

2020

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STATE OF THE SECURITY INDUSTRY: AN INTEGRATOR'S PERSPECTIVE

Annual Business and Technology Trends & Projections

With the massive uncertainty that has been brought to security integration businesses due to COVID-19, actions by the U.S. government, and other factors, this year's annual Security Business State of the Industry survey sought to answer the question: What is *really* happening out there to security integration businesses?

This *Security Business* magazine report is the result of a comprehensive research survey of the industry's top security systems integrators from across the United States - looking to assess the state of business in the security integration marketplace, including:

- The impact of COVID-19 on a variety of business factors;
- What can we expect from the rest of 2020;
- Other threats and challenges facing integrators;
- Budget, vertical market, and technology preferences and trends; and more.

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An Integrator's Perspective

Mission Statement & Introduction

The purpose of this annual *Security Business* magazine survey is to paint a picture of the forces impacting predominantly U.S.-based security integration businesses and quantify those effects on bottom-line market performance.

The results of our annual survey comprise a detailed overview of the current state of affairs in the U.S. technology integration market, providing vendors, consultants, A&Es and integrators up-to-date business data and trends.

For security industry technology vendors and solutions providers, it is imperative that there is an understanding of the challenges and market pressures faced by their integration partners and peers, since those events will ultimately shape their relationships with end-user clients.

This report also seeks to arm end-user practitioners with enough actionable intelligence to anticipate the security roadmap for 2021 and beyond.

All questions or report clarifications should be directed to *Security Business* Editor-in-Chief Paul Rothman: prothman@securitybusinessmag.com

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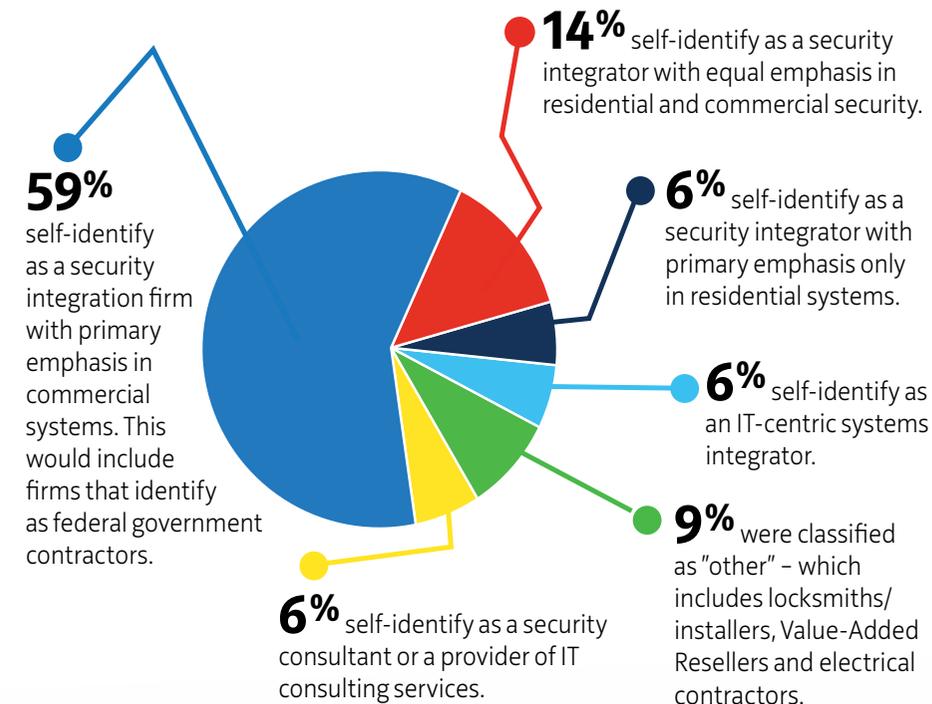
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Respondent Profile of the 150 respondents:



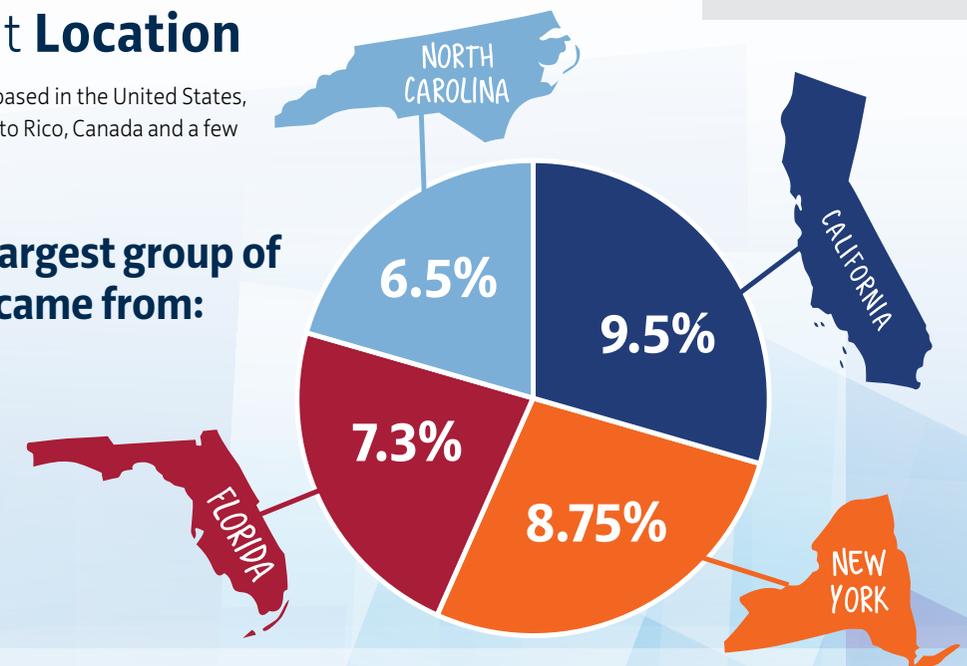
Commercial Market Expertise Dominates 2020 Respondents

The largest percentage of the 150 responding integrators to our annual survey were physical security systems integration firms that self-identified as handling commercial security systems. While many of these integrators also do work in the residential space, their primary focus would be total enterprise commercial systems design using multiple technology solutions and vendors, offering consulting services and outsourced resources. In all, 85% of respondents are classified as a traditional or non-traditional security integrator. The remaining respondents represent security-specific consultants and other integrator-adjacent businesses, such as locksmiths, electrical contractors, and VARs.

Respondent Location

92% of respondents were based in the United States, with 8% representing Puerto Rico, Canada and a few Latin American countries.

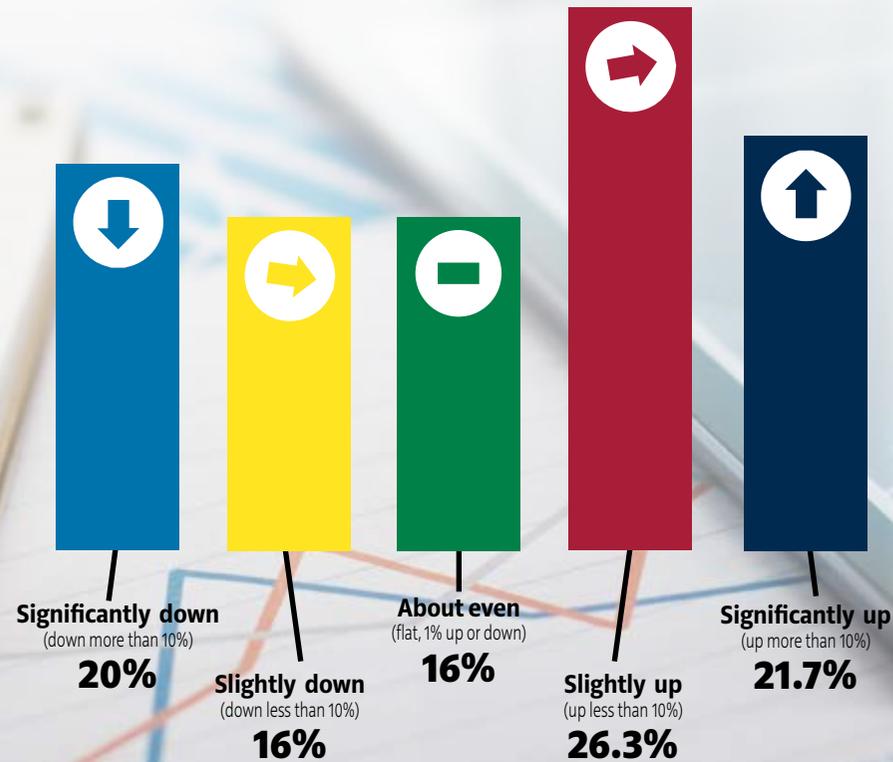
By state, the largest group of respondents came from:



