



*In 2014 Viking named 18 river ships in three ceremonies over five days. Chairman Torstein Hagen holds the Guinness World Record certificate*

# Viking Cruises goes from upstart to leader in 20 years

Few people would ever have predicted that river cruises could overtake the ocean market to become the fastest-growing segment of the industry. Yet, founded just 20 years ago with four modest riverboats and a home office consisting of two cell phones, Viking River Cruises has successfully leveraged the river market to achieve industry-leading growth. Now it is poised to become the world's largest small-ship cruise line. Cruise Business Review traces the rapid growth of Viking Cruises.

Twenty years ago, the cruise industry was in the midst of a major growth spurt. With everyone focused on the arrival of the first 100,000 gross ton ship and the coming era of the megaliner, the acquisition of four Russian riverboats by a small group of investors led by industry veteran **Torstein Hagen** largely went unnoticed. Despite river cruising's long heritage, few in the industry could envision the potential to transform a niche market into the industry's fastest-growing segment.

Viking River Cruises was established in August 1997 in Leningrad with an \$8 million investment to acquire the four ships. Hagen admits they were simple ships by today's standards, but adds, "It was something you could get cheap with a huge upside." He liked Russia and its tourism opportunities. From these rather humble beginnings, Viking began to build the new line with orders for new vessels along with several additional acquisi-

By Allan E. Jordan, Viking interviews by Teijo Niemelä





tions. However, it was the 2000 acquisition of KD River Cruises – Europe’s oldest and best-known river cruise line – that drew the most attention to the fledgling company.

“KD’s ships were old,” Hagen concedes, “but it gave us the docking spaces and volume necessary to develop the customer base.” Viking became the world’s largest river cruise line, overseeing the operation and management of 26 vessels offering 36 different itineraries on the Rhine, Danube, Elbe and Rhone rivers. While the plan was to continue to focus on distributors including Uniworld in the United States, Noble Caledonia in the United Kingdom and KD in Germany, Viking also opened an office in California.

## Educating consumers

“When we started this company, modern river cruising was still unknown to most travelers,” Hagen recalls. Therefore, as Viking began its expansion efforts, the company focused on both improving the product and on beginning to educate the consumer. For example, it installed hotel-style beds instead of folding bunks on its vessels and added a promenade that permitted passengers to walk or sit on deck without being concerned about low bridge clearances on the river. The renowned Norwegian design firm of Yran & Storbraaten Architects, which had designed luxury cruise ships for Silversea Cruises and Seabourn Cruise Line, was retained, but was later replaced by Rottet Studio. The resulting designs were bright, airy and modern, featuring soothing coral and light-blue color schemes and wood accents. The now familiar modern look of Viking’s ships started to emerge.

To market the new operation, Viking in 2001 retained its first advertising agency of record, beginning what has become one of the industry’s most respected and successful advertising and direct-marketing programs. To appeal to the American consumer, Viking made its ships non-smoking and in time elected to focus on the English-speaking market predominately from North America. New destinations were added including, in 2004, Viking’s first partnership in China.

All of these factors helped Viking to achieve growth rates that were the envy of the cruise industry. In 2001, Viking carried 120,000 passengers with \$25 million in sales. By 2005, the company reported that it had averaged a 52% growth in passenger counts and a 60% growth in revenue. As Viking marked its first decade, it was operating 23 ships with itineraries in Europe, Russia and China and earning top accolades in consumer polls conducted by both Travel + Leisure and Conde Nast Traveler magazines.

Overall, river cruising was growing at an amazing 23%, three times faster than ocean cruising’s growth rate of less than 8%. Whereas in the early 2000s, Western and Central European river cruising had been third behind the Nile and Russia, by the end of the decade it was pulling ahead to become the largest market segment. The addition of new competitors, including Amadeus, AMA and Avalon, only helped to spur the overall industry. In 2010, Viking enjoyed a 97% occupancy rate, and travel agents were reporting that customers often had to book trips a year or more in advance.

## Tipping point

Despite the dramatic growth rate of river cruising, many in the industry believed that it was just the beginning. In fact, in a 2011 interview Hagen said that river cruising was at “a tipping point.” A convergence of two events would drive the next phase of growth: Viking announced plans to build at least eight new ships, along with refurbishing others, and to increase advertising and consumer awareness efforts.

The first of the Viking Longships was introduced in the spring of 2012. An innovative design, it dealt with both size constraints, due to the bridges and locks on the rivers, and with a growing demand for further luxuries, such as balconies, based on consumers’ experience with ocean cruising. Unique elements, including squaring the bow and shifting the placement of the cabin corridor, meant that Viking could offer two large suites, seven veranda suites, and 39 veranda cabins while increasing total capacity to 190 passengers in 95 staterooms. The Longships featured a highly efficient design and, with 30 more passengers per ship, gave Viking an economic advantage over its competitors.

The original plan anticipated four Longships in 2012, followed by three each in the following two years. However, the success of the design and strong response from the industry and travelers prompted Viking to accelerate and then expand its plans. In 2013, the company simultaneously christened 10 Longships for a Guinness World Record. This was followed in 2014 by naming 18 ships in three ceremonies over five days, and in 2015 by launching 10 Longships and 2 ships for the Elbe River. Today, Viking operates 45 Longships, which make up 70% of its river fleet. There are also five “baby” Longships in operation – two on the Elbe and three on Portugal’s Douro River.

