

THE PERFECT STORM

Does the security market have the makings for the perfect storm?

By Sandra Jones



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While you are focused on growing and managing the day-to-day operations and challenges of your business, we, by the nature of our business, have the luxury of seeing the market from a unique vantage point. As consultants to integrators, investors, manufacturers and new entrants from the IT and government markets, we have the luxury of learning about what is coming to the market. We also do “voice of the customer” research and, through these activities, understand the challenges and concerns facing your customers.

The view from our perspective is that there is a perfect storm headed your way.

In the security industry, there has been and always will be change. We can all adjust to periodic changes, but what’s unique now is that the entire industry seems to be in flux. Change is occurring at every level and in every segment of the market. If you recognize the evolution, adapt to the changes and use them to your advantage. The market shifts will work in your favor. You can ride out the storm and prosper in the following calm.

Insights into the changing market dynamics can help you refine your plans, enhance aspects of your business or just give you a different perspective.

When you look at the waves of change, what do you see?

The new customer is everything. Since the tragic events of 9/11, the role of a security director has shifted. The security director has become part of a security buying team, which now includes facility managers, human resource managers, IT department representatives and fire/life safety providers. The team is interested in the solutions you provide and the value proposition versus pieces, parts and hardware.

This fundamental change at the customer level impacts everything downstream, ranging from what the members of the channel provide to how they must work together to provide the total solutions customers demand. Taken together, you have a new customer. Yes, I am calling the end user the customer.

Channel evolution. We declared the end

user the customer. The norm has been selling to the reseller channel and having resellers influence what products and technologies are used on a project. There are now more organizations that are national or global in nature, demanding brands they know and trust. The old saying on the IT side is, “No one ever got fired for buying IBM.” A similar mantra is being heard in security circles.

This becomes apparent if you look at how suppliers market today. Users now embrace the names of the brands and companies the public knows and trusts, such as GE, Bosch, Honeywell, ADT, Brinks and Stanley. Does this mean manufacturers are moving to sell direct and cut out the channel? In most cases, no. But this pull-through marketing changes who develops leads and who owns the customer. It transforms the selling of products to a more dedicated relationship between the dealers/integrators and the manufacturer.

Since solutions are the end goal of the customer, manufacturers are now becoming seamless solution providers by partnering, creating alliances, affiliations and “coopetition”—a blend of cooperation and competition, a concept created by Adam Brandenburger and Barry Nalebuff. The suppliers that still exhibit a “not invented here” syndrome will either have to spend a disproportionate amount of money on R&D, find their growth through acquisitions or ultimately fill the dinosaur graveyards.

IP technology. The digital revolution has impacted every form of technology, including security. While customers don’t actually buy technology, they do buy its benefits. As security becomes more software-based, you will be able to purchase the product at more places. This is most true when it comes to the proliferation of IP cameras. Straightforward IP video directed to a software-controlled PC enables customers to use cameras well beyond security applications.

When this is widely accepted, cameras become just another IP appliance. Security devices become a segment of a larger, interconnected management system that includes communication, HVAC and other non-security applications.

Those with the most to lose are traditional se-

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curity integrators and distributors—unless they focus on value-added services and benefits. If not providing consultative services and other benefits, they will be forced into the razor-thin profits of commodity markets or out of their current role. We believe that dealers, integrators and distributors who couple their market knowledge with an in-depth knowledge of their customer can protect their turf. If you understand your customers' business challenges and goals, you can become a valued solutions provider.

Homeland security. You can't talk about transforming the industry without talking about the impact of the tragic events of 9/11. It changed how we in the United States think and use security. This is especially true for the federal government, which continues to increase its multi-billion-dollar budget for security and creates directives on how it should be used.

This has attracted everyone in and out-

side the industry with a product, process or service to sell. Defense contractors have morphed into "super integrators." Non-security integrators and manufacturers are trying to find any path into the spending. Existing security vendors are repositioning so they can tap into this once-specialized vertical market.

One of the most significant changes is just around the corner with the adoption of HSPD-12 mandating the establishment of a standard for identification of federal government employees and contractors. What does this mean? To start with, there will be 5 million employees changing cards, readers, and possibly new panels, wiring and software. Once this de-facto standard is implemented, state and local employees may follow the lead, as will their vendors and others.

Money and investment. In 1996, my partners and I started Securing New Ground™ in order to attract investment into the security industry, which was all

but invisible until 9/11. Today, it has become a key market for public and private investors.

The events of 9/11 have escalated consolidation and acquisitions within the industry by the *Fortune* 100 and international investors, benefiting many public security companies. While Lehman Brothers' index of security industry stocks appreciated 227 percent since Aug. 31, 2001, the S&P 500 rose 12 percent over that same period.

Private companies also are fairing better with the influx of capital and interest by investors. Based on the calls we receive, there seem to be more investors than large opportunities within the industry.

Combine these five elements. Do we have the making for a perfect storm or is it the tailwind we need to move this industry forward? Where you are when the calm comes depends on your ability and willingness to adapt in the new market. Chart your course now.