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## Demographic Segmentation of the Cruise Industry

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# Demographic Segmentation of the Cruise Industry

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## I. INTRODUCTION

The global cruise industry has witnessed steady expansion in the past few decades and continues to be one of the most lucrative segments in the tourism sector. Approximately, 21.5 million passengers took a cruise ship vacation in 2013 and the number of cruisers is expected to increase to 24.1 million by 2018 (Cruise Market Watch, 2014), maintaining an annual passenger growth of 7.2% since 1980 (FCCA, 2014). Total revenue generated by the cruise industry reached \$420.4 billion in gross output in the US in 2012 and this was a 5% increase from 2011 (CLA, 2013) and was 1.8% higher than the overall growth in leisure travel and tourism spending worldwide in 2012 (World Travel and Tourism Council, 2014). Based on the growth trend, investment in the cruise industry is predicted to be more than \$22 billion between 2011 and 2015 (CLIA, 2013). Cruise lines are proactively preparing to meet the escalating demand indicated by the trend of cruise ships constantly operating at above 100% capacity (CLIA, 2014).

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The augmented competition and growth in the cruise market calls for the need to understand consumer preferences in order to retain existing or acquire new customers. However, there is a dearth of customer satisfaction studies in the cruise industry despite the increasing need to examine customer preference trends. Fewer studies focus on the subject of market segmentation pertaining to the cruise industry (Petrick & Sirakaya, 2004, Petrick, 2005, Petrick, 2011, Brida et al., 2012). The purpose of our research is to identify cruise passenger preferences by segmenting them into demographic profiles based on the cruise they chose; for instance, family cruises, single's cruises etc. Specifically, our research is based on post experience reviews by cruise passengers who travelled on cruises characterized by certain demographic segments; family, singles, honeymoon & romantic, seniors and disabled cruises. We posit that the preferences of cruise passengers are likely to be distinguishable based on their demographic profiles. For instance, the preferences and requirements of passengers on a family cruise are expected to differ from the passengers on a seniors cruise. We analyze the consumer preferences based on 200 reviews for each segment collected from cruise critic.com which is a popular platform where cruise passengers contribute their post experience reviews.

Our research makes substantial contribution to the pool of cruise industry literature. Firstly, our study contributes to the limited literature in the area of cruise passenger segmentation. Secondly, it provides actionable implications for the cruise companies based on post experience reviews of their current and potential repeat customers. Moreover, we use demographics of cruise passengers as our criteria for segmentation and our findings make it feasible for managers to identify segments and improve their service offerings without further complicated processing on their behalf. We analyze attributes which are integral features of most cruise vacation and can be feasibly altered to the inclination of consumers. These implications are specially actionable and valuable to the cruise companies with limited resources who would rather invest their capital in identified preferences of each customer segment. Thirdly, our research is based on 1000 post experience reviews from over 150 diverse cruise ships in terms of ports, itineraries and cruise lines which reflects the most palpable evaluation of cruise

passengers as opposed to data from a small number of ships in the relatively few prior studies that exist.

In the next section we review relevant literature on market segmentation followed by description of our data and methodology. We next report the results of our analysis, discussion and conclusion. The last section of our paper comprises detailed tables of our data and analysis for each segment.

## II. LITERATURE REVIEW

### a) *Demographic segmentation in tourism*

Kotler & Armstrong (1980) describe segmentation as the process of dividing heterogeneous markets into smaller and more homogenous segments, based on the needs, behaviour and characteristics of consumers. The undeniable appeal of segmentation as a marketing strategy is attributed to its ability to increase customer satisfaction of a segment (Pickton & Broderick, 2005). Consequently, segmentation is a well-established, extensively used and widely-acclaimed marketing strategy used by firms in all geographies and industries. Among other criteria of market segmentation, demographic segmentation is a frequently used one. Demographic segmentation refers to the division of a market into clusters on the basis of demographic characteristics of consumers such as gender, education, income, family life cycle, race, nationality etc. (Bowen, 1998). A primary reason for the popularity of demographic segmentation is that is that consumer preferences, requirements and usage rates are closely related to their demographics which are easily measurable (Bowen, 1998)

