





LOOKING TO THE **FUTURE**



Predictions for the Electronic Security Industry in 2020

By Dave Simon

Security Nation recently interviewed a number of ESA's Executive Strategic Partners to get their predictions on how the industry will evolve over the next 5 years and how our members and their customers should position themselves for success.

Weighing in were: **Shawn Welsh**, Telguard VP of Marketing and Business Development; **John Sullivan**, ADI Senior VP of Sales; **Alex Asnovich**, Hikvision Director of Marketing; **Alan Forman**, President, Altronix Corp.; **Mike Keegan**, President, Security America RRG; and **Jennifer Bruce**, Business Development Manager, Axis Communications. Thanks for joining us on this dialogue.

What are some of your predictions on how the electronic security industry will evolve over the next five years?

Keegan: I believe the DIY (do-it-yourself) systems will outpace the conventional security market.

Sullivan: The integration of systems is becoming increasingly popular as they offer comprehensive security systems and allow users to get more out of one interface. For example, systems that offer residential video with alarm system monitoring are really taking off right now. The connected home and all the peripheral products that can be offered with it continue to offer growth opportunities. From cameras to thermostats, lighting controls to locking solutions, ADI offers products from a wide range of manufacturers that meet the needs of dealers and end users. We are seeing more cloud-based services becoming available with greater storage memory. These solutions serve as the hub or center piece of the security system, and provide access to all the different options and applications. ADI offers cloud-enabled devices to help dealers build complete systems.

Asnovich: The security industry is obviously evolving very quickly, both in technology and in the widespread adoption of that technology. Security is being used in every vertical market across the globe. As video surveillance technology becomes more advanced and also less expensive, we will see a higher conversion rate of analog to digital appliances. We will also see a broader spectrum of products under the IoT umbrella. As everything heads in the IP direction, cyber security is going to become increasingly more important, and consumers will be better educated on cyber security. Another trend will be industry consolidation, which we discuss below.

Forman: We will certainly continue to see an accelerated migration from analog to IP-networked systems supported by two core trends: the evolution of new software solutions that offer advanced remote control and communications between all system components – both analog and IP; and the continued development of adaptive

transmission solutions that allow virtually any infrastructure to support higher speed and more bandwidth at greater distances, and large capacity network connectivity.

Welsh: A “walled garden” approach will be forced to open up to other devices used in home security applications. By a walled garden, we’re talking about a closed system (a garden with a wall around it), so other applications or devices cannot be added. A more open architecture for home automation allows faster innovation integrated into home security services. Manufacturers will

want to see integrators using a wide variety of products as part of their home automation services, including the API-ification” (application programmer interface) for internet products and services.

Bruce: I think we have started to see a convergence of technologies, which will only continue to grow. For example, this could be an alarm system that is now communicating with a video system where all those interconnected systems usually go through a mobile app – such as Alarm.com. We will see more of this convergence

of technologies happening, and as it continues to grow, it will start to include more behavioral patterns and intelligence about our systems and about our interactions with those systems, which means we will start to see more non-security related functions become a part of that.

What do you see (generically) in terms of mergers or consolidation? How about types of companies that might be exiting the industry?

Keegan: I would expect that more of the larger independent companies will take advantage of the high multiples and sell to the larger national or regional players. As owners age, many will come to the realization that they would like to spend more time with their families; not something that comes easily when you run a successful 24 hour a day business. In addition, the smaller installer-owned companies will begin to feel the pressure of health insurance costs and will look to sell their accounts and take a job with a steady paycheck and benefits.

Sullivan: We have seen consolidations and acquisitions among vendors and dealers as well,



however this has not changed business for ADI. We continue to stay focused on our growth strategy, and are committed to serving as a valuable business partner to our dealers and manufacturers.

Asnovich: Vendor consolidation is the consolidation we hear most about. One of the benefits of vendor consolidation is improved technical and operational integration of various components of security technology. This makes life easier for the end user as long as those components meet their needs. If their needs exceed what is available to them within a single brand, the integrator is put into a difficult spot if they cannot support all brands. So it's impossible to say whether consolidation is a positive or negative thing; it will really vary from situation to situation. Integrators should research which brands provide the broadest scope of products and solutions, taking into consideration the reliability, interoperability, and value of each. Choosing a vendor who is sufficiently capitalized to avoid consolidation – such as Hikvision – will future-proof their investment even further.

We also see mergers occurring at the distributor and SI level. A national SI having trouble capturing market share in a particular region due to local loyalty to a smaller SI may consider acquiring the smaller SI.

