What are You Looking For?

Welcome back to ISC West. Are you here to find the latest and greatest in security technology? I know I am. My company provides consulting: mergers and acquisitions, and research services to suppliers, investors and installers in the security industry, and ISC is always a wonderful opportunity for me to stay abreast of the market. But there is an even more important purpose for being here that I bet most of you share: to identify the companies, technologies and services that can best help you do your job. Whether you are a manufacturer, end user, dealer or integrator, you are bound to learn something new and useful while at the show.

Here at Sandra Jones and Company (SJandCo), our own channel research on what end users are looking for today has identified managing risk and complying with government mandates as primary drivers. End users are most interested in technology that provides comprehensive and easily obtainable information, allowing for more accurate and faster decision making. Much of this technology will be IT-based, says Louis Barani, former director of security at the World Trade Center, because it improves what he calls situational awareness. "I want as much information as possible, from as many systems as possible, so I can respond to an event," he says. Perhaps many of you feel the same. Or are you looking more for a managed services approach?

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For the last four years SDM's Editor Laura Stepanek and Publisher Mark McCourt have been kind enough to allow us to add optional questions to their dealer/integrator research. Of the 19 new services identified by dealers and integrators responding to the optional questions, the top five services most frequently requested by their customers (in order) are listed below in Table 1.

Table 1

Most Requested Services Last 4 Years	Most Requested Services In 2012
1. Video monitoring	1. Video verification
2. Video verification	1. Video monitoring (tied)
3. Hosted access control	2. Mobile apps
4. Internet access	3. Fire alarm monitoring
5. Mobile apps	4. Hosted access control
	5. Energy management

Table 2: Company/Enterprise Value

(used 5 x EBITDA* but higher profit company with more RMR may be above 5 x)

	Year 1	Year 2	Year 3	Year 4	Year 5
With two added RMR services	$5,290	$6,395	$7,529	$8,457	$9,018
Percent increase		*20.90%*	*17.70%*	*12.30%*	*6.60%*
Without two added RMR services	$4,078	$4,745	$5,379	$5,907	$5,793
Percent increase		*16.40%*	*13.30%*	*9.80%*	*-1.90%*

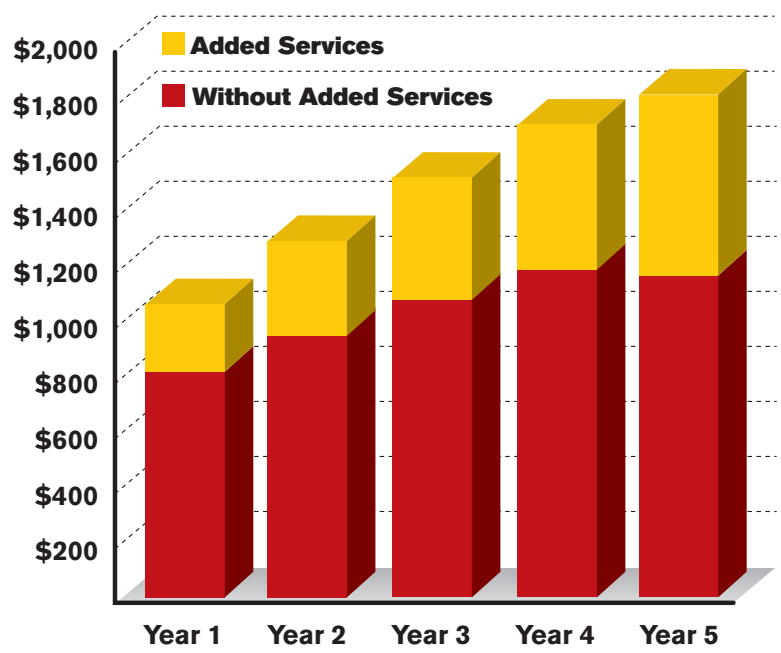
*Earnings before interest, taxes, depreciation and amortization.

These kinds of services don't just benefit end users. They also afford dealers and integrators the ability to create a unique offering that helps keep customers loyal and creates a more valuable business. With over 30 years of experience in understanding customer needs and channel expectations, I know that dealers and integrators are driven by many factors, ranging from the needs of their customer to technology that gives them a competitive advantage; or improves installation and service; or provides a more elegant solution for integrating information. If you are an integrator looking to add value to your offerings, by including profitable recurring services instead of just hardware, you can improve both cash flow and enterprise value. Even dealers with established sources of RMR would benefit by adding one or two of the above (or others that would be logical to support your customer base) because it is a change worth making. If you don't agree, the numbers in Table 2 may change your mind.

As you can see, the impact of adding a service that increases recurring monthly revenue can be significant, as SJandCo's valuation expert Ray Lynn's analysis describes. Lynn comes to SJandCo from ADT, HSM and Stanley, where he was involved in over 250 due diligence reviews and over 150 transactions. For the past seven years he has applied this knowledge to conducting valuations and profitability assessments for our systems integration clients, helping them gain a better understanding of the impact on their cash flow and valuations in order to time a sale to optimize value. One such recent projected valuation demonstrates how an integrator doing $5 million in sales could double their revenue to $10 million in five years by just the addition of two new recurring services. Additionally the change could as much as double the client's operating profit in five years.

Another finding was that without the additional services, operating profit would flatten out and begin to decline after year four, as profit margins on existing services do not outpace increases in general and administrative expenses, as shown by the red portion in "Operating Profit by Year" below.

The good news is that if you are not currently offering some of these services, the change is worth making. And there is no better way to use your time wisely at ISC West than to find the suppliers of these services that would most benefit you and your customers. Ray Lynn (Ray@sjandco.com) and I (Sandy@sjandco.com) are both here at the show and would be happy to help you or answer any questions. ■

Sandra Jones and Company assists their clients optimize profits and accelerate business value through strategies, M&A, OEM introductions and financial services. Go to www.sjandco.com to learn why the industry's leading manufacturers, installing companies, new entrants and investors have made SJCO the No. 1 "go-to" resource in the security industry.

Operating Profit by Year