

Mystic River Cruises

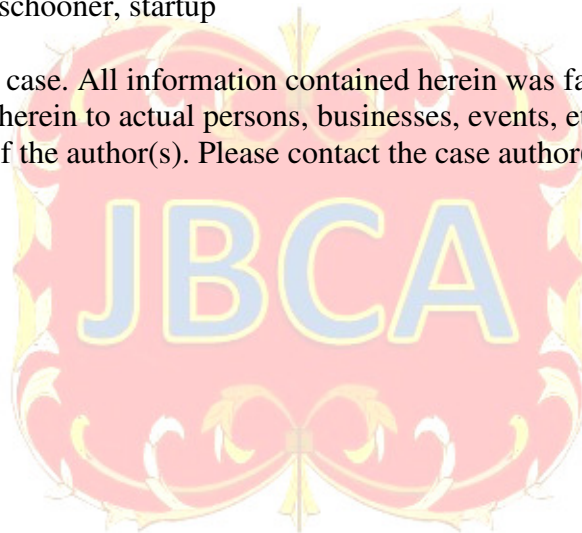
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Abstract

Mystic River Cruises is the story of a young man named Paul Williams who grew up sailing along the Connecticut coast and dreamed of one day becoming captain of his sailing vessel. Although Paul possessed an excellent private school education he was more interested in sailing and why not, wouldn't most people choose to earn a living doing what they loved? Like many aspiring entrepreneurs, Paul found the startup process a bigger challenge than expected. This case provides students with several typical startup issues and the opportunity to provide good solutions to the problems Paul faces.

Keywords: windjammer, schooner, startup

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Introduction

Paul Williams learned to sail as a young boy growing up on the Connecticut coast. His family owned a 24-foot Pearson Sailboat which they would sail most weekends from late spring to early fall. In addition to learning to sail on the family boat, Paul spent most of the summer at the local yacht club. As a first-grader, Paul started with a sailing dory but quickly progressed to larger boats. By the time he was in high school, Paul was skilled enough to become one of the sailing instructors at the summer sailing school. Like most of the kids enrolled in the summer sailing school, Paul came from a family with an income that enabled them to afford summer sailing school and of course, a family sailboat or yacht.

Upon graduation from a private high school in the area, Paul was off to study pre-law at Yale University. Paul's academic performance at Yale was good, but he had no interest in going on to law school. Instead, Paul dreamed of owning his windjammer sailing boat and taking tourists out for cruises. He figured he could sail off the Connecticut coast summers and relocate to Florida in winters. One of his classmates at Yale knew of a good location in Sarasota, Florida that would make a perfect winter home for Paul and his boat.

Paul thought that being a schooner captain would allow him to earn a living while doing something he loved—sailing! His parents, on the other hand, wanted Paul to go on to law school and become a lawyer. With a law degree from Yale and his father's corporate connections, a high-paying job was pretty much guaranteed. After a great deal of discussion back and forth, Paul's parents agreed that if Paul could develop a financial plan where he could earn a living, they would support him in his efforts. That support included a loan of \$100,000 to help get his business started.

As Paul began to look deeper into starting his sailing business, he found that simple day cruises were commonplace and not likely to yield a significant income. Paul spent many hours speaking with ship captains all along the coast and learned a great deal about the business. One weekend he decided to visit one of his favorite places in the state---Mystic Seaport. Mystic Seaport is home to the largest maritime museum in the United States. Mystic Seaport is home to the *Charles W. Morgan*, a whaling ship built in 1841 which in its' whaling career of 80 years, sailed on 37 whaling voyages, many of which last three or more years. The United States no longer engages in whaling, but the ship is preserved as part of an important part of our maritime history and today the *Charles W. Morgan* is the oldest wooden commercial ship in the country. Although Paul had visited Mystic Seaport many times and closely observed the five-year renovation of the vessel, it wasn't the specific ship he was interested in. Instead, the ship sparked his interest in a large wooden sailing vessel to use for his sailing business. The business would be called Mystic River Cruises and if all went well, Paul would begin sailing visitors along the Connecticut coast in spring, 2022!

After searching for a tall ship in good condition, Paul located a 68-foot schooner named the *Saybrook*, formerly the state of Connecticut's Official Tall Ship and the Tall Ship for the City of Old Saybrook, Connecticut. The wooden hull ship was built in 1998 and would accommodate at least 40-day cruise passengers or eight overnight passengers in addition to a crew of five. The custom-made shallow draft boat would be perfect for sailing into smaller harbors along the coast. The ship appeared to be in very good condition, though would have to be reinspected by the Coast Guard before sailing with a full complement of passengers for hire. Priced at \$175,000 the ship was more money than Paul had available in his budget but worth every penny of the asking price.

Pricing for a 3–4-day sail averages \$20 per person and 3-to-4-day overnight sails average \$975 per person. However, some discounting is typical in the industry during slack periods. Assuming a New England season from mid-May until mid-September (approximately 120 days), 90 days should provide good sailing weather.

Paul allocated funding for marketing, though he did not have a good sense as to the best way to market sails with Mystic River Cruises. Most of the marketing he was familiar with consisted of brochures and flyers located on the piers of harbors where other sailing ships were docked.

