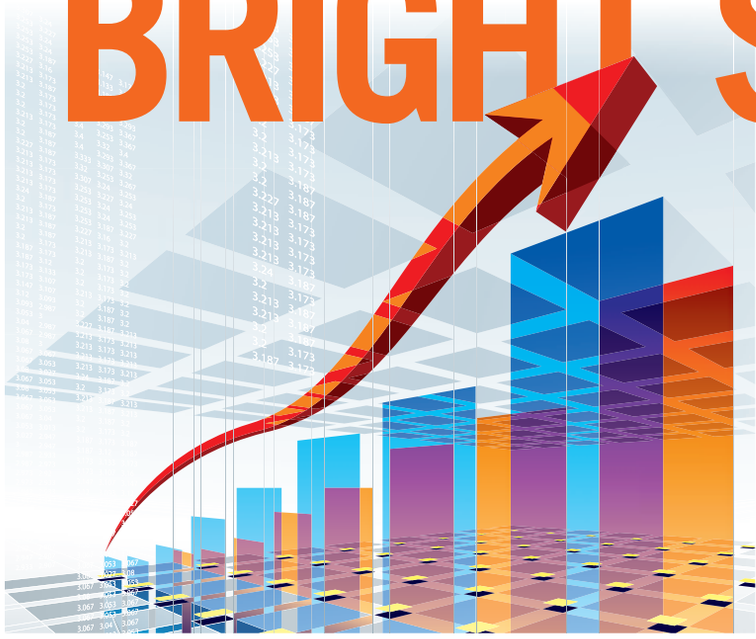
# STOPS, STARTS & BRIGHT SPOTS



As with anything challenging, there are things to be gained. In security in 2012, it's going to be addressing the 'bright spots' or opportunities that present themselves during this slow recovery.

**By Laura E. Stepanek,** Editor

Flat is a four-letter word when it comes to the economic performance of the security installation channel in 2011. Despite predictions last year for a meager, yet optimistic 1 percent uptick in 2011, expectations did not materialize and total industry revenue neither grew nor fell — keeping at $43.9 billion. Perhaps because of this, integrators and security dealers are now ultra cautious, offering flat projections for 2012. But if, indeed, it is only caution speaking, then there may be improvement in 2012 regardless of the flat prediction. There are some positive indicators in employment levels within the security industry and signs that residential markets may be coming to life, based on results of *SDM*'s annual Industry Forecast Study.

**Below:** *Despite the security channel's predictions for 1 percent growth in 2011, their expectations did not materialize and total industry revenue stayed flat at $43.9 billion. Perhaps because of this, projections for 2012 are flat as well —although there are some positive indicators such as employment levels improving and residential sales being stimulated.*

As for how the security installation channel compares with the economy in general, it is slightly under par. The U.S. economy is expected to grow 2 percent in 2012, matching the rate of 2011. This

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## 2012 INDUSTRY REVENUE: Flat

Total industry revenue from the sale, lease, installation, service, and monitoring of security systems

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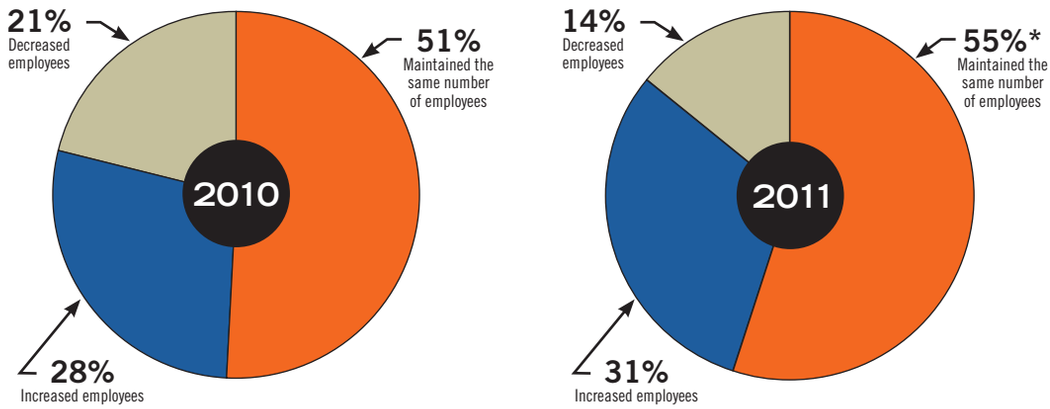
## EMPLOYMENT: Fewer Companies Decrease Head Count