Extant research in the field of tourism has emphasized the significance of segmentation as a marketing strategy (Cha et. al, 1995; Kastenholz et. al, 1999; Bieger & Laesser, 2002). Furthermore, extensive studies in tourism have used demographic segmentation as a basis for segregating market into segments (Weaver et. al, 2001; Seiler et. al, 2002; Horneman et. al, 2002; Carmichael & Smith, 2004; Chang, 2006). Inbakaran et. al (2012), conducted a study to identify the market segments based on the demographic profiles of visitors to a popular beach destination. They identified four distinct demographic segments and provide recommendations for resort marketing based on the preferences of each segment. A similar study by Chi (2011) aimed at investigating the loyalty of tourists for a destination based on their demographic profiles. This research found palpable similarities and difference in preferences of tourists based on their demographic characteristics such as age, income, gender and education. Furthermore, choice of recreation activities which are a part of most of the vacations are also impacted by demographic characteristics of travellers (Tangeland, 2013). They found that young males interested in Norwegian nature

based tourism prefer different recreation activities such as freshwater fishing and hunting compared to backcountry hiking and skiing preferred by young females. Taking a cue from such prior research, we examine the demographic segments in the cruise industry based on the choice of cruise style by passengers.

### b) *Demographic segmentation in the Cruise Industry*

Prior studies in the area of cruise industry have primarily examined the general antecedents of cruise passengers' satisfaction opposed to exploring the preferences of cruise passenger segments. We seek to fill this void by investigating the differences in preferences of cruise passengers based on their demographic profiles.

Limited research exists on market segmentation in the cruise sector that focuses on segmentation criteria. Researchers have identified factors such as price sensitivity, loyalty, perception of cruise line reputation, expectations from a cruise vacation etc. (Marti, 1991; Petrick & Sirakaya, 2004, Petrick, 2005, Petrick, 2011, Brida et al., 2012). There is a dearth of studies that explore the preferences of cruisers based on passenger demographics such as family, singles, seniors, etc. A pioneering study by Marti (1991) on market segmentation in the cruise industry revealed that segmentation is a vital strategy to succeed and increase market share. Their research coined the concept of non-traditional port which refers to a port that operates on a seasonal basis. They demonstrated geography as a significant factor that affects the attraction of cruisers for a non-traditional port. The cruisers exhibited preferences for non-traditional ports based on proximity to the place of residence. Fascinatingly, their results suggest that passenger's demographics and income did not have a significant impact on the choice of a non-traditional port.

A cruise vacation is frequently described as a dream experience by travelers, however; cruises are also labeled as one of the most expensive vacation options (Cruise Market Watch, 2014). A research conducted by Petrick (2005) aimed at segmenting cruise passengers based on their price sensitivity towards cruises had identified three segments; less sensitive, moderately sensitive and highly sensitive. This research shows that the less price sensitive customer segment is likely to spend more onboard and the more price sensitive segment is likely to assess their cruise vacation as a positive experience. These findings indicate that providing lower price cruise vacations will lure passengers who may spend less onboard but would appreciate their vacation more. These satisfied customers can provide repeat business and also spread positive word of mouth. Contrarily, affluent and less price sensitive consumers may prefer cruises without discounts but the business obtained from them may not be substantial enough to sustain profits in the long term.

The results of this research were based on data collected from two cruise ships.

Additionally, prior research has segmented cruise passengers based on loyalty (Petrick and Sirakaya, 2004) and perception of a cruise line's reputation (Petrick, 2011) as a criteria. The loyal passengers were found to exhibit higher satisfaction with their past cruise experience and rates and express a higher intention to cruise with the same cruise line. Moreover, the loyal customers were more likely to spread positive word of mouth. Interestingly, satisfied first time cruisers perceived a higher value for money and showed more satisfaction with the tangible and intangible services provided on the cruise ship. This research suggests that the conventional four-quadrant typology to explain loyalty (spurious, latent, low, high) does not account for all tourist loyalty. Nevertheless, the implications provided by this study come from the differences identified between first time cruisers and experienced cruisers and the features of a cruise that influence their loyalty.

A research shows a unique vantage point of segmentation based on perception of a cruise line's reputation and identifies three segments; highest perception of reputation, moderate perception of reputation and low perception of reputation (Petrick, 2011). This study revealed that the demographic profile of consumers had a negligible impact on the perception of a cruise line's reputation. However, reputation of a cruise line was found to have a significant effect on a cruisers' perceptions of price sensitivity, monetary price, behavioral price, quality, value, satisfaction, word of mouth and repurchases intentions. The results of this study are based on data collected from two seven-day Caribbean cruises on the same ship.