The Ship's Crew

In addition to Paul as Captain, the ship would need an experienced First Mate, a Second Mate, and a Trainee (often a college student working for the season). In addition, the Ship's Cook would act as a helper during Day Sails when cooking was not needed except for the crew's meals while living onboard. Paul knew enough people in the business that he would not have much difficulty in hiring a crew in Connecticut. In addition to the standard salary, the crew would be paid basic benefits, including health insurance, and could earn some additional money in tips.



Financials

Revenue estimates based on 90 days of Day Sales

Morning sail 45 days at 30 passengers X \$20	27,000
Morning sail 45 days at 20 passengers X 20	18,000
Evening sail 45 days at 20 passengers X 20	18,000
Evening sail 45 days at 30 passengers X 20	27,000

Total \$90,000

Revenue estimates for combined day and evening sails

12 weeks of overnight sails at 8 passengers X \$975	93,600
12 weeks (2 day/evening per day) at 20 passengers X \$20	19,200

Total \$112,800

Expenses

Ship	175,000
Renovations	14,000
Inspection and licensing	5,500
New safety equipment	10,000
Marketing	15,000
Food and supplies	5,000
Salaries (summer season only)	

Captain	40,000
1 st Mate	25,000
2 nd Mate	20,000
Trainee	15,000
Cook/helper	20,000
\$120,000	
Benefits @25%	30,050

Day sailing on the Saybrook-May 15 to Sept 15

Saturdays and Sundays each week, weather permitting

Morning sails 9 am-1130 am

Afternoon sails 1 pm-330 pm

Evening sails 6 pm-830 pm

4-day overnight sails sailing Monday mornings and returning Thursday afternoon

Special cruises (Harbor Fest, Windjammer Days, etc. as scheduled)

Paul was excited about the possibility of being the skipper of a windjammer but when he started to gather estimated expenses, his heart sank. Based upon conversations with other boat captains he knew the winter season in Florida would probably not be as profitable as the summer season in Connecticut.

Mystic Seaport <https://www.mysticseaport.org/>

Questions for Discussion

1. Should Paul focus only on Day Sails, Overnight Sails, or a combination of both? What differences would there be in terms of revenues and profits?
2. Given that there are already other windjammer cruise ships sailing along the coast, why would someone choose Mystic River Cruises over the other available ships?
3. Paul has limited marketing experience and could use some good advice. What recommendations would you provide Paul?
4. Should Paul go ahead with purchasing the *Saybrook* and start Mystic River Cruises?

Mystic River Cruises Teaching Note

Discussion

Question 1: Should Paul focus only on Day Sails, Overnight Sails, or a combination of both? What differences would there be in terms of revenues and profits?

Based upon information provided in the case, a combination of day sails and overnight sails would generate \$22,800 in additional revenue. However, that level of revenue is not sufficient to meet projected expenses. Note that Paul's estimates show that the ship would be sailing with an estimated 20-30 passengers, although the rated capacity would be at least 40 passengers. This suggests there is plenty of opportunities to increase revenue through more aggressive marketing.

Some possibilities might be to market to corporate groups and associations, schools, and private organizations. For the day sail/overnight sail combination, full capacity sailing would increase revenue by \$9,600.

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Evening sail 45 days at 30 passengers X 20	27,000
Total \$90,000	

Revenue estimates for combined day and evening sails

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Total \$112,800	

Question 2: Given that there are already other windjammer cruise ships sailing along the coast, why would someone choose Mystic River Cruises over the other available ships?

Mystic River Cruises needs to develop a *Unique Selling Proposition* or USP as the core of its marketing campaign. How can Paul make his cruises relatively unique compared to other coastal sailing cruises? One way might be choosing special cruise destinations. Some suggestions:

- Falkner Island features a lighthouse listed on the National Register of Historic Places and is famous for having a crescent shape (off the coast of Guilford).
- Outer Island is home to a bird refuge.
- Sheffield Island hosts one of a few lighthouses open to the public. The lighthouse viewing platforms provide incredible views of wildlife
- Mason's Island is a small island at the mouth of Mystic River, with many charming coastal homes.

Question 3: Paul has limited marketing experience and could use some good advice. What recommendations would you provide Paul?

Today's travelers use social media to search for travel ideas, compare travel reviews, and make reservations. Paul must first prepare inviting photographs and exciting scripts with quotes from highly satisfied visitors talking about the exciting time they had on their windjammer cruise. In addition to TripAdvisor, Facebook, YouTube, and other sites will help generate enthusiasm for sailing on the *Saybrook*.

Question 4: Should Paul go ahead with purchasing the *Saybrook* and start Mystic River Cruises?

The idea may be a good one—Paul has a good background for the business and with the purchase of the ship, he will have enough collateral to secure a business loan for remaining needed funds. However, many details need to be taken care of before Paul can successfully launch this new business. The pro forma financials indicate that Mystic River Cruises cannot operate profitably. Can Paul increase revenues? Yes, with good marketing he can sail at or near capacity level. Specialty sailings can command higher pricing and Mystic River Cruises can easily market a line of souvenirs that can be sold onboard and at local shops in port. These can include coffee mugs, beer mugs, T-shirts and hoodies with the ship and name, maps of the coastal area, and more. In addition, many ships also market keepsake photographs of the sailing experience.

The other side of the equation is to find ways to reduce expenses. Some ideas would include negotiating for less expensive docking fees and all other contracted services. Of course, smart small business owners work at increasing revenues while lowering expenses.