Forman: Today's mergers and acquisitions are being driven by the rapid pace of technology development. This often makes it more practical in many instances to purchase already developed and applied technology in lieu of inventing it themselves. This greatly benefits companies by allowing them to rapidly enter into trending markets. Companies that are unable to adapt to new trends and technologies will surely suffer and possibly be exiting the industry. Altronix is totally independent and has a history of working well with technology and reseller partners despite their corporate lineage.

Welsh: There has been some talk of mergers in the market, but I see more of an "investments" theme, with a trend of bigger companies buying smaller tech companies in the security industry, more like what you see in the general high tech industry. This strategy will allow bigger companies the ability to more easily keep up with innovation provided by smaller companies. Innovation used to be discussed in 5-year forecasts in the security space, but that has sped up immensely. Bigger companies would rather buy a smaller company with the new product or service, rather than build it themselves, allowing them to more quickly respond to consumer demand for faster product availability.

Bruce: There tends to be a pattern in most industries where we will see a period of consolidation followed by a period of innovation

and startup. Right now we are in a period of consolidation where we see acquisitions occur when a division of a company is either being spun off or shut down due to customer demand. Customers want more ease-of-use experiences, which is easy to accomplish if they have just one resource to go to. As that single resource becomes more established, we will see innovation start back up in a few years.

Any new killer/game changing technologies on the horizon?


Keegan: The technologies that are mobile will continue to dominate the landscape. Do-it-yourself video systems will have huge growth in the coming years, which will impact the recurring model. If you can get a video clip to your phone, you can dispatch the police to your own home. If you can dispatch the police yourself, you don't need a monitoring center. The millennials and GenX and Gen



Mobile Technology will continue to dominate the landscape.

Y'ers don't want to pay for services they have grown up having for free, and now have a sense of entitlement. Hot spot wireless, free TV online and pay as you go should all be taken as a caution that your alarm RMR model of charging for services needs to change.

Sullivan: There will be a continued drive towards remote services and cloud management. Whatever it is ADI will be ready.



Forman: I can only speak to this in terms of Altronix's areas of specialization, and the answer is yes. Our new LINQ™ Network Communication Technology will have a significant impact on the way new and existing systems are deployed and upgraded. Technology of this kind fills the void in network communications for mission critical power distribution applications by allowing you to remotely monitor and control power, and report diagnostics for IP and analog power and transmission products. Having this technology provides specific information on multiple products at multiple sites. The ability to monitor and diagnose impending issues or worse, system failures, is also available via email and SNMP notifications, which greatly reduces service calls and system downtime. In addition to providing users with greater control and assurance that their systems are up and running properly in real time, this type of technology creates new recurring monthly revenue (RMR) opportunities for resellers/installers to enhance their service models.

Welsh: I expect the API-ification (open access to hardware and services) trend to continue. The walled garden system does not allow this to happen because it's a closed system. DIY is a threat or an opportunity depending on where you sit in the value chain. Companies will continue to need some aspect of monitoring to make money, either from traditional installations or from previously self-monitored DIY systems.

Bruce: I really think that management and connected services are the hot technologies right now with staying power – they are not short-term technologies since they are revolutionary to our industry.

Will there be more or less regulation? Why or why not?

Keegan: Government at all levels is broken and I doubt we will see more legislation that dramatically affects our industry. I believe that lawsuits involving alarm companies will create more case laws that impact how we operate, more so than any legislation. Good contracts will continue to be the saving grace for all companies - don't do business without one.

Sullivan: There may be less regulation as a convergence of the technologies continues with the integration of the products in the commercial and residential markets.

Asnovich: We do expect more regulation in the security market, just like we've witnessed in the safety market in the recent past. Traditionally, Europe leads in these types of regulations, and then North America adopts it, so we'll be watching to see what happens in Europe in the new few years.

Forman: There will always be regulations such as building codes from governmental agencies to accommodate new technologies. However, I do believe we will see an increase in standardization which will further support the deployment of more fully integrated solutions.

Bruce: Since federal regulation is such a challenge, we will see more regulation occurring. But, it can't be a one-size-fit-all proposition. Because of this, we will have parse regulation increase because we have 50 different states and 50 different legislatures that need to protect the public.

Do you foresee any new players (not necessarily specific companies, but specific types of companies)?

Keegan: The large tech companies will continue to introduce products that will be disruptive to our panel-based systems. I believe we will see more WiFi-enabled devices from startups that we haven't heard from in the past.

Sullivan: I continue to see MSOs entering the space as they offer home management systems as part of a bundled package which includes cable, internet and telephone services.

Asnovich: We are likely to see more low-cost vendors from Asia coming into the market and providing simple technologies. They will be competing in the low tier segment that Hikvision has vacated.

