Sometimes The Old Ways Are The Best Ways

There's a lesson here: Bucking the trend of many Internet companies to rush headlong into the markets by burning cash, carrier Fiber Network Solutions is building a network the old-fashioned way, by reinvesting profits.

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Here's a novel approach to running a business: spend what you make.

It's a crazy idea that President and Chief Executive Officer Dave Koch of Fiber Network Solutions, Inc., has been using since he opened the doors to his carrier business back in 1996.

Koch was drawn to the Internet in 1995 after talking with a friend of his, Kyle Bacon, then owner of Your Connection - World Wide Web Services, Inc., a Web design and hosting company out of Columbus, Ohio.

Bacon said that at the time, it was profitable to be a Tier 1 backbone carrier, so the two put their heads together and a year later knocked out a business plan, with Koch providing the business acumen and Bacon fielding the technical side of the house. Bacon is now executive vice president and chief operations officer at FNSI.

Cheap at under a million bucks

Now, if they had decided to start a business like many others at that time, they would have looked for capital in the form of an equity sellout to a bunch of investors. But Koch's figures showed the company could run a profit on its own, so why give everyone else a piece of the pie?

The end result: $840,000 startup cash.

In today's world of slick marketing campaign, instant nationwide presence and gargantuan rollouts, that money wouldn't have lasted more than a week. You couldn't even get one commercial shown at the Super Bowl with that kind of money.

"I kinda chuckle at some of these companies that literally develop cash burns of hundreds of millions of dollars to achieve the same revenues that we have (now)," Koch said.

Koch says that by applying an old economy approach to the new economy Internet business, companies with a solid business plan, like his, need not fret.

He should know. Since starting his carrier in 1996, he's built a company that started with two people and 800 square feet of floor space into an international backbone provider and webhosting company that spans the four corners of the U.S. and parts of Canada.

They did this at a time when many carriers were either in the process of going out of business or getting consolidated by the competition.

'Tis a gift to be simple

The eventual burst in the Internet bubble back was another reason Koch went with a "pay as you go" model for ramping up his business.

"The dot com failure is actually something that we predicted would happen," Koch said. "Back in 1997, when the buzzword in the industry was 'when are you guys going to IPO?' Our answer was why? Why would we want to IPO? We operate our business like it's a public company but have always kept ourselves in the position where we don't have to do anything.

"You see those companies that make a million dollars in profits every year, and they go IPO and raise $4-5 million," Koch continued. "Suddenly they're in 50 markets. It's impossible for a $1 million dollar company to manage a $5 million dollar company in 50 markets. They don't have the expertise."

On the flip side, he said, there's also companies that excel in the public workings of a large company, like appeasing stockholders, but don't have a clue how to run a real business.

By maintaining strong fiscal discipline and growing organically, he said, Fiber Networks was able to leap past competitors who were racking up a huge deficit and were funding its expansion with equity capital. When the equity money went away, many of those same competitors couldn't stay in business, because every step in deployment was predicated on receiving cash infusions to support the deficit.

Reinvest in yourself

Fiber Network's fiscal policy also rules out growth through acquisition, a *de facto* business strategy in today's markets. For many companies in a financial pinch, acquisition is seen as the less expensive option since it gives you instant presence without the cost of a buildup.

"I would have no interest in buying those companies for a couple of reasons," Koch said. "One, you end up buying a lot of baggage that comes with the acquisition."

If they were successful and had a good operation, he said, why would they be going out of business in the first place?

Besides, the integration factor has a lot to do with the successful acquisition of a company. It's easy enough to buy a company and make them put your letterhead on their memos, it's another thing entirely to create a smooth transition.

That's a business strategy taken by competitor carrier PSINet in 1999 that came back to haunt them. After making a grab at any company within its reach, they ran into extensive integration problems, which culminated in the carrier's Q3 2000 report - where officials glumly reported a net loss, for just one quarter, of $695 million.

The lessons are all about money

The other reason Koch said he wouldn't buy into another company is the pervasive money idolatry by many of the managers in today's Internet market.

When you buy a company, you buy its entire infrastructure, the good and the bad. Managers that focus more on money and less on expenses are going to sink a company quick.

"(The industry) has grown a breed of manager that is only concerned with revenue," Koch said. "They have no concern with the cost of sales or expenses, or certainly not bottom line. The only thing that matters is revenue and everyone is evaluated on multiples of revenue. That entire evaluation process created a real moral hazard in our country. They run at a negative but focus only on the revenue; it doesn't make any sense."

Because the company has been sticking to its fiscal policy, the company has been running earnings before interest, taxes, depreciation and amortization (EBITDA) positive and with net profits.

It's a profit trend Fiber Network officials expect to continue in the foreseeable future, as they expand their frame relay and ATM network into a new market every quarter. So far, they have built out the network in incorporate 50 markets all told.

Sometimes the old ways of doing business are still the best ways.

Fiber Networks, by bucking the trend of dot com businesses to rush to market and burn, burn, burn capital in the hopes for a bailout, created a solid carrier business not dictated by the whims of day traders and investment firms.

That's a lesson anyone can learn from.