Dealers and integrators were asked: *In 2011, how has the number of employees at your location changed?*



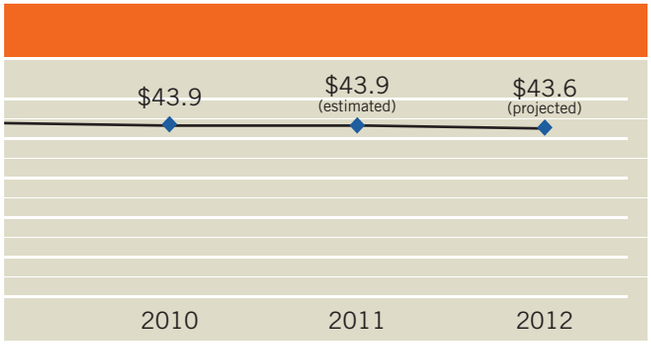

*percentage of dealers and integrators indicating each choice

*A positive indicator is employment levels. The Industry Forecast Study reveals that fewer security companies experienced a decrease in employees last year, dropping from 21 percent in 2010 to just 14 percent in 2011. Among those who added, the average increase was 11 employees (up from six in 2010); among those who subtracted, the average number eliminated was 10 (up from four in 2010).*

is thought to be enough to keep the nation from falling into another recession, but probably not enough to make a difference in unemployment. Jobs are key because fewer jobless people leads to greater consumer spending, which leads to greater consumer confidence, which leads to greater business confidence — and more spending on security products and services.

In the security installation channel, fewer security companies experienced a decrease in employees last year, dropping from 21 percent of respondents in 2010 to just 14 percent in 2011 who said there had been downsizing at their companies. Among those who added jobs, the average increase was 11 employees (up from six in 2010).

Indicators from both *SDM*'s Industry Forecast and other sources point to another bright spot in 2012 — the residential market. The announcement by Honeywell about its recent exclusive partnership with luxury homebuilder Toll Brothers (see story on page 19 of this issue) was refreshing and welcome news, and it rides along on the wave of excitement seen in the industry recently about mobile connectivity with end-users' security systems. The ability for consumers to directly interact with their systems, and importantly, to remotely watch their homes through installed video cam-

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## Cloud Services: A Baseline

Dealers and integrators were asked: *Which of the following services does your company offer to its subscribers/customers?*

| Security Services | |
|---|---|
| Remote video monitoring | 60%* |
| Managed access control | 52% |
| Hosted (cloud-based) video storage/viewing | 25% |
| Software as a Service (Saas)-based video management | 25% |
| Other | 16% |
| None of these | 12% |

**percentage of dealers and integrators indicating each choice; total exceeds 100% due to multiple choices allowed

*For the first time, the Industry Forecast Study asked respondents to indicate to what degree they are involved in offering their customers remote services, including cloud-based services. This will help the industry watch the trend towards security as a service.*



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eras, is bringing new life to the residential market, dealers say.

The *SDM* Industry Forecast Study confirms that the greatest rate of growth in residential will be in existing, middle-market homes. Another positive indicator from the study is that dealers indicate 19 percent of total revenue in 2011 came from residential security system sales/installation — an increase of 3 percentage points from 2010. Dealers like the ability to take mobile, interactive apps to existing customers to add value to the accounts and curb attrition.

