

Analysts See Growing Pains, Gains Ahead



For starters, marketplace expansion is expected to be stunted as it emerges from the recession. Still, IP video, systems integration and home controls are among industry growth areas. SSI speaks with half-a-dozen analysts to get their take on what's in store for the electronic security industry in 2011.

By Rodney Bosch

Despite the uneven economic recovery, electronic security industry analysts see the North American marketplace to be on stronger footing compared to the previous two years, but with only a slight uptick in overall performance forecast in 2011.

Among the industry bright spots, networked equipment, in particular IP cameras, is expected to experience robust growth driven by product improvements and the further shift away from analog systems. Increased systems integration and the ability to offer end users newfound business efficiencies beyond physical security will also pace growth in IP- and Internet (or *cloud*)-based solutions.

SECURITY SALES & INTEGRATION interviewed half-a-dozen leading analysts who track various aspects of the electronic security industry in order to bring you our 2011 forecast report.

In a nutshell, as the industry emerges from the recession, manufacturers and installing security contractors alike will

have to continue forging an upstream thrust as budget-strapped end users from a cross-section of vertical markets remain sidelined or in search of funding for their security purchases.

Access Control on the Network

Now that the integration of logical and physical access control has come to fruition, network-based access control systems are being looked to as a significant driver in a variety of market niches.

According to IMS Research, the end-user size of the electronic access control market in the Americas will be about \$620 million. That's a significant improvement compared to 2009 and 2010 as the Americas market is estimated to have declined by more than 17 percent during that span.

"The biggest growth areas for access control in 2011 are going to be those impacted by government spending," says Blake Kozak, an Austin, Texas-based market analyst for IMS Research. "The money will be targeted for airports and utilities where it is going to filter through in terms of upgrading systems and HSPD-12 compliance." →

Health-care facilities, driven by regulations to protect patient information, will continue to fuel the access control market in the coming year as well. Also colleges and universities can be expected to remain a growth area.

While the retail industry continues to struggle due to economic pressures, the banking and financial services sector is primed to return as a growth area for access control after its recent turmoil, Kozak says.

"It will come back quickly when it does rebound," he says.

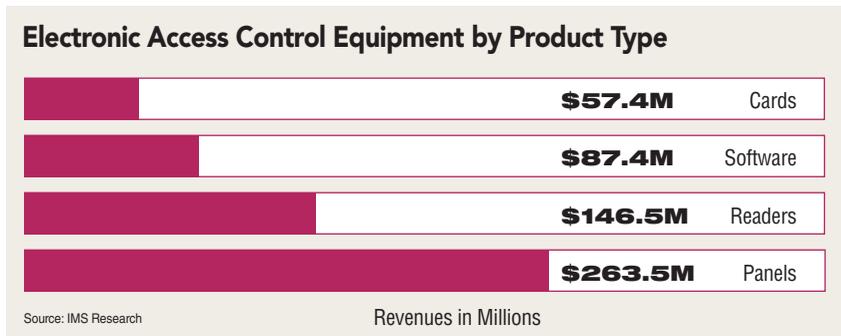
In 2011, access control systems will increasingly reside on an IT network to allow for integration with other IP-based systems, as well as to advance scalability and provide new business efficiencies for end users.

The most prominent trends gaining traction include Software as a Service (SaaS), remote managed Web-based systems and electronic cylinders, all of which utilize IP infrastructure.

SaaS and Web-based access control technologies have made systems far more accessible for smaller markets, and opportunities are now available for systems integrators to sell a solution that offers the customer an attractive return on investment (ROI).

"We are looking at sales to increase as the prices of the systems become increasingly competitive," says Jennifer Mapes, a senior industry analyst with The Freedomia Group, a Cleveland-based research firm.

More and more small building operators, who previously maintained mechanical locks, are recognizing the



In the North American electronic physical access control marketplace, revenues from panels are forecast to account for nearly half of the roughly \$555 million in total sales among other product types in the sector.

value proposition available with electronic access control. "And buildings that previously had access control are looking to trade up to more sophisticated versions as they become easier to integrate and are increasingly price competitive," Mapes says.

Sandy Jones, president of Chardon, Ohio-based Sandra Jones and Co., says Internet-based services in particular, have allowed systems integrators to change their business models necessarily in the wake of recession's carnage.

"Their business model was a contractor's model and not until 2008 did they feel the real pain from that. They realized how they had to change their business," she says.

Systems integrators will increasingly look for logical ways to build recurring monthly revenue (RMR) by offering customers value-add services, so products and services that allow them to do that — including SaaS and cloud computing — are expected to see strong growth.

"If you look at some of the things we believe will sell — hosted access control,

video monitoring, video verification — the Internet is such a pivotal piece because it allows for operational improvements," says Jones. "I think the Internet will do for integrators what the digital dialer did for alarm dealers."

IP Cameras Are on a Steep Climb

According to SSI's latest annual Installation Business Report (IBR), published in the 2011 Gold Book, the average growth in networked IP-addressable camera installations was 22 percent in 2010. In installations involving IP cameras, 25 percent included megapixel models. Those numbers are primed to increase in 2011.

A major shift that began to be observed in 2010 and is expected to only grow in prominence this year is new video installations that are increasingly IP-based.

"Two and three years ago you would see most new installs would go analog. Now you may see half or a majority of new installs are IP. That is really a changing world," says John Honovich, founder of IPVideoMarketInfo.net. "You certainly are going to do service and upgrades with the analog systems, but more and more in the midmarket in North America you are seeing people going IP."

Analog products and systems are expected to achieve a small amount of growth at best in 2011, according to Dilip Sarangen, a senior industry analyst for research firm Frost & Sullivan.