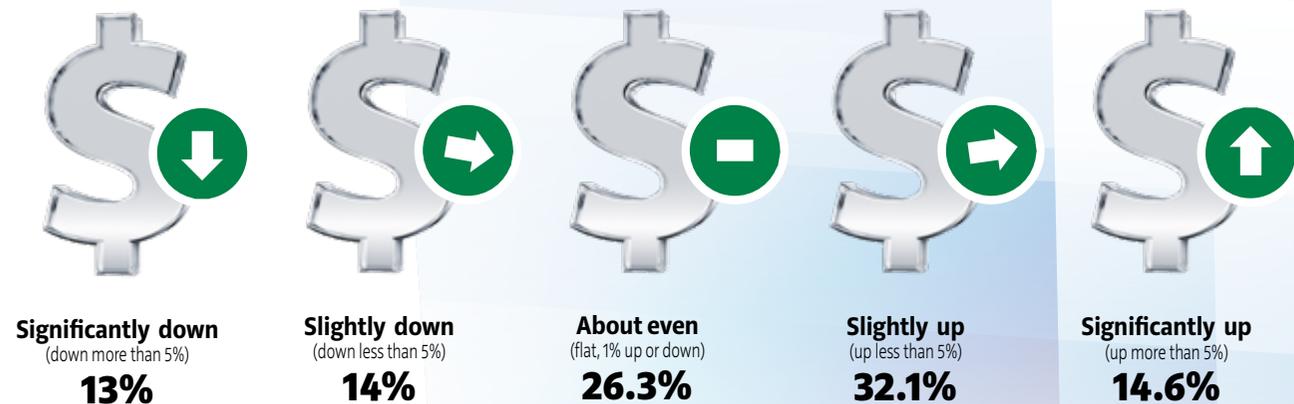
Revenue & Margin Trends

Respondents were asked how 2020 **gross revenue** is trending vs. 2019 revenue numbers, as well as how **gross margin** is trending in the same period.

GROSS REVENUE: 2020 vs. 2019



GROSS MARGIN: 2020 vs. 2019



Downward Pressure on Revenues

While many integrators experienced growth despite (or due to) the COVID-19 pandemic and other outside factors, for the first time in our survey's history, those who reported "significantly down" gross revenue was in the double digits, which often is attributable to a slowdown in projects due to the pandemic, or an integrator's lack of vertical market diversity.

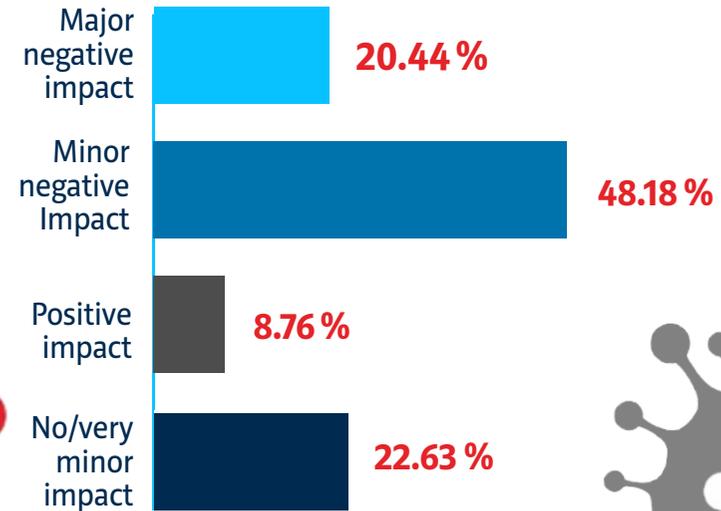
Still, those integrators with a diverse market presence were able to weather the pandemic with surprising success. Overall, 48% of integrators project increased gross revenue in 2020. For comparison, 53.9% projected an increase in last year's survey.

There was also minimal downward pressure in gross margin trends when comparing last year's survey to this year - with roughly 22% reporting negative trends in gross margin last year, compared to 27% reporting the same in 2020.

"The majority of our integrators that are doing well and have been smart enough to adapt," said Bill Bozeman, CEO of PSA Security Network, during the recent Adapt Conference. "That is a very positive thing for us."

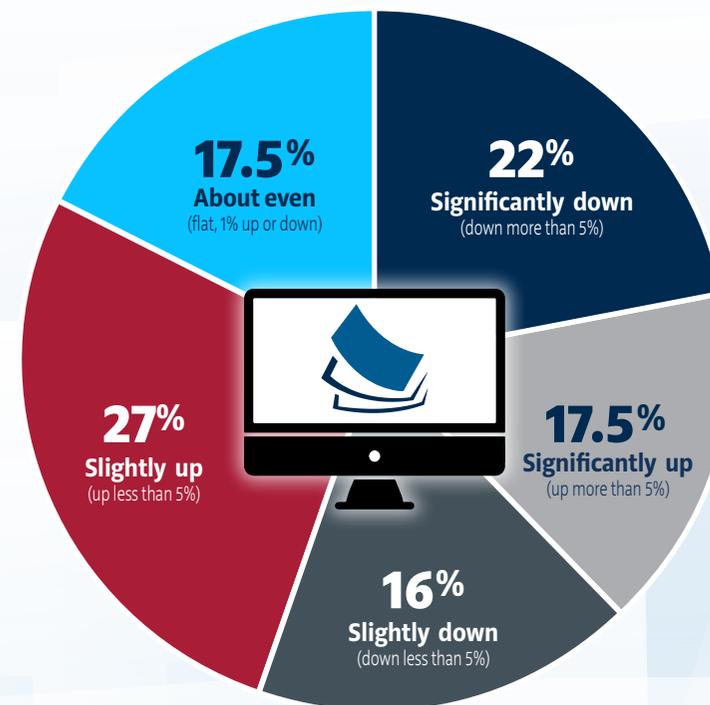
Revenue Impact of COVID-19

Integrators were asked specifically how the COVID-19 pandemic has affected overall revenue:



Volume of Security Projects

Integrators were asked to compare their firm's overall number of projects in the past six months with the same six-month period last year:



Integrators in their own words...

“Commercial business was significantly affected - both in terms of new projects and loss of recurring revenue due to businesses closing. Residential was less impacted.”

