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## The Design and Implementation of a Business Plan for an Internet Service Company

Gia K. Reynolds

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**THE DESIGN AND IMPLEMENTATION  
OF A BUSINESS PLAN FOR AN INTERNET SERVICE COMPANY**

Gia K. Reynolds, B.A.

An Abstract Presented to the Faculty of the  
Graduate School of Lindenwood University in Partial  
Fulfillment of the Requirements for the Degree of Master of Business  
Administration

1999

## ABSTRACT

The Internet today consists of many networks that can transfer data via many routes over a vast network. Change in the telecommunication industry and the attractiveness of the Internet as a distribution channel have resulted in an expansion of service furnished by content providers. This dynamic growth of services impacts the prices and profits of service providers and the customers' net benefit.

This project will focus on the study of the Internet Service Provider (ISP) industry. Information was gathered for the purpose of constructing a business plan for G-net.

Research has indicated that an entrepreneur is one who manages, organizes and assumes the risk of a business. The owner of an ISP must be concerned with several factors: industry data, specific company data, financial data and marketing data. G-net's business plan was developed by utilizing information from each of these areas.

Upon completion of the G-net plan, critical questions were developed about the plan and submitted to two members of the Information Technology Industry for an evaluation of the plan's effectiveness and format.

The evaluators, Edwin Carter and Robert J. Henry, collectively concluded that the document is structured properly and would serve as an effective guide for the operation of the enterprise.

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**COMMITTEE IN CHARGE OF CANDIDACY:**

Associate Professor Daniel W. Kemper,  
Chairperson and Advisor

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# Chapter I

## INTRODUCTION

### Industry Description

The Internet Service Provider (ISP) industry can be divided into three main groups: national and international ISPs, regional ISPs, and local ISPs, which are in the thousands and growing daily. For the purpose of this research the ISP will be depicted as a local ISP.

The ISP and On-line service industry can be described as a company that connects members of the general public to the Internet. It can be distinguished from an Information Service such as CompuServe or America On-line by its emphasis on Internet tools such as USENET News, Gopher, WWW, etc. Traditional bulletin board systems (BBSs) normally do not have direct access to the Internet and can offer only limited USENET news and mail with no other Internet services.

The original 'Internet', headed by the Advanced Research Project Agency Network (ARPANET), was a defense department project to build a data communications grid over a distributed network. This project was initiated in the late sixties and was designed to connect distant computers through a patchwork of network connections. The methods they developed included a

“protocol” allowing dissimilar computer systems to communicate and a method that routed data through multiple communication paths over a network (Ellsworth 3).

In the late eighties a number of other federal agencies such as the National Science Foundation (NSF) and a number of participating universities began creating their own network called NSFNET. Utilizing the technology developed by the U. S. Department of Defense, NSF created an array of networks allowing universities and research centers to share computer resources and allowing individuals the opportunity to communicate by e-mail.

The Internet today consists of 25,000 networks that can transfer data via many routes over a vast network. Over the years the number of connections to the Internet has exploded, and the Internet continues to grow at a rate of 15% per month (Gage 2). By April, 1997, the U.S. ISP Marketplace will exceed \$2.5 billion in value. Dynamic growth will continue to come from a rapidly expanding cadre of smaller providers and from newer entries with big clout such as AT&T and MCI.

To keep pace with this demand, the number of ISPs is growing rapidly. The ISP market has tremendous opportunities for growth and innovation, as requirements of Internet users are constantly rising.

Glenn states that ISPs tend to be clustered in three categories:

- Local ISPs configurations for 5,000 to 10,000 subscribers and scaling upward;
- Regional ISPs 50,000 to 75,000 subscribers; and
- National ISPs 150,000 to 200,000 subscribers, after scaling to more than 1 million (1).

According to Stiennon 1997 and 1998 are going to be benchmark years for the Internet. This industry has been doubling in size every six months for the last four years. As major communications companies such as AT&T, MCI, Ameritech, and Uunet have been formulating their Internet Strategies an explosion of smaller firms have begun to offer dial-up access to the Internet. Over 3,000 new ISPs were created in 1996. This growth in small entrepreneurial ISPs will continue because the large companies have to invest tens of millions of dollars to reach their current customer base (2).

#### Makeup of the Firms in the Industry

The firms in this industry can be classified as a four star ISP, full service provider, and cut rate provider. The four star ISP offers uncompromising service and support to its user base, above and beyond the normal good quality service that most every company

strives for. For a four star ISP to be successful, it takes a large customer base to support its operation. All of the products that other ISPs offer are in the product mix but what subscribers did not find at other ISPs is the large amount of value added services, support, and quality. For example, dial up customers may always get a site visit for one-on-one training or software installation. Users are contacted by phone once a month to find out if there are any concerns or problems they are facing. A basic user home page may even be created for them at no additional cost. These extra-added fringe benefits provided by a four star ISP helps to increase the number of users subscribing to this type of service.

Burke states that in order to acquire a substantial amount of subscribers the ISP would have to nurture the four star mentality not only in their offerings but to the public at large. There is a cost involved to have these value added services provided to subscribers. For the ISP the start up costs for such an operation are much higher than the full service provider and cut rate provider (76).

The full service provider only offers a handful of value added features for the users as opposed to the barrels of value that a four star operation offers. In comparison to a four star provider a full service provider is like a pleasant local neighborhood restaurant. The subscriber will not be able to order a lobster, but the meals are consistent and will not break the bank when one receives the tab.

The full service provider features include a free home page to every subscriber but with minimum support to the customer. On some occasions, particularly Friday and Saturday night, it might take a subscriber several minutes to get on-line due to the heavy usage volume (Burke 77).

In the cut-rate category of ISPs, providing access to the Internet is the bare minimum these providers offer. Many of these providers do find some success in markets where there is no competition. Even in markets where there is some competition from four star providers and full service providers, educated Internet users who need no technical assistance will subscribe to the cut rate provider for service (Burke 78).

#### The Size of Firms to Industry

According to Morris and Associates, the ISP industry can be divided into two groups: service providers with revenues between \$0 and \$1 million and service providers with revenues between \$1 and \$3 million. The assets, liabilities, and income data are figured as a percentage of gross sales. The breakdown of the ISP industry is presented in Tables 1 and 2.

Table 1  
 Internet Service Provider-On-line Service Provider  
 (\$0 to \$1 Million)

<b>Assets</b>	<b>Percentages</b>
Cash and Equivalents	14.5
Trade Receivables (Net)	28.8
Inventory	8.7
All Other Current	4.6
<b>Total Current</b>	<b>56.7</b>
	<b>Percentages</b>
Fixed Assets (Net)	33.6
Intangibles (Net)	.7
All other Noncurrent	.7
<b>Total</b>	<b>9.0</b>
	100.0
<b>Liabilities</b>	
	<b>Percentages</b>
Notes Payable Short Term	7.6
Current Mat. (L/T/D)	3.7
Trade Payable	16.7
Income Taxes Payable	.1
All Other Current	.1
<b>Total Current</b>	<b>18.3</b>
	46.3
Long Term Debt	
Deferred Taxes	21.6
All other Noncurrent	.9
Net Worth	6.4
Total Liabilities & Net Worth	24.7
	100.0
<b>Income Data</b>	
Net Sales	
Gross Profit	100.0
Operating Expenses	
Operating Profit	99.4
All other Expenses (Net)	.6
Profit Before Taxes	2.2
	-1.5

SOURCE: RMA Annual Statement Studies 1997 by Robert Morris Associates (1998).

Table 2  
 Internet Service Provider-On-line Service Provider  
 (\$1 to \$3 Million)

<b>Assets</b>	<b>Percentages</b>
Cash and Equivalents	16.8
Trade Receivables (Net)	31.1
Inventory	7.6
All Other Current	<b>2.6</b>
<b>Total Current</b>	58.1
	<b>Percentages</b>
Fixed Assets (Net)	29.0
Intangibles (Net)	3.3
All other Noncurrent	<b>9.6</b>
<b>Total</b>	100.0
	<b>Percentages</b>
<b>Liabilities</b>	
Notes Payable Short Term	12.7
Current Mat. (L/T/D)	3.5
Trade Payable	11.0
Income Taxes Payable	.5
All Other Current	<b>19.6</b>
<b>Total Current</b>	47.3
Long Term Debt	14.4
Deferred Taxes	.7
All other Noncurrent	8.1
Net Worth	29.5
Total Liabilities & Net Worth	100.0
<b>Income Data</b>	
Net Sales	100.0
Gross Profit	
Operating Expenses	94.8
Operating Profit	5.2
All other Expenses (Net)	1.2
Profit Before Taxes	4.0

SOURCE: RMA Annual Statement Studies 1997 by Robert Morris Associates (1998).



### Investment Required

The figures in Table 3 are based on an average cost of starting a local ISP to accommodate up to 33 simultaneous dial up users. Kolstad points out that the cost to start an ISP can vary across the spectrum, depending on the initial requirements (9). Individuals who procure computer equipment on a consistent basis would be pleased to note the decrease in costs of computer equipment. In contrast, those who have limited exposure in purchasing computer equipment would find prices to be considerably more expensive. The initial investment does not include rent or leasing of an office space since the services being provided can be a home based operation.

Table 3

#### Internet Service Provider Example Investment Work Sheet

<b>Component</b>	<b>Description</b>	<b>Cost*</b>
Internet Server	Sun Netra i5	\$ 14,200.00
ISP setup	DNS, Mail Server, Web Server, Security, Radius	8,200.00
Hardware Maintenance	Annual fee	350.00
Comm Server	Livingston Portmaster w/ 30 ports	3,295.00
30 Modems	v.34 USB Courier w/ cable @ \$415 ea.	12,450.00
News Server	Sun Sparc 20 w/ 10 Gbytes of disk	25,900.00
Hardware Maintenance	Annual fee	825.00

Table 3, cont.

## Internet Service Provider Example Investment Work Sheet

Inn Install and Customization	Set up complete news server	4,500.00
T1 Internet connection	UUNet Raw Internet (2,000 setup, 1,000 monthly)	5,000.00
Router Bundle	Cisco Router + CSU/DSU, cables, install, etc.	3,895.00
UPS 1400	Uninterruptible Power Supply	1,100.00
Racks and power cords	19" shelf rack	1,500.00
Ethernet Hub	Hub, cable, transceivers	950.00

Total Initial Investment	\$ 82,165.00
Working capital (From Cash Flow Analysis, worst cumulative net)	74,200.00

Required Capital for start-up	\$ 156,365.00
-------------------------------	---------------

SOURCE: Social Systems Press, "How to Build an Internet Service Company," by Charles H. Burke (1996).

