

The Cloud to Connections: 5 Market Changers to Watch

ISC West is one of the best places to learn what is changing the market—based on what you see on the show floor and hear (or don't hear) in the aisles. Here's the list of what I think will be the five most significant market changes in 2011.

1. The Cloud

Hosting or delivering Web-enabled services gained market acceptance as capital budgets were slashed or eliminated in this deep recession. Even though funding is more available today, Security as a Service (SaaS), or cloud computing, remains the new normal as users realize its key benefits—reducing up-front cost and avoiding technology obsolescence.

Moving business information in the cloud is powerful, but we're in a new phase of information sharing—allowing others to access aspects of our information—that's creating more benefits and value. It's unclear how this will evolve, but security providers are at the forefront of bringing together voice, data, video, and other information. If knowledge is power, sharing real-time information in the public and private sectors will change the market.

2. The Internet: Doing for Integrators What the Digital Dialer Did for Alarm Dealers

The digital dialer has been the foundation for alarm monitoring for more than 35 years and a source of highly profitable recurring revenue (RMR). But the industry will have to find a replacement for the dialer soon because phone companies are phasing out the POTS (plain old telephone service) lines that over 86 percent of monitored alarms use. Many dealers are already moving to other technologies (Internet, cellular), as are system integrators who realize they can use these to provide more value-added services. This also moves integrators to the RMR business model and makes them logical partners for software developers, communication companies, and Internet providers of every ilk; a trend that will change the industry landscape. In a recent survey, 75 percent of integrator respondents said they added new services in 2009 and 2010. The most frequently mentioned were remote video/access control, hosted access control, video verification, and remote energy monitoring. All of these



>> BY SANDRA JONES, SANDRA JONES AND CO.

leverage the Internet. It won't be long before integrator transactions shift from a multiple of EBITA to a multiple of RMR.

3. The Verified Alarm: Growing Profits and Improving Security's Relationship With First Responders

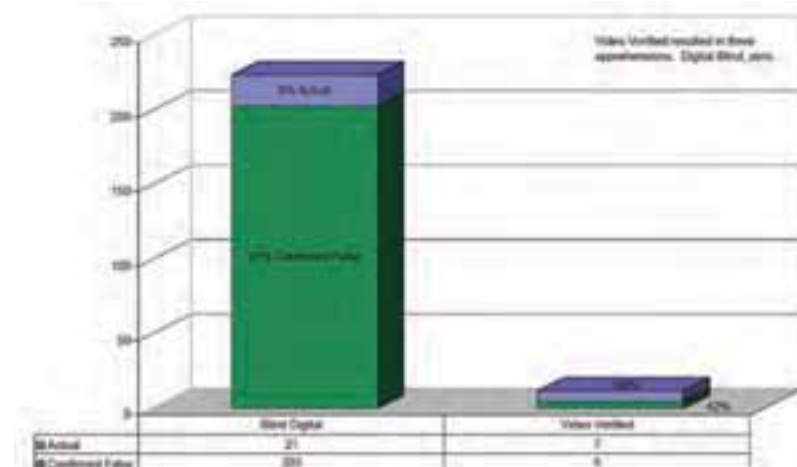
Video verified alarms, which significantly reduce false alarm dispatches, have dramatically changed the industry's relationship with first responders. These alarms have proved so reliable that cities such as Detroit and New York give priority response to video verified alarms. Building bridges with first responders should be motivation enough for the industry to embrace video verified alarms, but there are other compelling factors, as shown on the Video Verification table, including giving customers a premium service that warrants a premium price and adding cash flow and accelerating long-term valuations through premium pricing.

We expect other significant changes in the video market as new technologies and software providers become the new market leaders, pushing current market giants into secondary positions.

4. The Players: More Acquisitions, Affiliations, and Partnerships

The security industry continues to attract new entrants, strategic buyers, and private equity. There were several significant transactions in 2010 and more are expected over the next two years as the industry continues to consolidate and expand its service

ONE MONTH COMPARISON Digital Blind vs. Video Verified Dispatches



© 2010 Sandra Jones and Company

>> THIS SIMPLE EXAMPLE FROM JUST ONE CENTRAL STATION OVER A 30-DAY PERIOD ILLUSTRATES THE ADVANTAGE VIDEO VERIFIED SYSTEMS HAVE OVER "BLIND" ALARMS. IMAGINE THE IMPACT OVER A YEAR AND ACROSS THE COUNTRY!

VIDEO VERIFICATION Impact of Change

	Basic Alarm System	Premium Service Video Verified Alarms
Billed RMR	\$24.99	\$39.99
Annual RMR	\$24,990	\$39,990
Multiple	34	34*
Valuation	\$849,660	\$1,359,660
Valuation Increase		\$510,000
% Increase		60%

© 2010 Sandra Jones and Company

>> VIDEO VERIFIED ALARMS ENABLES INTEGRATORS TO OFFER CUSTOMERS A PREMIUM SERVICE THAT WARRANTS A PREMIUM PRICE, ADD CASH FLOW, AND ACCELERATE LONG-TERM VALUATIONS THROUGH PREMIUM PRICING.

offering. Scale, market dominance, and improved profits are always drivers for acquisitions and consolidation, but another key driver is simplifying technology at the manufacturing level so security installers and users no longer have to spend so much time on the wrong things. Simplification took place in the past when security components integrated, blended all aspects of physical security, and converged with IT. By blending technologies at the manufacturing level, the market will continue to improve and deliver operational value to buyers. Suppliers realize that customers want a trouble free, end-to-end solution, so partnerships and affiliations are becoming the new normal for doing business.

5. The Connection: Wireless Technologies

A big change is underway as more smart services are provided through smart devices and devices that can be connected—but not with wires. Spend time at ISC looking at the new wireless solutions. The connectivity they and the Internet provide will put security into the connected and intelligent environment. ■

Since 1990 Sandra Jones's consulting firm (www.sjandco.com) has assisted integrators, dealers, manufacturers, new-entrants, and investors with profit development strategies, M&A support, and business growth planning. Sandra developed the New Product Showcase for SIA and is a founder of the Securing New Ground Conference.