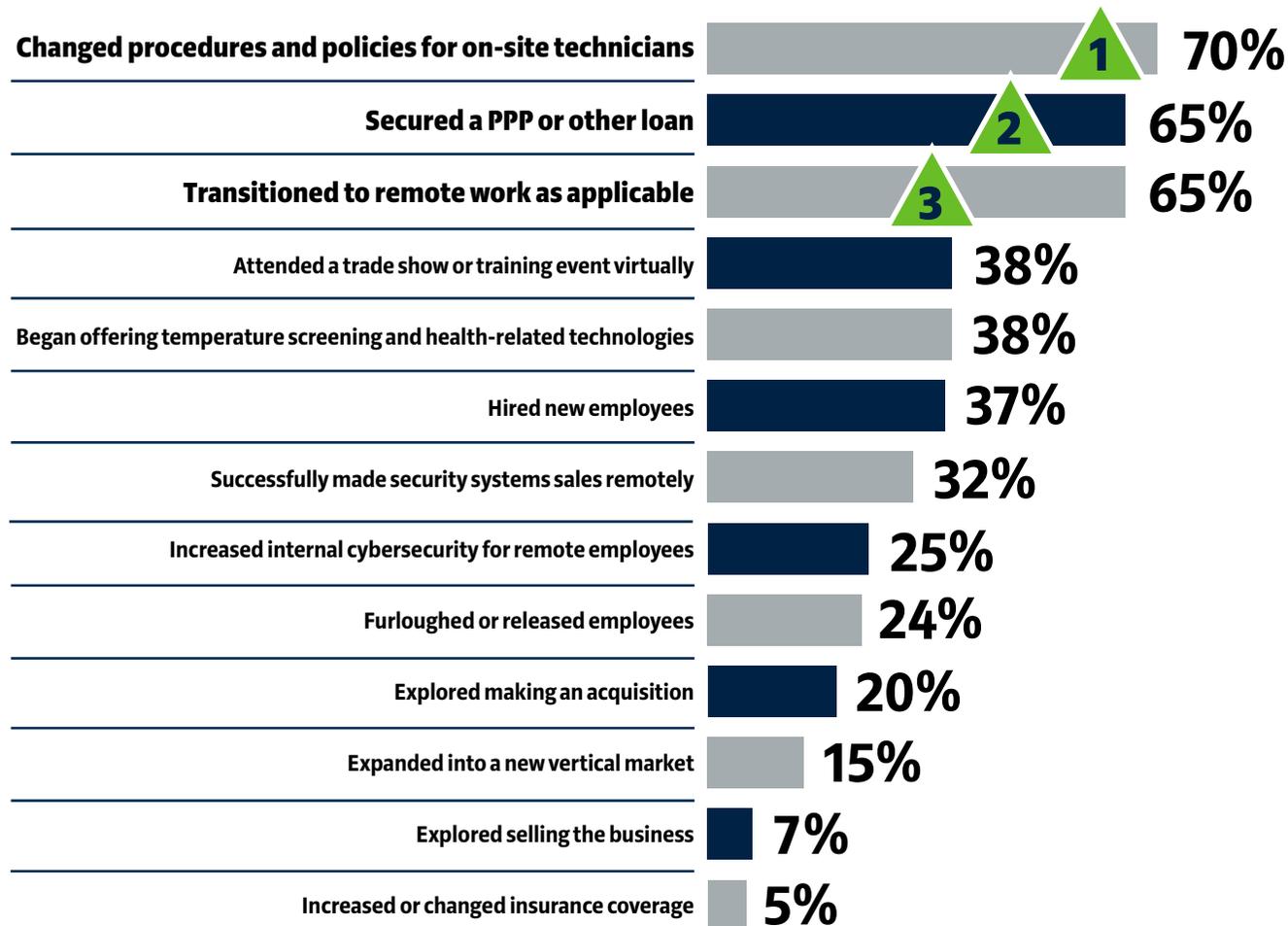
“Over 2.5 million in work was pushed to 2021 or cancelled.”

“Great year in spite of - or possibly because of - COVID 19.”

“Business has been picking up significantly since August.”

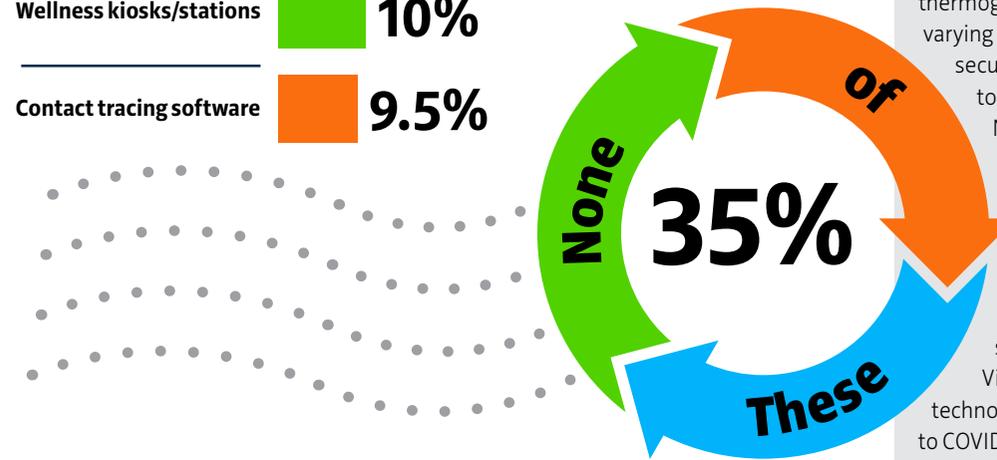
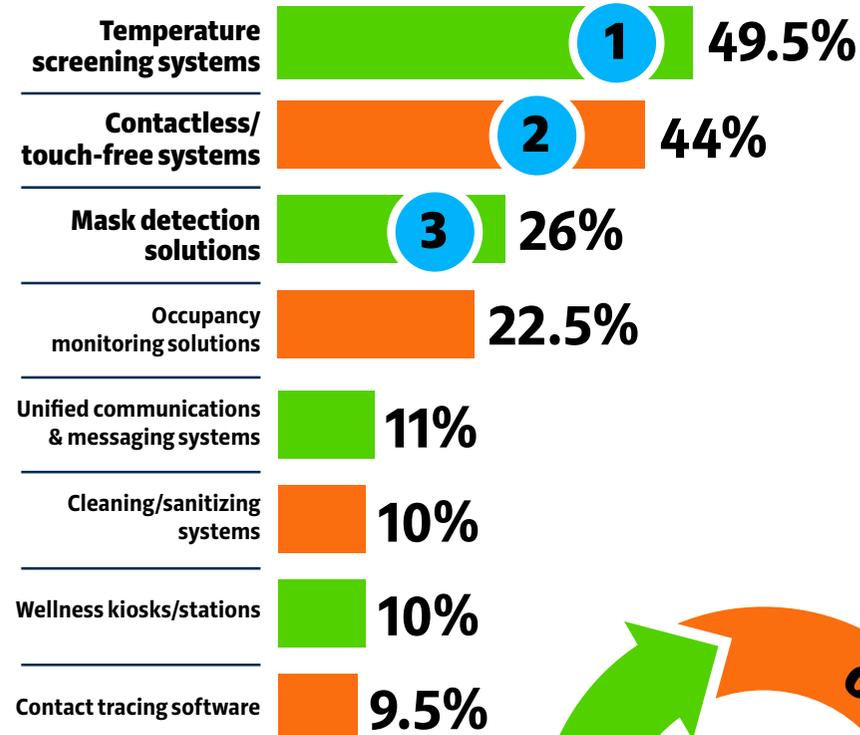
Business Impact of COVID-19

What specific business actions has your firm taken in response to COVID-19?



COVID-19 Technology Impact for Security Integrators

Respondents were asked to choose from a list of COVID-19 related technologies as to which ones they are now offering or plan to offer. They were asked to select all that apply; thus, the sum of the choices will not add up to 100%.



Video Surveillance, Analytics and Access Control Choices Evolve with the Pandemic

On the whole, COVID-19 has certainly been a negative for the security integration industry; however, one of the few bright spots has been a renewed interest in certain technologies to help mitigate the spread of the virus.

Chief among these technologies has been thermal temperature screening systems - with as many as 25 vendors jumping into this market in response to a massive uptick in demand in the second quarter of 2020. That said, security integrators must be careful to manage end-user expectations and then properly install them before offering these solutions.

"Thermographic sensors are no different than any other video surveillance sensor, and just like there are various cameras - each of which is suited for very different use-cases - there are various types of thermographic sensors with equally varying strengths and weaknesses," security consultant Joe Fallon told *Security Business* in the November issue. "The first and by far the most critical step in a successful implementation is having the client's ConOps and associated use-cases for the system well documented and vetted with local stakeholders."

Video analytics are another technology seeing a spike in usage due to COVID-19 restrictions, as end-users search for ways to accomplish mask detection, monitor facility occupancy and more.