Two studies used conjoint analysis to explore segmentation in the cruise industry (Brida et al, 2012; Krieger, Moskowitz and Rabino, 2005). The research by Brida et al. (2012) segments cruise passengers' into clusters based on proximity in demographic profiles, expenditure patterns and general perceptions of their vacation experience in Uruguay. Their research identifies three cruisers segments based on trip profiles; retirees, professionals and repeat visitors. They provide managerial implications by suggesting marketing strategies for each segment. The findings of this study were descriptive in nature. The study by Krieger, Moskowitz and Rabino (2005) examines the expectations of the consumers regarding a cruise vacation. They utilized a conjoint analysis to sort cruise passengers into four groups based on their preferences; sightseeing, self-absorbed, pamper-me and novel up to date, informal. Furthermore, they crafted product offerings in accordance with the needs of each of the groups. The participants of this study indicated scenic views and sightseeing such as whale watching expeditions and beauty of the sea and views from the

decks as the most significant aspects of a cruise vacation. Value for money was found to be one the top three factors that influenced customer satisfaction.

The few studies that examine segments of consumers in the cruise ship industry are based on criteria such as price sensitivity, loyalty, perception of cruise line's reputation etc. Yet, research has not been conducted where the preferences of cruise customers are examined in accordance with their choice of cruise style based on their demographic profile. For instance, the cruisers who vacation on a family cruise have a different demographic profile than who take singles or disabled cruises. We hope to assist in filling this void through our research. Specifically, the purpose of our study is to investigate five preexisting segments; family, singles, seniors, disabled and romantic & honeymoon cruises, based on how cruise passengers select their cruise style. These five segments are derived from the cruise styles typically offered by cruise lines and cover a large portion of the cruise market.

### III. METHODOLOGY

#### a) Data

We collected 1000 post experience reviews from the website [cruisecritic.com](http://cruisecritic.com) and these reviews were from passengers who vacationed on over 150 cruise ships. Cruise critic is a popular online destination for cruisers in search of information on cruises and also serves as a platform where they can contribute their vacation experience. This website comprises over 130,000 online review and receives over 3 million visitors every month ([Cruisecritic.com](http://Cruisecritic.com), 2014). Cruise critic is owned by Trip Advisor, a popular travel site. [Cruisecritic.com](http://Cruisecritic.com) allows reviewers to rate their experience, on a five point scale regarding attributes of cruise vacation. The cruise attributes that we utilize as independent variables in our study are dining, public rooms, cabins, entertainment, spa & fitness, shore excursions, embarkation, rates and service. Our dependent variable is member rating contributed by each reviewer regarding their overall satisfaction with the cruise experience.

Dining is one of the primary attractions for passengers on a cruise. Cruise vacations are characterized by lavish buffets and exquisite cuisines. The variable 'dining' captures the perception of cruisers pertaining to food and related services on the cruise. The common areas on a cruise ship present opportunities to relax in a community setting and engage in conversation with fellow passengers. The variable 'public rooms' captures the experience of cruisers with the common areas on a cruise ship such as the ballroom, reception and lounges. Cabins are equivalent to rooms in a hotel and a large variety of cabins are available on a cruise ship, ranging from a cabin with no windows to a large suite with a balcony



and breathe taking views. Vacation on a cruise ship is often described as legendary by many of the cruisers and many cruise lines are famous for their legendary entertainment such as musical concerts, Broadway shows, movie theaters, indoor malls, bungee jumping, casinos and masquerade balls. The variable 'entertainment' represents the experience of reviewers regarding entertainment on a cruise ship. A cruise ship is a world away from the world as it provides an opportunity to relax and unwind in the spa and fitness centers with massages, tanning and beauty treatments and this aspect is captured by the variable 'spa & fitness'. Embarkation is the procedure of boarding a cruise ship at the beginning of the vacation. This process can be long and tiresome as it usually requires paperwork and security checks. The embarkation experience is the first step of a cruise journey and it may influence overall cruise satisfaction. Cruise vacations are one of the most expensive travel vacations and rates are certainly one of the most important factors that may hold potential to either sweeten or make the experience sour. The average cost per passenger per day on a cruise ship is \$214 which totals to approximately \$1712 for a eight day cruise (Cruise Market Watch, 2014). The perception of money well spent can increase satisfaction and perception of exorbitant rates with bad experience can substantially decrease satisfaction. Cruise ships are famous for providing exceptional service on board and the variable, service, captures this aspect of the cruise customers' experience.

