



CHANNEL TRENDS



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Securing New Ground™ has always been about providing attendees with information that provides insights into market trends. A high percentage of that is obtained from the presenters, shared while networking and through the Securing New Ground™ Annual Report (SNGAR). With that in mind we have developed the following information.

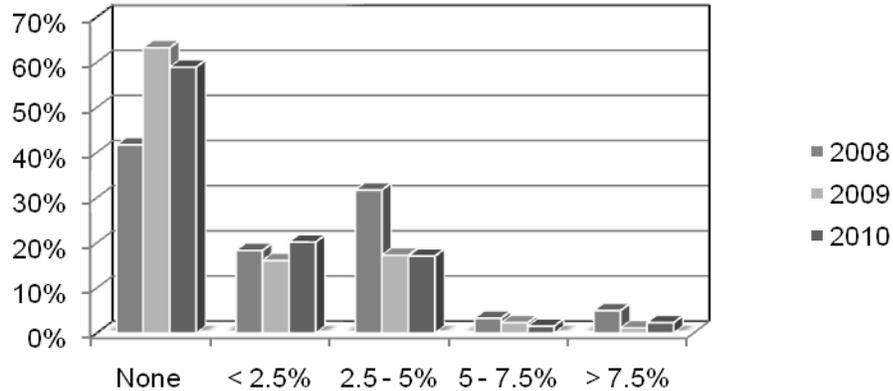
You may know SJandCO for SNG, bringing new products to market or helping dealers and integrators improve profits but it is often our ongoing Voice of the Customer research or in this case Voice of the Channel research which allows us to gauge and identify current trends; and more importantly insights into the future.

For the 3rd year, *SDM*'s Editor Laura Stepanek and Publisher Mark McCourt gave us the opportunity to attach a few questions to their already comprehensive *SDM* 100, Industry Forecast and Top Systems Integrator surveys. In addition to this data we made select calls to dealers. Through these activities we were able to capture trending information, and learn more about the impact of change especially to a dealer's bottom line; something we often do when consulting to dealers and integrators when helping them uncover additional profits. Although often there were little changes in each trend, when added together the impact of these little changes over time made a big positive difference in bottom line profits and enterprise value.

To further understand the channel, we took the first look into the newly created Security Specifiers.com organization. The objective of this organization is to promote understanding and interaction within a sector of the marketplace which accounts for an estimated \$20 billion in annual worldwide security product sales. By understanding specifying security consultants and engineers it can help from a business development standpoint but also for assisting the delivery of better value to customers.

I. RATE CHANGES TO RECURRING REVENUE

RMR Rate Increase

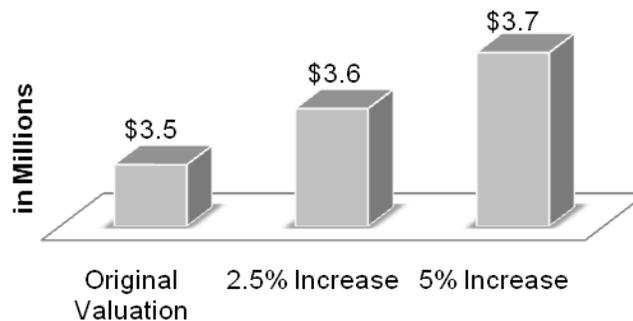


Observation:

In 2008 twice as many dealers who responded to the survey increased RMR rates by 2.5 to 5% as they did this year. When interviewed in 2008 several of the dealers who responded indicated that it had been several years since they increased rates even though their costs had increased in each of those years. This year's respondents remained reluctant to increase rates but in talking with several dealers and integrators who did increase rates they indicated that it had no impact on customer cancellations.

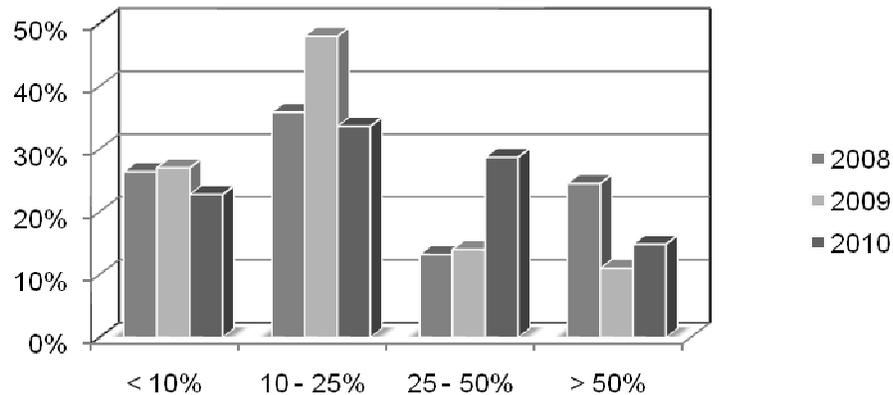
While a 2.5% increase may seem like a small change it does overtime have a big impact on profits and value. For each rate increase of 2.5% a dealer will add a one time multiple to their value. Since no additional cost is incurred with a rate increase, 100% of the revenue goes straight to the bottom line.