### Services/Products Provided

According to Kolstad the world of the Internet Service Provider is an interesting one because it includes both halves of the client-server pair. On one hand, clients of an ISP might dial into the ISP's machine and access Internet services from there. On the other hand, users from across the Internet might wish to view a World Wide Web page of a merchant that the ISP supports (3).

Burke points out that there are four potential revenue streams that an ISP can generate revenue from: Dial Up Access, Web Pages, Internet Server Based Services, and Miscellaneous Internet Services (32).

Dial Up Access is where an ISP acts as the gateway to Internet services for subscribers. These customers wish to access one particular segment of the Internet or to be connected to a larger network of computers on the Internet.

Web pages are becoming a major revenue generator for a ISP. Even though Web pages came after Email, Usenet, FTP and many other Internet services, Web pages have quickly become a major addition to the Internet. Web pages make magazines, news, hobbyist areas, graphical file depots, company information, and personal resumes available to ISP subscribers.

Internet Server Based Services add to the potential revenue streams of a ISP. These services can include basic Email accounts for dial up users. Commercial Email accounts are for businesses with the desired interest in their employees having internal and external means of communicating within an organization.

In conjunction with Internet Server Based Services, the Miscellaneous Internet Services provided by an ISP could consist of training and seminars for business and commercial users. Training and seminars can be quite lucrative for a ISP, allowing subscribers to become familiar with the services the ISP has to offer.

### Profits to be Realized

According to Stiennon, the launching of this enterprise can be accomplished in as little as six weeks from ordering equipment and phone lines. New subscribers will be added at the rate of 100 a month after the initial installation of equipment. It is predicted that the number of subscribers to the service will reach 1,060 by the end of the first 12 months of operation, and 2,000 by the end of the second year. Break even cash flow will be achieved in the ninth month. Sales in the second year will be \$415,000, profit will be \$145,400 (3).

### Success and Failure Statistics

Bridges states at that the days of get-rich-quick fads of becoming an ISP is slowly ending. As telephone companies continue to gain a substantial share of the business through mergers and acquisitions, due to the Telecommunications Deregulation Act of 1996, the choice of a local ISP will diminish rapidly (63).

The Gartner Group, predicts within five years, 80 percent to 90 percent of ISPs will be out of business. The small mom and pop ISPs are destined for extinction due to the fact that they can only offer little more than basic Internet access. These ISPs do not have the necessary equipment to compete with telecommunications giants

such as AT&T, Sprint or MCI, for example. However, many of the local ISPs can survive if AT&T and the others do not have what it takes to meet the local community needs, such as local movie listings, the best and worst restaurants, and local news.

The surviving 10 percent will be full-service ISPs, such as BBN Planet, PSINet and Uunet, that can offer a wide variety of services to both the home and business subscribers (16).

### Possible Employment in this Industry

Possible employment opportunities vary greatly based on the type of services the ISP is providing to its customers. The majority of ISP's are looking for professionals that are well versed in the dominant Internet applications such as e-mail, World Wide Web (WWW) and E-commerce. They must also know how to effectively create and manage a hypertext home page while linking it to strategic points within the World Wide Web. According to Burke, positions essential to the ISP's successful operation are:

1. Technical Support Analysis - The technical support analyst is responsible for providing technical support to subscribers using the ISP. The technical support analyst should possess the characteristics of keen interpersonal skills and be knowledgeable about computer hardware and

Web Master - Responsible for creating web based applications and interactive business models on web based platforms. The Web Master must have a strong web authoring knowledge and some knowledge of database applications.

### Summary

In summary, the ISP is a business, which is an intricate part of the on-line and Internet industry. Operating an ISP requires the application of knowledge from a number of disciplines to the problem of providing Internet access to home and business users.

The companies within the industry utilize theories from the following areas of study: computer, telecommunications, management, accounting, marketing, and law. The successful operation of an ISP consists of the following components: product quality, service, site location, and most importantly, customer satisfaction.

The average ISP can be housed in an 1,800 square-foot building. New subscribers will be added at the rate of 100 a month after the initial installation of equipment. It is predicted that the number of subscribers to the service will reach 1,060 by the end of the first 12 months of operation, and 2,000 by the end of the second year. Break even cash flow will be achieved in the ninth month. Sales in the second year will be \$415,000, profit will be \$145,400.

### Statement of Purpose

The intention of this research paper is to collect vital information concerning the Internet service industry, specifically an ISP. The knowledge will be used to construct a business plan, which will ultimately serve as a blueprint for the successful operation of an ISP.

## Chapter II

### LITERATURE REVIEW

The new medium of the Internet is the most powerful and far-reaching computer network in the world. It is a global computer network connecting schools, libraries, business, government agencies, and individual home computer users giving access to the exchange of ideas and information.

This business plan is for the creation of a new Internet Service Provider in Alabama. The new company, GNet, will offer access to the Internet via high-speed modems for home and business users. This plan outlines the market in this area, the investment required, and the launch and operation strategy of an Internet Service Provider (ISP). Financial projections are included as well as an "exit strategy" for establishing a value for the venture after two years of growth.

Summarizing the progress of the Internet, Stiennon concludes that 1998 was a benchmark year for the Internet. This industry has been doubling in size every 6 months for the last 4 years. As major communications companies such as AT&T, MCI, Ameritech, and UUnet have been executing their Internet Strategies, an explosion of smaller firms have begun to offer dial-up access to the Internet. There are well over 3,000 ISPs in the United States now (5). This growth in small entrepreneurial ISPs will continue because the large companies have to invest tens of millions of dollars to reach their current customer base. Whereas, a smaller firm can justify investing less than \$150,000 to meet the demands of a local population.



There are several ways to look at the Internet. For an ISP the model of interest is the "distribution" model. An ISP is a service-based company that resells bandwidth. It pays a monthly or annual fee to an upstream provider for a high-speed link to the Internet Backbones, and resells connectivity in smaller chunks to its customer base. A dial-up ISP in this market usually has a T1 (1.54 Mbps) connection to an upstream provider and sells 28.8 Kbps connections via modem. A T1 connection allows the ISP to support 200 modems simultaneously. Because all subscribers do not use the service at once, a subscriber to modem ratio of ten is possible. This means that a customer base of 2,000 subscribers can be supported with one T1 connection. As the ISP grows beyond this, and as it offers higher speed services, it purchases more bandwidth from its upstream provider.

According to a market study conducted by the Maloff Company, the market for Internet dial-up services is growing at 10% per month. In the US and Canada one in eleven people has direct access to the Internet. Many more have accounts with on-line services such as America On Line. This represents a tremendous opportunity to provide a service in a market that will grow very rapidly to catch up to the national average (5).

The process of creating a business plan forces the entrepreneur to take a realistic look at the business venture in its entirety. Constructing a business plan allows the potential owner to analyze specific facts and ideas in an organized manner. A finished business plan becomes a blueprint that will help the owner manage the business and work toward its success. The final completed plan is the

chief instrument for the owner to convey ideas to others, such as business people, bankers, partners, etc. The importance of planning cannot be reiterated enough when preparing a business plan. It is the key to succeeding at any business endeavor. The only way that the owner can pragmatically handle the numerous variables and problems associated with the business venture is to have a logical, well organized business plan (Entrepreneur Group, Writing Effective Business Plans 22).

By taking an unbiased look at the business plan, the entrepreneur can identify area of strength and weakness. The owner can establish specific needs that might normally be overlooked. A business plan will give the entrepreneur enough information to spot potential problems before they arise. Planning will help the entrepreneur determine how business goals can best be achieved. The business plan does several things for the entrepreneur:

- Helps identify objectives
- Helps develop strategies to meet those objectives
- Helps earmark problems and suggests way to solve them
- Helps to minimize problems
- Helps create a structure to the proposed business by defining activities and responsibilities
- Helps obtain the necessary financing to start the proposed business

For the business plan to be effective, it is imperative that the entrepreneur personally conduct most of the research and investigation. In short, the entrepreneur must do the planning (Entrepreneur Group, Startup Guide 178).

Fundamental to the preparation of any business plan is a thorough discussion of the necessary components of a business. Some of these include: organizational structure, licenses and permits, quality control, sizing the market, Internet topology, the Internet market, competition, local service providers, and the personnel consideration.

### Organizational Structure

After the decision has been made to start a business, the first problem an entrepreneur must consider is the legal form under which the business will operate: 1) sole proprietorship, 2) partnership, 3) limited partnership, or 4) corporation.

**Sole Proprietorship** - The sole proprietorship provides the easiest method of starting a business. No legal papers are required except a business license and a name filing with the county clerk. Separate income tax forms are not required and Social Security Taxes are less than in other forms of organizational structures. The sole proprietorship form does have a major disadvantage. Creditors of an enterprise can attach liens to the personal finances of the proprietor or proprietors. In other word, creditors may force the owner of a business to pay for all debts incurred from business operations with personal property (Brigham and Gapenski 10).

**Partnership** - A partnership is different from a sole proprietorship in that each partner is liable for the other's actions. In a legal or creditor action, each partner will be sued personally. If one partner defaults, the others are held

responsible. Also, when an individual contributes assets to a partnership, he retains no claim to those specific properties but merely acquires equity in all assets of the firm. The partner with the highest investment incurs the greatest loss (11).

Limited partnership - The limited partnership is similar to the corporation. The investors become limited partners and are personally liable for the amount of their investment. However, that is all they can lose.

Limited partnerships are commonly used in real estate ventures. Legal costs for forming a limited partnership may exceed the costs of forming a corporation. Another aspect of limited partnership may exceed the costs of forming a corporation. Another aspect of limited partner may be subject to certain tax liabilities that may offset tax shelter advantages (Kurilof and Hemphil, Jr. 425).

Corporation - The Corporation exists as a separate entity apart from the owners. It alone is legally responsible for its actions and debts. The individual investors are personally protected.

Partners forming a corporation can divide ownership into shares, responsibilities can be defined into corporate minutes, and a partner who wants to leave can be accommodated without much legal hassle or dissolution of the business. Stock can be used as collateral, death of one shareholder doesn't stop the business, and many executive privileges can be justified. Lending institutions are more amenable to loaning to a corporation, profits can be delayed, capital can be accumulated without taxation, and the corporation can loan money to

individuals. The only disadvantage is possible taxation because the corporation must pay taxes on its net income, and partners must pay taxes on its net income, and dividends received from the corporation (426 - 428).