The industry would do well to focus on the hot rental market in 2012, perhaps by creating some lower-cost security packages. Sources state that home construction is expected to increase by approximately 15 percent in 2012, with most of the growth coming from apartment building construction. This may be one market in which companies such as Verizon, with its self-installed/self-monitored, smart-home security system (see "Verizon Launches Monitoring & Home Control Offering" on www.SDMmag.com), will do well.

What's more, a collaborative research project between *SDM* and the Custom Electronic Design & Installation Association (CEDIA) proves that a level of convergence is taking place in the residential market between security dealers and electronic systems contractors. There is common ground with low-voltage systems such as security, surveillance cameras, home healthcare, energy management, and home controls, among others. (See related story, "Points on Confluence in the Resi Market," beginning on page 42 in this issue.)

While revenue from residential sales/installation, as a percentage of the whole, picked up steam in 2011, revenue from non-residential sales/installation declined slightly — from 39 percent to 34 percent. There are many factors of influence at work here, including decreased government spending — a market that has buoyed the security industry for the past several years — as well as slowed business spending, which is expected to continue into 2012. Business investment in buildings, equipment and software is expected to grow by 6 percent in 2012. Reports state that unless there are better gains in employment levels, which won't happen if managers remain wary of another recession, then businesses will be cautious about buying big-ticket items. So, the security industry's push into Security as a Service — a suite of services that don't require businesses to make large capital investments in security equipment — is well-positioned for yet another cautious economic climate in 2012.

*SDM*'s Industry Forecast Study shows that integrators and dealers expect their highest rate of revenue growth to come from the top three market sectors of commercial office space, retail and

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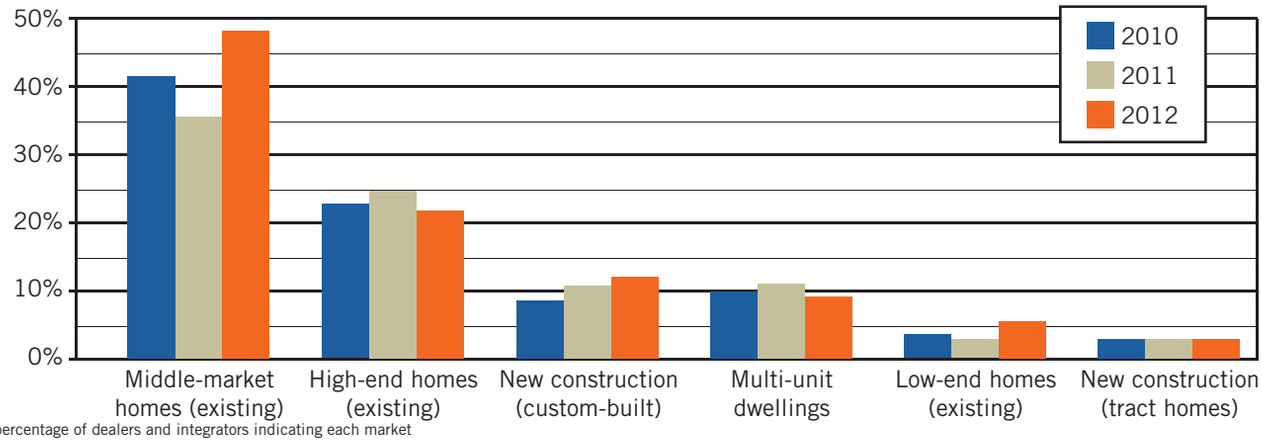
## STRONGEST RESIDENTIAL MARKETS: Middle, Existing Homes

Dealers and integrators were asked to indicate the one residential market segment where they expect to see the highest rate of revenue growth for their companies in 2012.

**Residential market sector**




*percentage of dealers and integrators indicating each market

*Security installation companies in the residential market will keep their focus on existing, middle-market homes this year. There has been excitement surrounding new developments in both energy management and remote control of a security system through mobile devices, both of which suit this market sector well.*



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education. Much of the employment growth that occurred in late 2011 was in retail, and healthcare jobs are expected to continue to increase in 2012, as well.