While touchless access control is not a new technology, it is seeing a vast surge in usage due to the pandemic. In lieu of a fully touchless door opener or intercom, many access control and related manufacturers have introduced anti-microbial coatings for door handles and buttons, for example.

Integrators in their own words...

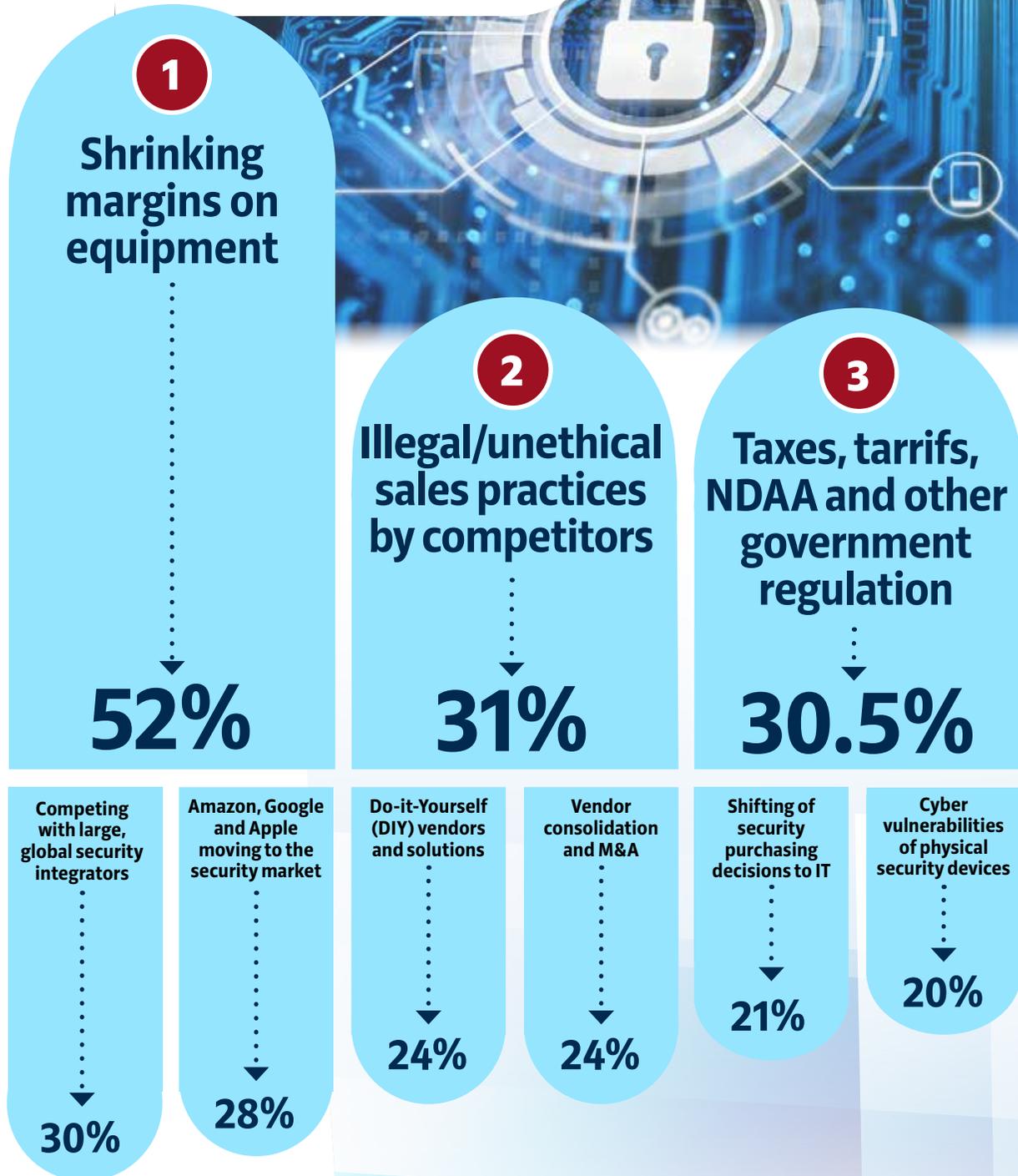
"In February, we saw what was coming and started to prepare by upgrading office systems and security. I told employees that no one would be laid off and added large blocks of paid sick time, so someone could stay home and still get paid. We set up remote work and kept open through the pandemic."

Integrators in their own words...

"If you call us and ask about thermal screening, we are going to ask a lot of questions about what your location looks like, your specific needs, and those types of things."

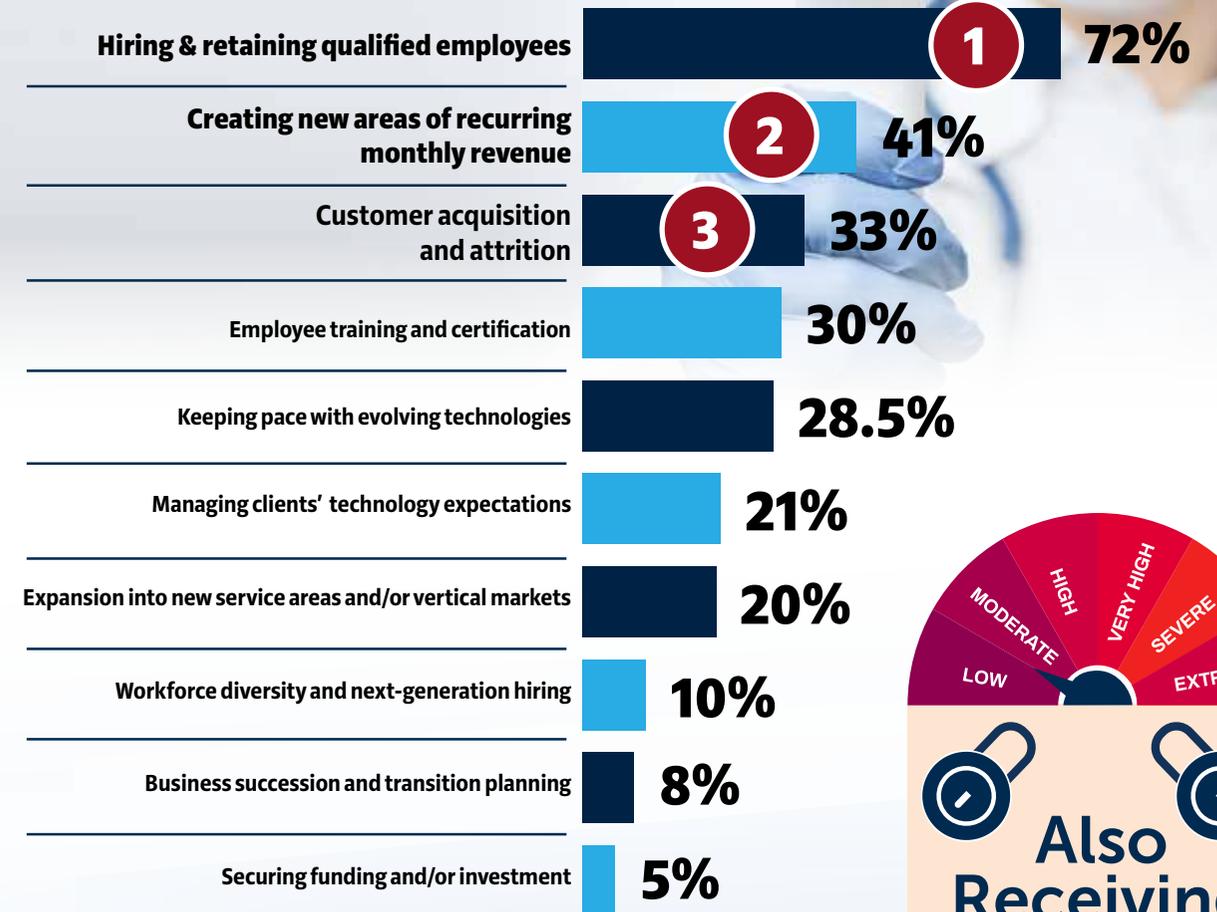
Top Threats to Continued Integrator Prosperity

Respondents were asked to rank the top three threats to their organization in 2020 and beyond **other than COVID-19**. The sum of the choices will not add up to 100%.