#### b) Empirical model

We used a multiple regression model to examine the effect of cruise attributes on cruise

passenger satisfaction. We use the same multiple regression model for five segments which are based on demographics of cruise passengers. We utilized the following model for our analysis,

$$\text{Customer Satisfaction rating} = \beta_0 + \beta_1 \text{Dining} + \beta_2 \text{Public rooms} + \beta_3 \text{Cabins} + \beta_4 \text{Entertainment} + \beta_5 \text{Spa \& Fitness} + \beta_6 \text{Shore Excursions} + \beta_7 \text{Embarkation} + \beta_8 \text{Service} + \beta_9 \text{Rates} + \epsilon$$

## IV. RESULTS

We first report the results for the customers who vacationed on Singles cruises. The results of the regression analysis are presented in Table 1. The model indicates a very good fit with a significant F statistic of 103.93 ( $p < 0.00$ ) and an adjusted R square of 0.823. The R square indicates that 82.3% of the variation in the outcome variable is accounted for by the independent variables. The most important attribute for cruise passengers who vacationed on a Singles cruise is dining followed by rates and entertainment. Singles cruises have a reputation to be a great platform for meeting other singles which may explain the high preference for public rooms by singles. Dining is another venue that affords an opportunity to singles to mingle with others and therefore it is not surprising that singles value those attributes that facilitate their meeting other singles.

Table 1 : Cruise attributes preferences for Singles cruises

Cruise Attributes	Coefficients	Standard Error	t Statistics	p value
(Constant)	-0.607	0.193	-3.14	0.002
Dining	0.253*	0.036	6.973	0
Public Rooms	0.344*	0.053	6.439	0
Cabins	0.078*	0.039	1.998	0.047
Entertainment	0.133*	0.039	3.379	0.001
Spa & Fitness	0.024	0.021	1.181	0.239
Shore Excursions	-0.011	0.019	-0.604	0.547
Embarkation	0.066*	0.031	2.157	0.032
Rates	0.17*	0.034	5.006	0
Service	0.101*	0.034	2.952	0.004

\* Significant at 0.05 level

R sq is 0.831

Adjusted R sq is 0.823

F Stats is 103.903

We next report the results of regression for customers who vacationed on Romantic and Honeymoon cruises in Table 2. The adjusted R square of 0.79 indicates that the independent variables explain 79% of variance in the dependent variable. The F statistic of 84.395 ( $p < 0.00$ ) shows a good model fit. Our results show that the passengers on a Honeymoon or

Romantic cruise consider rates and dining to have the highest influence on their satisfaction. The next three attributes that receive almost equal importance are service, embarkation and public rooms. This segment also considers cabins to be one of the attributes that can affect their satisfaction with the cruise.

Table 2 : Cruise attributes preferences for Romantic &amp; Honeymoon cruises

Cruise Attributes	Coefficients	Standard Error	t Statistics	p value
(Constant)	-.785	.231	-3.391	.001
Dining	.241*	.039	6.247	.000
Public Rooms	.147*	.051	2.854	.005
Cabins	.091*	.043	2.123	.035
Entertainment	.021	.035	.595	.552
Spa & Fitness	.066	.049	1.347	.180
Shore Excursions	-.017	.030	-.566	.572
Embarkation	.147*	.034	4.258	.000
Rates	.319*	.047	6.757	.000
Service	.170*	.044	3.872	.000

\* Significant at 0.05 level

R sq is 0.80

Adjusted R sq is 0.79

F Stats is 84.395

The results of a regression for family cruisers are shown in Table 3. This model explains 77.8% of variance in member rating with an adjusted R square of 0.778 and also shows a good fit indicated by F Stats of 78.442 ( $p < 0.00$ ). The family cruisers exhibited the highest preference for dining and service. This segment

also gave almost equal weightage to public rooms, cabins and shore excursions which were next in the order of preference, followed by embarkation and spa & fitness. This segment typically travels with children and young adults which explains their higher preference for dining and service as antecedents of satisfaction.