This plan is for the creation of a single Point Of Presence (POP) dial-up Internet Service Provider (ISP). The services that will be provided to the local calling area include:

- High speed reliable Internet connectivity at 28.8 Kbps.
- Web page hosting
- Email accounts
- Domain Name Service
- Network News Service

According to Burke, the launch of this type of enterprise can be accomplished in as little as six weeks from ordering equipment and lines. New subscribers will be added at the rate of 100/month after the initial ramp-up. The average startup expenses for an ISP are based on assumptions that the subscriber base will reach 1,060 by the end of the first 12 months of operation, and 2,000 by the end of the second year. The average start-up costs for an ISP can be found in Table 4 (57).

Table 4

## Average Startup Costs

Component	Description	Cost
Internet Server	Sun Netra i5	14,200.00
ISP setup	DNS, Mail Server, Web Server, Security, Radius	8,200.00
Hardware Maintenance	Annual fee	350.00
Comm Server	Livingston Portmaster w/ 30 ports	3,295.00
30 Modems	v.34 USR Courier w/ cable @ \$415 ea.	12,450.00
News Server	Sun Sparc 20 w/ 10 Gbytes of disk	25,900.00
Hardware Maintenance	Annual fee	825.00
Inn Install and Customization	Set up complete news server	4,500.00
T1 Internet connection	UUNet Raw Internet (2,000 setup, 1,000 monthly)	5,000.00
Router Bundle	Cisco Router + CSU/DSU, cables, install, etc.	3,895.00
UPS 1400	Uninterruptible Power Supply	1,100.00
Racks and power cords	19" shelf rack	1,500.00
Ethernet Hub	Hub, cable, transceivers	950.00
<b>Total Initial Investment</b>		<b>82,165.00</b>
Working capital (From Cash Flow Analysis, worst cumulative net)		74,200.00
<b>Required Capital for start-up</b>		<b>156,365.00</b>

SOURCE: Social Systems Press, "How to Build an Internet Service Company," by Charles H. Burke (1996).

The investment in this venture will consist of capital equipment \$83,000 and working capital of \$74,000. An investment of \$157,000 will generate a return of 92% in the second year.

Morris and Associates reveal there are several ways to value a subscriber-based business for eventual sale. One way is multiple cash flow, Internet businesses are commanding over 20 times cash flow today, but it is hard to predict what the "market" will be in two years. If a figure of 10 times cash flow were used, the value of the company would be \$2.04 Million (based on projected 3<sup>rd</sup> year cash flow). Another way is to look at other industries such as cable

television. The going rate in that industry is \$2,000/subscriber. Since Internet revenue is similar to cable subscription revenue per user, this factor could be used. Based on the usage of cable subscription revenue factor, the value of the company would be \$4 Million. These valuations are good returns on an initial investment of \$157 thousand (4 to 8 times return). An example of an ISP that experienced this sort of "exit strategy" is RustNet. It sold for a reported \$2 million after only 28 months of operation (708).

Borland states that by now everyone has become acquainted with the vast potential of the Internet to expand communications, provide entertainment, and increase commerce. Every major print publication has articles on the Internet in every issue. Ads for most Fortune 500 companies include their Universal Resource Locator (URL) which is a web address as often as their 800 number. This is the fastest growing market/industry in the world. While the number of Internet users is doubling every six months, the number of web pages is doubling every 53 days (1).

There are several models of the Internet that are important to an ISP. The topological model deals with the Internet infrastructure. The distribution model demonstrates how an ISP fits into the market. The commerce model specifies how the ISP's customers look at the Internet.

### Licenses and Permits

Most cities and counties require business operators to obtain licenses or permits to show compliance with local regulations.

According to Edwin Carter, Information Systems Instructor Northwest-Shoals Community College (NSCC), there are many licenses and permits required to operating businesses in Alabama. Some of these include: the business license, the Fire Department permits and zoning permits (Carter, Edwin, Telephone Interview 7 Feb. 1999).

### Quality Control

Assuring quality GNet services will be accomplished by having the latest in technology and by implementing controls to determine which staff members will be responsible for the overall ISP service sold to the customer. It will be GNet's philosophy to provide the same level of service to every client. It takes less energy to give 100 percent service all time than to give less than 100 percent service some of the time.

### Sizing the Market

Successful marketing includes the analysis of the industry, competition, and the customer. A thorough analysis of these areas will provide the basis from which a concrete marketing strategy can be developed. A market analysis will define the market and its sales potential. The market analysis will enable the owner of an ISP to establish pricing and sales strategies that will allow the company to become more potential within the industry and allow the development of estimates concerning the future of the ISP. The planning process also should estimate the growth in demand from the market sector over a period of time.



This exercise is intended to provide a base level of the size of the target market sector. The next task is to estimate the proportion of the market, which is likely to be gained by the ISP, or market share. This is a business estimate based on competitive positioning and marketing success factors and must include issues such as the following:

- Brand awareness
- Niche marketing
- Competitive pricing factors
- Additional market entrants
- Level of competitive churn by consumers of the product

In general, such estimates of market behavior are the outcome of commercial market surveys. Such surveys should indicate the following:

- Levels of market demand
- Satisfaction with existing service provider
- Activity patterns and related characteristics of the market sector

According to Dalton, Internet access is booming but the market is fiercely competitive, placing most Internet service providers in a sea of red ink.

One result is consolidation, as some local ISPs acquire a bigger market presence and more control of their operation, while National ISPs and networking companies are snapped up by cash-rich telecom companies offering voice and data services in one convenient package (1).

Grow-or-Go market forces ISPs to change their business model: The entrepreneurs of the local ISPs industry now need to reconsider their game plan as

Internet services that used to be specialized start slowing down existing Telco and Cable networks as commodity items, pre-prepped and pre-sold. Successful ISP Technocrats are making the transition to the Business Communications Marketplace and re-packaging their ISP experience and computer know-how to alert businesses who recognize the need to adopt Electronic Business methodologies.

### Internet Topology

The Gartner Group, in a study of the ISP market relates that the Internet consists of high-speed circuits connecting routers that transmits data in the form of Internet Protocol (IP) packets. The circuits are maintained by large telcos (MCI, Sprint, Worldcomm) the routers are owned by ISPs. The national ISPs such as MCI, UUNet, AGIS, EUNet, and SprintNet lease circuits from the telcos to connect their routers in their various Point of Presence (POP). Regional and local ISPs purchase connections from the national ISPs. The national ISPs have connections to the Network Access Points (NAPs) where they exchange routes and traffic. The Internet Backbone is really several backbones owned by the National ISPs that come together at the various NAPs (3).

### Internet Distribution

The Internet business model is based on distribution of a commodity. That commodity is bandwidth. The market consists of several National Service Providers (NSP). They are AGIS, MCI, Sprint, UUNet, PSI, Netcom, and ANS. Each of these companies operates networks of high-speed lines across the United

States. Several of them also extend to the rest of the world. The NSPs “meet” at the Network Access Points (NAPs) where they exchange traffic. The backbones are currently 45 Mbps DS3 circuits. These are being upgraded to 155 Mbps ATM circuits during 1996. Most Internet Service Providers get their initial T1 (1.54 Mbps) Internet “feed” from these NSPs. They then resell connections at 28.8 Kbd to dial-up customers.

### Internet Commerce

A dial-up customer sees the Internet as a resource for getting information, communicating, conducting commerce, and doing business. Generally the value to them of an Internet connection is hundreds of times greater than the monthly fee of \$20. And of course the entertainment value of the Internet plays a predominant role in its growth.

The customer at the end of the Internet distribution channel is totally unaware of the topology and workings of the Internet. Their only concern is getting connected when they want to and getting reliable throughput and service.

### The Internet Market

The market for Internet dial-up services is growing at 10% per month. In the US and Canada one in eleven people has direct access to the Internet. Many more have accounts with on-line services such as America On Line. Based on a competitive study conducted by the Gartner Group, only one in five hundred people have direct Internet access in the state of Alabama. This represents a

tremendous opportunity to provide a service in a market that will grow very rapidly to catch up to the national averages (16).

This plan is based on operating from a single POP located in Alabama. Alabama has a population of 4.3 million people in 1995. By 2025, it is projected to be the 22<sup>nd</sup> most populous state with 5.2 million people. Based on a November 1998 on-line survey reported in New South (23):

- 54% have a college degree or above as compared to 15.7% of all Alabama residents
- 22% earn over \$75k annual household income
- 95% use the Internet to research products and services
- 75% would be enticed to buy online if offered a discount

### The Competition

The competition for Internet Services in this market can be broken into three categories: On-line Services, National ISPs, and Local ISPs.

Because a local ISP has so many advantages for the customer over the National Providers and On-line Services, it is the existing and future Local ISPs that have to be studied most closely. There is significant competition based on price and service. The key to obtaining significant market share is to offer the best service. A reputation for good connectivity, no busy signals, courteous staff, and breadth of service will allow the local ISPs to grow steadily at profitable pricing.

According to Carp, the local ISPs that offers Internet connectivity, web hosting, and training is still in its infancy. There are no dominant players, and the market is still growing at a geometric pace (167).

Using any economic textbook, any savvy investor would know that there would be a shake out of fringe players within the next few years. Because of the minimal capital involved in actually buying enough equipment to become an ISP, many ill equipped local ISPs will take on the task of offering connectivity at prices that are not profitable, and will force many reputable firms out of the marketplace.

Carp further states that many local Internet providers are now offering introductory packages for consumers that allow for the first month free and unlimited usage for under \$20 per month (168).

The proper strategy to dealing with various sorts of competition is to work at a scheme that provides the same sort of service but with larger up front payments. By offering a free month of access and a discounted rate for individuals who pay for a years access in advance, the local ISP can assure itself of a users who will stay with the service rather than shop around.

### On-line Services

The On-line services are actually the source of most new Internet customers. CompuServe, AOL, and Prodigy are the training ground for the consumer to become familiar with computer information resources, interactive forums, and the Internet. Because of their pricing policies and inflexibility they

force their customers to seek alternatives as soon as they find they are on-line more than about 30 hours a month. Some drawbacks to On-line services include:

- Hourly rates
- Unprofessional email addresses (1234,5678@aol.com)
- Busy signals
- Unresponsive help desk

Dunlap points out that flexibility will remain key to survival, as the market continues to be reshaped by the expansion of the Internet related services. And that Internet service providers are having to reinvent themselves in light of growing competition (11).

