

**TRG Associates, Inc.**

## **The Cost to Create a Security Customer**

*Presented by John Brady  
President, TRG Associates*

### **WHAT REVENUES ARE INCLUDED?**

- One Time Installation Revenues
- Activation Fees
- Sign-Up Fees
- Up-sell Revenues
- Equipment Revenues
- Permit Revenues
- Co-Op Advertising (can offset costs also)

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### **WHAT REVENUES ARE NOT INCLUDED?**

- Any Prepayment of the RMR
- Balance of Contract Revenue

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### **THE TECHNICAL COSTS THAT SHOULD BE INCLUDED:**

- Install Management Costs
- Direct Technical Labor or Subcontractor
- Fringe Benefit Costs
- Equipment Costs
- Expendables (wire, screws, etc)
- Vehicle Costs
- Uniform Costs
- Pagers / Communications Costs
- Other Direct Costs

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### **MARKETING /TELEMARKETING/ ADVERTISING COSTS**

- Telemarketing Commissions
- Lead Source Costs (e.g. Real Estate Agents)
- Communications
- Advertising
  - Yellow Pages
  - Newspaper
  - Media
  - Other
- Collateral Material Costs
- Other Marketing Costs

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### **SALES COSTS**

- Sales Manager and Administrative Labor
- Sales Compensation
- Salesperson Commissions
- Fringe Benefit Costs
- Vehicle Allowances
- Communications Costs
- Other Sales Costs

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## LEAD GENERATION COSTS



Within the Lead Generation Costs, a number of companies do not recognize the real costs per sale...

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## LEAD GENERATION COSTS



	<u>Range</u>		Company Generated
	Self Generated	Out Bound	
Lead Source Costs	0	25.00	150.00
Telemarketing Labor	0	225.00	0
Telemarketing Fringe	0	27.00	0
Communication Costs	15.00	21.00	21.00
<b>Total</b>	<b>15.00</b>	<b>298.00</b>	<b>171.00</b>

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## LEAD GENERATION COSTS



### Other Cost Areas

- Specific facility Costs - Rent, etc.
- Computer / Dialer Support
- Recall Costs (if separate)
- Lead Confirmation Costs

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## CREATION COST RANGE



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## MARKET RANGE



	<u>Low Multiple</u>	<u>High Multiple</u>
Revenue	\$250.00	\$99
<u>Technical Costs</u>		
Labor	(125.00)	(95.00)
Equipment	(135.00)	(115.00)
Vehicles	(55.00)	(55.00)
Other	(20.00)	(20.00)
Gross Margin	(85.00)	(186.00)
<u>Telemarketing</u>		
Telemarketing	(0)	(0)
Advertising	(0)	(40.00)
Communications	(0)	(20.00)
Collateral Material	(15.00)	(25.00)
Other	(0)	(10.00)
<u>Sales</u>		
Sales Manager & Staff		
Sales Compensation	(195.00)	(255.00)
Fringe Benefits	(0)	(150.00)
Lead Source Costs	(0)	(150.00)
Vehicle Allowances	(10.00)	(10.00)
Communication Costs	(5.00)	(5.00)
Other Costs	(15.00)	(15.00)
Net Investment	(325.00)	(716.00)
Investment Multiple	13.1	28.7
	(\$24.95)	23.9

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## TRADITIONAL RESIDENTIAL



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## TRADITIONAL RESIDENTIAL (Carriage Trade)

Revenue	\$1450.00	100%
<b>Technical Costs</b>		
Labor & Fringe	300.00	22%
Equipment	487.50	33%
Vehicles	55.00	4%
Other	50.00	3%
Gross Margin	557.50	38%
<b>Sales &amp; Marketing</b>		
Sales Labor & Fringe	275.00	19%
Telemarketing	0	0%
Lead Source Costs	50.00	3%
Vehicle	15.50	1%
Communication Costs	20.00	1%
Advertising	50.00	3%
Collateral Material	37.50	3%
Other	12.50	1%
Sub Total	460.50	
Profit	97.00	7%
RMR = \$24.95		
Investment in Multiples	None	
Cost of Monitoring	N/A	
Range		
Gross Margin		29%-38%