Table 3 : Cruise attributes preferences for Family cruises

Cruise Attributes	Coefficients	Standard Error	t Statistics	p value
(Constant)	-.957	.221	-4.323	.000
Dining	.301*	.046	6.527	.000
Public Rooms	.150*	.058	2.566	.011
Cabins	.150*	.050	3.034	.003
Entertainment	.070	.046	1.539	.126
Spa & Fitness	.118*	.039	3.025	.003
Shore Excursions	.134*	.035	3.855	.000
Embarkation	.129*	.041	3.154	.002
Rates	-.009	.048	-.180	.857
Service	.202*	.051	3.969	.000

\* Significant at 0.05 level

R sq is 0.78

Adjusted R sq is 0.778

F Stats is 78.442

We next report the results for the customers who reviewed their experience on seniors' cruises in Table 4. The model shows that our independent variables account for 67.4% variance in the dependent variable indicated by the adjusted R square of 0.674. The model for this segments exhibits a reasonably good fit with F statistics of 46.764 ( $< 0.00$ ). This segment shows highest preference for rates, public rooms and embarkation. The other attributes that influence satisfaction for passengers on seniors' cruises are cabins, service and entertainment. The passengers who choose to vacation on seniors cruises are likely to be limited in physical capabilities attributed to their old age, which explains high preference for embarkation, cabins and service. Embarkation on a cruise ship can often be a long and tedious process which can take a toll on senior cruisers and high importance for embarkation as

an antecedent of customer satisfaction supports this notion. This segment did not indicate dining as an antecedent of satisfaction which may be attributed to dietary restrictions of seniors

Table 4 : Cruise attributes preferences for Seniors cruises

Cruise Attributes	Coefficients	Standard Error	t Statistics	p value
(Constant)	-1.552	.300	-5.165	.000
Dining	.060	.043	1.407	.161
Public Rooms	.231*	.069	3.363	.001
Cabins	.217*	.050	4.338	.000
Entertainment	.135*	.041	3.279	.001
Spa & Fitness	.009	.025	.374	.709
Shore Excursions	.023	.029	.773	.441
Embarkation	.225*	.040	5.555	.000
Rates	.295*	.055	5.400	.000
Service	.152*	.044	3.459	.001

\* Significant at 0.05 level

R sq is 0.689

Adjusted R sq is 0.674

F Stats is 46.764

The results for regression for passengers on Disabled cruises are reported in Table 5. The model is a reasonably good fit with F statistics 47.998 ( $p < 0.00$ ) and explains 68% of variance in the member rating which is indicated by an adjusted R square of 0.68. The cruisers who travel on disabled cruises perceive rates

and service as the most significant determinants of customer satisfaction, followed by embarkation cabins and dining. Similar to senior cruisers, limited physical capabilities and increased need for assistance may explain the preference for service and embarkation, among other attributes.

Table 5 : Cruise attributes preferences for Disabled cruises

Cruise Attributes	Coefficients	Standard Error	t Statistics	p value
(Constant)	-.611	.254	-2.409	.017
Dining	.167*	.055	3.057	.003
Public Rooms	.020	.075	.261	.794
Cabins	.188*	.047	4.013	.000
Entertainment	.075	.044	1.693	.092
Spa & Fitness	.036	.024	1.452	.148
Shore Excursions	.039	.024	1.624	.106
Embarkation	.196*	.043	4.590	.000
Rates	.232*	.062	3.756	.000
Service	.210*	.049	4.266	.000

\* Significant at 0.05 level

R sq is 0.695

Adjusted R sq is 0.680

F Stats is 47.998

## V. DISCUSSIONS AND MANAGERIAL IMPLICATIONS

their satisfaction with a cruise vacation and present the results in Table 6.

