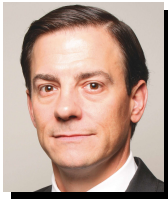
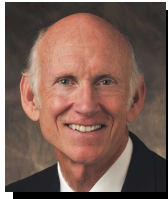


# Top 5 Trends, Challenges & Projections: How the Experts See It



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## Trends in 2012

1. SaaS/cloud services models continued to gain traction.
2. Cost effectiveness and ROI continued its significance.
3. Major players redefined future paths via transactions (Tyco, UTC, Stanley, etc.).
4. Consolidation impacted customer options on larger contracts.
5. Converged expertise (video, PSIM, IT) created competitive advantages.

1. End users demanded standardization for regional, national and global accounts driving industry M&A.
2. Local and regional integrators formed partnerships to compete with growing list of large public and private equity-backed integrators that pursue national account markets.
3. Video surveillance led the growth curve.
4. Consolidating physical security systems (PSIM) began to make an impact.
5. Video analytics became a game-changer.

1. Industry continued to attract significant new capital based on strong, predictable cash flow, operating metrics and growth profiles characteristic of security industry companies.
2. Industry attrition continued to be a manageable metric as companies expanded customer retention efforts.
3. Fire training and certifications continued to become more formalized and legislated by local jurisdictions for technicians involved in installation, maintenance, and test and inspection of fire systems.
4. The PERS market continued to expand at double-digit growth levels.
5. Companies continued to expand integrated solution offering of security, access and video within a cohesive package customers can utilize and manage from outside the protected premise.

## Industry Challenges

1. Providing differentiated services in open architected/interoperable environments.
2. Convincing customers as to the absolute security of the cloud.
3. Navigating cultural/regulatory/legal variances across customers' geographies.
4. Companies' willingness to strategically invest in tech-centric resources/skills.
5. Continued market encroachment from Comms/IT and defense integrators.

1. Dealing with and adapting to a stagnant economy.
2. Keeping employees trained and up-to-date with the latest technology.
3. Finding and keeping high quality employees.
4. Acquiring the necessary financing to grow small to mid-sized security companies.
5. Adapting to a managed services model from traditional contractor model as margin for hardware and installation continues to be squeezed.

1. Continuing to work toward a national alarm licensing law that will improve standard of alarm company professionalism and provision of services to consumers nationwide.
2. Developing sales and technical online training tools to help companies remain current with the ever-changing technology and certification requirements for employees.
3. Equipment manufacturers and installation companies working together to develop a sustainable equipment offering in light of continuing evolution of communication carriers' data and voice paths.
4. Technological advancements and conversion of like services that players from outside the industry (Intel, Google, etc.) are beginning to provide to the residential marketplace.
5. Developing creative means to maintain contact and service viability with installed customer base.

## Projections for 2013

1. Comms/utilities companies continue to expand into residential and SOHO markets.
2. Customers likely begin round of upgrades; drives rebids, revenues and industry M&A.
3. Building automation expertise as part of offering increasingly important.
4. On defense/DHS side more contracts go to small companies and 'set asides'.
5. Service offering gap between smaller and larger players grows.

1. Alarm companies, with financial strength created from alarm RMR, begin to subsidize market entry in midlevel security integration space that creates new managed services RMR opportunities.
2. End users demand higher resolution surveillance, and larger and more flexible storage and search solutions.
3. Compliance becomes a driving issue in all vertical markets, eventually changing landscape for suppliers and integrators of physical security solutions.
4. Global terrorist activity drives demand for private security solutions benefiting those with appropriate skill sets and deployment solutions.
5. A very slow growth organic environment drives M&A opportunities for larger corporations that need to meet growth goals.

1. Increased competitive environment fueled by structural separation of largest marketplace provider amid well-funded regional and national providers looking to expand market share.
2. Industry participants will adapt to increased employee health-care requirements and costs that will follow with continued deployment of Affordable Health Care Act of 2010.
3. Video verification will continue to grow as a means of assisting local AHJs to resolve response dilemma between protection of constituents and decreasing budgets and resources.
4. Health-care providers and telehealth applications will seek partnerships with professionally trained and highly reliable central station platforms provided by our industry.
5. Industry participants will continue to expand core security offerings into energy management, home automation and other services as means of enhancing customers' system utilization and reliance thereon.