Impact of RMR Rate Increase on a Company's Value



II. REMOTE SERVICES, TROUBLESHOOTING AND SOFTWARE UPDATES

Services Performed Remotely

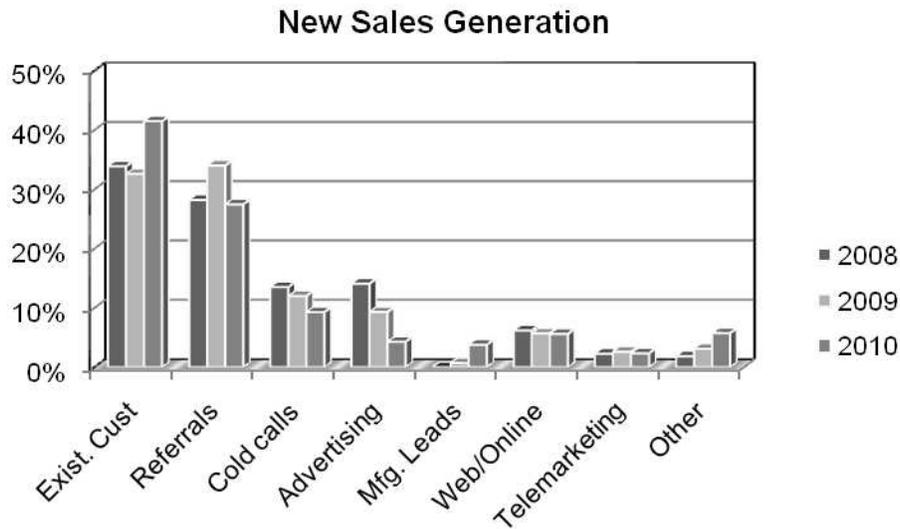


Observation:

Technology is providing dealers and integrators the ability to not only add new billable services but also reduce operating costs. By being able to troubleshoot, upgrade software or system functionality from their office, dealers and integrators can significantly reduce costs. Unless the activity is tied to billable T&M every activity that can be accomplished remotely eliminates the direct cost of service technician windshield time and vehicle operation; costs when eliminated ultimately improve profits and customer service as service requests are handled more quickly and efficiently.

The move toward IP and software based systems has also allowed more satisfaction at the customer level as customers now often can access information from anywhere, track service, system status and business activities. In 2010 over 43% of dealers and integrators responding to the survey reported that over 25% of all services are now performed remotely.

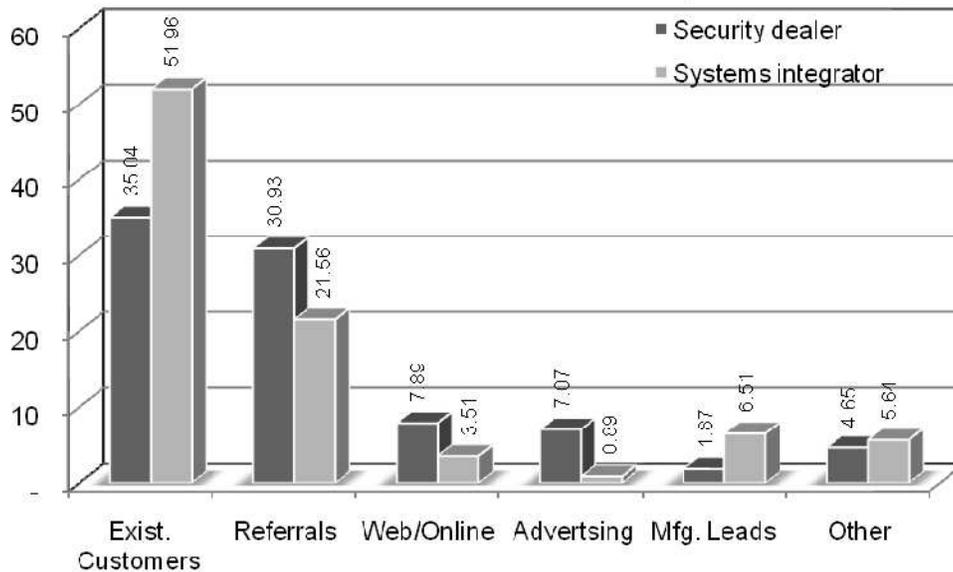
III. NEW SYSTEM SALES GENERATION



Observation:

Existing customers and referrals have been the traditional primary method for obtaining new system sales. While they continue to remain the most prevalent means by which dealers and integrators generate new business there has been a shift towards more proactive and varied methods to develop new business. Website/on-line activities and summer intern models are two examples. Another area while still small but growing is leads from manufacturers to strategically aligned dealers or integrators.

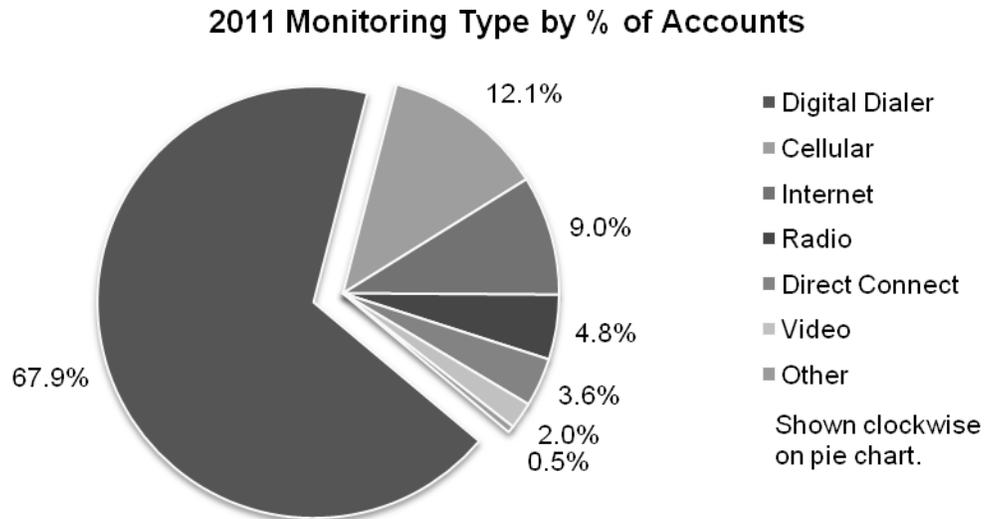
Dealer and Integrator Methods for New Sales Generation Vary



There is a difference in how integrators and dealers generate new sales. Integrators get almost 75% of their sales from additional work and referrals from existing customers versus 66% for dealers; in either case keeping an existing customer has value. Because of the type of services performed it is logical that integrators rely more on additional work while dealers rely more on customer referrals. Based on the data dealers currently obtain twice as many sales as integrators from their website or other on-line activities. As this is a new trend it is one we will continue to track.

IV. MONITORING METHODS

The following chart shows what percentage of subscriber accounts were monitored by the specified method.



Observation:

Talk about a technology that changed the industry and enjoyed a long life cycle; it is the digital dialer. While not shown on the chart, in 2008 and 2009 over 80% of the respondents used digital dialers as their primary source for monitoring. In 2010 that dropped significantly by 15% to 68% which we believe to be the largest shift away from the digital dialer since its introduction in the mid 1980's. Prompting this change are two factors. (1) Shift from a wired to wireless world, including the near-future phasing out of POTS lines by phone companies and (2) New possibilities being created by the flexibility of Internet monitoring.

Rather than seeing the elimination of digital dialers as a problem to their business, the majority of the dealers we spoke to saw moving to the internet as an opportunity and means of creating new recurring revenue and a differentiation in services. In the future perhaps we will see the alarm systems as the add-on service versus the driver for purchasing monitoring and the ability for the market to move beyond the 20% residential alarm penetration rate. While it is too soon to tell what overall impact this will have on the market, this is an area we hope you will help us track in the future.

V. SERVICES ADDED IN 2010

While only slightly higher than video verification, hosted access control was the leading added service in 2010. For the past two years the following new services were the most frequently added.