Forman: There are always "me too" companies vying for a piece of the professional security market.

And then there are new technology disrupters that come onto the scene with innovations that can come from different corners of the overall marketplace.

Welsh: New entrants will not be the telcos or cable company because they are already here. I'm not a big believer in a Google-type company being the be-all and end-all as a new entrant in the industry, but these types of companies will be significant influencers because they push open architecture for home automation. Traditional security systems will need to connect to coming standards expected by customers. Companies that can positively influence that technology equation are more likely to enter the industry.

Bruce: I think the types of companies now emerging are going to be more peripheral and be less core companies. Those companies could be mobile app developers, customer experience specialists, or even managed service companies that will help connect the dots between the different technologies, while also helping bring the existing technologies together.

Look five years out, and describe the landscape as you see it.

Keegan: I have witnessed the growth of the summer sales model systems. Five years from now, I anticipate those companies that have neglected their customers will lose them to the door knockers or their competition. Companies must engage their customers on a regular basis. The days of activating a system and collecting RMR forever are over.

Sullivan: I continue to see the integration of video surveillance, access control and intrusion systems becoming increasingly popular as they offer comprehensive security systems and allow users to get more out of one interface. For example, systems that offer residential video with alarm system monitoring are really taking off right now. Lower

price points have made integrated systems more mainstream, and users understand the value.

Secondly, we are seeing more manufacturers migrating to selling through distribution as they see the benefits in distributors handling customer service, call volume, product services, marketing initiatives, etc. Today's customers want more manufacturers to transition from a direct sales model to distributors so they can access complete solutions rather than separate products. Many dealers also prefer to purchase through distribution for the available credit options, inventory levels, delivery options, training and support. Dealers can optimize their cash flow and reduce overhead costs by eliminating the need to deal with multiple suppliers.

Third, I continue to see operational efficiency as a competitive advantage.

Forman: The deployment of security systems will involve products with open architecture that incorporate more advanced integrated features providing even greater functionality and versatility. This will result in enhanced levels of security using less hardware and devices. We also believe that more sophisticated sensor technology will provide critical information that was previously not attainable.

Welsh: I don't expect to see a significant change in the landscape/ecosystem. But there will be greater expectations from customers that their system be smarter and more universally connected to other devices in their homes. There may be some increase in DIY installations, but not much change in how monitoring is done. You know, the industry has been around a long time addressing the same needs: professionally delivered peace of mind. There's not going to be a significant shift from that.

Bruce: Five years from now you will have really well-defined product portfolios and service companies for different segments of our industry, such as the enterprise, medium, and small space segments. Up until this point, the industry has been a little more fluid between the different segments, but as time goes on, they will start to be more defined and have specific products meeting those specific segment requirements.

How should ESA member companies position themselves to prepare for these changes?

Keegan: It is not enough to pay your ESA membership and take advantage of the member savings. ESA members need to be involved and actively contribute on a state and national level. As an association, ESA is out front on technical and legal trends. If you're not involved, chances are you will find out what is happening too late.

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Sullivan: Be open-minded and prepared to adapt new technologies and stay on top of new initiatives.

Asnovich: Companies should look at the big picture in terms of how the Internet of Things is going to affect the way their customers use their products. Everything will be connected; we will see a lot more cloud-based technology. When consumers think about security, they will not just be wondering if their video surveillance system will be able to integrate with their access control system. They will be taking into consideration whether their security system is scalable with all the other appliances they have on their network.

Forman: First and foremost, we believe it is mandatory that ESA members are well-versed on the latest technologies and products available from the leading manufactures in the industry. At Altronix, we listen to our customers – both end users and reseller partners – very closely, and we interact with them to truly understand their needs. And we embrace reseller partners and help train and educate them on the latest developments, so they can deliver relevant solutions that are as seamless as possible using reputable products that are familiar and trusted to them.

Welsh: Back to the walled garden analogy -- customers will look for more open architectures. Let's take cell phones as an example: Apple, it's a closed system, and Android is an open system. Which one are you going to prefer as a customer based on that analogy? It is easy to fall into a habitual rut. We're big supporters of ESA, and that's one of the good things about being a member -- you can take advantage of their resources to consider the alternatives without being pinned down to what your current supplier wants you to think the landscape looks like.

Bruce: I think taking advantage of knowledge being provided from solutions and technology companies is critical to understanding when you either adapt to the technology or when you have to pass on it. Often times, companies take a wait-and-see approach, but they need to more proactively seek out information about technology, absorb that information and act upon it, which is the only way a company can survive a vastly changing technology market. ■



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