Cruise Ship Occupancy Statistic from 2016 to 2020.

Source: Authors' calculation based on Genting Hong Kong annual report 2016-2020.

The occupancy percentage have decreased that is implicit the total labor cost per output increase. The labor cost is high loading under situation of the low occupancy percentage. For cruise lines, fuel is also the bigger fixed cost, and as a result of the oil price slump during this downturn, cruise

lines may benefit from cheaper prices. The other operating expenses such as repair and maintenance, fixed port costs, lease costs, and costs related to insurance and entertainment that company must pay no matter how many of occupancy percentage.

The cruise ships have earned the trust and confidence of consumer that is the other challenge for company. It is because the case of Diamond Princess cruise ship that the COVID-19 epidemic on the ship resulted in 712 people becoming infected, accounting for around 20% of the ship's passengers. The case has led the consumer misunderstanding that the cruise ship is enclosed environment and easier spread further once have infected persons on the ship. It has also affected the intention of consumer for joining cruise ship travel.

The company needs to re-evaluate the business and develop the plans for recovery through cost optimization strategies to ensure business continuity. On the other hand, change the positioning in market to attract the customer for increasing occupancy percentage of ship. Keeping in mind the cruise's products and services tend to be relatively elastic because they are not unique and have substitutes. If the price of a cruise ticket increases, fewer people will onboard. At the same time, the company should embark on various initiatives to earn the trust and confidence of consumers. It has had necessary not only during COVID-19 but also post-COVID-19. The hygiene awareness of consumers has increased after COVID-19 and the health and safety protocols of cruise ship will be considerate when they are selecting the products in the market.

4.2 Strategies for Sustainable Development

4.2.1 The Action of Genting Hong Kong Ltd

The Group have taken some actions to ensure the business continuity in this difficult time. Firstly, the Group has reduced the staff to 7000 employees in 2020, COVID-19 and the cessation of cruise operations resulted in a significant decrease (57%) from the previous year (approximately 16,200 employees).

	Shipbased Officers and Crew		Staff in Office	
	No. of Staff	% Growth	No. of Staff	% Growth
Year 2020	2,300	-78%	4,700	-18%
Year 2019	10,500		5,700	

Table-8: Genting Hong Kong's Human Resources 2019 and 2020.

Source: Authors' calculation based on Genting Hong Kong annual report 2019-2020.

As year 2020, there were around 2,300 ship-based officers and crew, as well as 4,700 employees working in the Group's numerous offices and shipyards across the world. The shipbased officers and crew have been reduced 78%

4.2.2 The Recommendation for Genting Hong Kong Ltd

There have the recommendations for the Group to mitigate the occupancy rate and earned the trust and confidence of consumers.

1. The business of tourism has been affected after began COVID-19. The demand of plane, hotel, travel agency and cruise ship have decreased due to travel have been stopped by immigration policy of government. The visitors have not been targeted customers of company in short term period. The company should change the market positioning to local customer because the people in Hong Kong have changed their consumption to local market and staycation replaced the travel.

The demand of travel has increased because local people have had no travel during the COVID-19 and the staycation is a form of alternative tourism. The company should prompt the staycation on cruise ship (staycation cruise) to the market that have supplied the products which local customer wants. The staycation cruise has had more attractive than staycation in hotel (staycation hotel) because cruise ship has provided more facilities and services such as casino gambling, spa treatments, art auctions, third-party concessionaires, and entertainment. Moreover, the travellers are looking for trips closer to home for substitution of travel. It has provided more satisfaction than staycation hotel. The business can be continuous before the world has been opened again.

The passenger ticket price of staycation cruise can be adjusted for the market. It is because cruise ship had no cross border and the marginal cost is very low due to cost structure of cruise ships. The objective is improvement for occupancy rate and mitigate the impact on profit. More the additional passengers onboard have not affected the total cost too much, so the price tends to be lower than original ticket price for attracting the consumers.

2. According to many accounts, the outbreak on Diamond Princess was due to quarantine protocols were insufficient to control a COVID-19 epidemic, allowing the virus to spread further among passengers, crew, healthcare practitioners, and quarantine officers. It is not related to the environment of cruise ship. The Group should develop a health and safety protocols not only protect the crew members and passengers but also earn confidence of passengers for cruise ship. The protocols must meet the standard that have been set by the relevant health regulators. It should include all crew members and shore staff receive the COVID-19 vaccine, increase the frequency in sterilization for public area, requirements for COVID-19 testing for passengers and crew before onboard, setup a guideline and procedure for responding the case if any infection on cruise ship, and etc. For objectively certify the implementation of group health and safety protocols, the Group should be engaged third-party assessment (e.g., international classification society DNV) to conduct a separate certification for its operation.

4.2.2 Business Plan

Search business plan template, prefer use table to present

4.2.3 Implementation

How to implementation?

Timeframe? Evaluation whether the plan success

5. Conclusion

5.1 Conclusion

5.2 Recommendations

Copy the content of business plan in simple format

what is a plan? During covid-19, after covid-19

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