Fiber Network Solutions Tries Wholesale Direct

Ohio ISP Uses Tier 1 Status to Push T-1 Prices Down to $695 per Month

Conventional wisdom has it that the plum sales prospect is a business running a high-profile site that needs big pipes and advanced services. But a sizeable number of businesses may just want the ISP equivalent of a Wal-Mart – a shop with basic goods at discounted prices.

Fiber Network Solutions (FNS) in Columbus, Ohio, wants to be that shop. The ISP is working to sell small businesses with 15 to 20 employees basic connectivity at markdown prices. For $125 per month, businesses get a 56 or 64 Kbps connection; $225 per month buys a 128 Kbps link.

FNS thinks the same approach to pricing can work in the hotly contested T-1 market. The ISP charges $695 per month for T-1, far below Big Six pricing of $2,000 to $3,000 for a T-1 port, according to FNS President David Koch. Explaining the difference, Koch says current T-1 prices are inflated.

"We're basing our pricing on our costs," Koch said. "If you get out a copy of Excel and run the numbers, you'll come up with the exact same numbers."

Those same numbers helped determine the FNS business plan when Koch and partner Kyle Bacon started the company in March, 1996. After looking over other service providers' operations, the two decided they'd go into business as a Tier 1. Go in as a Tier 2, and a company can't compete because of higher costs, Koch says.

"Let's say that they're selling T-1s for $1,295 a month," Koch said. "If they're buying those T-1s from, let's say, UUNet for $2,495 per month, they have to sell two-to-one just to break even."

Selling two-to-one – oversubscribing the connection – hurts service quality, Koch says. Bottom line, he believes "the numbers don't work for a Tier 2 provider to be a commercial connectivity provider."

Is cheap connectivity working for FNS? It's a little early to say. The ISP opened its first POP in Columbus, Ohio, in February, followed by Akron, Canton and Cleveland POPs in April and May. So far, FNS has sold around 200 dedicated circuits, the majority of them T-1s.

The FNS business plan calls for a gradual, region-by-region roll-out of access services. With a gradual roll-out, the company hopes to avoid the high overhead that can delay profitability for larger network providers.

"We're deploying regionally, becoming profitable with our region, and then moving on," Bacon said. "It doesn't make sense to start a company, get a bunch of investors, hire 600 people. The next thing you're offering service in 50 or 60 cities, but you don't have customer one."

A Pittsburgh POP was to open last week. Next up are Cincinnati and Indianapolis. Detroit might happen if Bacon can work out local access with Ameritech – the telco had told him it would take six months to put in lines.

To support the roll-out into next year (see table, next page), FNS plans to complement its Columbus headquarters with regional offices in Dallas, Raleigh-Durham and St. Louis. The ISP needs regional office to house technicians for service calls on router installations and other tasks. FNS has 19 full-time employees now, but expects to have 95 by the third quarter of next year.

A National ATM Network

The POP roll-out may be gradual, but the price of admission into the Tier 1 game is an up-front investment in a national network that can peer at a number of NAPs. FNS' national ATM network currently peers at the Chicago NAP and MAEs east and west, and the company plans to add connections at the New York and Pacific Bell San Francisco NAPs in the fourth quarter.

FNS built its ATM network with private funding before it had opened a single POP. But even with a national network, FNS doesn't have a lot of overhead, Koch says. FNS can cover its ATM network costs with revenues from a single region, he claims.

The payoff running a national network as a Tier 1 is lower networking costs. Your own network also means you can peer with whomever you choose. By peering with more service providers, FNS can offer customers better performance by using least-hop routing on a well-connected network, Bacon says.

Open peering is gospel for Bacon and Koch. "The Internet only works if everybody peers with everybody," Koch said. "If you have a company out there who says, 'We're not going to peer with anybody unless they walk on water,' they're not part of the Internet. … They just have their own little private network."

A year or two ago, when five or six ISPs accounted for 90 percent of the Internet traffic, the biggest companies might have been able to refuse to connect to smaller providers. Now, 40 percent of the traffic is carried by mid-sized ISPs. If you don't peer with as many providers as possible, your customers don't get optimal routing, Koch says. Eventually, companies that restrict peering will lose market share, he believes.

"A lot of those large companies are losing customers," Koch said. "We have gotten a number of customers from the larger providers just because of that reason."