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## COMMERCIAL LEASE

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## COMMERCIAL LEASE

Revenue	\$500.00
<b>Technical Costs</b>	
Labor & Fringe	262.50
Equipment	185.00
Vehicles	75.00
Other	25.00
Gross Margin	47.50
<b>Sales &amp; Marketing</b>	
Sales Labor & Fringe	275.00
Telemarketing	0
Vehicle	27.50
Communication Costs	25.00
Advertising	50.00
Collateral Material	37.50
Other	25.00
Sub Total	440.00
New Investment	487.50
RMR	37.45
RMR Multiple	13.01
Range	
Gross Margin	9 to 19 times RMR

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## FINANCIAL STATEMENT FORMAT

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## FINANCIAL STATEMENT FORMAT

<b>Central Station Revenue (All RMR)</b>	
Direct Central Station Costs	
Central Station Gross Margins	70%-80%
<b>Installation</b>	
Technical Costs	
Gross Margin	
Sales & Marketing Costs	
Net Margin	Investment to Breakeven
<b>Service Revenue (T&amp;M)</b>	
Direct Service Costs including Equipment	
Service Drag	Breakeven to -18%
<b>General &amp; Administrative</b>	
All Facility Costs	
Insurance	
Entrepreneurial Costs	12%-27%
<b>Net Operating Income</b>	25%-45%

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## AND THEN THERE WAS VALUE

Accounts value driven by:  
Per Account

- Contracted Status
- Performing Status - Payment History
- Nature of the Services included in RMR
- Quality and Consistency of Install and Equipment Utilized
- Average Price of those services in comparison to market
- Price increase characteristics

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## AND THEN THERE WAS VALUE

### As Part of a Customer Base/Going Concern

- Size of Customer Base
- Geographic Dispersion
- Service Quotient
- Historical Attrition /Resign Rate
- Company's Ability to Replace Attrition and Generate Growth

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## WHERE IS THE MARKET?

<u>RMR Range</u>	<u>Market Multiple Ranges</u>	
	<u>1995</u>	<u>Today</u>
\$5,000 - \$25,000	22 to 29	22 to 28
\$25,000 - \$50,000	27 to 36	25 to 34
\$50,000 - \$100,000	35 to 44	32 to 38
\$100,000 - \$200,000	41 to 47	35 to 39
\$200,000 - \$350,000	46 to 50	37 to 40
\$350,000 - \$500,000	48 to 56	38 to 42

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## WHERE IS THE MARKET?

- Sale Terms - getting more and more creative
- Stock Transactions
- Holdbacks - Amount
  - Term
  - Exclusions - Switch Centrals
  - Poor Service
- Seller Debt
- Guarantee Rate Cushions

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## CREATION MULTIPLE REPORT

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## Creation Multiple Report

One Time Installation Revenue	_____
Activation Fees (if any)	_____
Other Income (not to include RMR, even if prepaid)	_____
	Total Income (A) _____
<b>Technical Costs</b>	
Install Management Costs	_____
Direct Technical Labor or Subcontractor Costs	_____
Fringe Benefit Costs	_____
Equipment Costs	_____
Expendables (wires, screws, etc.)	_____
Vehicle Costs	_____
Uniform Cost	_____
Pages/Communications Costs	_____
Other Direct Costs	_____
	Total Direct Technical Costs (B) _____
	Gross Margin ((A-B)-C) _____
<b>Sales Costs</b>	
Sales Manager and Administrative Labor	_____
Salesperson Compensation	_____
Salesperson Commissions	_____
Fringe Benefit Costs	_____
Lead Source Costs	_____
Vehicle Allowances	_____
Communication Costs	_____
Advertising Costs - yellow pages, newspapers, other	_____
Collateral Material Costs	_____
Lead Generation Costs	_____
Other Marketing Costs	_____
	Total Sales Costs (D) _____
	Net Margin (C-D-E) _____
	New Recurring Monthly Revenue Added (RMR) (F) _____
	Investment in Number of Months of RMR Multiple (E/F) _____

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