Service	2009	2010
Hosted access control	13.5%	14.5%
Video verification	11.5%	13.3%
Video monitoring	13.5%	9.8%
Mobile apps/notification	10.6%	10.4%
Internet access to customer (for order and service status/info on account)	11.5%	9.2%

Observation:

While the type of services being offered varied, what the majority had in common is that they both leveraged the use of the internet and were the type of services that generated RMR. Of the SI reporting 22% added a new service of which 66% leveraged the internet. With 39% of the dealers reporting a new service, not surprisingly, 90% of the new services added leveraged the internet and assumedly generated RMR.

While some integrators are making the move to eliminate some of the peaks and valleys associated with a contractor vs. RMR business model there are still many who have not taken advantage of the additional services and value they can offer customers.

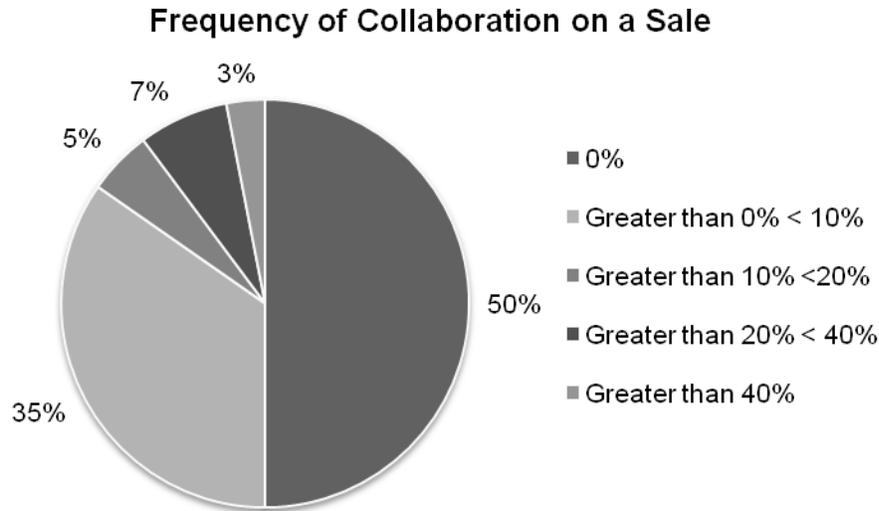
VI. CAPABILITIES ADDED IN 2010

Observation:

Dealers and integrators continue to invest in internal improvements. This years fell into three distinct areas; Back Office, Monitoring and Sales Staffing. The investments, regardless of where they were made, should directly add to the bottom line. Some will ultimately improve sales while others will cut cost. In addition to adding sales staff, investments were made in software that allowed for more types of remote capabilities, the streamlining of estimating and better communication systems. Monitoring improvements ranged from the addition of UL2050 to the centralization of monitoring services.

VII. COLLABORATION ON SALES

When selling, what percentage of the time does your firm collaborate with another firm on the sale (could include another dealer, integrator, IT co, vendor, etc.)?



Observation:

System integrators and dealers collaborate with one another occasionally. This has not changed over the years we have tracked this question. What prompted us to initially include this question was the belief that traditional system integrators did not have the network capabilities needed to satisfy the changing customer whose network security systems now incorporated security systems. It was also believed that the IT integrator with knowledge of networks did not have the similar depth of knowledge needed to address security issues and to satisfy customers the two would need to collaborate. Some of that is occurring, but more frequently each type of integrator is either hiring the appropriate talent or making acquisitions that round out their skill set thus satisfying their customers through their own capabilities.

VIII. BID vs. NEGOTIATED PROJECTS

	2008	2009	2010
Bid	36%	39%	27%
Negotiated	64%	61%	73%

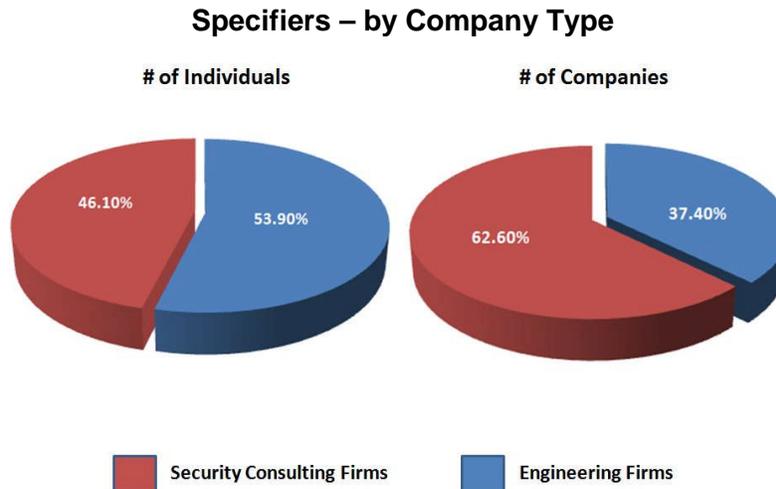
Observation:

There was a 12% increase over last year as to the number of projects that were negotiated versus being bid bringing the total of negotiated projects to 73%. What we do not know from the data is (1) What continues to drive the increase in negotiated jobs and (2) What this represents in dollars versus the number of projects. Our assumption is that as dealers create a unique bundle of services and integrators become “solution providers” they are each finding ways to differentiate their offerings and become more trusted solutions providers versus just installing companies. We expect that this change will continue to make customers more loyal and less likely to seek alternative providers when needing a new system.

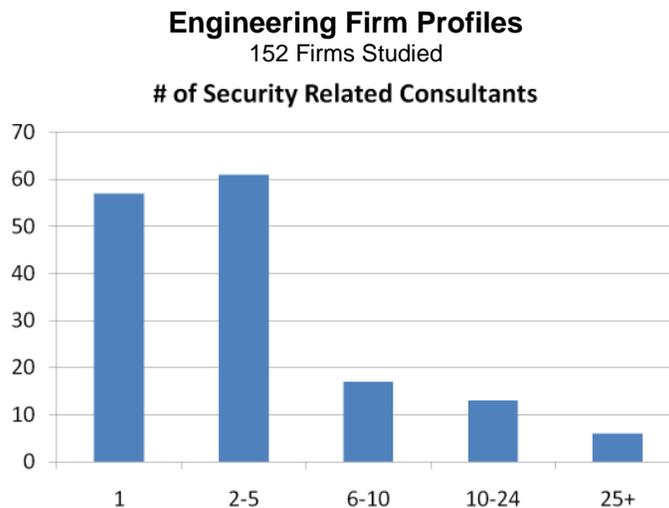
To learn more about which market sectors use bids most frequently see the information we collected through SecuritySpecifiers.com in the next section.

IX. SECURITY SPECIFIERS

Our work and other publicly available information about the channel to date has focused on the dealer and system integrator but there has been little data or facts known about security specifiers so as a board member of the recently formed SecuritySpecifiers.com organization we have had their data base analyzed. While eventually more in-depth information will become available about this sector's needs, influence and habits for now we are glad to at least provide some baseline information about this group of influencers.



Security Consulting Firms are defined as specialized consulting firms with a strong practice in security consulting, but may include other low-voltage disciplines, such as audio visual and data networks. Engineering firms are typically much larger and often include Mechanical Electrical, and Plumbing (MEP), and Architectural activities.

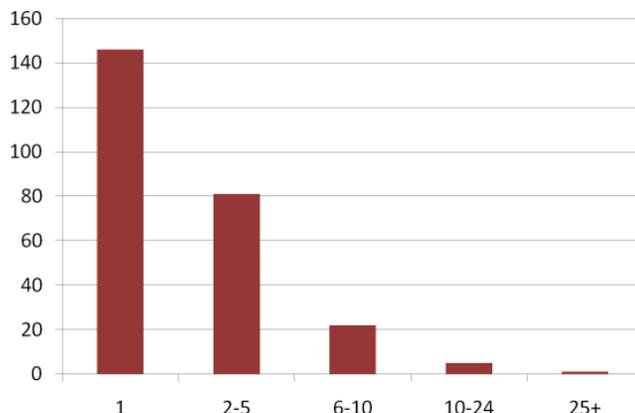


Numbers represent individuals currently in the SecuritySpecifiers.com database. The majority of security designers in engineering firms work as part of a group, although the activity may still be rather small in comparison to the size and scope of the company.

