

## Top 5 Trends, Challenges & Projections How the Experts See It



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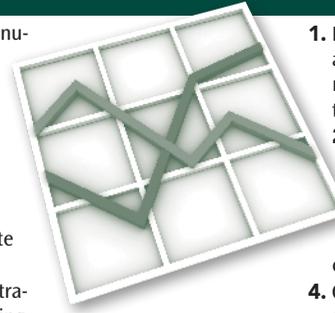
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### TRENDS in 2011

1. Sophisticated enterprise solutions raised the bar for the integrator community; IT knowledge and skills are increasingly market drivers
2. Reduced budgets in North America and Europe led Tier 1 and Tier 2 firms to pursue emerging markets expansion and to consolidate
3. Large players reshuffled, reorganized and re-branded (Siemens, ADT, Stanley, UTC, etc.) as part of an overall trend toward consolidation
4. Integrated/managed services gained traction with customers looking for cost-effective advanced solutions to manage platforms holistically
5. Cyber/cloud players continued to grow in terms of customer mind- and wallet-share, becoming even more attractive targets for acquisition

1. Mergers and acquisitions continued to be strong with the purchase of small- to medium-sized companies, primarily to increase RMR
2. The continued growth in sales of CCTV products and the advancement of technology in analytical products
3. The battle to keep and continue to use radio frequencies assigned to our industry and to keep those frequencies from being auctioned off
4. Electronic communication between PSAPs and central stations took a major leap forward with the new Automated Secure Alarm Protocol (ASAP) technology; spoken words between central station operators and 911 centers will soon be a thing of the past
5. Budget-strapped police and fire departments nationwide increased nonresponse posture, even though the industry has reduced false dispatches

1. Consolidation of the security manufacturer, security distributor and the physical security integrator continued to have a significant impact
2. Alarm companies embraced video verification
3. Security integrators embraced remote access control and remote video guarding
4. Security integrators looked past traditional banks for project financing
5. IT no longer a mystery to the security integrator community



1. Increased competition from municipalities and other governmental entities offering monitoring services as a way to supplement their revenues
2. The continued integration of device automation and energy management into home security systems
3. Use of application-based control of electronic security systems via personal communications devices
4. Continued emphasis on maximizing "priority response" and managing the number of false alarms, including integration of CP-01 technologies
5. Clearly identifiable rebound in consumer demand in the residential market

1. Continued movement toward cloud-based software-as-a-service (SaaS) and managed security services
2. IP video increasingly used as an alarm verification tool and end user value-add for sales (i.e. virtual guard tours)
3. Increased offering of integrated video, access and intrusion detection solutions
4. Increased end-user adoption of the handheld device as a control and reception device for event notification and streaming video from a system
5. Increased industry partnering/acquisitions that allow organizations with disparate strengths and special knowledge to offer more complete security solutions

1. Megapixel cameras drove increased acceptance of IT and network video
2. Continued to build positive relationship with first responders through verified alarms
3. Acquisitions of scale continued to drive mergers and acquisitions
4. Installers delivering higher value to customers by refining their focus by market sector
5. Successful management teams obtained significant funding and support from PE firms and lenders

### INDUSTRY Challenges

1. Recognizing/prioritizing key technologies and services that represent the greatest opportunity for sustained growth and customer ROI
2. Margin pressures on specialist service providers as bundled service offerings gain traction; increasing threat to access control businesses
3. Visionary investment in new security technologies and solutions likely to be hindered in the current tough economic climate
4. Move from stovepipe to integrated solutions will cause further price erosion for hardware-centric integrators with limited IT/software skills
5. Tech players (IBM, Google, etc.) are leveraging their expertise in integrated enterprise approach, changing the face of the industry

1. Licensing issues continue to be a challenge for those companies operating in multiple jurisdictions
2. Maintaining the necessary high level of training for central station operators as the demand for additional managed services continues, and the constant changes and upgrades in central station-related equipment
3. Keeping cash-flow levels manageable by maintaining high levels of installation dollars, and the timely collection of those dollars, needed to maintain a healthy cash-flow position
4. Providing courteous, professional and timely service for the customer is a key to controlling attrition.
5. A challenge in the administrative-human resources area is maintaining the proper balance of employee salaries, wages and benefits to keep good personnel

