

High-End Integrated Residential Security (HEIRS) NASS Montreal, Canada 2005

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Security, The Current Market



- Traditional residential security model has not changed much in 30 years
 - Residential market est. at 22.5M, or 20-22% of U.S. households¹
 - Avg. monthly monitoring fee \$25, total recurring revenues approx. \$6B
 - Avg. customer lifetime in stable markets approx. 7.5 years
 - Still highly fragmented: ~60% are smaller independent owner operators
 - Industry rule: <2500 customers, outsource monitoring

Security, The Current Market



- Core issues have hindered broader market penetration
 - 95%+ of all reported incidents are false alarms
 - Service still largely focused on fire and burglar monitoring only
 - Still using 1970's technology and user interface
 - High monthly monitoring fees remain a barrier
 - While adding ~1.5M new customers annually, only net 300K after attrition
 - National attrition exceeds 10%

HEIRS, The Conundrum



- When you keep doing things the same way and expect a different outcome.
- To change the end result, you need to break into the circle

Why HEIRS?



- Any Plan has choices and times when the path isn't clear.
- But, with a Plan you should always reach "ground"
- Be creative, "Make a new Mistake!"
- The HEIRS options



HEIRS, What Are They?



- **Integrated System (Two or more elements)**
 - Locks, physical protection, fencing, et al
 - Security (Burglary, fire, medical, other)
 - Structured wiring, HVAC, Central vacuum.
 - Communications, telephone, Internet, video
 - CCTV, access, status, communication
 - Home Automation & Computer Operations
 - **Entertainment, TV, Home Theater, etc.**
(The big dollars are here for now)

HEIRS Presentation/Workshop

• Definitions

- "High-End", Value Comparison?
- Integrated System (s)
- Service/condition/product/customer use
- Synergy, synergistic
- Consolidation, industry or complexity
- Components vs. Systems

HEIRS Comparisons

• Low & Mid Range

- Minimal technology
- "Comfort zone"
- Lower margin
- Cookie cutters
- Minimum training of user
- Single technology

• High End Systems

- Consulting, not selling
- Multiple technologies
- Not always comfortable
- Design essential
- Greater margins
- Significant training
 - Company personnel
 - Client

HEIRS Comparisons

• Value, The Dealer Perception

- Typical "low" security system \$0 – 1,500.00
- Mid-range system \$1,500-5,000.00
- High end system \$5,000.00 and up
- Financed purchase on low and mid with monthly recurring of \$29.95-39.95
- Outright purchase or in the mortgage with High End
- Combined margin on sale

HEIRS Comparisons

• Value, The Client Perception

- Investment, not just cost
- Performance differential
- Benefits from use
- Justification may be "emotional" not just factual
- May be multiple bids against specifications

HEIRS



• Market Penetration of Electronic Home Security Systems

- All US Homes 20-22%
- W/Internet 36%
- W/Broadband 40%

HEIRS Broadband Use

• Broadband Households

- estimated at 30.9M (cable + DSL) , or 24.7% of all US HH¹
- Cable: 61%, ~\$45/month; DSL: 39%, ~\$30/month^{1,2}
- US HH penetration to grow to 62% by 2007³

HEIRS

- Service Components to be Integrated
 - Security, entertainment, communication, operation, presence, condition, etc.
- Condition, elements of protection
 - Burglary, fire, temperature, flow, HVAC
- Product
 - Control, sensor, linkage/connection, wire
- Customer use
 - Remote access of premises



HEIRS Applications

- Extremely Useful! *From Homeowner Survey*
 - 58% Receiving alerts from mobile devices
 - 57% Using mobile devices to manage system
 - 56% Remote monitoring capability
 - 47% Web cameras with home security
 - 45% PC managed home security
 - 40% TV as front door monitor
 - 41% Audio/video baby cams



HEIRS

- Synergy, synergistic
 - Customer contact and awareness
 - Knowledge of options
 - Skills to install and service
 - Recurring vs. one-time revenue
 - Value to selling company
 - Customer satisfaction, referrals, expansion, upgrades



HEIRS, The Entertainment Opportunity – An Example

- Much more money per system
 - Margin on equipment @ 50%
 - Harder to price compare
 - Cost not as likely an objection if value obvious
- Complicated design
 - More components with more choices
 - Must know how the components interface
- Customer Value assessment
 - Does it add to our family lifestyle?
 - Am I keeping up with the Jones's?



HEIRS, Entertainment - Example

- The Dealer Challenges to Success
 - Product selection
 - Projector, screens, sound, receivers, related
 - Video, audio, remote access
 - Inventory management
 - Very high cost to individual components is common
 - Rapid Obsolescence
 - 6-12 months in life cycles
 - Competing technologies
 - Demonstrate value to client
 - Training of staff and clients



HEIRS Entertainment - Example

- The client opportunities
 - New homes are better fit
- The sales presentation
 - Must see in operation of similar system
 - Pricing can be added to mortgage
- Perceiving the “value” in the package
 - Life style matching
- Integrations with?
 - Security, remote access, HVAC, structured wiring



HEIRS

- Consolidation
 - Industry, Security-Manufacturers and Services
 - Complexity
 - Low-voltage and structured wiring
 - Connectivity, the "Ethernet"
 - Management from one location on-site or remote
 - Operational experience, training of customer
 - Programming the "system"
 - Licensing of installer (Technical or business)

HEIRS

- Components Vs. Systems
 - Security; add-ons, expansions, new conditions, gates, redundancy
 - Entertainment; TV, video, music, movies
 - Communications: Internet, telephone, radio
 - HVAC; heat, air, temp, water, fuel
 - Access; CCTV, door strike, driveway, PIN, service person, guest, agent, control

HEIRS

- Selling the Package
 - The Homeowner
 - The Contractor
 - The Developer
- The "tools" of the trade
 - Demo rooms
 - Trade shows
 - Catalogs, brochures, Internet
 - Direct sales call

HEIRS

- Installing the Package
 - New Construction
 - Existing Construction
 - Additions to existing systems

HEIRS

- Class Participation Assignment, (Hands on experience)
- Propose a specific problem/opportunity
 - Customer type
 - Dealer situation
 - Product or products
 - New, existing, add-on
 - Objective

HEIRS, Attention to Details



HEIRS, The Next Step



- Find the right fit for your company
- Collect sufficient data
- Make a decision
- Plan the work and work the plan
- Thanks to our Canadian friends for having us as guests!