Other Business Challenges

Respondents were asked what their organization's biggest business challenges have been so far in 2020 **other than COVID-19**. They were asked to select their top three challenges; thus, the sum of the choices will not add up to 100%.



Also Receiving Votes...

Each of these threats and challenges were also mentioned by integrators:

- Manufacturers selling direct
- Project management
- Securing cyber insurance
- Unlicensed security companies
- Vendors unable to keep up with demand

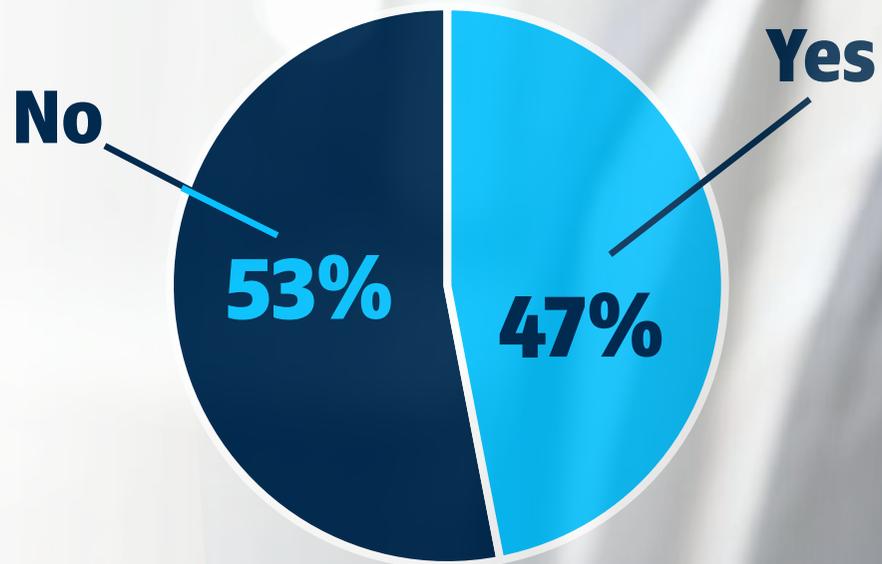
Integrators in their own words...

“ There are a lot of different variations of recurring revenue – whether it is managed services or professional services or traditional service and maintenance. You have to have a commitment to growing that part of revenue and then sticking to it.”

Mergers & Acquisitions

Integrator consolidation and related alarm company M&A activity has, for the most part, taken a back seat to simple business survival in 2020; however, the attractiveness of the security industry has only gotten stronger, according to integrators. As a matter of fact, perhaps because COVID-19 has suppressed valuations and RMR multiples in the short term, it seems to have ignited further outside investor interest in the security industry - with nearly half of the business owners who responded to this survey having fielded an offer to buy the business in the past 18 months, **an increase of 11%** over last year's numbers.

Have you been approached within the past 18 months to sell or merge your security integration business with another company?



Recent Major Deals in the Security Integration Industry

August 2020

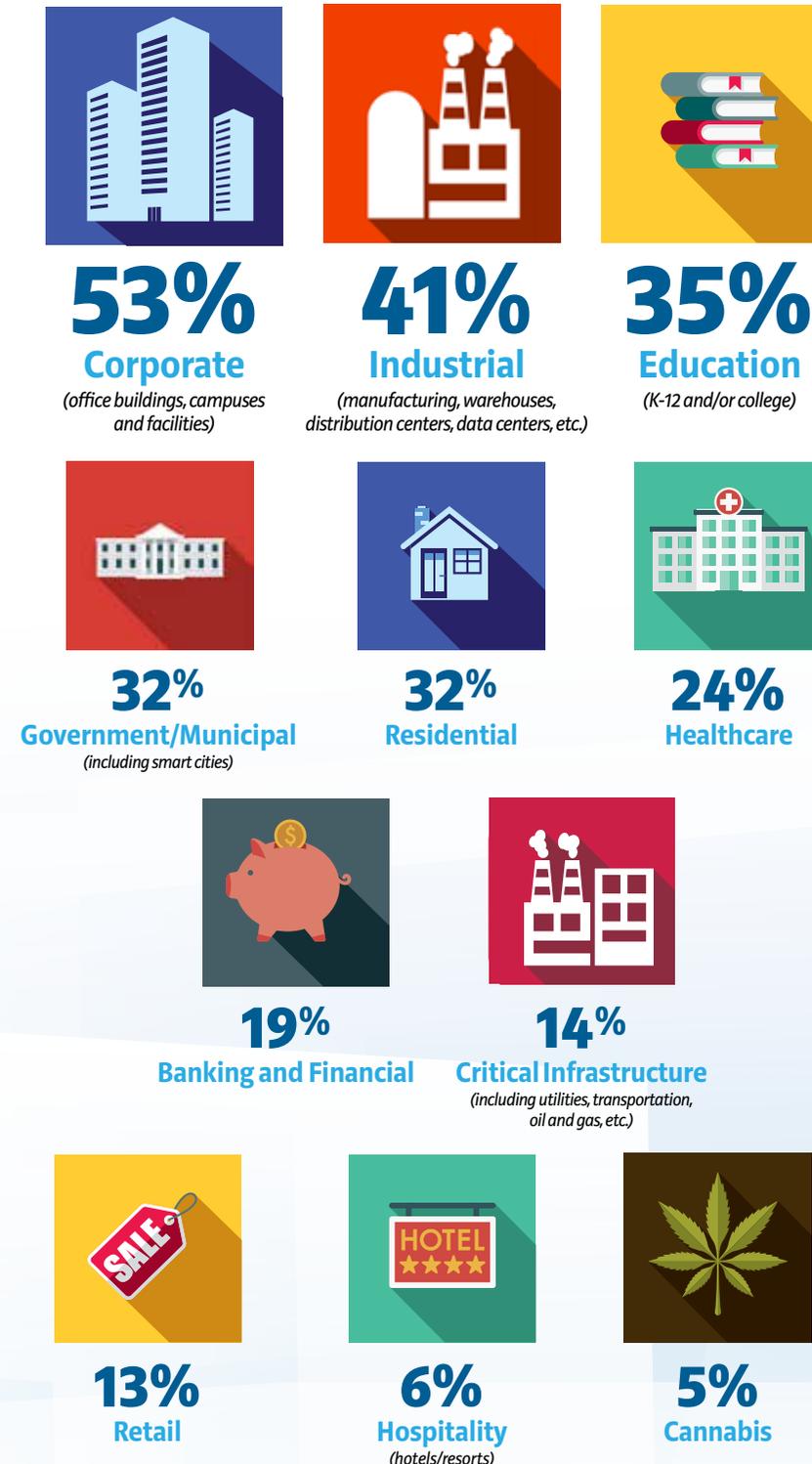
Google made a \$450 million investment in ADT - a total of 6.6% of the company - as part of a new strategic partnership where ADT will offer Nest products in addition to its traditional professional and DIY security offerings.

September 2020

Securitas acquired STANLEY Security's electronic security businesses in Germany, Portugal, Switzerland, Singapore and India for an estimated \$64 million.

Vertical Market Performance

Respondents were asked to identify what they project to be **their top three performing vertical markets** in 2020. Since they were asked to select three, the sum of the choices will not add up to 100%.



Integrators Reveal that Retail, Hospitality Markets Expected to Take Huge Hits in 2020

With the COVID-19 pandemic has come a marked change in the top performing vertical markets for security integrators. While corporate and industrial facilities have remained a fixture atop the vertical market list in this survey over the years, two of some of the more traditionally successful verticals - retail and hotels/hospitality - have taken an understandably dramatic downturn in 2020.