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1. Inevitability that POTS lines are going away sank in once and for all, but we will have to learn to live without them.
2. AT&T reentered the industry, trying to change the licensing laws and play by separate set of rules.
3. Adoption of 3G and 4G networks reminded us there will never be a 20-year technology cycle similar to the POTS days. Nowadays we are looking at 3-year cycles.
4. Smartphone technology finally took hold in the security space, but the industry needs to get better at utilizing apps and other mobile features.
5. Increasing number of traditional dealers migrated toward integrating more technologies into their portfolios to build their arsenals.

1. Beautiful video quality, via HD, became increased normal for surveillance.
2. Edge storage/recording emerged as a threat to traditional VMS software.
3. Panoramic cameras went mainstream with broad product availability.
4. Miniature megapixel cameras arrived, expanding IP to covert and discrete applications.
5. The Internet grew as a force to counter manufacturer marketing.

1. Smart suppliers became sector specialists, helping more sophisticated CSOs use security to manage C-suite risks and goals.
2. Investment in city surveillance programs grew, improving public private collaboration and cooperation.
3. Cloud-based services and remote capabilities grew, creating new RMR and value.
4. Substantial improvements in technology, identity management, connectivity and ease of use.
5. Private equity made significant investments of scale in all sectors of market, driving up valuations and challenging strategic buyers to develop organic growth to move the needle.

1. 2G won't sunset until early 2017, but it will quit working reliably long before that. Smaller dealers may not realize they have radios that have already stopped working.
2. Create regulations that not only protect the consumer but keep a level playing field for dealers as well. Regulations are in place to protect the consumer but must also be fair for service providers.
3. Identify and properly train IT/IP personnel to install and activate all the new security-related technologies, and still manage to show a profit.
4. ESA spent considerable money developing a successful insurance company, Security America. We need to model it into a health insurance platform.
5. Continue to grow ESA's apprenticeship program to give dealers the proper tools and ability necessary to compete for jobs vs. large electrical contractors.

1. Integrators regularly struggle with learning IT and new technologies.
2. End users frequently have unrealistic "CSI" expectations.
3. Internet sales are driving down margins for integrators.
4. PSIM remains overhyped and underperforming.
5. VSaaS, widely viewed as the next big thing, has struggled.

1. Differentiating in a crowded market.
2. Collaborating, communicating and partnering effectively at the channel level so profits can be improved and customer results enhanced.
3. Learning how to sell cloud-based value and services.
4. Having the time to stay informed and educated.
5. Growing sufficiently and quickly enough to meet projections used to attract investors.

1. M&A activity will shuffle top players in the alarm industry, along with emergence of additional telecom companies.
2. We survived the recession better than most other industries and we'll continue to prosper.
3. ESA's relationship with CSAA and SIA will continue to grow and improve. There will be less duplication in our efforts and more focus on each association's core value.
4. Continue to develop the most efficient relationship with emergency responders through SIAC, ASAP technology and manufacturers.
5. ESX will emerge as the mainplace to meet our industry's high-level decision makers and obtain access to superior training.

1. Slow economy will hamper overall industry sales and growth.
2. IP camera manufacturers will launch a slew of free, edge-based VMS competitors.
3. Traditional VMS providers will launch cloud-enhanced offerings.
4. A number of weak manufacturers will go out of business.
5. Despite the above, consolidation projections will continue to disappoint.

1. Expect continued consolidation and investment in RMR businesses, opportunities of scale and those that enhance IT services or skills.
2. Cyber threats, global instability and the desire to prevent chaos will further elevate importance and influence of CSOs and CIOs.
3. Expect residential market penetration to skyrocket as it is fueled by telco marketing, the drive for elder care and ingenious home services.
4. Real-time information, efficiencies and measurable ROI will motivate spending on new technology especially at the enterprise.
5. We will move more toward "cocooning" to provide individualized security anytime anywhere.