This dramatic growth would not have been possible without an equally important milestone for the company. In 2011, Viking became a sponsor of the Public Broadcasting System’s Masterpiece

Theatre just as it began airing the phenomenally popular “Downton Abbey” series. **Richard Marnell**, Viking’s Senior Vice President for Marketing, recognizes that it was “central to raising awareness for river cruising,” permitting Viking to “show images of how beautiful and tranquil the rivers were,” to an audience that was “culturally aware, educated and curious.” The more than nine million viewers watching Downton Abbey were perfectly targeted, helping to raise awareness and associate Viking and river cruising with history, elegance and sophistication.

As the successes continued to mount for river cruising, Viking in 2013 unveiled an equally ambitious plan to launch an ocean cruising operation. Following a trend in other segments of the luxury travel industry, Viking was setting its sights on leveraging its growing brand awareness and high levels of consumer satisfaction to fuel both ocean and river cruising. Previously, only the German Deilmann and A’Rosa brands had attempted this alignment, but Viking pursued it on a much larger scale – initially ordering two 47,800 gross ton and 930-passenger vessels and quickly







*Viking Star and Viking Sky met in Leknes, Lofoten earlier this summer*

contracting for two more, while simultaneously taking options for a fifth and sixth ship. More recently, Crystal Cruises and Fred. Olsen Cruise Lines have copied this model as they, too, sought to enter the river market.

## Viking philosophy

Introduced in April 2015, the company's first oceangoing ship, the ms Viking Star, was met with universal praise from the travel industry and consumers for its understated elegance with a comfortable, residential ambiance. Viking Ocean Cruises quickly garnered recognition for the industry's highest service levels and dining, along with leading overall scores from Cruise Critic, Travel + Leisure magazine and Berlitz. Like the river product, the ocean cruises began to achieve industry-leading customer satisfaction ratings, beating more established competitors. At the heart of this success was a business philosophy that focused on offering a highly inclusive product targeted to a specific audience, exemplified by no casinos onboard, no children, and most of all, no upselling and extra charges.

The Viking Star was followed by the ms Viking Sea in April 2016 and the ms Viking Sky in February 2017. The fourth ocean ship, the ms Viking Sun, is due to enter service in late 2017 and highlights another of Viking's business approaches: With both the Longships and now the ocean ships, Viking has employed high

levels of standardization even in décor, which creates a familiarity for passengers and higher efficiency in shipbuilding. Hagen prefers not to make any design changes, noting that his philosophy is that "I do not want surprises on the ships," instead preferring to keep the passengers focused on the port experience.

Therein may be found another of the unique approaches that Viking is taking with both its ocean and river cruises. "Our perspective is that the destination is the reason," Marnell says. "Our goal is to provide as much of the experience of the destination as possible." Passengers' fare includes one shore excursion in each port. On a river cruise, Viking might take passengers into a local market to experience the cuisine and foods, while on the ocean cruises



*Richard Marnell*



*Unique bow design of Viking Longships*





the company has developed more port-intensive itineraries with longer times in port and overnight stays. Viking has been featuring what it calls “quiet season” Mediterranean cruises promising “fewer tourists and more opportunities to maximize your local time,” and recently announced plans for the Viking Sky in 2019 to cruise far north in Norway’s winter to provide a unique view of the northern lights phenomenon.

## Expanding markets

As Viking Cruises marks its 20th anniversary, it has over 5,000 employees serving over 350,000 passengers each year and produces close to \$2 billion in revenue. Viking’s success has not gone unnoticed by the financial markets, including oversubscribed bond offerings in 2012 and 2015, a \$500 million investment from TPG Capital and the Canadian Pension Plan Investment Board in 2016 and a capital-leasing program for the ocean ships with China Merchant Bank Financial Leasing.

Many in the industry believe that Viking has just begun to realize the opportunities in its markets. One industry analyst points out, “River cruising is still not mainstream and is still on the early-adopter side of the demand curve,” a view very much shared

by Viking. “Awareness has grown,” Marnell says, noting Viking’s brand awareness is nearly four times greater than its nearest competitor. Between 2010 and 2015, Viking doubled its share of the river cruise market, drawing 49% of North American-sourced passengers, yet Marnell points out, “product-adoption is still very low.”

When asked about the future, Hagen quips: “You must know me by now,” adding that his vision is “infinite.” He has spoken in the past of his ambition to offer a product on the Mississippi River, noting recently that while it is difficult, it is likely that Viking will eventually be there. Viking has also begun sourcing clients from China, dedicating riverboats and using a unique approach focused on direct marketing and building travel agent relationships. The entry into the China market might also signal a future course for the expanding ocean fleet. Currently, Viking has four more ocean ships on order, for a total of eight by 2022 with options for two more. In the past, Hagen – with a glint in his eye – has spoken of a goal of 100 riverboats.

“To look at the company today and see what has been created out of nothing, it inevitably makes us proud. No doubt of that,” Hagen says. “I think we have taken a few people by surprise” – and there maybe a few more surprises yet to come. ■

*Scandinavian comfort on the Viking Sky's in*







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