



Aug 7, 2009, 6:01 p.m. EST

Executive transportation moving toward pick up

Chauffeured cars slow down, but signs point to temporary recovery

By Emily Glazer, MarketWatch

SAN FRANCISCO (MarketWatch) -- Given his business, Scott Solombrino has reasons to cheer if stocks rally on Friday afternoons.

If they're in the black, the limousine company president knows his Wall Street clients will call for Sunday-evening rides to the airport as they head out for Monday meetings around the country.

"It's a big, big industry sector that has always been driven by financial services," said Solombrino, whose Boston-based company is the largest privately held U.S. limousine company. "The industry has been completely decimated."

Solombrino's Dav El Limousines is one of many limousine and town car companies that have felt the recession's blow. Demand has slumped as traditional clients call for fewer cars and ask executives to share rides. Fuel costs have gyrated wildly. And some executives are reluctant to use a "black car" because of the public perception that such a perk is unsuitable during the economic downturn. To combat the situation while they wait for a turnaround, these companies have laid off workers, cut fleet sizes, negotiated new deals with customers and searched for clients in industries they have traditionally ignored.

Hard times

The industry is battling losses between 20% and 40% since June 2007. With 50% of its business coming from the battered corporate and group travel sector, revenue has plummeted to \$2.57 billion from \$4.76 billion in 2007.

In response, the number of chauffeur-driven vehicles has decreased to 112,616 in 2008 to 135,156 in 2007, and 3,400 U.S. chauffeured-car companies have shut down or consolidated, according to a survey by Limousine Charter & Tour (LCT) magazine.

"Overall the black-car industry is going through a very, very tough time and it's been hit hard," said Linda Moore, an LCT editor.

Travel research firm PhoCusWright is predicting U.S. companies' total travel spending will drop by 15% this year to \$85.4 billion, from \$100.8 billion in 2008.

Faced with public distaste at executive pay and perks, corporations have cut back on some luxuries, including the use of chauffeured cars. The industry has survived months of high fuel charges -- listed in LCT as the industry's top concern - but the limousine business came near to collapse.

"Now every corporation wants to be politically correct, even if they're not receiving federal funding," said Sergio Sanchez, president of the Luxury Base Operators Association. "It's a trickle down to our end of things because we rely on corporate travel."

Staying afloat

But chauffeured-car companies haven't surrendered yet.

While some clients no longer exist after companies like Bear Stearns and Lehman Brothers Inc. collapsed, other corporations haven't forsaken riding in style -- they're just looking for less-expensive options.

If an average executive ordered a car for a whole day, limousine companies might suggest using two separate pick-ups with no wait time. Executives are also grouped in vans instead of separate cars, especially for airport pick-ups.

"We might never have said that five years ago because we always wanted to maximize our assets," said Solombrino, of Boston-based Dav El Limousines and the president of the National Business Travelers Association Allied Leadership Council. "Nobody wants to be seen on Park Avenue in a stretch limo to a board of directors meeting when they've laid off people."

While they are flexible in some ways, many chauffeured-car companies haven't lowered their rates. Sanchez, also executive vice president of New York-based Partners Executive Transportation, said they wouldn't "offer a filet mignon at a hamburger price."

Instead of parking cars in the garage, limousine companies said they realized their only chance of survival is through new clients and accounts.

Solombrino said Dav El had to "desensitize" itself from the financial sector and sought other markets, like biotechnology and pharmaceuticals, to expand its business-client base.

"Even as the CEO of the company, I was out with the sales people doing deals," he said, "because you don't have a choice."

Chauffeured-car companies also banked on corporations' more-stringent rules governing their contracts with limousine companies. Since corporate clients stopped reimbursing executives for using non-contracted companies, chauffeured-car companies could acquire clients from prior corporate contracts.

And chauffeured-car companies continue to evolve.

"We've made adjustments both internally and externally," said Scott Tinkler, chief operating officer of Miami-based Aventura Limousines. "Operating expenses, payroll, capital expenditures, we've gone line by line and reviewed consistently, and almost daily, how we're spending."

The current environment leaves them little choice. The corporate convention business has shifted from first-tier cities like Miami and Las Vegas to second-tier cities.

"In Baltimore, you probably won't get in trouble," said Moore, laughing. "And that's kind of the mentality."

Getting better?

But times may improve, at least temporarily. Chauffeured-car industry leaders predict a shortage of supply and increased demand in the fall.

"We're starting to see a little bit of a bounce-back," Moore said. "But it's going to be a slow bounce-back."

Solombrino said there was "no road show activity" in March, April and part of May -- the first time he can recall that happening in his 32 years in the industry. Now they're making hundreds of deals, comparable to "quasi-slow" levels two years ago.

And as corporations salvage their footing with economic improvement, they will return to chauffeured travel, he said.

"It's not efficient for a CEO to go to New York and use taxis ... or rent a car," Solombrino said. "They're not going to major hubs and driving themselves to five meetings thinking 'Where am I going to park the car?'"

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