We compare the five demographic segments in terms of the relative salience of the factors that influence

Table 6 : Cruise ship attributes preferences for the five demographic segments

Order of importance	Singles	Honeymoon & Romantic	Family	Seniors	Disabled
1	Public Rooms	Rates	Dining	Rates	Rates
2	Dining	Dining	Service	Public Rooms	Service
3	Rates	Service	Public Rooms	Embarkation	Embarkation
4	Entertainment	Public Rooms	Cabins	Cabins	Cabins
5	Service	Embarkation	Shore Excursions	Service	Dining
6	Cabins	Cabins	Embarkation	Entertainment	
7	Embarkation		Spa & Fitness		

The findings of this research suggest that dining is the most significant feature of a cruise vacation for cruisers on family cruises. Furthermore, seniors were the

only ones who did not exhibit preference for dining which may be attributed to their dietary restrictions. The cruise passengers on seniors, disabled and honeymoon

& romantic cruises give the highest importance to rates. This is not surprising as this data was collected from the ships of one of the biggest cruise companies in the world. This company specializes in value vacations. They target customers who are price sensitive. Interestingly, rates appear to be a significant factor that influences cruise passenger satisfaction for all segments, except for family segment. The cruisers who travelled on a singles cruise gave utmost importance to public rooms which confirms intuition that their choice of cruise is driven by their motive to meet other singles.

Our results reveal some additional fascinating facets of each segment and many preferences confirm intuition. Embarkation had a significant influence on the preference of family, seniors, honeymoon & romantic and disabled cruisers. Seniors and the disabled may find a typical embarkation process as more tedious and inconvenient due to their limited physical capabilities and cruisers on a family cruise may have the same attitude because they are often accompanied by children. Disabled and family cruisers showed highest inclination for service compared to other segments as they may need additional assistance. We found entertainment to be an influential factor only for singles and seniors cruisers. Cruise passengers perceived cabins to be an important aspect of satisfaction with their cruise vacation, regardless of their segment. Spa & fitness amenities on board were found to be attractive to cruisers travelling on a family cruise.

These results confirm our expectation that the relative importance of attributes of cruise passengers, fluctuate with diverse demographic segments. Specifically, the consumers choose cruises based on their demographic profiles, hence, this serves as an efficient way of segmenting the cruise market. Differences in preference patterns of segments in our study provide significant managerial implications for cruise ship companies. Our research provides information that can help cruise companies to customize their product offerings according to the demographic profiles of customers in accordance with their choice of cruise style.

Specifically, our research has two significant managerial implications. First, our findings can be used to customize the advertising messages for different customer segments based on their demographic profiles. Second, the managers of cruise companies can use our research to improve their product offerings. The cruise industry constantly deals with the strategic issue of whether they should use uniform advertising messages for all their customers or customize their messages for each customer segment. Typically, managers elect the former route over the latter because it is cost-effective and easier to implement. Our research recommends the latter route as customer preferences vary with their characteristics and paying close attention to details for each segment would increase customer

satisfaction and help with product differentiation. Furthermore, our study identifies the most important attributes that need to be highlighted in advertising message for different demographic segments. The selection of criteria for identifying customer segments is yet another concern for managers. Our study analyzes five most common segments based on the cruise style the customers select based on their demographic characteristics and the results can be used to efficiently cater to these segments. For instance, singles looking to meet other singles choose to take a singles cruise, senior cruisers take a cruise advertised as a senior's cruise. We identify the relative preferences of each segment and provide cues to the managers of cruise lines for customizing their advertisements.

Our study suggests that rates and dining are the most vital attributes for the cruise passengers in the five segments. This implies that managers need to strive to run a cost-effective cruise ship and minimize expenses and wastage of resources on aspects that have little or no impact on cruise passenger satisfaction. Improvement of attributes of a cruise ship vacation requires different levels of resources and a firm should strive to improve on attributes that customers value the most. Careful allocation of resources to improve product offerings will allow cost-efficient cruise vacation packages and attract potential budget conscious customers. Our study provides direction on these issues as we identify the features that have the most impact on satisfaction for each customer segment. Preferably managers should focus on only a subset of features that is certainly important to their target customers.

There is potential to extend the present study in a number of ways. The R square for our five segments is reasonably high, however, there is room to capture more variables that account for variance. This implies that there are some other factors that are not included in our study. Future researchers can strive to find some more independent variables that impact customer satisfaction. Furthermore, we did not include age, gender and income of cruise passengers in our sample, as this data was not available to us. The cruise passengers who vary in age, income and gender are likely to perceive a cruise vacation differently and it would be worthwhile to examine them.

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