

# Managing Risk: A “Road Map” to Profitability

BY BOB CRESCENZO

**For** many operators in the luxury ground transportation industry, it appears that the worst of the COVID crisis is behind us, and business is beginning to pick up. However, the road to a full recovery is far from complete.

Before putting the crisis in your rearview mirror, you'll need to contend with the fallout from the pandemic, including staying up to date on changing Centers for Disease Control and Prevention (CDC) guidelines, continuing driver shortages, economic consequences, and changes in the vehicle market. You'll also have to acknowledge and manage several other important issues unrelated to coronavirus in order to maintain an effective risk management strategy and remain profitable.

## ▲ *Employment Environment*

Unfortunately, some workers laid off during the pandemic took jobs in other industries that weren't hit as hard, only exacerbating the nation's driver shortage that had already existed for a number of years. Many people who are returning to work had previously only been driving on a part-time basis, and they may not have not received updated driver training. Furthermore, the driving skills of full-timers idled during the pandemic may also be “rusty,” and they may not be as familiar with the routes, passengers, and destinations as they were prior to the 2020 lockdowns.

Some passenger transportation operators may bolster their employee rosters by hiring inexperienced drivers, though firms that do so may be opening themselves up to more risk than it's worth, jeopardizing the future of their company. Other operators may utilize existing staff to the max to satisfy company demands. This, however, can increase fatigue, put stress on drivers to accept all trips, and potentially cause hours-of-service issues. It's a challenging balance for many operators.

Adjusting to an uptick in business and/or trip requests requires careful planning by management, taking steps to prevent and combat driver fatigue, and, possibly incurring higher fixed and/or variable costs in order to complete the trips safely and profitably.

## ▲ *Economic Consequences*

While the employment environment currently tops the nation's economic headlines, the atmosphere of uncertainty in other segments, such as the lack of demand in the service sector, is leading some luxury ground transportation companies to cut prices simply to add revenue. Though it may seem on the surface that any tactic to boost sales these days is a positive one, a decision to cut prices can result in the need to reduce expenses elsewhere. And, when that cost cutting involves areas such as maintenance or driver training, companies can find themselves operating at an increased risk.

Fewer people buy on price alone than you think; in fact, far more buy on value. So, while discounting has its place, it doesn't always translate into a smart risk management strategy or profitability.

## ▲ *New Travel Corridors and Business Opportunities*

These days, companies may feel pressure to take non-traditional trips, add routes, and/or simply say “yes” to jobs they may have turned down in the past in order to improve their revenue stream. However, new or different passenger situations—whether it's branching out into casino trips, using vehicles as party buses, or accepting longer or shorter trips to “keep the wheels moving”—could increase an operator's risk exposure, not only from an insurance perspective but also profitability if you're unfamiliar with the sector.



BEFORE committing to any diversification or expansion, consider the risks it might have on your business. Look closely at the impact of mileage, routes, destinations, new or different vehicles, parts, maintenance, and repairs, as well as whether any revisions that need to be made to your company contracts. Also, speak with your insurance broker and carrier about how the changes to your operation may affect your current policy(ies), and if your company needs additional coverage, a different type of insurance, or be named as an additional insured to cover the new exposures. In some cases, you may even find that your insurance carrier does not or may not wish to cover the new work you want to pursue.

It's also critical that you work with your staff and communicate any new or different passenger situations clearly to be sure everyone is on the same page. Update any operational procedures that need to be revised and, importantly, provide any necessary training and/or cross-training to help manage the risk your new business opportunities present.

## ▲ *Equipment Pressure*

It's no surprise that the COVID crisis has changed the new and resale vehicle market dramatically. Notwithstanding, fewer companies are buying new full-size buses due to sticker price, maintenance costs, availability, and driving complexity, as well as the perceived need for smaller vehicles (e.g., seating 24-36 rather than 45-50). In fact, there's been a changing dynamic in the size of equipment in the past few years, with bus companies buying smaller vehicles, and limousine companies expanding



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their fleets with larger ones.

While offering clients more transportation options can certainly be profitable for operators, the trend has also resulted in higher risk in regard to driver training, experience with equipment, and use of the equipment (distance traveled in a given type of vehicle). As a result, a close and careful evaluation of your current fleet, along with a review of your three- and five-year fleet plans is highly recommended. Be sure to consider the type, size, and age of your vehicles as those factors are critical to risk exposure as well.

#### ▲ *Changes in the Regulatory and Enforcement Landscape*

In recent years, the commercial transportation industry has seen a multitude of new regulations and programs, an increase in roadside/destination enforcement, and expansion of (and a major shift in focus for) the Federal Motor Carrier Safety Administration. While some view these changes as an attack on the “bad apples,” actually the aim is on improving commercial motor vehicle safety as a whole, and this focus will continue to be a major factor in how a company is perceived by the public, media, and court system.

So, what worked in the past may no longer be relevant today. What’s more, having a basic knowledge of the regulations and assuming that your operation’s safety standards are “good enough” are simply not going to cut it. While this new regulatory environment can be daunting, you need to have a sufficient understanding of the rules and implement an effective system of maintaining compliance to ensure a profitable future.

#### ▲ *Technological Advances*

Technology has had a positive impact on nearly every issue mentioned above. Yet, the exponential rate at which technology is developing, mutating, and adapting is so rapid that most business owners have failed to keep up with it or effectively applied it to the operations they run. The reasons are typically the same as those given in relation to other business challenges: “not enough time,” “too costly,” “doesn’t ap-

ply to me,” or “my customers won’t use or appreciate it.” However, any company that remains “status quo” regarding technology will likely find itself left in the dust.

While it’s impossible to invest in all available technology, it’s critical to stay on top of the new innovations that are shaping the luxury ground transportation industry, and evaluate how this technology will impact your business.

#### ▲ *Crisis Management*

If the COVID pandemic has taught the world anything, it’s the importance of being prepared for a crisis. A crisis management plan outlines how your business will respond to an accident that could negatively affect its reputation and profitability, and is essential in today’s age of social media where your organization could be pushed into the national spotlight in the click of a button.

By developing a crisis plan, testing it using simulation exercises, and updating the plan regularly, your company will be prepared to contain and mitigate the negative effects of a crash should one occur.

Over the past two years, passenger transportation businesses have proven their resilience. By applying effective risk assessment and risk management techniques, operators can help tackle today’s biggest challenges while positioning themselves for a more profitable future. **(CD)**

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