

for a tug-barge combination on an ocean route is going up, because it moves at only half the speed of a ship. Higher fuel costs are taking a large bite out of the perceived value of using tug-barges in that way," he explained.

However, tug-barge combinations "certainly have a role to play. I believe very much in the opportunity that exists for short-sea shipping. There's going to be a crying need for coastwise services again, and all combinations of vessels can be useful," he said. "Highways and rails, by themselves, can't handle the amount of cargo that's coming. Short sea shipping is definitely a plausible answer to congestion and eventual chaos ashore.

"I also believe that users of short-sea shipping should get a break on their taxes — I'm not eager to see outright government subsidy when wiser ways of compensation can be realized," Raymond explained.

As for 53-foot containers, while Raymond sees their advantage for domestic trades, Horizon Lines obtains multiple benefits from using "the international box," he said.

"Because we interchange our boxes with international carriers, we feel we get more advantage from keeping to 40-foot containers than if we had a higher-sized box that could not be so widely used," he said.

For instance, Horizon Lines provides Maersk with 900 slots a week out of Asia to the United States. Those containers carry consumer goods throughout the United States.

"When those boxes are empty, they have to get out to the West Coast again," he said. "So, here's what we do: Horizon Lines moves cargo from distribution centers in the U.S. out to Alaska, Hawaii and Puerto Rico."

"That means we take an empty container belonging to another carrier, load it and then take it down to Puerto Rico or out to Hawaii or Alaska, where we turn it back to its original owner," Raymond said.

"We thereby save the container owner the cost of bringing an empty box back to a port, and we save ourselves the cost of taking that empty box from a U.S. port of entry to a point inland where cargo is loaded."

In Hawaii, Horizon Lines uses Maersk containers to load Horizon-generated cargo for Guam, "so Maersk gets an empty box positioned out in Asia when a container is unloaded," Raymond said.

"We also move boxes for Maersk and for APL up to Alaska and empty them there, so those containers can be loaded with fishmeal or other products going out to Asia.

IPO Aftermath. Did Horizon Lines gamble when it chose to pay a healthy dividend, rather than putting the money toward

eventually replacing its aging fleet?

"We had plenty of comfort in paying our dividend. After the dividend, our capital expenditures and taxes, everything is paid for," Raymond said.

While initial price indications of Horizon's stock had been reported to be in the range of \$16 a share, the offering actually priced at \$10. Asked if insiders had been buying in the market, Raymond said, "the only insiders that have bought any stock have been employees of Horizon lines on the first day of trading.

"The indication that we could bring the company out at \$15 or \$17 was the best advice we received from our five bankers — Goldman Sachs, UBS, Deutsche Bank, JP Morgan Chase and Bear Stearns," Raymond said. "When we went on the street to sell the company, we had to contend with tanker and bulk carrier companies that were in play and trading at lesser values."

"I think the funds and other investors who bought our stock were looking for a bargain at that time. We were really not at the point where this market was into a bull rush," Raymond noted.

Hurricane Katrina was another factor, unnerving the markets.

"So, we priced the company at \$10 a share. At the end of the first week in November, it increased 15 percent, and that's before the first review of financial analysts," he said.

On Dec. 7, the share price for Horizon Lines on the New York Stock Exchange opened at \$12.15.

There's a perception among financial analysts that Castle Harlan has recouped the approximately \$150 million it put into the purchase of Horizon Lines — most of the rest of that acquisition being acquired debt.

Asked about Castle Harlan's status, Raymond replied, "they are no longer our equity partner. Castle Harlan is now our largest private shareholder.

"Most private equity groups exit fairly quickly once they take a company public. But Castle Harlan is unlikely to do that at a \$12 stock price, because this company has much more value — as the bankers told us," he explained.

"Castle Harlan has had a good return on their equity already, and they're sitting on a chunk of stock that's going to be worth a lot of money to them. As our share price goes up, I think you'll see Castle Harlan gradually reducing their position," he said.

When Castle Harlan is finally out of the picture, Raymond doesn't see Horizon Lines turning to any other venture capitalist.

"The Carlyle Group and Castle Harlan brought expertise we needed at that time. In both cases, generally, that was financing expertise. They did fine, and we have, too," he said. ■

INTTRA realizes its future

Five-year-old 'portal' thrives as ocean freight facilitator.

BY ROBERT MOTTLEY

Back in 2000 the scene was grim for "virtual" start-ups.

New electronic commerce ventures had to forage for whatever credibility and customers remained on a technological landscape littered with the wreckage of previously high-flying, but now defunct dot-com ventures.

That was not a propitious time for six ocean carriers — CMA-CGM, Maersk Sealand, P&O Nedlloyd, Hapag-Lloyd, Hamburg Sud, and Mediterranean Shipping — to pony up \$100 million to develop a mutually-owned, e-commerce "gateway" through which shippers and freight forwarders could book cargo. The idea was for the carriers' customers to avoid having to navigate multiple information technology systems when making bookings.

From the vantage point of late 2005, that bold venture into an e-commerce gateway — now called a shipping "portal" — was

a prescient move.

In addition to retaining its founding carriers, INTTRA has acquired two additional shareholders: United Arab Shipping and Kuehne + Nagel, the Swiss freight forwarding and logistics company.

INTTRA's other ocean carrier members, which are not stakeholders in the portal, include Safmarine, Tasman Orient, MOL, NYK Line, MCC, "K" Line, Deutsche Africa-Linien, Alianca, Fesco, Senator Lines and CP Ships.

