FiberNet connects
with deep discount
T-1 service

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INSIDE REPORT

TELECOMMUNICATIONS

Fiber Net offers low, low, low fees

T-1 provider sells port access below 50%

By John W. Frees
BUSINESS FIRST

Some companies find they've priced their product or service too high to be successful, but Dave Koch and Kyle Bacon discovered the opposite to be true as well: Charge too little and people don't believe you're for real.

When Koch and Bacon sat down to create a top-drawer provider of high-speed, high-capacity Internet services for businesses, they wrote and rewrote their 300-page business plan to find the absolutely lowest price they could charge customers and still make a profit that would allow them to expand.

After 18 months of number crunching - and by taking advantage of some breakthrough technologies - the two men determined they could charge about one-third the going rate for a T-1 line, the industry standard that zips data at 1.5 megabits-per-second.

In March 1996, they opened Fiber Network Solutions in Westerville as a Tier 1 provider - with a direct connection into the Internet backbone that runs across the country. They advertised their port charge price of $695 - compared to, say, MCI's port charge of $2,700. Add the local loop and equipment charges, and most companies are paying $3,000 per month or more for a T-1 connection, he said. Fiber Net's total charge was $1,395 per month.

Sending out their sales team, they waited for the orders to come rolling in. They came, but more as a trickle at first.

"The pricing actually hurt business." Koch said. "I made a mistake by coming out with rock-bottom pricing."

The larger companies that were the first targets of Fiber Net didn't want to bother with an upstart charging $1,395 when they were used to paying more than $3,000 a month for a T-1 connection.

That would be a common reaction, said Alan Levin, manager of technical service for AFInternet Corp., an Internet consultant in Landover, Md. "The thing to be aware with all these Internet com-
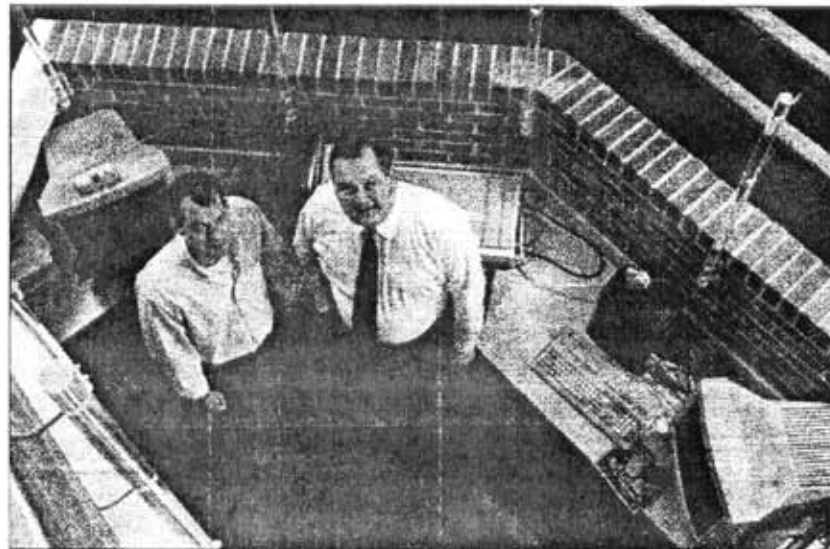
Kyle C. Bacon, operations v.p., and David J. Koch, president ... Fiber Net has reduced startup costs by staged expansion.

panies is that they could be inundated with customers and oversubscribe the bandwidth," he said. Business people will be cautious until they can see a track record of good service.

"They thought we were a Tier 10 or something," Koch said of businesses reaction to early sales pitches, meaning companies imagined Fiber Net was buying its connectivity from another carrier and reselling it. Instead, FIber Net connects to the Network Access Point or NAP in Chicago and MAE East and MAE West (Metropolitan Area Exchanges), three of six in the U.S. They plan to connect to the Pac Bell NAP this month.

Koch said they've learned a valuable lesson: As of Oct. 15, they will be raising their prices to $1,295 for the port charge, or $1,895 for the "Internet complete connection, including local loop, router and other equipment necessary.

I'm glad we learned this in one region, he said.

Fiber Net's business plan calls for a "hub and spoke expansion. Beginning in Columbus last year, the company now provides service to Cleveland, Akron and Pittsburgh. Next targets are Indianapolis and Dayton.

Koch, who serves as president and CEO, and Bacon, who is the vice president of operations, were able to launch Fiber Net on just $1.2 million from private investors by following this slow but steady regional expansion. Each city is primed through marketing efforts before

any money is spent on equipment, he said. Newer, cutting edge equipment is bought for the hub city and that city's equipment is moved to one of the spoke cities, he said, where demands are less.

That contrasts sharply with the model employed by other Tier 1 providers, which had to spend millions to launch nationwide, Koch said.

Fiber Net also targets smaller businesses, Koch said, as there are a lot of business owners who could use a T-1, or a fraction thereof, but haven't been able to afford the cost.

The business model appears to be working. Already Cleveland and Columbus markets show positive cash flow, he said. "We just finished our second fiscal quarter 1997, and reports indicate profitability next year, " he said.

After a year in business, Fiber Net's reputation is growing. Koch estimates his company already carries about 70 percent of the dial-up business in Columbus because it is the wholesale provider to most local Internet service providers.

John Fraizer owner of Enterzone Inc. an ISP with 250 customers, said he had trouble believing in Fiber Net at first too. Low price and solid service?

"The day they hooked us up, I went home and I still didn't believe it," he said. "I talked to some people and they said, 'God, it's so much faster, what have you done?' ... I kept saying to myself, 'Where's the 'gotcha?' "