#### National Service Providers

The national service providers include PSI, Bellsouth Net, Microsoft Network, and Mindspring. These are true ISPs but have some of the same drawbacks as the On-line services. All four have dial-up POPs in the target market:

- Hourly rates
- Busy signals
- Impossible to reach help desk

#### Local Service Providers

Table 5 contains names of the local ISPs, the number of modems each ISP has and the number of customers they all support. Their business model is comparably the same. Here is a list of local ISPs from a competitive analysis.

Table 5

## Local ISPs Competitive Analysis

<u>ISP</u>	<u>Number of Modems</u>	<u>Number of Customers</u>
<b>Companet</b>	24	500
<b>Mobile Internet Services</b>	60	1,200
<b>Renaissance</b>	20	200
<b>Zebra</b>	60	40
<b>Totals</b>	180	1,940

SOURCE: Boardwatch Magazine Directory of Internet Services Provider. by Jack Rickard (1998).

Companet is based in Athens, Alabama. They provide local calling to Madison County by back-hauling all calls over a T1. This means they are limited to 23 simultaneous calls. Until they make the investment in local real-estate they will not be a contender in this region.

Mobile Internet Services based in Mobile, Alabama provides Internet services to all of South Alabama and Biloxi, Mississippi. Their main POP is located in metropolitan Mobile. This allows them to gain a large market share of South Alabama and adjacent Biloxi, Mississippi. After the recent influx of customers requiring Internet service and the additional investments by the founders, Mobile Internet Services have gain customers but has a understaffed help desk causing support calls to get lost or go into voice mail (Rickard 20).

Renaissance Internet Services is run by a group of software engineers bases in Huntsville, Alabama. They provide good service but they will not be able to grow due to lack of funding to hire 24 hour support staff.

Zebra Net is the most recent entry into this market. They are an offshoot of a local cellular phone franchise located in Birmingham, Alabama. It is assumed they have adequate capital to grow and that they see long term benefits to being in this market. They plan on buying market share by being the “low cost” provider. Because they will be after the mass market they will probably have rigid constraints on what services they offer.

#### Personnel Consideration

The management team consists of a President supporting both sales and marketing. One Hyper Text Markup Language programmer (HTML). This person produces web page sites using HTML for businesses and individuals seeking a presents on the Internet. One Internet Support Specialist to provided technical support by phone to subscribers. An Application Developer to design, develop, test, implement and support internet web-based applications. And additional contract HTML programmer who will be used as need during peak workload periods. An Onsite Contract Installer to be used to install and troubleshoot PC and Internet related problems with customers at their home or place of business.

#### Summary

This chapter presented a review of selected research related to ISPs. Research in the market for Internet dial-up services attests to the prevailing assumption that there is a tremendous opportunity to provide a service in a market that will grow very rapidly to catch up to the national average.



A search of the literature reveals the business plan will be the entrepreneurs reference guide to communicate ideas to other people, and a document designed to map out the course of a company over a specific period of time.

Fundamental to the preparation of any business plan is a thorough identification of the necessary components of the enterprise. The significant components of this plan include:

**Organizational Structure** - The three major variables an entrepreneur must deal with when choosing the legal form of a business are liability, taxes and control. The ISP can operate under various legal forms of business organization including sole proprietorship, partnership limited partnership or corporation.

**Personnel Consideration** - It is important that a blueprint for the ISP's organizational development is clearly identified. The various aspects associated with the work force should be structured in a manner that allows tasks and responsibilities to be addressed by the ISP's owner in the most effective manner.

**Licenses and Permits** - The ISP owner must purchase various licenses and permits such as business license, fire department, and zoning permits. In the context of a business plan, patents, licenses, and other forms of protection should be addressed from a number of perspectives.

**Quality Control** - Assuring quality ISP services will be accomplished by having the latest technology and by implementing controls to determine which staff members will be responsible for specific aspect of the service sold to the customer.

**Sizing the Market** - Successful marketing includes the analysis of the ISP industry, competition and the customer. It establishes the demand for the service and, therefore the potential for the business.

**Competition** - Almost without exception, the eventual performance of a prospective business will be influenced by external factors over which the business has little or no control.

Among the external factors are such influences as government regulations, and suppliers. Most notable is competition. The ISP owner should list his competitors and identify their strengths and weaknesses.

**Financial Plan** - Financial projections are a key part of a business plan. The ISP owner should be concerned with where the business is going and an understanding of the difficulties the business faces. Circumstances will dictate the degree of financial statistics including goals, direct costs, indirect costs cash flow, capital required, record keeping, taxes, and insurance.

Finally, data discussed in this chapter were drawn from research findings and offer a brief overview of factors that should be considered in creating a business plan for an ISP.

Chapter III  
METHODS AND EVALUATION

Evaluators

The evaluators of the business plan's format and content were Robert J. Henry and Edwin Carter. Each of these evaluators is highly educated and experienced in the Internet and information system industry. Resumes of the evaluator's qualifications can be found in Tables 6 and 7:

Table 6  
Resume  
**Robert J. Henry**

---

**WORK EXPERIENCE**

**April 1998 - EDS  
GBN Industries  
Technical Delivery Manager**

**Atlanta, GA**

- Lead the technical solutions development team to productivity and on-time delivery of the technical deliverables so that the user requirements were met and deadlines achieved for the ERP implementation project of JD Edwards.
- Worked with CIO and business leaders to set technical development priorities, brainstorm new solutions, and improve hardware and software performance issues.
- Built excellent business relationships with the project team, customers and other account leaders.

Table 6, cont.

- Managed the workload and priorities of the development team
- made up of full time and contract employees.

**April 1998 - March 1998      EDS      Atlanta, GA**  
**GBN Industries**  
**JD Edwards Developer**

- Responsible for all aspects of the systems life cycle during ERP implementation project of JD Edwards. Components of the life cycle included requirements gathering, business analysis, technical analysis, development, documentation, testing and production supports

**1992 - 1997      EDS      Norcross, GA**  
**Saab Cars USA, Inc.**  
**System Engineer**

- Liaison between Saab and Dealer Management System providers, responsible for relationship management, requirements gathering, analysis and definition, testing, training and support.
- Introduced proposals and provided project management, system analysis and development, and support of Saab's Technical Assistance Center, Fleet Sale Processing, Velocity Reporting, and Dealer Communications application, resulting in improved efficiency, problem recognition and reporting.
- Utilized Saab business process knowledge and technical skills during major proposal to implement Saturn business processes at Saab. Also, interfaced with other EDS groups for proposing an alternative solution.
- Provided day to day production support functions which included new development, maintenance and problem resolution to the Saab systems application environment. Primarily, IMB AS/400 platform with exposure to Lotus Notes, MS SQL Server, MS Visual Basic, and MS Access.

Table 6, cont.

**EDUCATION**

1995 - 1998 Georgia State University                      Atlanta, GA  
MBA with C.I.S. concentration (3.5)

1984 - 1988 Shippensburg University  
Shippensburg, PA  
BS in Mathematics with minor in Education (3.2)

Table 7

Resume

**Edwin J. Carter, Sr.**

---

**WORK EXPERIENCE****1984 - Present****Northwest-Shoals Community College      Muscle Shoals, AL****Business Division Chairman and Former Department Head of  
CIS Department**

- Responsibilities include; scheduling and teaching classes in the CIS curriculum, assisting students with lab or live work assignment, supervising/coordinating schedules and working hours or other business division instructors, lab assistants, work study and other personnel.
- Responsible for system design and operating system. Applications and languages taught on IBM System/38, the IBM
- AS/400 and the IBM/PC and compatibles. Also served as member of Athletic, Advising Steering, SACS steering, Institutional Computing, Web site and the Institutional Recruitment and Selection Committee.

Table 7, cont.

**1980 - 1984 Federal Mogul Corporation                      Hamilton, AL**  
**Programmer/Analyst**

- Responsibilities include analyzing, designing, writing, testing, installing and maintaining programs and system according to user specifications. Programs written/maintained for manufacturing environment included Shop Floor Control, Shop Capacity, Materials Requirements Planning, Dispatching, Inventory Control, Personnel Systems and Subsystems.

**EDUCATION**

September 1996 - October 1996 Additional Study (CIS)  
 Northwest-Shoals Community College                      Muscle Shoals,  
 AL

September 1974 - May 1978  
 Alabama A&M University                      Normal, Al  
 B. S. Computer Science.

Instruments

The instruments used to evaluate this project were a questionnaire and personal interview.

The questionnaire (Appendix A) consisted of six questions, each having a "Yes" and "No" answer, and a question asking if the business plan: "Is in Perspective but Can be Improved." The questions were designed to gain perspective into the business plan's effectiveness.

The personal interview consisted of requests for general comments about the business plan.

### Materials

The project that was evaluated is a business plan describing the prospective operation of G-Net. The plan contains information about many aspects of operating an ISP including: finance, marketing, and management.

### Evaluation Procedure

The evaluation of the business plan took place on two different dates: August 15 and August 24, 1999.

On August 15, 1999, a phone interview was conducted with Edwin Carter. At this time, Carter had received a questionnaire and business plan via the Internet. After Carter completed the questionnaire, he was asked to make general remarks concerning the business plan.

On August 24, 1999, Robert Henry was interviewed at his place of employment in Norcross, Georgia. Henry was asked to answer the questions contained in the critical review questionnaire. After completing the questionnaire, Henry made some general comments about the plan's content and effectiveness.

## Chapter IV

### RESULTS

#### Questionnaire

The evaluators, Edwin Carter and Robert Henry, concurred on each question presented in the critical review questionnaire. The evaluators concluded that the business plan designed for G-Net (Appendix B) identified the owner's objective, effectively described business strategies, described potential problems associated with the ISP and the business plan help to create an operational structure for the ISP by defining activities and responsibilities.

Carter and Henry also agreed that the business plan's format was structured properly.

Lastly, the evaluators concluded that the plan effectively described business strategies which are to be developed for the successful operation of G-net.

#### General Comments

Henry stated that the financial section of the business plan impressed him. He was optimistic that with the increased demand for Internet access and businesses wanting an E-commerce solution. G-Net should have no problem making a substantial return on its investment.



