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Strategies for Competitive Advantage: M&A

In 2009, the security industry once again proved to be more resilient than other industries in terms of investment, mergers, and acquisitions. We said last year that further consolidation would occur at every level...and it did. Security industry acquisitions last year fell into three primary areas:

- > RMR Acquirers (alarm monitoring businesses)
- > Technology Consolidators
- > Strategic Market Consolidators

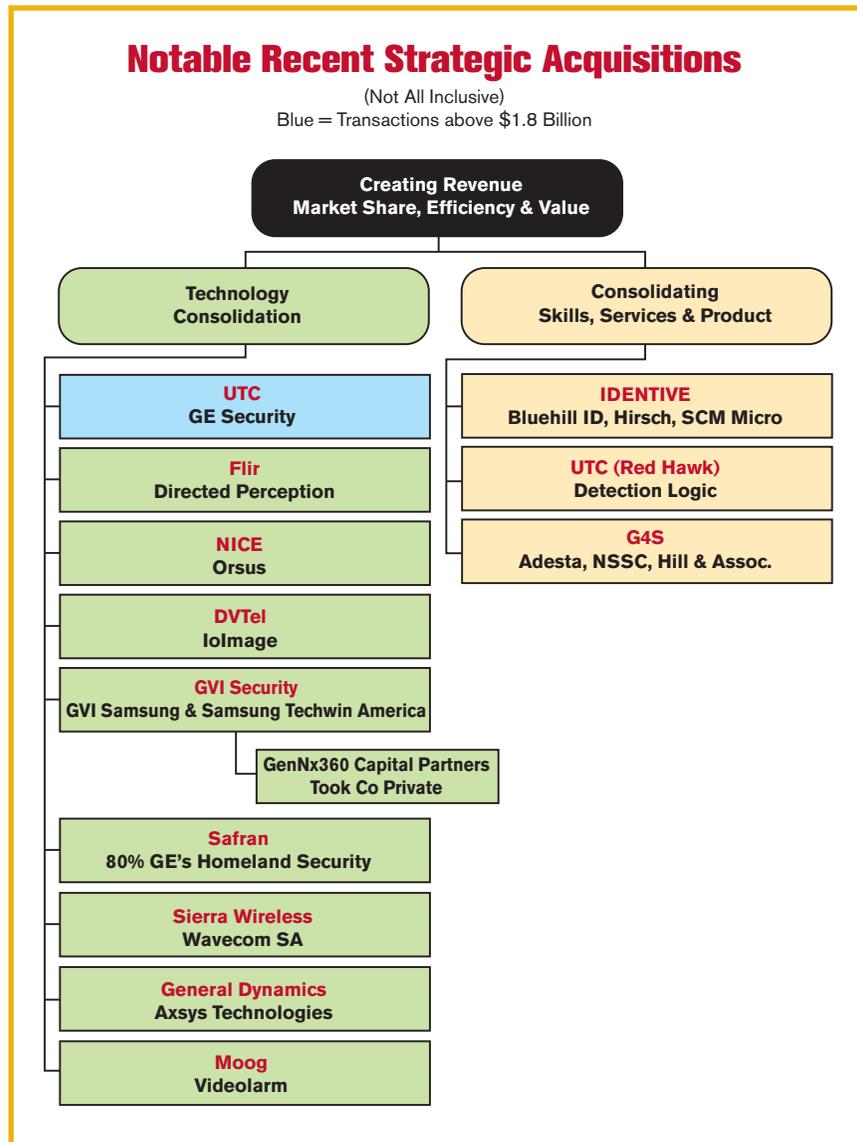
We'll leave discussion of RMR Acquirers to *Securing New Ground* in November, including implications of the recent \$2 billion acquisition of Broadview Security (formerly Brink's Home Security) by Tyco (ADT). In this article, we'll focus on changes in Technology and Strategic Market Consolidators created by M&A activity and what those changes mean to the customer.

Driving technology and strategic market consolidation is the desire to better serve today's more sophisticated customer and, of course, to generate revenue. Today's customers are more technologically savvy and have more responsibilities; therefore, today's suppliers need to provide more value and better outcomes. These could include faster ROI (return on investment), multiple uses for technology/software, lower cost, improved services, less risk, or all of the above.

In addition to enabling better customer service, acquisitions also need to make financial and strategic sense. If a transaction does not "move the needle," it has to provide some competitive advantage, drive down costs, create new services, or enable suppliers to differentiate themselves in a market characterized by many near-commodity products and an overabundance of suppliers.

Technology Consolidators

Acquisitions by NICE Systems, DV-Tel, and Flir illustrate how technology consolidators integrate software or hardware businesses into their current product. But, if more products integrate at this level, will integrators still be needed? Yes, definitely—and these industry magicians will be able to use their time more effectively by giving customers more consultative support and sharpening their IT skills to help customers leverage the value of today's more business-oriented security products.



Strategic Market Consolidators

Strategic Market Consolidators continue to raise their current market position by adding new hardware and services and often rounding out their capabilities in specific market sectors.

A prime example is G4S, which acquired Adesta, NSSC, and Hill and Associates. Add these to G4S's other security industry holdings, AMAG, Wackenhut, and Initial Electronics, and you see how G4S is now positioned to provide global businesses with end-to-end solutions, especially in the nuclear, ports, and critical infrastructure markets. We expect more market participants to roll new skills and products into one company. By developing an intimate understanding of customer needs, compliance issues, and pain points in specific market sectors, consolidators can provide current services and ensure that their product road maps and service offerings parallel future customer needs and plans.

The most significant acquisition and supplier change in 2009 was GE's exit from the Homeland Security and commercial security markets. UTC

acquired GE's commercial security business for \$1.82 billion, including what I consider to be their crown jewel, Edwards fire products. UTC also purchased Detection Logic in 2009, which, while not of the scale of other UTC acquisitions, further rounds out their capabilities. The GE acquisition, when added to their purchases of Lenel and Red Hawk in 2005, makes UTC one of the industry's most formidable suppliers. While

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existing UTC integrator customers expressed concern about a potential channel conflict, their installation business is completely separate from the manufacturing business. In fact, after acquiring Lenel, UTC actually evolved to become a better supplier to its channel and gave end users more options rather than less.

We can't predict how the channel will evolve, but we guarantee it will, and that suppliers of every size and type will find better ways to service the customer.

While acquisitions are a fast way to gain market share and other market advantages, it's not the only way. Partnerships, affiliations, alliances, and the development of new value-added services also are effective. Read about those in Thursday's *Show Daily*. ■

Sandra Jones and Company (www.sjandco.com) provides revenue development, strategic business consulting, valuations, and M&A services to industry participants and investors. The firm also produces Securing New Ground (www.SecuringNewGround.com) and the Security 500 (www.Sec500.com).

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