

Ferryboat Industry Gaining Speed

Sure, water transit is a growth industry, but how can an average entrepreneur finance a ferryboat and start a water transit company?

By Tamara Schweitzer | May 24, 2010

It's the eyebrow raiser of this year's [Best Industries to Start a Business](#) list. At 17 percent growth over the past year alone, it's clear water transit is a strong growth industry. But could an average entrepreneur finance a ferryboat and start a water transit company? We decided to investigate.

The industry as a whole is poised to experience a significant amount of growth in coming years. According to [AnythingResearch.com](#), inland water passenger transportation is a \$440 million industry, which has grown an average of 12 percent a year since 2004. Who is actually benefitting from this growth? The majority of water transportation in this country is run by public agencies, but we tracked down several private ferry companies that have managed to profit handily. Despite water transit's being a capital- and labor-intensive business, there's no doubt it provides an increasingly pleasant relief from congested freeways and mundane subway commutes. There's also the fun factor – running a fleet of boats sounds pretty exhilarating.

One company in particular, Hornblower Cruises and Events, was a clear standout among private companies in the industry. Hornblower's founder, Terry MacRae, got into the water-transit business in 1980. He had a background in mechanical engineering and frequently entertained clients on charter yachts around the San Francisco Bay. As a passenger, he developed an appreciation for and interest in the business. He bought his first boat in Berkeley and acquired an existing business for approximately \$500,000. In addition to charter yachts, the company has capitalized on several areas in the passenger vessel market. It does dinner cruises and events as well as historic river tours and marine tours. Through the years, the growing company has acquired several ailing ferry services.

Today, Hornblower has 60 vessels in operation in parts of California, New York, and New Jersey, and revenue close to \$130 million. Hornblower has seized various growth opportunities in the past decade, including winning two National Park concessions (for Alcatraz Island and Ellis Island ferry service), and owns the first hybrid passenger vessel in the country. We asked MacRae, who has 30 years of industry experience, for his outlook on the future of the ferryboat and water-transit industry in this country. With his help, we pinpointed five trend areas anyone looking to break into the industry should know in and out.

Trend No. 1: Public Subsidies

Money is the highest barrier to entry of the ferry business. Historically, government grant programs, such as the \$60 million allotted as part of the 2009 Economic Recovery Act, have gone to buy new ferryboats or improve existing ferry terminals. That means none of that money has actually gone to help subsidize private operations.

Despite the fact that Hornblower hasn't benefitted from subsidies at all, MacRae believes it's likely private operators could see opportunities through government funding this decade. "Logistically, it's a lot easier to put a ferry system together than it is to build a new bridge or tunnel," MacRae says. That's because they don't necessitate creating new infrastructures: Waterways are already there. MacRae predicts that state transportation agencies will be looking for ways to integrate mass transit in concentrated urban areas, such as connecting more bus service routes to ferry terminals to make it easier for commuters to access waterfront areas where population is growing.

Ultimately, transportation agencies might be more willing to subsidize private ferry service in the future, MacRae says, because it is more cost effective for them to pay entrepreneurial companies to provide the services than try to start them with public resources. If municipalities want to make water transportation a viable commuting option, they will have to put money into the operation. Private developers may also be interested in subsidizing ferry service, especially because there may be no other logistical transportation method for getting people to waterfront sites.

Trend 2: Think Multipurpose

Airports are one hub for transport that are often out of the way of city centers, but in the case of New York and San Francisco, are also located near the water. MacRae says private vessel operators have the advantage of delivering people and suitcases to airports efficiently via water routes and are often the most direct route from the city center. Often ferries are thought of as just passenger vessels, but MacRae says they have the potential to serve multiple purposes.

Ferries can be relied on to shuttle freight to and from airports located near water. In the example of New York, a package destined for LaGuardia or John F. Kennedy airports, could leave from the financial district and be at the airport in less than an hour, no matter what the traffic is. This kind of delivery service could prove to be very lucrative for companies like FedEx and even airport sundry shops that rely on a steady supply of goods. MacRae believes this presents a potential synergy for ferry companies and other service sectors, and could even turn into contract opportunities with big companies like FedEx.

Trend 3: Green New Machines

At the end of 2008, Hornblower Cruises and Events debuted the first hybrid vessel in the nation to be used for regular ferry service. The boat carries 150 passengers and was put into service as part of the company's contract to provide ferry service to Alcatraz.

The hybrid uses wind energy and operates on hydrogen fuel. Building the hybrid vessel has been a huge growth opportunity for Hornblower, especially because the company has been able to parlay it into an educational experience for riders as well. The vessel operates out of San Francisco, and frequently student groups come aboard and have the chance to actually generate power for the boat's batteries by pedaling a stationary bike. There is also information posted on the hybrid about how it was built and how different engineering methods affect its environmental impact.

Hornblower built the hybrid (a roughly \$3 million endeavor) without any outside funding, and MacRae believes the effort made to add environmentally friendly vessels is the kind of act that will get rewarded in the future. Private companies are always more nimble when it comes to implementing greener practices, and being forward thinking in this area is going to make water transit more desirable in the eyes of public agencies, MacRae says.

Trend 4: Catering to Local Tourists and Staycationers

Since the start of the recession, MacRae says Hornblower has seen a decline in group charter offerings. Corporations, which are normally the best customers for private charter boats, have cut back on their client entertainment and company parties, and it's hard to tell when this aspect of the business might bounce back.

However, there has certainly been an uptick in local tourism, with people vacationing closer to home and exploring their home state's historical offerings. Despite the economy, visitation typically remains pretty steady at National Park concessions throughout the country, and MacRae says concession agreements are exactly the kind of opportunities that are inexpensive for private companies to take advantage of. In order to be considered for a contract with the National Park Service, companies have to go through a competitive bid process. In Hornblower's case, the company knew that the contracts for providing water transportation to Alcatraz and Ellis Island attractions would eventually come up for renewal, and so it positioned itself to be financially ready to bid on the requests for proposal. Because they are sole-source concession

agreements, meaning it is the only company allowed to provide transportation to those attractions, Hornblower has been able to triple revenue since the first contract took effect in 2006.

Trend 5: Think Global

For the risk takers and extreme adventurers out there, opportunities abound for global expansion in the water transportation industry. "There are many parts of the world that are much more dependent on ferries than we are in the U.S.," MacRae says. While the international players can't come over to the states to expand their business because the passenger vessel industry is protected by Congress, American entrepreneurs are needed in developing nations where infrastructure is still lacking. According to an industry veteran, the South Caribbean is a spot of particular interest and need right now. Hornblower Marine Services, another arm of the Hornblower brand, operates ferries in Trinidad and plans to continue expanding its reach in the international market as opportunities heat up.

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