Lastly, Carter remarked that the ISP's popular existence is an indication G-Net will have a strong customer base. He firmly advised that the prospective owner of an ISP must continue to invest in equipment and provide customers with superior support to customers.

## Chapter V

### DISCUSSION

#### Summary

Chapter IV reports the results of the evaluation of G-net's business plan. The two evaluators Edwin Carter and Robert Henry agreed that the plan effectively described business strategies which are to be developed for the successful operation of G-net. The plan also offers a prospective ISP owner a guide on how to structure the operation of the enterprise.

Henry commented that the profits to be realized section of the plan offered the investigator critical information about the ISP's surrounding population. Carter advised the author of the plan to study the census information in order to gain insight about how potential target market are identified, and advertising and promotional campaign are initiated for the purpose of attracting new Internet users.

#### Suggestions for Future Research

Various lines of research need to be explored in order to follow up on the results of this study: The study investigated the Internet service industry, specifically an Internet Service Provider (ISP). The Knowledge was used to construct an ISP business plan.

It would be useful to investigate the futures for the ISP industry from the perspective of the technology base. A study of this variable would provide the ISP owner with vital information on potential direction for this industry looking at possible technology, business, and policy landscape of the Internet.

Finally, one of the critical factors in the ISP industry is that of qualified individuals with the skill set to evaluate the finished document of the ISP's business plan technical operations and business imperatives. Taking this factor into account, the ISP entrepreneur should begin searching for competent professional at the outset of the investigation.

### Limitations

The primary limitations of this study were:

1. Difficulty associated with finding qualified people to evaluate the study. A total of eight individuals were consulted to participate as evaluators. Three agreed to serve but upon receiving the ISP business plan, felt that their experience level in the specific area of study would disqualify them to participate as evaluators. Two other individuals consulted received the business plan packet, but could not be contacted further.
2. The lack of ISP owners will to discuss their business operations.

## APPENDIX A

### BUSINESS PLANS CRITICAL REVIEW QUESTIONNAIRE

The purpose of this checklist is to use the information in making decisions. The assessment you make will provide feedback and identify strengths and weaknesses in this plan. Please be honest and candid in your responses. There are seven questions in the instrument. Each requests specific information on the business plan. Please take a few minutes to read each, and mark the answer accordingly. Like many other things in business, there are no absolutes in business plan evaluation. If in your evaluation of this plan in particular situations you feel some of these items might need alteration or a different emphasis and check item 3 ("In Perspective But Can Be Improved") please feel free to include your input during our interview.

1. Does this business plan effectively identify the owner's objective?

\_\_\_\_\_ 1 Yes                      \_\_\_\_\_ 2 No                      \_\_\_\_\_ 3 In perspective But  
Can be Improved

2. Does this plan effectively describe business strategies which are to be developed for the successful operation of G-net?

\_\_\_\_\_ 1 Yes                      \_\_\_\_\_ 2 No                      \_\_\_\_\_ 3 In perspective But  
Can be Improved

3. Does this plan effectively describe problems or potential problems associated with G-net?

\_\_\_\_\_ 1 Yes                      \_\_\_\_\_ 2 No                      \_\_\_\_\_ 3 In perspective But  
Can be Improved

4. Will the business plan help the prospective owner of G-net avoid problems associated with G-net?

\_\_\_\_\_ 1 Yes                      \_\_\_\_\_ 2 No                      \_\_\_\_\_ 3 In perspective But  
Can be Improved

5. Does the business plan help create an operational structure for G-net by defining activities and responsibilities?

\_\_\_\_\_ 1 Yes                      \_\_\_\_\_ 2 No                      \_\_\_\_\_ 3 In perspective But  
Can be Improved

6. Is the business plan's format structured properly?

\_\_\_\_\_ 1 Yes                      \_\_\_\_\_ 2 No                      \_\_\_\_\_ 3 In perspective But  
Can be Improved

Thank you for your participation. This completes the data evaluation for the business plan.

**APPENDIX B**

**G-NET  
Internet Service Provider**

**An Internet Service Provider Company,  
A Sold Proprietorship Formed Under the  
Laws of the State of Alabama,**

**Company Location: 161 Information Road,  
Birmingham Alabama 35674 (250) 383-9350**

**A Proposal/Business Plan**

**Prospective Owner: Gia K. Reynolds**

## Executive Summary

The mission of G-net is to build upon an existing need for online access and computer networking (Internet) services for the Northern Alabama business community. In light of this mission, the business philosophy of G-net will emphasize four priorities which are the common denominators for successful operation of any ISP: product quality, service, customer involvement, and consistency.

G-net will to increase the value proposition for its customers by defining and articulating the business benefits of information technology, so that the customers receive the greatest return on their investments, and ensure consistence with its treatment of product quality, service and customer involvement.

G-net is the outgrowth of a concept conceived out of the market desire for clean well serviced Internet Providers to focus on the local business market. The need for such services is at an all time high and the current providers are unable to fulfill this need in a timely and cost effective manner. Hence, G-net identified this void in the local marketplace and set in place a plan to service these customers effectively.

The Internet market in Alabama consists of the major national service providers and five privately owned providers. The national providers are finding that their proprietary systems with closed

content and high hourly costs are now dwarfed by the rest of the Internet at large.

Based on detailed financial projections, it is estimated that \$156,365.00 of equity investment is required to begin the company's operations successfully. G-net will operate as a sole proprietorship.



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## Description of the Business

G-net is a proposed service venture that will connect to an Internet host. This host will provide G-net with a front-end system that will allow for the resale of connections routed through both G-net and the host. G-net will charge a variety of fees for the access, and will also provide technical support, hardware and software consulting and installation consulting for its clients. In addition, G-net will offer seminars to introduce customers to the Internet, and provide both in-house and off-site research for materials requested by clients that is found on the Internet.

The owner has invested \$157,000 and months developing opportunities, and acquiring a major account valued at \$50,000 over a 24-month period. Based upon these activities, the company projects gross sales in its second year of \$415,000 and average annual growth rate of 92% percent thereafter.

The new capital commitment of \$250,000 will be used for further development, increase personnel and expand the company's marketing activities.

G-net will be one of Alabama's newest and most innovative full service ISP specializing in quality Internet Access and Web Page Hosting and Design. The G-net difference comes from our commitment to service and ongoing support, like having the best client to phone line ratios, fastest web page hosting servers, free

training classes, easy to use graphical menus, free web space and the best prices anywhere.

### Legal Structure

G-net will operate as a sole proprietorship. A sole proprietorship is the simplest form of business organization. The business has no existence apart from the owner. Its liabilities are personal and ownership ends upon the owner's death. The risks of ownership are extended to the limits of the owner's assets (personal and business).

### Service

G-net will include both halves of the client-server pair. Clients of the ISP might dial into the ISP's machine and access Internet services or, users from across the Internet might view the World Wide Web pages of a merchant that the ISP supports. Four potential revenue streams of the ISP will be available to generate revenue from: Dial Up Access, Web Pages, Internet Server Based Services, and Miscellaneous Internet Services.

Dial Up Access will serve as the gateway to Internet services for subscribers. These customers can access one particular segment of the Internet or to be connected to a larger network of computers on the Internet.

Web pages are a major revenue generator for an ISP. Web pages will make magazines, news, hobbyist areas, graphical file depots, company information, and personal resumes available to ISP subscribers.

Internet Server Based Services will add to the potential revenue streams of an ISP. These services can include basic Email accounts for dial up users. Commercial Email accounts will be available for businesses with the desired interest in their employees having internal and external means of communicating within an organization.

In conjunction with Internet Server Based Services, the Miscellaneous Internet Services will provide training and seminars for business and commercial users, allowing subscribers to become familiar with the services the ISP has to offer.

#### Profits To Be Realized

The launching of this enterprise can be accomplished in as little as six weeks from ordering equipment and phone lines. New subscribers will be added at the rate of 100 a month after the initial installation of equipment. It is predicted that the number of subscribers to the service will reach 1,060 by the end of the first 12 months of operation, and 2,000 by the end of the second year.

Break-even cash flow will be achieved in the ninth month. Sales in the second year will be \$415,000, profit will be \$145,400.

### Success and Failure Statistics

The days of get-rich-quick fads of becoming an ISP is slowly ending. As telephone companies continue to gain a substantial share of the business through mergers and acquisitions, due to the Telecommunications Deregulation Act of 1996, the choice of a local ISP will diminish rapidly.

It is predicted that within five years, 80 percent to 90 percent of ISPs will be out of business. The small mom and pop ISPs are destined for extinction due to the fact that they can only offer little more than basic Internet access. These ISPs do not have the necessary equipment to compete with telecommunications giants such as AT&T, Sprint or MCI, for example. However, many of the local ISPs can survive if AT&T and the others do not have what it takes to meet the local community needs, such as local movie listings, the best and worst restaurants, and local news.

The surviving 10 percent will be full-service ISPs, such as BBN Planet, PSINet and Uunet, that can offer a wide variety of services to both the home and business subscribers.

## Management

Possible employment opportunities will vary greatly based on the type of services the ISP is providing to its customers. Positions essential to the ISP's successful operation are:

1. The management team consists of a president supporting both sales and marketing.
2. One Hyper Text Markup Language programmer (HTML)  
This person produces web page sites using HTML for businesses and individuals seeking a presents on the Internet.
3. Technical Support Analysis - The technical support analyst is responsible for providing technical support to subscribers using the ISP. The technical support analyst should possess the characteristics of keen interpersonal skills and be knowledgeable about computer hardware and software. He or she should be a good listener and a good organizer.
4. Web Master - Responsible for creating web based applications and interactive business models on web based platforms. The Web Master must have a strong web authoring knowledge and some knowledge of database applications.

### Method of Record Keeping

The Recordkeeping system for G-net will include:

1. Daily summary of cash receipts
2. Monthly summary of cash
3. Check disbursements journal
4. Business checkbook
5. Depreciation record
6. Employee compensation record

All bookkeeping will be kept on computer using "Quicken Business" from Intuit. At the end of the year the files will be printed and passed to the accountant.

The customer base and prospect database will be kept on a Access database from Microsoft, that allows G-net to keep precise timelines of scheduling and management of accounts. "Office 97" from Microsoft will be used to perform Word Processing and generate Spreadsheets.