1. Dealing with consolidation indigestion
2. Lack of financing available for physical security integrators
3. Lack of adequate funding or reduced funding for the security end-user community
4. Bringing the logical, physical and the end security executives together for the common good of the end user
5. Lack of standards and the continued lack of cooperation between manufacturers and standards groups and associations



1. Working in cooperation, rather than competition, with municipalities and governmental entities both at the local and federal levels
2. Adapting to the continued development and implementation of new technologies, such as smartphones, tablets, video, remote access, and maximizing their potential as effective security solutions
3. Adjusting to the inexorable decline of existing technologies and infrastructure, such as POTS lines and outdated home and office equipment; and communicating that urgency to potential and existing customers
4. Continuing to push for federal legislation that allows security industry companies to access the FBI's database for criminal background checks for new employees, ensuring a secure workforce
5. The need to attract qualified talent for the industry's projected employment growth

1. Learning how to correctly price RMR for new security service bundles and technologies
2. Educating consumers about new security product offerings enabled by the changing technological landscape
3. Anticipating the impending 2018 sunset of the public switched telephone network (PSTN) and its effect on the installed base of security systems
4. Recognizing that increased consumer demand for 4G mobile services will put pressure on the industry to become more creative
5. Responding to challenges with the financial industry accepting new sources of RMR other than traditional alarm monitoring in valuations

1. Commercial integrators developing the sales and IT skills needed to influence C-level or IT buyers
2. Effectively marketing to two groups; those who use social media and those who don't
3. Getting more than the top integrators to implement a robust RMR business model
4. Discovering what we thought was really secure can be hacked or compromised
5. Greater disparity and go-to market strategies between commodity suppliers and those who provide service

### PROJECTIONS for 2012

1. Sector interest from defense primes and technology players looking to drive share gains in the higher growth security market(s) prompts M&A
2. Consolidation/acquisition will be more aggressive where there is the opportunity to gain converged physical/logical/cyber/cloud assets
3. Large players focusing on emerging markets to maintain revenue growth and penetration of underserved markets with limited local competitors
4. Compliance drives growth (e.g. health care, government, education, finance) providing competitive advantage to those with compliance tools/services
5. Cyber/cloud, physical/logical, energy/compliance increasingly critical specifications for enterprise-wide opportunities, creating competitive advantage

1. Further advances in industry-related equipment technology will increase the need for continuous education for central station operators, as well as technicians and installers
2. Continuing aggressive acquisitions to grow the customer base and help offset attrition rates; finding financial institutions willing to loan to the industry will remain a challenge
3. Growing RMR internally through new and creative methods monitored of managed services, such as CCTV, access systems and electronic guard tours
4. Continued efforts to provide communications programs for customers. One call a year will increase your internal sales 22 percent or more
5. The continued growth of online training courses, which play a key role in helping employees stay up-to-date with the industry

1. Continued consolidation in the security manufacturing and the physical integrator spaces
2. PSIM (physical security information management) becomes a more important player in the high end market sector
3. Managed services finally getting traction in the video surveillance and access control niche
4. Large international security providers becoming more influential in the local and regional space in the United States
5. Remote video guard replacement becomes more accepted in corporate security



1. Increased importance of apprenticeship as a way of ensuring an effective workforce
2. Continued entry of nontraditional entities (telecoms, cable companies) into the industry
3. Concentrated and unified resistance to mandatory municipal monitoring through informational campaigns and strategic alliances
4. Development of industry associations at the state and local level
5. Growing the lifestyle enhancement market, providing security and home management applications to give consumers around-the-clock solutions

1. Increased product offerings and use of next-generation wireless and Internet-based security communications technologies
2. Increased adoption of IT standards in security equipment and a move to more standardized product offerings
3. Increased inclusion of mobile platforms as a primary control and viewing platform for security systems, increased functionality using these devices, leveraging these devices for increased RMR
4. Increased relevancy of imaginative applications allowing whole-house control including security functions
5. The emergence of near-field communications (NFC) will challenge provisional card technologies

1. The center of security systems will move from devices to the cloud, changing the entire marketplace
2. Mounting interest in acquisitions and affiliations of people, technology and reach that will create global end-to-end security, business service and communication companies
3. The game-changing opportunities and threats that will be created by near field communications (NFC)
4. Continue to prove security is not a grudge purchase but an important element in real-time information and actionable communication
5. Growing cooperation between public and private sectors in the use of video for a range of services