Security Consulting Firm Profiles

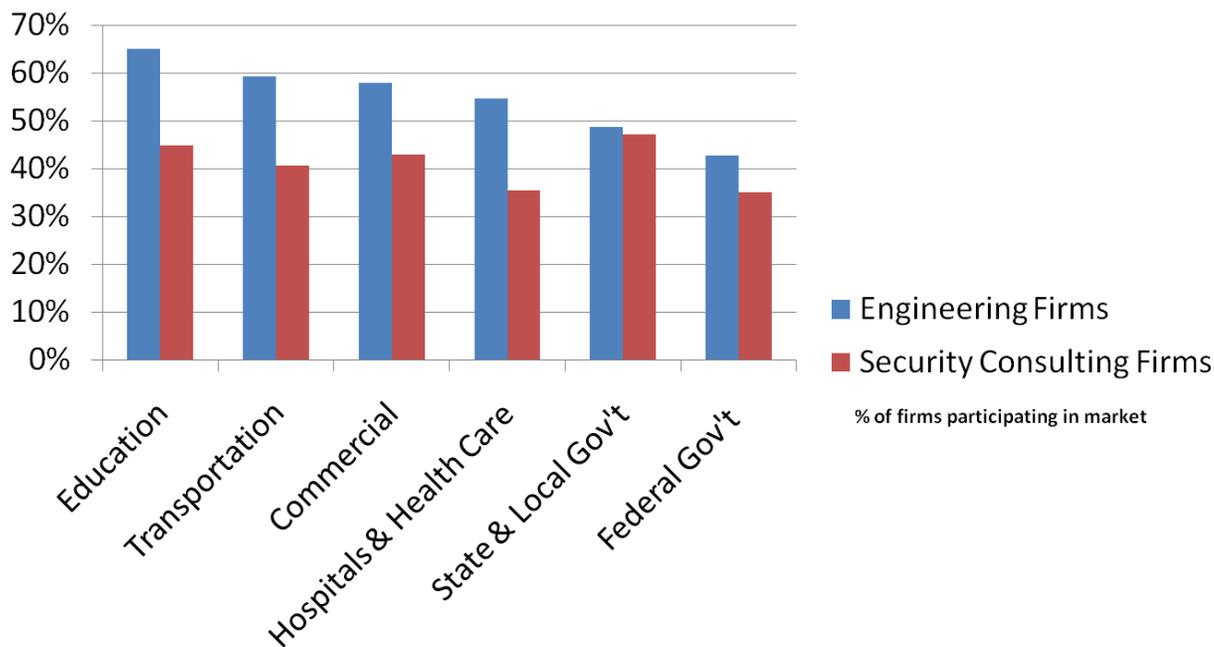
254 Firms Studied

of Security Consultants



Specifiers in the more specialized consulting firms are smaller in number, and, quite often, sole practitioners. This attests to the greater focus of their own, and the firm’s, work on security related matters.

Top 6 Vertical Markets



The chart above represents the percentage of firms in the SecuritySpecifiers.com database (over 400 companies) involved in the markets shown. With the assumption that specifying firms maintain activity where security work is available, one infers that these 6 markets shown where a higher percentage of the specified projects occur. SecuritySpecifiers.com classifies firms in nearly 40 different vertical markets. Lower percentages may indicate either smaller overall markets or the “boutique” nature of security consulting required for that market.

SUMMARY

There were 4 underlying themes on what we learned about the channel:

- 1. The current channel continues to evolve to meet changing customer demands.**
The fear that traditional SI would be displaced by IT suppliers is unfounded as the leading traditional SI have continually evolved to develop the new skills needed to meet changing customer demands. The same is true about alarm dealers. The fear that they would be replaced by the cable or telephone company continues to be unfounded. While there has been some change and impact over the years with new and perhaps more influential companies outside of the traditional security market, the reality is that the existing channel has been and will continue to be nimble and creative. There will always be new entrants in the market, but there will also be new opportunities that increase the opportunities in the market.
- 2. Technology is being leveraged; primarily to reduce cost and add new revenue.**
We have seen a greater investment in back office services that provide mobile and remote capabilities that help drive down cost. We have also seen that new revenue is being created through the use of the Internet. It is our opinion that in the near future security may not be the foundation for a customer purchasing monitoring, but the add-on for a primary business solution that will give them their peace of mind. A secondary benefit to the use of new technology is the reduction of false alarms. Video verification specifically is changing many of the negative impressions security has had with first responders and improving response time and arrests by making verified systems a priority.
- 3. Recurring revenue development is still the golden goose that is driving the market.**
Regardless if it is a dealer or integrator new services are being added that deliver greater value to the customer and that generate more RMR for the provider. The continued addition of new recurring revenue will not only allow the channel to remain more financially stable than other market sectors, but it will continue to attract investors and drive acquisitions.
- 4. Security Specifiers, consultants and engineers can remain product agnostic.**
They can remain true to their clients and find value by interfacing with suppliers. As the market expands and technology evolves more quickly it is more important than ever for the specifiers and consultants to have access to the latest training and information; something they can do through SecuritySpecifiers.com in a more efficient way.

For those of you who responded to SDM's questionnaires, thank you for responding to the optional questions and for those of you who want to obtain more information on the changing channel or other aspects of the channel (i.e. distribution or reps) please contact us directly.