### Insurance

G-net selected an insurance carrier who offers a 36 month package (Comprehensive insurance policy at an annual premium of \$10,000 with no premiums increase over that time period. The policy covers business property including real property (e.g.



building) and personal property (equipment, machinery, inventory). Property coverage also includes comprehensive theft, fire, sprinkler leakage, flood, hail and windstorms, vandalism and glass breakage. Workers Compensation 1.40 per 1k gross payable.

### Security

Problem situations to be considered and protective measures to be used:

1. Internal Theft: Employee Dishonesty
  - a. Cash Theft: limit cash on hand and Daily Sale  
Reconciliation Report to balance cash with receipts
  - b. Employee Orientation Program: emphasizing security procedures and employee integrity.
  - c. Quarterly inventory
1. External Theft: Hackers gaining access to customers accounts and data. Hackers sabotaging G-net's network with a virus.
  - a. Hackers: Firewalls and passwords
  - b. Virus attack: Firewalls and virus software.
  - c. Daily virus checks.

## Taxes

The business owner is responsible for collecting state, federal, and local taxes and remitting these to the proper agencies. Records must be accurate and complete and clearly establish income, deductions, tax credits, employee information, and anything else specified by state, federal and local regulations.

The major areas of recordkeeping and taxes are:

1. The owner must obtain an Employee's Identification Number, (I.D.) for tax purpose by filing a Form SS-4 with local IRS office. The employer I.D. number is used on filed tax returns and is different from social security number.
2. Income Tax Withholdings employee must fill out his or her appropriate exemptions and sign Form W-4 (Employee's Withholding Allowance Certificate).
3. Social Security tax requires Social Security taxes to be deducted from the employee's salary, and you must match the employee's contribution. In addition, the employee must pay social security tax. They must file form W-3 with the Social Security Administration.
4. Unemployment tax is paid to both the state and the federal government. The IRS gives a partial credit for unemployment taxes paid to the state. One must first register with the state Bureau of Labor; they will then receive an identification number so that their deposits will be credited to their account.

Four different reports must be remitted to the IRS in connection with payroll taxes (both social security and income taxes) that must be withheld from employee's wages:

- a. Annual Federal Unemployment Tax Return
  - b. Annual statement of taxes withheld on wages
  - c. Reconciliation of quarterly returns of taxes withheld with annual statement of taxes withheld
  - d. Quarterly return of taxes withheld on wages
1. If individuals perform services as independent contractors, an annual information return should be filed (Form 1099) to report payments totaling \$600 or more made to any individual in the course of trade or business during the calendar year.
  2. Personal Income Tax - The owner estimated taxes liability each year and pay it in quarterly payments using form (1040-ES)

The following schedule table helps depict the data needed by the business owner in meeting federal, state or local tax requirements. The submission, usually accompanied by a payment, is on a monthly quarterly or annual schedule.

Table 6

## Sole Proprietor Federal Tax Calendar

<b>Sole Proprietor Federal Tax Calendar</b>			
<b>Month</b>	<b>Date</b>	<b>Action Required</b>	<b>Tax Form</b>
<b>January</b>	15	Estimated Tax	Form 1040ES
	31	Social security (FICA) tax and withholding of income tax. Note: See IRS rulings for deposits - Pub. 334	Form 941, 941E, 942 and 943
	31	Providing information on social security (FICA) tax and the withholding if income tax	Form W-2 (to employee)
	31	Federal unemployment (FUTA) tax	Form 940-EZ or 940
	31	Federal unemployment (FUTA) tax (only if liability for unpaid taxes exceeds \$100)	Form 8109 (to make deposits)
	31	Information returns to nonemployees and transactions with other persons	Form 1099 (to recipients)
<b>February</b>	28	Information returns to nonemployees and transactions with other persons	Form 1099 (to IRS)
	28	Providing information on social security (FICA) tax and the withholding income tax	Forms W-2 and W-3 (to Soc. Sec. Admin.)
<b>April</b>	15	Income tax	Schedule C (Form 1040)
	15	Self-employment tax	Schedule SE (Form 1040)
	15	Estimated tax	Form 1040ES
	30	Social security (FICA) tax and the withholding of income tax Note: See IRS rulings for deposit - Pub. 334	Forms 941, 941E 942 and 943
	30	Federal unemployment (FUTA) tax (only if liability for unpaid taxes exceeds \$100)	Form 8109 (to make deposits)
<b>June</b>	15	Estimated tax	Form 1040ES

Table 6, cont.

## Sole Proprietor Federal Tax Calendar, cont.

<b>July</b>	31	Social security (FICA) tax and the withholding of income tax Note: See IRS rulings for deposit - Pub. 334	Form 941, 941E, 942
	31	Federal unemployment (FUTA) tax (only if liability for unpaid taxes exceeds \$100)	Form 8109 (to make deposits)
<b>September</b>	15	Estimated tax	Form 1040ES
<b>October</b>	31	Social security (FICA) tax and the withholding of income tax Note: See IRS rulings for deposit - Pub. 334	Forms 941, 941E, 941 and 943
	31	Federal unemployment (FUTA) tax (only if liability for unpaid taxes exceeds \$100)	Form 8109 (to make deposits)

Note: If the tax year is not January 1<sup>st</sup> through December 31<sup>st</sup>:

Schedule C (Form 1040) is due the 15<sup>th</sup> day of the 4<sup>th</sup> month after end of the tax year.

Schedule SE is due same day as Form 1040.

Estimated Tax (1040ES) is due the 15<sup>th</sup> day of 4<sup>th</sup>, 6<sup>th</sup>, and 9<sup>th</sup> months of tax year, and 15<sup>th</sup> day of 1<sup>st</sup> month after the end of tax year.

Table 7

## State and City Tax Reporting Schedule

<b>State and City Tax Reporting Schedule</b>	
<b>State</b>	<b>Schedule</b>
Income Tax (Business)	Annually
Estimated Income (Business)	Quarterly
Withholding Tax	Quarterly
Withholding Tax Deposit	Annually
Sales Tax	Quarterly
Retail Sales License	Once (Start-up)
<b>City</b>	<b>Schedule</b>
Sales Tax	Quarterly
Earnings Tax	Annually
Earning Tax Withholding	Quarterly
Business Earnings and Profit	Annually

Historical Background

The original 'Internet', headed by the Advanced Research Project Agency Network (ARPANET), was a defense department project to build a data communications grid over a distributed network. This project was initiated in the late sixties and was designed to connect distant computers through a patchwork of network connections. The methods they developed included a "protocol" allowing dissimilar computer systems to communicate and a method that routed data through multiple communication paths over a network.

In the late eighties a number of other federal agencies such as the National Science Foundation (NSF) and a number of participating

universities began creating their own network called NSFNET. Utilizing the technology developed by the U. S. Department of Defense, NSF created an array of networks allowing universities and research centers to share computer resources and allowing individuals the opportunity to communicate by e-mail.

### Emerging Trends

The Internet today consists of 25,000 networks that can transfer data via many routes over a vast network. Over the years the number of connections to the Internet has exploded, and the Internet continues to grow at a rate of 15% per month. By April 1997, the U.S. ISP Marketplace will exceed \$2.5 billion in value. Dynamic growth will continue to come from a rapidly expanding cadre of smaller providers and from newer entries with big clout such as AT&T and MCI.

To keep pace with this demand, the number of ISPs is growing rapidly. The ISP market has tremendous opportunities for growth and innovation, as requirements of Internet users are constantly rising.

### Current Market

The Alabama market currently consist of the major national service providers and four privately owned providers of any consequence outside of G-net (Companet, Mobile Internet Services, Renaissance, and Zebra). The national providers are finding that their proprietary systems with closed content and the rest of the Internet now dwarfs high hourly costs at large. Once the only players in the market, their user base now is outnumbered by other Internet businesses and end user accounts by 5 to 1. They will be struggling for many years to deal with this new paradigm shift to a totally open and fully connected computer community, not reliant upon their private content any longer. Of the four privately owned service providers outside of G-net, not one is not currently suffering with a history of poor service and customer dissatisfaction. Additionally, their strategies are hampered by a narrow view and knowledge base of the workings of the Internet and lack the vision to foretell the future paradigm shifts in computer networking. Due to the hyper-paced changes in the online world the largest markets will be shifting from one area to the next. The current trend is to provide connectivity (through dial up modems, ISDN, leased lines, etc.) and World Wide Web page design and hosting. However, this area is only viable as a business target



for the next 24 to 36 months. After this the next paradigm shift will be to provide custom programming and 'project based' Internet services. Only a company operated from a position of insight and experience in this market, operated 'lean' and quickly, can hope to survive and profit in the long term.

### The Internet Market

The market for Internet dial-up services is growing at 10% per month. In the US and Canada one in eleven people has direct access to the Internet. Many more have accounts with on-line services such as America On Line. Based on a competitive study, only one in five hundred people have direct Internet access in the state of Alabama. This represents a tremendous opportunity to provide a service in a market that will grow very rapidly to catch up to the national averages.

This plan is based on operating from a single POP located in Alabama. Alabama has a population of 4.3 million people in 1995. By 2025, it is projected to be the 22<sup>nd</sup> most populous state with 5.2 million people. Based on a November 1998 on-line survey reported in New South:

- 54% have a college degree or above as compared to 15.7% of all Alabama residents
- 22% earn over \$75k annual household income

- 95% use the Internet to research products and services
- 75% would be enticed to buy online if offered a discount

### Pricing Policies

G-net will offer a number of different types of Internet connectivity to its clientele. They will range from a simple dial up accounts to a dedicated, 24 hour access high speed line for government offices or corporations that need access to data. The following wide range of services are also offered:

Table 8

G-net Price Sheet of Services

<b>Account Types</b>		
<b>Description</b>	<b>Monthly Rate</b>	<b>Setup</b>
<b>Gold Personal/Business</b> 1 up to 33.6 or 56k Access Account with Web Page (10MB space w/300MB traffic/mo)	\$17.95	\$20.00
<b>Gold Personal/Business</b> (Prepaid Annually) Same Account as above (see note below)	\$ 12.95	\$ 20.00
<b>Silver Personal/Business</b> Same as Gold except 1 email and from 7-11PM Sun-Thurs access is by Express Account only	\$ 15.95	\$ 20.00
<b>Silver Personal/Business</b> (Prepaid Annually) Same Account as above (see note below)	\$ 8.25	\$ 20.00
<b>Express Account</b> (Special Plan) Full Internet - great for employees (call for details)	\$ 6.95	\$ 10.00

Table 8, cont.