The *SDM* Industry Forecast Study, which has been conducted annually since 1981, found that approximately half of survey respondents expect their 2012 revenue to increase compared with 2011, while 44 percent expect no change and only 8 percent expect it to decrease. As the security installation channel continues to stay focused on the opportunities or bright spots that emerge during a challenging recovery, the industry can start to show gains once again. ■

**Editor's Note:** More results from the *SDM* Industry Forecast Study will be presented in the February issue, including pricing and RMR trends.

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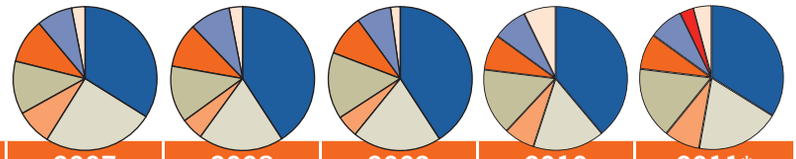
## REVENUE BREAKOUT BY: Type of Service



| Type of service | 2007 | 2008 | 2009 | 2010 | 2011* |
|---|---|---|---|---|---|
| Non-residential sales/installation | 34% | 41% | 41% | 39% | ↓ 34%† |
| Residential security sales/installation | 25% | 19% | 20% | 16% | ↑ 19% |
| Home system installations (other than security) | 8% | 5% | 5% | 7% | ↑ 8% |
| Service/maintenance | 12% | 13% | 15% | 15% | ↑ 16% |
| Residential monitoring/leasing | 10% | 10% | 9% | 8% | → 8% |
| Non-residential monitoring/leasing | 8% | 9% | 8% | 8% | → 8% |
| Hosted, managed, and cloud-based services | | | | | 3% |
| Other services | 3% | 3% | 2% | 7% | ↓ 4% |

*year in which revenue was counted †average percentage of revenue per service category among all dealers and integrators participating in the survey

*The largest category of revenue from services in 2011, as in prior years, in the installation channel is revenue from non-residential sales/installation, followed by residential sales/installation. A positive indicator is that residential sales/installation inched up 3 percentage points, to 19 percent of the total. For the first time, the Industry Forecast Study measured revenue in a new category: hosted, managed and cloud-based services, which came in at 3 percent of the total.*

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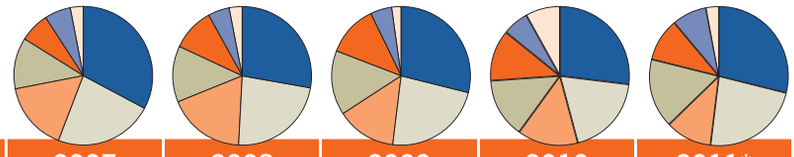
## REVENUE BREAKOUT BY: Type of Product



| Type of system | 2007 | 2008 | 2009 | 2010 | 2011* |
|---|---|---|---|---|---|
| Burglar alarms | 33% | 28% | 29% | 19% | ↑ 29%† |
| Video surveillance | 23% | 23% | 23% | 27% | ↓ 23% |
| Access control | 12% | 13% | 15% | 14% | ↓ 11% |
| Fire alarms | 16% | 18% | 14% | 14% | ↑ 16% |
| Integrated security systems | 7% | 10% | 12% | 12% | ↓ 10% |
| Home systems (other than burglar/fire) | 6% | 5% | 5% | 6% | ↑ 8% |
| Other products | 3% | 3% | 2% | 8% | ↓ 3% |

*year in which revenue was counted †average percentage of revenue per product category among all dealers and integrators participating in the survey

*SDM's Industry Forecast Survey, which has been tracking how dealers' and integrators' total revenue is distributed among types of products for decades, shows that burglar alarm systems and video surveillance systems are the top two product segments by revenue in the installation channel. In 2010, the video surveillance category beat out burglar alarms, but in 2011 the opposite occurred.*



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