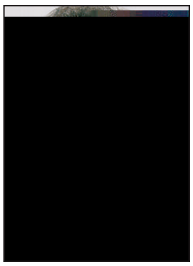
Early Bird

BY KEN COTTRILL

Achieving five years of trading as an e-marketplace deserves some sort of medal. CharterNet, the online bid and quote system for air cargo charters, would probably settle for continued growth.

That seems likely for the same reasons that explain why this e-marketplace has survived when so many have failed. It has the support of at least one major market player, and its value proposition is as clear as when the enterprise was launched. Moreover, it has room for growth in a niche market. These are lessons that numerous other online marketplaces learned only after burning through millions of dollars in venture capital and assorted careers.

CharterNet's defining principles are relatively simple (another plus). Shippers that buy air cargo capacity at short notice want a marketplace that reacts quickly and provides the lowest-cost bid from a selection of pre-qualified carriers. Carriers like a fast-moving marketplace as well, but also appreciate one that gives them options from a nationwide roster of destinations and hence the opportunity to fill vacant cargo space. A third party in the middle, in this case CharterNet, is needed to provide the infrastructure and the quality control.



The system "was up and running with one very large customer and 25 carriers in 1996," said Chris Healy, chief operating officer for Active Aero Group, the company based in Willow Run Airport near Detroit that owns and operates CharterNet. The network now has about 170 carriers using it "who can actually operate on demand within an hour," Healy said. Since its inception the network has handled some 50,000 transactions, 20,000 of them in 2000.

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> CHARTERNET'S HEALY

Auto manufacturers, tier one suppliers and their suppliers account for a high proportion of CharterNet's customer base. Recently the e-marketplace has attracted third-party players such as freight forwarders in increasing numbers.

What separates the expedited air business from other freight services is that customers have come to the end of the road when they arrive at CharterNet. "We are the court of last resort," said Healy, because the situation is usually so urgent that there are no other transportation options left to pursue. Parts may fail an initial quality scan and a manufacturer needs replacements fast to keep its production lines going. Healy described a recent job involving a U.S.-based auto manufacturer that had vehicles coming off the production line with engine problems. "We flew multiple jet loads of engines to supplement an expedited ground flow in order to keep the plant moving." The operation went on for 24 hours at considerable expense. "It's not exactly the kind of thing an auto manufacturer wants to do, but it also represents a significant commitment to quality," pointed out Healy.

CharterNet does not charge carriers and encourages them to keep continuous track of the e-marketplace. Shippers post the loads they want moved, and pay transaction fees for using the system. A second revenue stream for Active Aero comes when it joins the bidding with its own fleet of aircraft, although Healy stressed that "we will bid our assets at the lowest price."

Transportation management companies that rely solely on transaction fees find it difficult to keep turning a profit, according to Healy. Margins are as good as they will get roughly six months into the deal, he maintained, when all the efficiencies have been wrung out of the system. "But the client is beginning to look at those transaction fees and of course his objective is to drive them down."

Key to the system's viability is that it gravitates towards the lowest-cost bid. As Healy explained, shippers that are locked in to freight contracts do not benefit from falling prices when cargo capacity is plentiful and carriers lower their rates to compete more aggressively. This has been the case this year, which has been relatively lean for air carriers. From January through September of this year rates in the CharterNet market have dived by some 40 percent, he said. Of course the opposite is also true — prices increase when capacity is constrained — but Healy claimed that "rates will rise in a much more controlled manner" in the e-marketplace.

When a shipper posts a load the system automatically seeks out the appropriate capacity. For the carrier this may mean being able to avoid an empty back haul by bidding low to attract the cargo. "A critical differentiator is that our assets can only be used to manage the lowest bid on the board," said Healy.

Also important is quality control. Carriers are screened before they are allowed to access the system. Shippers can evaluate the freight services they use. Ratings are posted to indicate how operators are performing: green indicates good, yellow is a caution and red means only use as a last resort. Reds tend to be few in number; "we might do it for a ground transportation company where there is nothing else available," Healy said.

Having carved a niche for itself in the Internet space, Active Aero is now looking to diversify. Airfreight forwarders represent one target. "Pharmaceuticals is interesting to us and the rest of the industrial base in the U.S. has not been penetrated," Healy said.

Another avenue for growth is partnerships. In October Active Aero announced a partnership with Cookeville, Tenn.-based freight transportation and logistics services provider Averitt Express, which offers same-day and next-day air services. The partnership provides air cargo charter management services. Quality expedited transportation operators are regarded as good candidates for future partnerships. "That's how we will grow the business," said Healy. ●