## G-net Price Sheet of Services, cont.

<b>Express Account</b> (Prepaid Annually) Same as above. (see note below)	\$ 3.95	\$ 10.00
<b>Business Email Package 1</b> Access Account, 5 Email Boxes and Web Space (10MB space w/300 MB traffic/mo)	\$ 27.95	\$ 25
<b>Business Multi Acct Package 5</b> Access Accounts, 5 Email Boxes, Web Space as above (14% prepay disc)	\$ 75.00	\$ 85.00
<b>Dedicated 33.6 kbps Dialup Line</b> 1 up to 33.6 Dedicated Access for your own 24 hr. server (Web Same as Above)(no discounts)	\$ 84.95	\$ 95.00
<b>Email Specials - All emails are individual Mini-dialup accounts !</b>		
<b>Description</b>	<b>Monthly Rate</b>	<b>Setup</b>
<b>Email-Only Domain</b> Great for people who don't want a domain web page, but want an email address such as ourname@yourcompany.com!	\$ 5.00	\$25.00
<b>Additional Email Boxes</b> Extra Email Boxes for Family/Friends/Co-workers.	\$ 5.00	\$ 5.00
<b>Unlimited Domain Email Aliases</b> Mail sent to anywhere@yourdomain.com can be set up online to be sent to specific email accounts!	\$ FREE	\$ FREE
<b>Mail Forwarding</b> Mail sent to your account can be forwarded to whatever email addresses you specify, online!	\$ FREE	\$ FREE
<b>Web Page Hosts</b>		
<b>Description</b>	<b>Monthly Rate</b>	<b>Setup</b>
<b>WWW Page Business Package 2</b> Access Accounts, 14 email boxes and Web Page Domain Hosting #1	\$ 59.95	\$ 65.00
<b>10 MB Additional Web Page Disk Space</b> Space that's not included in your web plan.	\$ 10.00	\$ 10.00

Table 8, cont.

## G-net Price Sheet of Services, cont.

<b>1 GB Additional Web Page Bandwidth</b> Bandwidth that's not included in your web plan	\$ 10.00	\$ 10.00
<b>Secure Server</b> Ability to have HTML and CGI access to our secure server, secure.avana.net. Only available with a Hosting plan.	\$ FREE	\$ FREE
<b>Frontpage WebBots/Wizards Domain</b> FrontPage WebBot Ability (in addition to	\$ FREE	\$ FREE

Advertising Plans

The specific details of the marketing program and strategies will be developed by G-net in an attempt to excel at internal marketing and make it a priority to generate business from its prospective customers. This summary outlines the market programs and specific implementation strategies planned:

1. **Public Relations.** G-net plans to access the public relations efforts through appearing on radio talk show and with local interest groups and writing articles. These efforts will be formalized further by creating "pitch" letters, developing press releases finding and approaching media contacts, and making follow-up calls.
2. **Advertising.** Materials will be developed that promote the uniqueness of G-net. Although the specific types of media to be utilized have not been defined, G-

net will select the specific advertising media that will appropriately express the best for the company.

#### Site and Facility Description

G-net will occupy a facility of slightly over 6,150 square-feet. The existing space is adequate to support the company's need for present and future team members. The building has newly installed ISDN telephone wiring in the building, parking access, security and proximity to major highway thoroughfares (20 and 59) (459, 280, 65).

#### Equipment Description

The company owns all equipment. New capital will be used to purchase additional equipment and upgrading of certain hardware.

#### Investment Required

The figures in Table 3 are based on an average cost of starting a local ISP to accommodate up to 33 simultaneous dial up users. The cost to start an ISP can vary across the spectrum, depending on the initial requirements. Individuals who procure computer equipment on a consistent basis would be pleased to note the decrease in costs of computer equipment. In contrast, those who have limited exposure in purchasing computer equipment would find prices to be

considerably more expensive. The initial investment does not include rent or leasing of an office space since the services being provided can be a home based operation.

Table 9

## Internet Service Provider Example Investment Work Sheet

Component	Description	Cost*
Internet Server	Sun Netra i5	\$ 14,200.00
ISP setup	DNS, Mail Server, Web Server, Security, Radius	8,200.00
Hardware Maintenance	Annual fee	350.00
Comm Server	Livingston Portmaster w/ 30 ports	3,295.00
30 Modems	v.34 USR Courier w/ cable @ \$415 ea.	12,450.00
News Server	Sun Spare 20 w/ 10 Gbytes of disk	25,900.00
Hardware Maintenance	Annual fee	825.00
Inn Install and Customization	Set up complete news server	4,500.00
T1 Internet connection	UUNet Raw Internet (2,000 setup, 1,000 monthly)	5,000.00
Router Bundle	Cisco Router + CSU/DSU, cables, install, etc.	3,895.00
UPS 1400	Uninterruptible Power Supply	1,100.00
Racks and power cords	19" shelf rack	1,500.00
Ethernet Hub	Hub, cable, tranceivers	950.00
Total Initial Investment		\$ 82,165.00
Working capital (From Cash Flow Analysis, worst cumulative net)		74,200.00
Required Capital for start-up		\$ 156,365.00

SOURCE: Social Systems Press, "How to Build an Internet Service Company," by Charles H. Burke (1996).

### G-net History

G-net was developed out of the market desire for clean well-serviced Internet Providers to focus on the local business market. The need for such services is at an all time high and the current providers are unable to fulfill this need in a timely cost-effective manner. G-net identified this void in the local marketplace and set in place a plan to service these customers effectively.

### Operating Income Statement

The income statement has several important presumptions. The first is that G-net has based it's profit and loss on the following: each month G-net will sign up 500 basic internet accounts, and maintain all of them for the first year. Every month G-net will sign up 50 WWW Business package accounts. The ISP is expected to produce profits during the last three years.

Table 10

#### G-net Income Statement Year 1 through Year 2

	Year 1	Year 2	Year 3	Year 4	Year 5
<b>ISP BUSINESS COSTS</b>					
Equipment	\$111,000	\$686,000	\$3,870,712	\$7,987,486	\$9,971,024
Line Lease	\$1,572,864	\$7,766,016	\$32,636,928	\$62,226,432	\$76,283,904
Staff	\$250,000	\$350,000	\$450,000	\$500,000	\$600,000
Marketing	\$0	\$150,000	250,000	\$250,000	\$300,000

Table 10 cont.

## G-net Income Statement Year 1 through Year 2, cont.

Overhead	\$120,000	\$200,000	250,000	\$300,000	\$300,000
<b>TOTAL</b>	\$2,053,864	\$9,152,016	37,457,640	\$71,263,918	\$87,454,928
Dial Access	\$960,000	\$6,240,000	36,341,760	\$75,590,861	\$94,337,394
<b>Network Access</b>					
64K	\$72,000	\$261,000	\$939,816	\$1,349,755	\$1,548,435
128K	\$90,193	\$481,029	\$901,930	\$1,503,216	\$1,803,859
256K	\$60,129	\$360,772	\$841,801	\$1,202,573	\$1,443,087
512K	\$0	\$120,257	\$360,772	\$601,286	\$721,544
<b>TOTAL</b>	\$1,182,321	\$7,463,058	\$39,386,078	\$80,247,691	\$99,854,319
<b>EXPENSES</b>	\$2,053,864	\$9,152,016	\$37,457,640	\$71,263,918	\$87,454,928
<b>PROFIT/LOSS</b>	-\$871,542	-\$1,688,958	\$1,928,438	\$8,983,773	\$12,399,391

Ownership

The principle owner of G-net will be Gia K. Reynolds. Table 6 outlines Mr. Reynolds' education and experience.

Table 11

Resume  
Gia K. Reynolds

**EXPERIENCE DETAILS:****EDS Corporation:**

**Company, Location:** SaaB Cars USA, Inc. Norcross, GA July 1997 to present

**COE Helpdesk Coordinator**

**Responsibilities:** Coordinate technical support for Windows 95, Lotus Notes and AS/400. Successfully research complex problems and questions responding with answers or interventions, providing assistance, tracking calls, analyzing call data for trends and common system problems.

**EDS Corporation:**

**Company, Location:** SaaB Cars USA, Inc. Norcross, GA July 1997 to present



## Table 11, cont.

## Resume

Gia K. Reynolds, cont.

**Telecom / PBX Administrator**

**Responsibilities:** Daily management of software adds, moves and changes on a AT&T Definity G3 communications system. Assist and/or lead small projects regarding hardware and software installations. Meet with clients, work closely with other providers and vendors.

**EDS Corporation:**

**Company, Location:** Electronic Data Systems Corporation, Montgomery, AL  
January 1996 to July 1997

**System Administrator**

**Responsibilities:** Perform all networking and data communication system design and installation, including full Netware and LAN/WAN applications. Effectively hire, train and supervise up to

**Business Analysts**

three employees. Manage a network of 400 nodes; oversee and assist in all hardware and software selection and updating; manage T1s leased lines and dial ups. Install and troubleshoot wiring and systems to board level; configure hard drives, backup devices.

**EDS Corporation:**

**Company, Location:** Electronic Data Systems Corporation, Montgomery, AL  
March 1994 to January 1996

**Responsibilities:** Maintains Configuration Management software systems used to control deliverable software, providing standard and ad hoc reporting using dBASE IV. Maintains baseline control of CAS software baselines. Coordinates and corrected Difficulty Reports. Perform data entry concerning new and updated data about controlled software. Researches areas for more efficient automation.

**EDS Corporation:**

**Company, Location:** Electronic Data Systems Corporation, Project 80X, St. Louis, MO  
May 1991 to April 1994

**Production Analyst**

**Responsibilities:** Monitored and distributed system resources using IBM 3090-400 processor complexes in a VM/XA, MVS/XA, and MVS/ESA/XA environment. Supported telecommunications environment using VTAM/NCP and CICS. Supervised, evaluated, and implemented quality control procedures.

## Table 11, cont.

## Resume

Gia K. Reynolds, cont.

**EDS Corporation:****Company, Location:** Electronic Data Systems Corporation, ASIMS, Norcross, GA

October 1987 to May 1991

**Scheduler**

**Responsibilities:** Scheduled, processed, verified, and distributed computer system resources using AMDAHL 5890/300E processor complexes. Ensured timely completion of production and maintenance cycles. Maintained telecommunications environment to ensure network and hardware problems were resolved in a timely manner.