"We were still seeing some new deployments, but they were vertically focused," one integrator told us in June 2020. "Some of the commercial verticals like hotels and the retail environment are tough places to be right now."

Despite an initial surge in demand following the COVID outbreak, healthcare facilities surprisingly have not been reported as a top-performing vertical in 2020 as compared to educational facilities, government, and even residential.

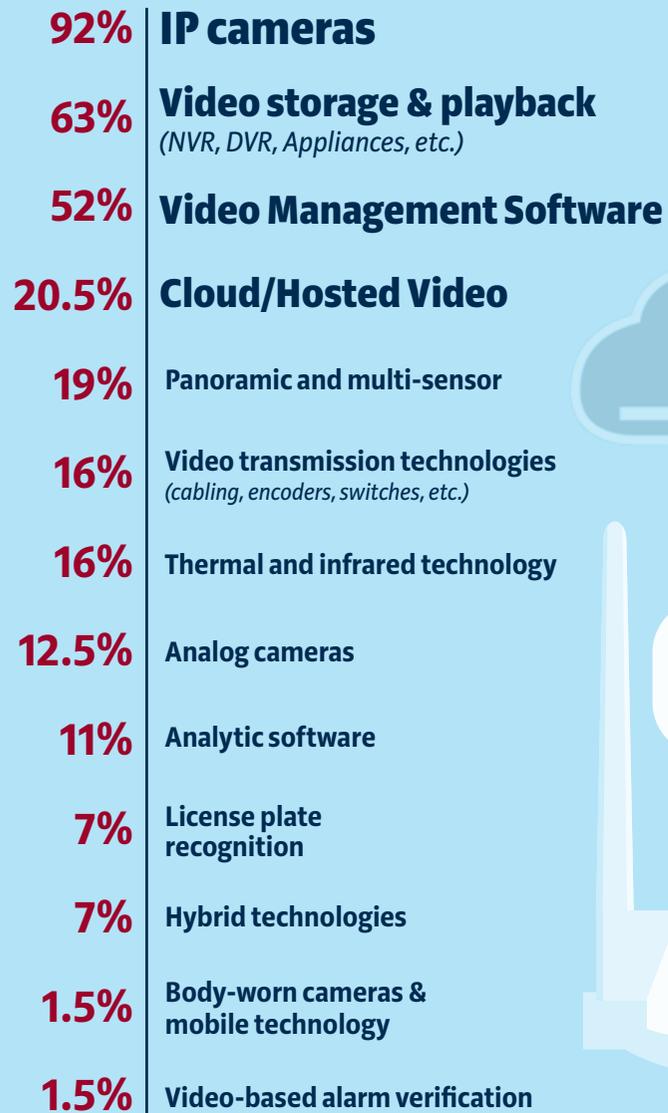
As PSA Security Network CEO Bill Bozeman put it at a recent conference: "The diversification of business is so important (for integrators) - whether it be a vertical market or the products that (they) are selling. (Integrators) have to be able to adapt to this and realize that there are solutions out there and opportunities in (different) verticals today."

Integrators in their own words...

"We've had trouble getting paid and have had cancellations in certain industries like restaurants."

Video Surveillance Technologies

Respondents were asked to identify their top-performing video surveillance product offerings based on 2019-2020 sales revenue. They were asked to select **their top four**; thus, the sum of the choices will not add up to 100%.



IP Surveillance Remains the Backbone of a Technology Revolution in Security

Just five years ago, we reported that within the next three years, more than half of the surveillance cameras used in North America would be IP cameras. According to integrators, that figure has been quickly outpaced in the past couple of years, with a whopping 92% reporting IP cameras as their top-performing segment of the video surveillance market, according to sales.

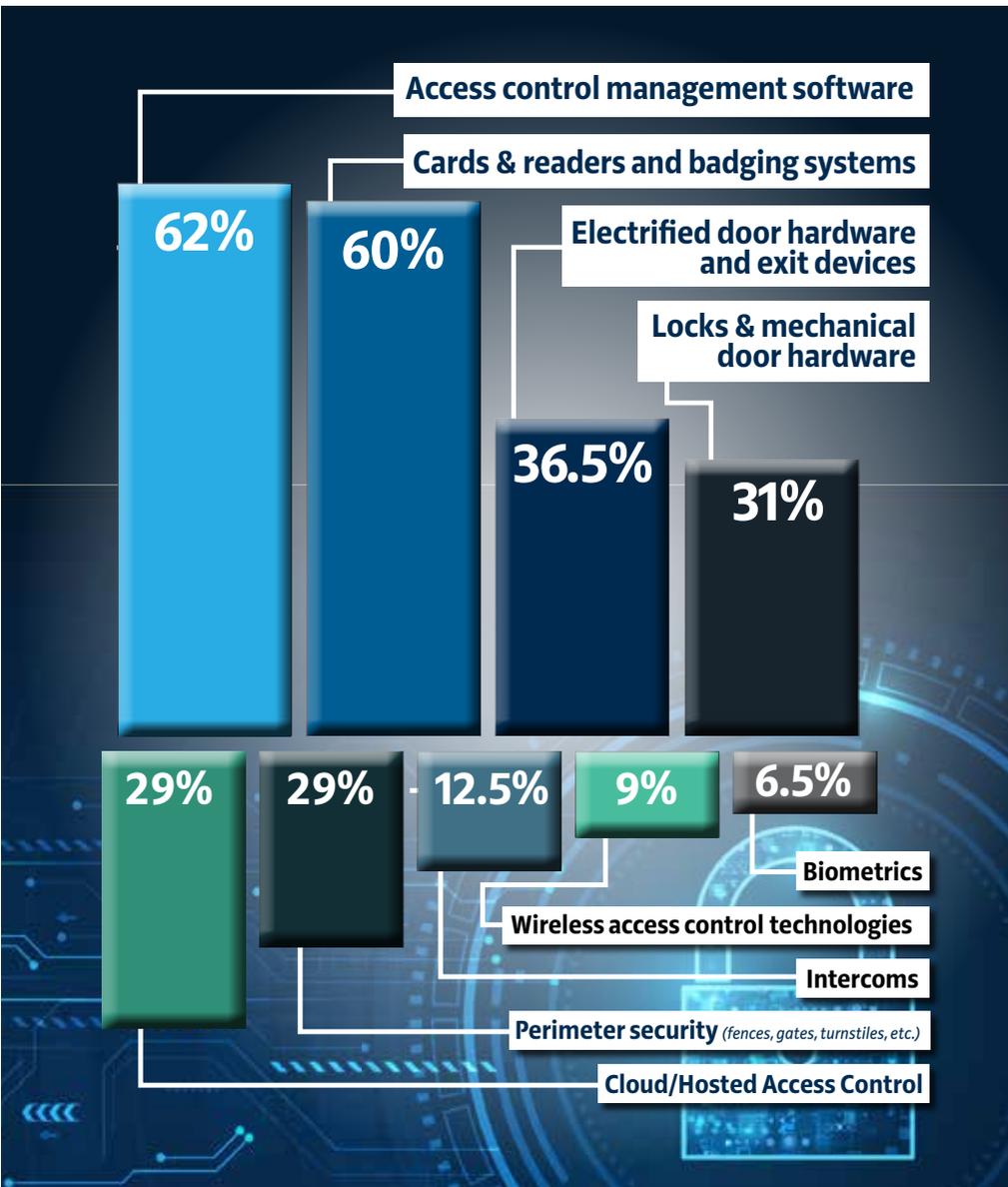
The emergence of IP-based surveillance has paved the way for innovation in cameras – such as panoramic and multi-sensor units – as well as an explosion in market demand for video surveillance management software (VMS) and physical and hosted video surveillance storage solutions.

Of course, with this vast increase in connected video surveillance solutions comes an increase in vulnerability, in the form of cyber attacks on network-connected devices. Most video surveillance vendors in the industry have created some degree of solution for integrators to combat this risk – from simple guidebooks to sophisticated software and encryption methods.