"IP-based products are definitely where the growth is and it will grow at a pretty rapid rate in 2011," Sarangen says. "I would say it will grow at about

Readers Share Views on Key Trends for 2011

SSI surveyed readers on what business trend or development will have the greatest impact on the industry in 2011 and why.

Roy Fleshman
Northside Security Inc.
Clarksville, Ind.

"The economy recovering will be the most important factor. This will help the industry as a whole, and especially help in getting small businesses back on their feet and do more hiring by midyear. It will provide more money for expansion as well."

David Boisvert
HELP Inc.
North Attleborough, Mass.

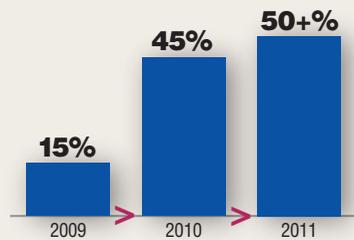
"The implementation of the iPad. The ability of a client to be able to not only control their security system from the iPad, but also view what is going on at their home or business is a huge plus and a difference maker when comparing systems."

John M. Feeney
VinTech Digital Security
Chicago

"Streaming video (analytics). We need to start using the video content for other uses, either for predictive measures or marketing."

Additional responses are included in the online version of the story.

IP Camera Sales Annual Growth Rate



Source: IPVideoMarket.info

The global recession decimated IP camera sales, resulting in sluggish growth rate in 2009. The tide began turn, however, later that year as dozens of new IP camera were released, followed by an improved economy in 2010 that fueled increased demand. In 2011, the forecast is even rosier for year-over-year growth as more IP products hit the market and IP camera standards are adopted.

20 percent, whereas as analog products will be between 0 and 2 percent.”

Systems integrators, especially the larger companies, are helping fuel IP video growth by doing a much better job nowadays of explaining to the end user what the video can be used for, says Jeff Kessler, a New York-based managing director of Imperial Capital, a security market research and advisory firm.

“Integrators are getting down to focusing on those select functions and select analytics that make sense to the enterprise,” he says. “If a CSO or even the COO of a company begins to understand better what that proposition is, it makes a lot more sense to them to install this stuff for more than just perimeter protection, which in the past has been the security sale.”

After bottoming out in 2009, IP camera sales in particular are forecast for a very robust year globally, and especially in North America. Product improvements, continued progress in camera standards and a stabilizing economy tell only part of the story why IP is gaining fast on analog sales.

“There are so many lower cost megapixel cameras on the market and so many manufacturers offering them,” Honovich says. “Support is really now widespread. The barriers over the past five years have continued to drop. Just like 2010 was great for IP camera growth across the board, 2011 looks to be every bit as strong.”

Economic Numbers At a Glance

At press time, The Conference Board, a private research group based in New York, announced its gauge of future economic activity rose in November at the

fastest rate (1.1 percent) since March (1.4 percent), suggesting the U.S. economy will strengthen early this year.

Construction of new homes in the U.S. remained at a low level in November, while permits for new construction fell, according to government data released at press time.

Housing starts rose 3.9 percent to a seasonally adjusted, annualized rate of 555,000 in November, the Commerce Department reported. However, that’s nearly 6 percent below the year-earlier period. Thus, despite housing starts making some progress, any recovery in housing is expected to be agonizingly sluggish.

The mixed bag of economic news also translates to the electronic security market where analysts interviewed for this story expect overall growth in the industry to remain slow.

“Our view is that we are still pulling up out of the recession. We can see the light at the end of the tunnel, we just don’t know how long the tunnel is,” says Bill Ablondi, director, Home Systems Research, for Dallas-based Parks Associates.

(The online version of this story includes brief 2011 forecast outlooks for a handful of market niches in North America based on comments by from analysts interviewed for this story.)

Mass-Marketed Home Controls

In the residential space, product and service providers from outside the security industry will bring to bear new offerings in 2011 that are expected to feed consumer demand for home management controls. Consequently, alarm dealers will be pressured to keep pace

and expand their own portfolios, according to market analysts.

Mergers and acquisitions activity in 2010 presents a clear picture of the impending shift coming to the residential marketplace. Consumers will increasingly be offered a variety of Web-enabled mobile applications, home management and monitoring solutions.

Among the transactions, in December Motorola Inc. bought 4Home, which provides connected home services such as energy management, security and monitoring, and media management. AT&T acquired Xanboo, which was one of the original home automation players, providing energy management and monitoring services. And in November, competing broadband home management providers iControl Networks and uControl agreed to merge. Both companies offer home monitoring, security and energy management products accessible through the Internet and mobile phones.

“What this all points to is IP-based connected home services is starting to happen,” says Ablondi. “We are expecting some announcements early in 2011 from some of these firms. Comcast is already in the market with an offering [in Texas]. We know that there are others seriously exploring the opportunity as well.”

Regardless of the looming threat from outside vendors, traditional alarm dealers are well positioned to begin offering similar services as well, Ablondi says.

“Dealers have a relationship with consumers. If they take heart and adopt new technology they can expand their market. This is something new they can put in their portfolio and go and sell,” he says.

ADT recently entered the mass-marketed home control ranks with its Pulse offering, which is based on a platform by iControl and offers remote management of security cameras, thermostats and limited lighting controls.

Parks Associates research suggests the traditional residential security market could be expanded by as much as 5 to 10 percent during the next five years by layering on these new types of offerings. ■

Rodney Bosch is Managing Editor of *SECURITY SALES & INTEGRATION* Magazine. He can be contacted at rodney.bosch@securitysales.com.