**EDUCATION:** Bachelor of Arts: Business Administration 1985  
Talladega College, Talladega, AL

Business Philosophy

The business philosophy of G-net will be based on four factors which are the common denominator for the successful operation of any ISP: product quality, service, customer involvement, and consistency.

G-net will strive to satisfy its customers' needs and attempt to comply with their recommendations.

G-net will be consistent with its treatment of product quality, service, and customer involvement.

The customer will be the most important aspect of the G-net's business. The customers' needs and wants will always be the focus of the ISP.

### Financial Projections

The financial section of this business plan will cover the following areas: goals established, direct costs, indirect costs, Pro Forma Cash Flow analysis, capital required, recordkeeping, taxes, and an insurance plan.

G-net financial statements included in this business plan are based on projections that will be met through advertising, press releases and contacts that will be pursued by G-net. In addition, there will be cold calling, seminars and other incentives offered to customers to choose G-net Internet Services, Inc. as their connectivity partner.

### Income Statement

G-net income statement has several import presumptions. The first is that we have based our sales figures on the following: each month G-net will sign up 200 Internet accounts. Every month G-net will sign up 200 new Business level Internet accounts with a company web site.

G-net proposed pricing schedule is tied to their predicted monthly income. The core of their business will be home and business Internet connection, but will develop other means of generating revenues.

### Pro Forma Cash Flow

G-net pro forma cash flow's figures are based on the results of the income stream less recapturable non cash expenses such as depreciation liabilities incurred. The output of capital expenditures are monies spent for additional modems, computer equipment and connections to allow for a greater number of incoming phone lines to service a growing customer base. By the end of the fiscal year, G-net hope to have 175 incoming lines operated by approximately 6 people.

### Balance Sheet

The initial cash balance for January is the \$100,000 equity contributed by the investors less \$25,000 for initial equipment purchased, \$29,365 for the first month's reported loss, and \$8,000 for deposits for phone lines, leased line and rent.

The first month's capital assets include all of the equipment purchased to start the business, and the office equipment.

The February cash balance is what was available at the beginning of the month less the loss for the month.

G-net will be on cash basis of accounting consequently all bills will be paid as they come due. In that we are a service business, there are no accounts receivable (all accounts will be paid by credit

card except for government and corporate accounts). (There will be no borrowing other than the initial influx of capital from the investors.) Likewise, there will be no long-term liabilities, and no other assets except for the equipment and any potential good will that may be developed as time goes by.

The following paragraphs is an explanation of Pro Forma Income Statement in Table 12, Pro Forma Cash Flow Table 13, and Pro Forma Balance Sheet Table 14. The narrative includes a line-by-line description of the figures entered.

#### Pro Forma Income Statement

1.           Line 1   -    The figure on this line represents the total amount of sales for each month.
2.           Line 2   -    The figure on this line represents the cost spent on sales and marketing.
3.           Line 3   -    This figure represents the sum of cost for advertising.
4.           Line 4   -    This figure represents the sum of cost of miscellaneous expenses.
5.           Line 6   -    This figure represents the total sale and marketing expenses.
6.           Line 12 - This figure represents payroll taxes owed.

7. Line 20 - This is the sum of all general and administrative expenses.
8. Line 23 - This figure represents the net profit.

Pro Forma Cash Flow Year 1

1. Line 1 - This figure represents the net profit.
2. Line 12 - This figure represents the amount of receivables.
3. Line 16 - This figure represents the total of net cash flow.

Pro Forma Balance Sheet Year 1

1. Line 1 - This figure represents the amount of cash on-hand.
2. Line 5 - This figure represents total short-term assets.
3. Line 8 - This figure represents the total long-term assets.
4. Line 15 - This figure represents the total amount of paid capital.
5. Line 18 - This figure represents the total amount of debt and equity.

Table 12 Pro Forma Income Statement Year 1

	January	February	March	April	May	June	July	August	September	October	November	December
<b>Sales</b>	10,050	20,100	30,150	40,300	50,250	60,300	70,350	80,400	90,450	100,500	110,550	120,600
<b>Sales/Marketing</b>	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
<b>Advertising</b>	20,577	20,577	20,577	20,577	20,577	20,577	20,577	20,577	20,577	20,577	20,577	20,577
<b>Miscellaneous</b>	200	200	200	200	200	200	200	200	200	200	200	200
<b>Other</b>	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
<b>Total Sales &amp; Marketing Expenses</b>	23,777	23,777	23,777	23,777	23,777	23,777	23,777	23,777	23,777	23,777	23,777	23,777
<b>Admin. Salaries</b>	4,000	4,000	4,000	8,000	8,000	8,000	12,000	12,000	12,000	15,000	15,000	15,000
<b>Utilities</b>	900	900	900	900	900	900	900	900	900	900	900	900
<b>Insurance</b>	325	325	325	325	325	325	325	325	325	325	325	325
<b>Rent</b>	600	600	600	600	600	600	600	600	600	600	600	600
<b>Depreciation</b>	583	583	583	583	583	583	583	583	583	583	583	583
<b>Payroll Taxes</b>	1,080	1,080	1,080	1,800	1,800	1,800	2,520	2,520	2,520	3,060	3,060	3,060
<b>Utilities</b>	475	475	475	475	475	475	475	475	475	475	475	475
<b>Postage &amp; Shipping</b>	250	250	250	250	250	250	250	250	250	250	250	250
<b>Licenses</b>	250	0	0	0	0	0	0	0	0	0	0	0
<b>Office Supplies</b>	100	100	100	100	100	100	100	100	100	100	100	100
<b>Leased Line</b>	2,800	2,800	2,800	2,800	2,800	2,800	2,800	2,800	2,800	2,800	2,800	2,800
<b>Telephone Service</b>	1,475	1,475	1,475	1,950	1,950	1,950	4,350	4,350	4,350	6,000	6,000	6,000
<b>Internet Connection</b>	2,800	2,800	2,800	2,800	2,800	2,800	2,800	2,800	2,800	2,800	2,800	2,800
<b>Total General &amp; Admin. Expenses</b>	15,638	15,638	15,368	20,583	20,583	20,583	27,703	27,703	27,703	32,893	32,893	32,893
<b>Profit Before Interest &amp; Taxes</b>	-29,365	-19,315	-8,995	-4,160	5,890	15,940	18,870	28,920	38,970	43,830	53,880	63,930
<b>Income Taxes</b>	0	0	0	0	442	1,196	1,415	2,169	2,923	3,287	4,041	4,795
<b>Net Profit</b>	-29,365	-19,315	-8,995	-4,160	5,448	14,745	17,455	26,751	36,047	40,543	49,839	59,135

Table 13 Pro Forma Cash Flow Year 1

	January	February	March	April	May	June	July	August	September	October	November	December
<b>Net Profit</b>	-29,365	-19,315	-8,995	-4,160	5,448	14,745	17,455	26,751	36,047	40,543	49,839	59,135
<b>Depreciation</b>	583	583	583	583	583	583	583	583	583	583	583	583
<b>Change In Account Payable</b>	0	0	0	0	0	0	0	0	0	0	0	0
<b>Current Borrowing</b>	0	0	0	0	0	0	0	0	0	0	0	0
<b>Increase(Other)</b>	0	0	0	0	0	0	0	0	0	0	0	0
<b>Liabilities</b>	0	0	0	0	0	0	0	0	0	0	0	0
<b>Long Term Borrowing</b>	0	0	0	0	0	0	0	0	0	0	0	0
<b>Capital Input</b>	100,000	0	0	0	0	0	0	0	0	0	0	0
<b>Subtotal</b>	71,218	-18,732	-8,412	-3,577	6,031	15,328	18,038	27,334	36,630	41,126	50,422	59,718
<b>Change In Accounts Receivable</b>	0	0	0	0	0	0	0	0	0	0	0	0
<b>Capital</b>	25,000	0	0	5,700	0	0	14,250	0	0	9,500	0	0
<b>Expenditures</b>	1,080	1,080	1,080	1,800	1,800	1,800	2,520	2,520	2,520	3,060	3,060	3,060
<b>Dividends</b>	0	0	0	0	0	0	0	0	0	0	0	0
<b>Net Cash Flow</b>	46,218	-18,732	-8,412	-9,277	6,031	15,328	3,788	27,334	36,630	31,626	50,422	59,718



Table 14 Pro Forma Balance Sheet Year 1

	January	February	March	April	May	June	July	August	September	October	November	December
<b>Cash</b>	37,635	18,320	9,325	5,165	10,613	25,358	42,813	69,564	105,611	146,154	195,993	255,128
<b>Accounts Receivable</b>	0	0	0	0	0	0	0	0	0	0	0	0
<b>Inventory</b>	0	0	0	0	0	0	0	0	0	0	0	0
<b>Other S/T Assets</b>	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total S/T Assets</b>	37,635	18,320	9,325	5,165	10,613	25,358	42,813	69,564	105,611	146,154	195,993	255,128
<b>Capital Assets</b>	23,000	23,000	23,000	28,700	28,700	28,700	40,100	40,100	40,100	49,600	49,600	49,600
<b>Accumulated Dep.</b>	0	638	1,276	2,072	2,880	3,688	4,693	5,867	7,036	8,471	9,876	11,315
<b>Total L/T Assets</b>	23,000	23,362	21,724	26,628	25,820	25,012	35,407	34,233	33,064	41,129	39,724	38,285
<b>Accounts Payable</b>	0	0	0	0	0	0	0	0	0	0	0	0
<b>Short-Term Notes</b>	0	0	0	0	0	0	0	0	0	0	0	0
<b>Other S/T</b>	0											
<b>Total S/T</b>	0	0	0	0	0	0	0	0	0	0	0	0
<b>Liabilities</b>	0	0	0	0	0	0	0	0	0	0	0	0
<b>Long Term</b>	0	0	0	0	0	0	0	0	0	0	0	0
<b>Paid in Capital</b>	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000
<b>Retained Earnings</b>	0	0	0	0	0	0	0	0	0	0	0	0
<b>Earnings</b>	-29,365	-19,315	-8,995	-4,160	5,448	14,745	17,455	26,751	36,047	40,543	49,839	59,135
<b>Total Equity</b>	70,635	80,685	91,005	95,840	105,448	114,745	117,455	126,751	136,047	140,543	149,839	159,135
<b>Total Debt &amp; Equity</b>	70,635	80,685	91,005	95,840	105,448	114,745	117,455	126,751	136,047	140,543	149,839	159,135

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