IP-based video surveillance, storage and analysis is also the backbone for the evolution of Artificial Intelligence-based technologies in the security industry, which was recently identified as the top trend in 2020 by the Security Industry Association.

Key Access Control Technologies

Respondents were asked to identify their top-performing access control product offerings based on 2019-2020 sales revenue. They were asked to select **their top four**; thus, the sum of the choices will not add up to 100%.



Tying it All Together Becomes the Priority

As part of our coverage of the access control industry in 2020, we spoke to Guy Grace, Director of Security and Emergency Planning for Littleton (Colo.) Public Schools and the Chairman of the Partner Alliance for Safer Schools (PASS). Grace says that unified access control systems will be the key to the future of school safety – which was reflected by the integrators we surveyed, who report that access control management software and systems were their top-selling product in the category.

"Unified security and life safety systems take components such as policies and procedures, people (roles and training), architectural, communication, access control, video surveillance and detection and alarms to deliver enhanced interoperability and ease of use," Grace explained in our annual *Access Control Trends & Technology* publication. "I believe that a major access control measure for the future is the deployment of unified security systems by schools."

Another key area of access control sales success reported by surveyed integrators is in identity management. While badges and readers have been the backbone of access control systems for decades, this area has seen significant technological advancement in recent years with the rise of mobile-based access control. According to a recent report from IHS Markit, mobile credentials are the fastest-growing product type in access control systems, with a nearly 150% growth rate between 2017 and 2018.

The research firm predicts that more than 120 million mobile credentials will be downloaded by end-users in 2023, representing nearly 15% of all new credentials entering the market that year. The private commercial sector is predicted continue to dominate the market for mobile credentials in the coming years.

Integrators in their own words...

“With AI, surveillance solutions can move beyond mere monitoring to leverage every video frame and piece of data available to identify threats and inform emergency response.”

– From the article, "AI and Specialty Analytics are Changing Video Surveillance" in the March 2020 issue of *Security Business*.

“With every single customer that we have – any time we have an opportunity to talk to them, we pitch some kind of cloud solution, either access control or video.”

Fastest-Growing Emerging Technology Choices

Respondents were asked what emerging technologies or systems they are either interested in adding or have already added to their product offerings. They were asked to select **all that apply**; thus, the sum of the choices will not add up to 100%.



58%

Mobile or app-based access control credentials



41%

4K and other ultra-high def video cameras/monitors



39%

Artificial Intelligence/ Intelligent Video Analytics



32%

Facial recognition



30%

Hosted/as-a-service offerings



28%

Gunshot detection



23%

Cybersecurity software solutions



12.5%

LED lighting



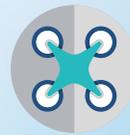
12.5%

Robots & Drones



12%

Body-worn cameras



9.5%

Anti-drone technologies



8%

Radar/LiDAR solutions

“We have seen a tremendous amount of research and development dollars in Silicon Valley and elsewhere for AI technologies specifically in the security space. It is on everybody’s roadmap.”

– Drew Weston, COO of CodelynX, during a recent webinar

These Technologies are no Longer Simply Security Buzzwords

Despite the evolving technology landscape in security, a predominantly conservative end-user and specifier community is often slow to embrace the newest emerging technologies; thus, when more than a third of responding integrators say they are ready to add (or have already added) a certain technology to their product lines, it might mean that the “early adopter” phase has given way to acceptance and widespread adoption.

Mobile access control tops the list in 2020, with nearly 60 percent of integrators surveyed now offering the technology – nearly a decade after its initial introduction.

“There are little to no barriers remaining,” says Brandon Arcement, HID Global’s Senior Director of Product Marketing. “However, there is a large swath of the market that has yet to take advantage of the power of mobile. Adoption of mobile access still requires education through sharing the successes, value-add and lessons learned from organizations who are pioneering mobile-first environments.”

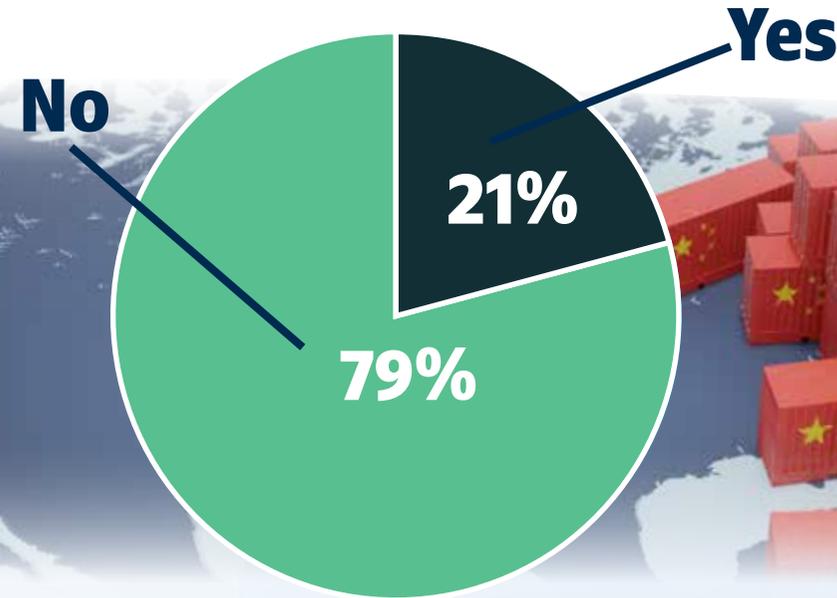
Similarly, in video surveillance, ultra-high definition and 4K – in the form of cameras and monitors – have found a place in the arsenal of many enterprise commercial integrators. AI and related intelligent video analytics are also rapidly gaining market share.

Interestingly, facial recognition technology is seeing a growth in popularity among integrators despite the many coordinated efforts to curb its usage around the United States.

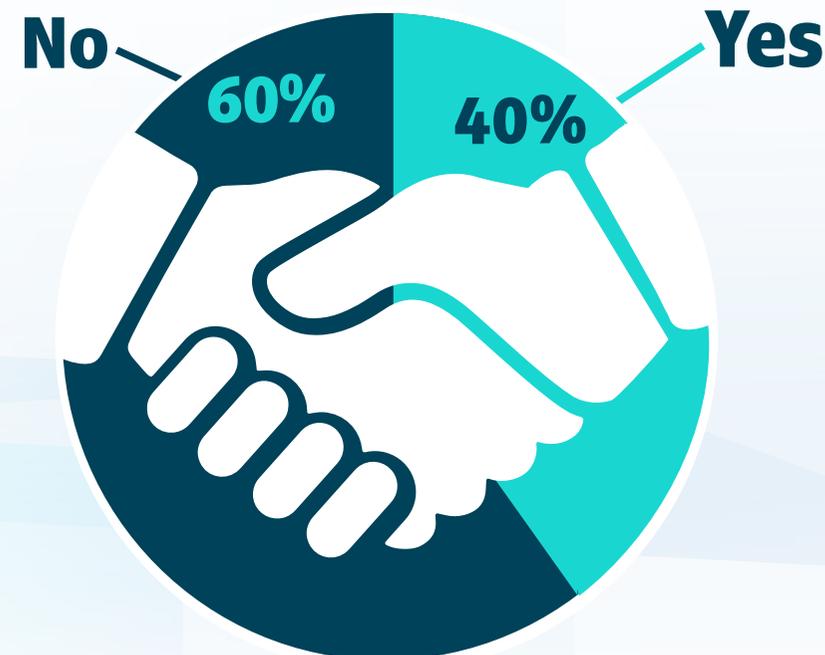
Integrators are also beginning to learn to sell the value of hosted and remote-managed systems to customers, while cybersecurity concerns have injected life into those types of solutions as well.

Influences on Product Purchase and Recommendation

Has the U.S. government’s ban of certain Chinese technology vendors directly affected your firm’s ability to conduct business?



Has this ban at all changed the way you choose products and vendor partners?



Integrators in their own words...

“We concentrate on selling better quality, higher margin products.”

