

An Internet service provider is reborn

Ashok Kalle couldn't stay away from Pathway Communications

PATHWAY COMMUNICATIONS

BY HOWARD SOLOMON

Once bitten, twice shy, they say.

Ashok Kalle's been bitten twice by the Internet and he's not shying away at all.

The entrepreneur is president of Pathway Communications for the second time, having bought the assets of the Toronto-area ISP back from the bankrupt local phone provider he sold it to during the dot-com boom.

Since then he's expanded into software and is about to move into the U.S.

"Business is going exceeding well," he reports.

That's a contrast to the industry, which is "not particularly healthy," says Brian Sharwood, a principal with the SeaBoard Group.

Rogers and Bell have a hammerlock on high speed services, he said. ISPs are hoping a review of federal telecommunications regulations will somehow come to their aid.

Revenue tripled

Kalle, however, sees only the upside.

Since re-acquiring Pathway in 2001 income has tripled and the number of employees has increased from 22 to 120.

The company is profitable, he says, with revenues of just under \$10 million, a figure he wants to double in the next two years.

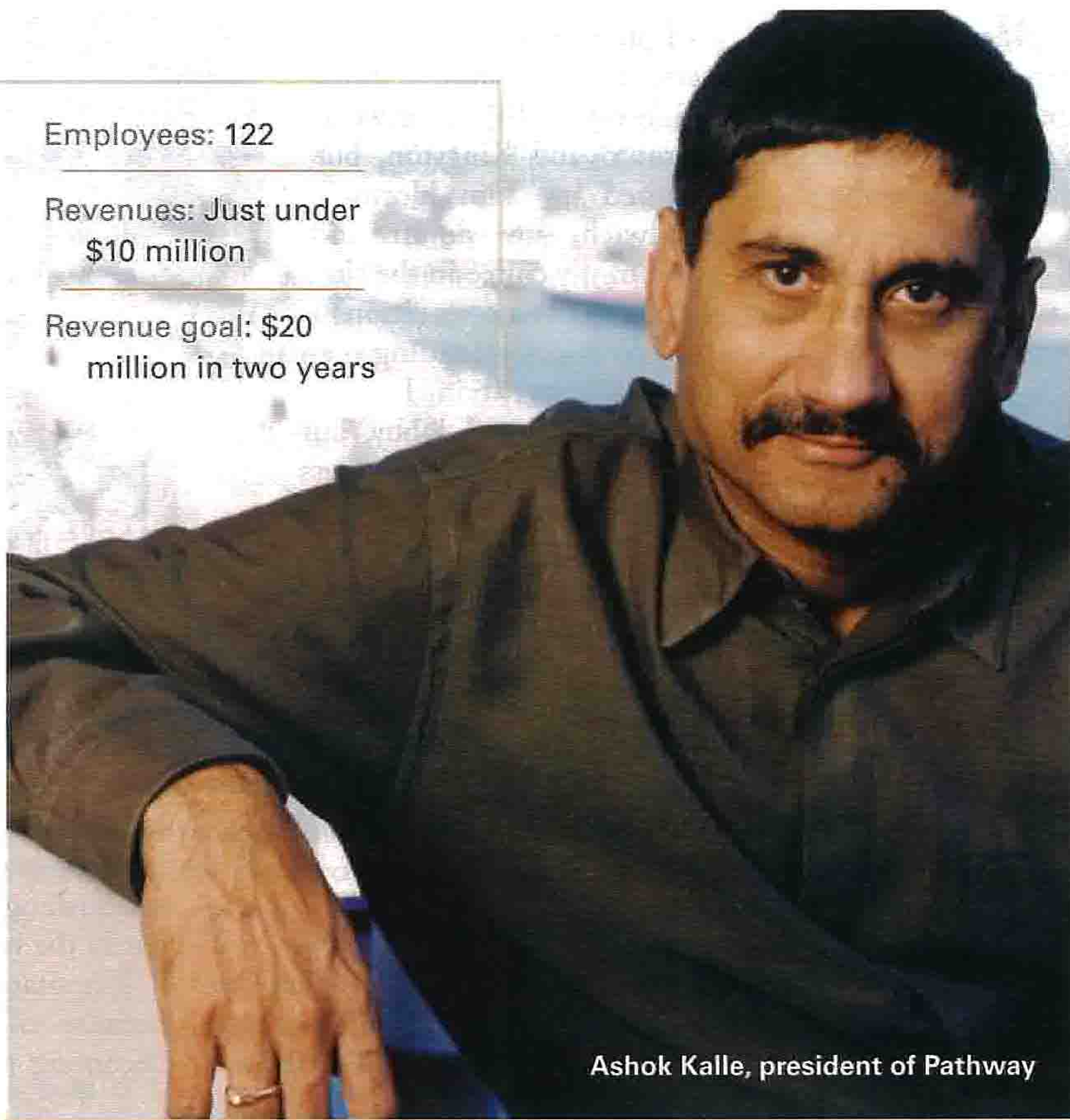
"We tried to stay out of the rat-race of competing with the giants on price," he explains, who are pricing Internet access at what he believes is an "untenable" price.

Pathway has taken a two-part strategy: The first is charging a premium to business customers for service, justifying it with extras that some competi-

Employees: 122

Revenues: Just under \$10 million

Revenue goal: \$20 million in two years



Ashok Kalle, president of Pathway

tors don't offer. These include spam control, intrusion detection and security assessments.

While the company has a support centre here, it also opened one in India where costs are lower, to offer customers a choice: Have calls answered locally, or overseas for a slightly lower fee.

Technicians there are trained to have a North American accent, he added.

It also offers a free collaboration tool for business subscribers as an alternative to Lotus Notes or Microsoft Exchange.

The second strategy is diversification. Through a division called Net Pulse and a collaboration with a Romanian company, it has developed corporate anti-virus and spam control software appliance, and a network management appliance.

Both will be sold through the channel.

One VAR is selling the anti-virus appliance, but Kalle decided to overhaul the product

before aggressively looking for more.

To be sold for about US\$3,000, the new version should be ready shortly, he said.

"We are in the process of setting up a fairly extensive distribution network both here and in England," he says.

The network management appliance will be sold to telcos and ISPs for remotely monitoring networks.

Going south

Already offered as a service to Pathway customers for watching routers, switches and printers, it will eventually add the ability to monitor desktops and applications, he says.

"In 2005 we will take this business into the U.S.

"We've found people make decisions much faster there and are willing to say, 'If you can save us 30 per cent of our costs of technology support and give us rock-solid service level agreement we'll sign you up.'

"We've already signed up three customers in four months and they're providing us with a fairly substantial increase in revenues."

If that isn't enough, he's thinking of acquisitions, especially if the company grows in the American market.

Pathway will also be adding to its services offerings this year, including remote data backup, remote patch management and desk-top support.

Still, he acknowledges one mistake: not getting into outsourcing fast enough.

"We spent time thrashing around trying to sell (the network management) software and thinking it would take off," he explains.

Recurring revenue

"My model — and I strayed from it, and that was a mistake — is to go for a [product with a] recurring revenue stream where once a customer signs on it becomes so entrenched it becomes difficult to switch."

Despite that error, he has no regrets about giving Pathway a second life.

When he first opened an ISP "people told me I was being stupid: 'This Internet thing will never work, you'll be bankrupt within six months.'

"Many ISPs went bankrupt. We didn't.

"When I bought [Pathway] back in 2001 they said: 'This time you're really screwed because the first time you got away with it, but the market just collapsed.'

"But we played our cards reasonably well."

Looking back he reflects, "We couldn't have been all that stupid." |