

The New Charter

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LEXINGTON, MA — At the National Business Aviation Association (NBAA) annual meeting in Orlando last year, Linear Air, a charter company with its corporate office here, made the announcement that it had reached an agreement with Eclipse Aviation to purchase 30 Eclipse 500 jets over the first 24 months of production — 15 firm orders; 15 options. William Herp, president and CEO of Linear Air, says the operator's first delivery position is serial #52, expected to be delivered by the end of 2006, depending on Eclipse receiving final FAA certification (expected in the next month). Looking ahead, Herp says his business model calls for 300 aircraft in service by the end of 2010, some 280 which would be very light jets.

Linear Air received its Part 135 Certificate and began operating in August 2004, flying the Cessna Grand Caravan from Hanscom Field in Bedford, MA to Martha's Vineyard, and then expanding to business charter and private/leisure charter. Even though it was some two years before the release of the first Eclipse 500 jet, Herp understood the importance of establishing a proven business model as well as a name and reputation in the competitive charter industry.

Establishing a Model

Herp, a private pilot and founder of e-Dialog, an online marketing technology company, says he began thinking about this business opportunity in the late 1990s when very light jets (VLJs) were first announced. At e-Dialog, Herp says the company frequently was sending teams of two to four employees to visit with clients or perspective clients, paying full coach fares for last-minute tickets. "I realized if the economics of this new class of jet cuts the cost of flying privately in half, as they're talking about it, that's going to put it pretty close to the cost of full coach fares that we're paying when we send two or four people around on these short trips,"he says.

Herp partnered with Michael Goulian, whose family owns Executive Flyers Aviation, a flight training facility based at Hanscom Field, to develop a business model which Herp says will allow Linear Air to be successful operating a fleet of very light jets in an air taxi operation. "We said what we need to do is to see if there is a way for us to create a business model now which closely resembles what we think the business model will be in the future, once the new aircraft are in the marketplace."Linear Air created a business model based around the Cessna Caravan turboprop, which Herp calls a "good proxy"for the economic model of the very light jets, particularly the Eclipse 500. "It costs about the same to buy, it costs about the same to fly, on a trip basis,"says Herp. The Caravan is slower than the Eclipse, adds Herp, but he believes there is a set of trip needs that can be filled by the Caravan, and the customers the charter operator attracts now could be transitioned into flying on the Eclipse.

Seed Money

In order to get the business off and running, Herp was successful in raising \$1 million in initial start-up capital from private individuals. Linear Air purchased a brand-new 2004 Cessna Grand Caravan with an executive interior for some \$1.8 million. In the spring of 2005, the company began raising a second round of capital, which it used to add two additional Caravans to the fleet. And, in early 2006, it added a fourth Caravan and made the decision to base crew and two aircraft in the New York City region (White Plains) to meet the growing demand there.

Herp expects that the 30 VLJs Linear Air will have flying by mid-2008 will be spread over no more than five or six markets. "But it's possible that they might even be packed more densely into a couple of markets,"he adds. The next market Herp looks to enter is the Washington, D.C. area. Currently, in addition to private charters, Linear Air operates seasonal scheduled service, by the seat, from Boston and New York City to Nantucket and Martha's Vineyard.

The roughly 280 total VLJs Herp expects to have in the Linear Air fleet by the end of 2010 may or may not be all Eclipse jets. "We don't know for certain because who knows what's going to happen in terms of new developments?"

"We certainly are looking forward to putting our first Eclipse into service and we're optimistic, based upon the due diligence that we've done, that Eclipse has a solid strategy in terms of design of the airplane, their production strategy, and their support strategy. But, who knows what will happen between now and 2008 when our current contract will be complete?"

Herp believes the best utilization of the Eclipse will be operating within a 500-mile radius of major metropolitan areas. "And we've proven that model with the Caravan,"he says.

The business model for Linear Air into the future does include continued operation of the Caravan, and by 2010 Herp expects to have 20 on Linear Air's certificate. "The strategy of our business model right now is that the Caravan is the proxy for the Eclipse jet. So, in the future, we'll be able to say: 'You can take eight people and all of your stuff and go a little slower in the Caravan, or, take three people and your briefcases and go reasonably fast in the Eclipse,'"relates Herp. Currently, the average charter load for Linear Air is three passengers.

With 300 aircraft, he says the company will grow from its current 25 full-time employees to some 1,200, 900 of which will be pilots. Linear Air has seen its revenue grow in its two years of operation and Herp expects that path to continue. With one aircraft in 2005, revenue was \$1.2 million. That number is expected to reach \$2.7 million for 2006, based on the four Caravans in service.

Marketing Charter

Herp has employed his marketing savvy from e-Dialog to attract, service, and retain customers at Linear Air. He says the company has some 600 customers and a database of 4,400 prospects. "And one of the main reasons why those 4,400 people haven't flown with us yet is they have a need for greater speed, or there's a perception with turboprop versus business jet. But those 4,400 people are highly qualified and are ready, essentially, to step into the Eclipse jet."Herp says this "solid group of initial customers"has earned Linear Air credibility in the marketplace — including with suppliers like Eclipse as well as the investment community.

Basic marketing principles, says Herp, have helped Linear Air become successful. "The basic approach is test and learn. What are you testing? What are you learning? And, how do you apply that?,"he says. When starting from scratch, explains Herp, the main focus should be on creating awareness; then stimulating trial, stimulating repeat purchase — then "you engender brand loyalty."Linear Air has created awareness through its public relations efforts and word-of-mouth referrals, as well as direct marketing. This includes delivering messages that stimulate 'first use' through direct mail to those who own homes on Martha's Vineyard and Nantucket. E-mail marketing and phone campaigns are also part of Linear Air's outreach. According to Herp, "65 percent of our customers have purchased more than once, and the other 35 percent just haven't had the opportunity."

The Internet has played a significant role in the sales and marketing. The company has an online reservation system (www.linearair.com). Herp says about a third of customers book single seats online, and 95 percent of charter requests originate via the web (actual bookings of charter are direct).