Interestingly enough, CP Ships, NYK Line, "K" Line, MOL, and Senator Lines had previously signed with GT Nexus, one of INTTRA's two competitors. NYK Line is also part of CargoSmart, INTTRA's other competitor.

"We are a common-industry portal," said Ken Bloom, INTTRA's president and chief executive officer.

On one side of the portal, 56 percent

of global capacity in the ocean container industry is connected to INTTRA. On the other side, there are shippers, freight forwarders, third-party logistics providers, and other users of carriers' services.

Non-vessel operating common carriers may join INTTRA on the same terms as ocean carriers, and can function on both sides of the portal.

INTTRA has filed an exemption with the Federal Maritime Commission so that it is not considered an ocean transportation intermediary. "The commission understands who we are," Bloom explained.

Reducing Process Cost. During 2005's peak shipping season, INTTRA recorded transactions involving about 75,000 containers each week.

"Those transactions include more than 750,000 track-and-trace events or schedule updates per day. In the past, you'd have to call up and question those 750,000 events. Now, they're just posted on the Web, or INTTRA will send them to you electronically," Bloom said.

"Transactions done through our portal represent more than \$4.5 billion in freight value, and we're touching at least 4 percent of all global trade," he told *American Shipper*. "At our five-year mark, we're seeing consistent 8 percent monthly growth. In fact, that's occurred for each month of the past four years.

"In our early days, we would have to evangelize to customers and carriers that e-commerce was the way of the future," he recalled. "Today is that future. You can drop the 'e' and call it commerce."

"The idea, in the waning dot-com days, was that you could buy anything on the Internet and save money by not going through a middleman. We never made that INTTRA's business strategy," he explained.

"We have never attempted to make markets. Instead, we've focused on creating standardized transactions that would streamline business processes," he said.

"Our strategy always has been that the ocean shipping industry had a good structure and organization to it, but that the expense of business process could be reduced."

'Virtual' Facilitator. Through the services that INTTRA hosts, parties on both sides can create standardized bookings, shipping instructions, bills of lading and other documents.

"You can access us through the Web, or your computer can connect to our computer," Bloom said.

About two thirds of INTTRA's volume comes via computer-to-computer. "That's why we prefer to say that INTTRA is a



Ken Bloom
president and chief
executive officer,
INTTRA

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'portal'—ore-commerce platform—rather than a 'Web portal,'" he explained.

Bloom would not say where the portal was actually hosted, except that the location was in the U.S. Northeast and there was a backup secondary site as well. INTTRA's main office is located in Parsippany, N.J.

The portal is supported internally. "We create our technology in-house," Bloom said. About half of INTTRA's 130 employees are software developers.

Shippers and forwarders pay no transaction fees to use INTTRA. Ocean carriers pay INTTRA a small fee per transaction.

Proceeds from INTTRA's transaction fees go into product development and toward lowering the portal's costs for carriers.

INTTRA's income depends on what it charges a carrier per shipment. However, whether a carrier's customer uses INTTRA for a booking, a shipping instruction, a bill of lading, for tracking and tracing, or some combination thereof, the carrier pays only one transaction fee. "That fee represents a savings for carriers over the costs of processing those requests manually," Bloom explained.

He noted that INTTRA's basic fee is "a little bit more than what a hot dog costs," for each e-commerce transaction. On a New York street, a hot dog costs \$1.50.

INTTRA will retain its focus on ocean freight for the near future.

"We have our hands full in growing that business month by month. So, we are not looking at this time to expand to rail, air or trucking modes of transportation," Bloom said. "Nor are we in any sense a 'virtual' NVOCC. Freight forwarders, NVOCCs and third-party logistics providers offer a range

of services far broader than INTTRA."

"Our concern is strictly focused on those full-containerload transactions that are associated with ocean shipments. That's a deep treatment of the ocean transportation industry within a deliberately narrow focus," he said.

"We tweak our product wherever it's required. A container is more than a standardized box. Of course, it is that from a dimensional point of view. Yet from a business process perspective, there are lots of permutations, and INTTRA is supporting more and more of them," he said.

For example, in Shanghai's market, only a cargo agent can make a booking. A booking there is called a shipping order, "which is a little more advanced than a booking but a little less advanced than a shipping instruction," he said.

"So, INTTRA is producing special products for that market. Hong Kong also has some unique characteristics, for which we are also building product, all within the portal," he said.

The name INTTRA combines several terms, Bloom said. The "INT" is an abbreviation for "international," which "represents the extent of INTTRA's customer reach." "TRA" is an abbreviation for both "transportation and trade." The double "T" also denotes "track and trace."

Bloom, 41, was born in Carbondale, Ill. He graduated from the University of Chicago with a degree in mathematics. After working for Bain & Co., a Boston-based consultancy, he earned a master's degree from Stanford in operations research—a study of transportation using mathematical models to make business processes more efficient.

Bloom worked as a business systems analyst for Stolt-Nielsen, eventually becoming senior vice president of logistics services for that company's transportation group, and finally chief operating officer of Optimum Logistics, a Stolt subsidiary. While at Optimum, Bloom was asked to lead INTTRA, where he has been for the last four and one-half years.

Despite INTTRA's growth, much of the ocean shipping industry has remained immune to the lure of any portal, whether INTTRA, GT Nexus or CargoSmart.

"At the end of 2005, probably 75 percent of global sea freight container business still moves in a conventional way over telephones or fax, said Otto Schacht, a Hamburg-based senior vice president of Kuehne & Nagel.

That doesn't deter Bloom. "We need to grow INTTRA's organization to support the volume that we're seeing come into the portal. That volume is irrefutable. It keeps growing, and it's coming, among other sources, from doubters who try us and then swear by us." ■