

Industry Trends & Challenges How the Experts See It

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Trends in 2010

1. Installers who invested in IT selling and installation skills grew profits, kept customers
2. Video alarms delivered prioritized alarm response, improved law enforcement/industry partnerships
3. Organic growth did not move the needle, continued to fuel appetite for strategic acquisitions
4. Premium services helped central station companies reduce attrition, increase RMR
5. The digital dialer and platform on which RMR was built is in its twilight and being replaced by Internet-based solutions

Industry Challenges

1. Learning how to sell the ROI and value add of security vs. selling hardware
2. Shifting from business and pricing models rooted in the 20th century to meet 21st century demands
3. Making long-term decisions in a market still facing economic pressures
4. Transitioning from proprietary solutions to those based on standards
5. Losing national or regional customers if not fully capable of selling, installing and servicing IT

Trends for 2011

1. Companies that leverage affiliations, strategic alliances will become true solution providers and enhance chances of success
2. Internet-based sharing of information to create new value, business services and revenue
3. The desire to generate more RMR by every sector of the market will drive creative services and fuel acquisitions
4. M&A activity, prices will remain high as investors and strategic buyers vie for businesses of scale
5. Spending on improved video quality, hosted services, mobile apps persists in tough economy

BILL BOZEMAN, PSA Security Network



Trends in 2010

1. Margins finally bottomed out
2. More traditional alarm companies embraced the integration of burglary, video surveillance and access control
3. The largest physical security integrators embraced the managed services model
4. Company downsizing
5. Video analytics applications began showing up in specifications

Industry Challenges

1. Financing for the small to mid-sized integrator is virtually nonexistent
2. Increased competition in the physical security integration space
3. Educating the physical security integration community
4. Traditional physical security integrators maintaining profitability with a contractor model that is not supported by RMR
5. Keeping up with technical certifications required by many vendors

Trends for 2011

1. Physical security integrators finally embracing managed services
2. Health care, government verticals remain the strongest opportunity
3. Mobile applications
4. Video management systems (VMS) consolidation
5. Physical security integrator M&A picking up

WALTER BAILEY, Focus Capital Group Inc.



Trends in 2010

1. Budgetary constraints continued to force end users to prioritize spending, limiting sector revenue opportunities
2. Down economy further marginalized weaker industry players and motivated competition for scarce sector revenues
3. Upsell opportunities and customers attracted to ROIs fueled momentum for managed services and SaaS models
4. Data/network security continued to be a top priority investment area furthering the relevance of managed services offerings
5. M&A was more product focused in first half of 2010; services gained momentum in latter half

Industry Challenges

1. Adequacy of organizations' sufficiently-trained personnel to address rebounding business and industry evolutions
2. Vendors with bunkered mentality struggling with cooperative competition where collaborative alliances generate wins
3. Shift away from selling units or subscribers to a mindset that vendors are selling long-term relationships with bundled services
4. Visionary leadership capable of embracing dynamic industry change sufficient to distinguish the winners from the losers
5. Capacity to get or stay smart as technologies, services and practice areas converge

Trends for 2011

1. Pace of industry change accelerates as non-traditional entrants foster new growth models
2. M&A increases as economic floor has stabilized and defense players increasingly view commonalities with security as attractive
3. A drive toward intelligent buildings fosters collaborations that run across security, power and other management systems
4. Monitoring companies will enhance their capability to provide expanded and integrated management solutions beyond security
5. Middle market, private company transactions increase due in part to gaps in product/service offerings and private equity investment

CHARLES "DOM" D'ASCOLI, Electronic Security Association (ESA)



Trends in 2010

1. Fire departments across the U.S. searching for solutions to false dispatches
2. Phone and cable companies investigating entrance into alarm sales and/or monitoring
3. Heavy use of the broadband infrastructure causing intermittent service interruption
4. RMR continues to keep companies in business by providing a stable revenue stream
5. Acquisitions within the industry increased and partnerships continue to develop

Industry Challenges

1. The transition from IPv4 to IPv6-enabled technology
2. Difficult business environment created by recent government regulations
3. Cash-strapped municipalities supplementing budgets by offering monitoring services
4. Staying abreast of the rapidly-changing technology landscape
5. Access to FBI criminal database for background checks

Trends for 2011

1. Fire departments moving toward fire alarm monitoring
2. Passage of HD video surveillance municipal ordinances in public spaces
3. Continued expansion of RMR opportunities within video and access control technologies
4. Deployment of national Broadband Plan to spur further developments in the communications infrastructure
5. ESA apprenticeship program to expand education and workforce development opportunities