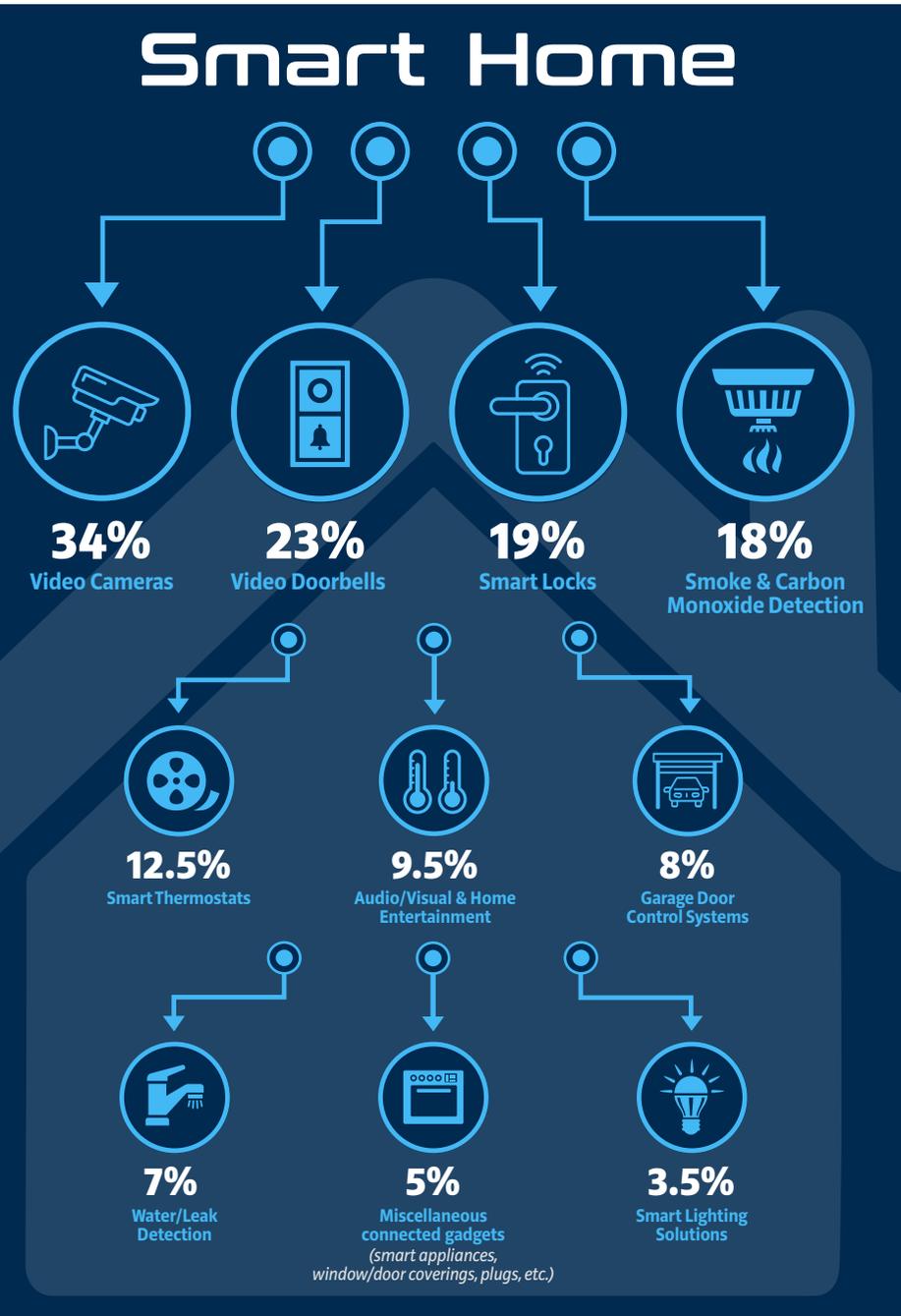
“It has required us to completely change our line card.”

“We now exclude NDAA non-compliant products in specifications.”

Technology Trends in the Smart Home Market

Respondents were asked to identify their top-performing smart home product offerings (not including intrusion alarm systems) based on 2019-2020 sales revenue. They were asked to select their **top four**; thus, the sum of the choices will not add up to 100%.

Note: 60 of the 150 respondents reported they have no presence in the residential market and did not participate in this question.



Installation Expertise may be the Key for Residential Integrators

There is no doubt that there are obvious headwinds in the residential security space due to COVID-19; however, savvy integrators can hopefully further limit attrition through the rough patch by embracing some changing consumer tendencies and preferences around smart home technologies, where vendors seem to constantly be upgrading and improving performance.

"(COVID) is a real mixed bag for the (residential) security industry, because on the one hand, people are scared and stuck at home, and they need home security now more than ever," Alula's Kevin Hoffman said on a recent webinar. "But on the other hand, nobody wants you to come into their home to install it."

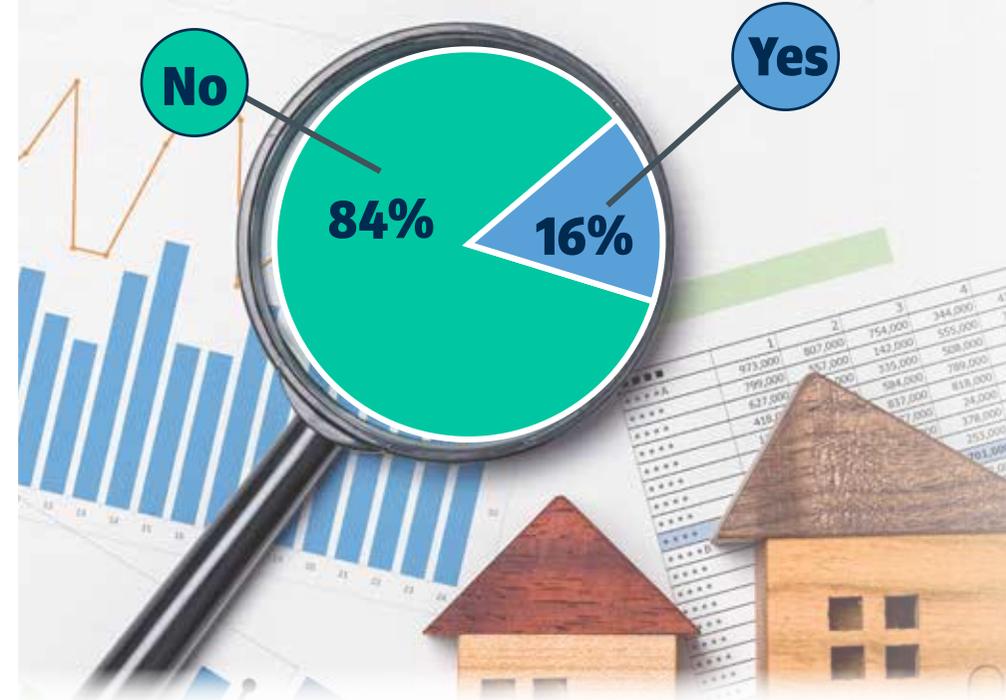
COVID concerns aside, because of their desire to sell as many IoT devices into the home as possible, companies like Google and Amazon seemingly have come to realize they need someone inside these residences to help the average consumer with installation and network maintenance.

"(Integrators) can manage these networks for the homeowner, which is a great revenue source for them and a nice RMR source," 2GIG co-founder Lance Dean said on a recent webinar. "In the next few years, you are going to see a lot more cool products come out, but if something goes wrong with one of the devices...who is going to fix it?"

Google's recent \$450 million investment in a stake of ADT is an indicator that this trend is real - as they likely realized that trying to support all of these devices in the home would be impossible without having boots on the ground to address issues when they arise.

Residential Market Trends & Threats

Do you offer a do-it-with-me (DIWM) or do-it-for-me (DIFM) option for residential or small business customers?



Do you see Amazon and other major technology firms with a growing presence in the security market as a threat?



Integrators in their own words...

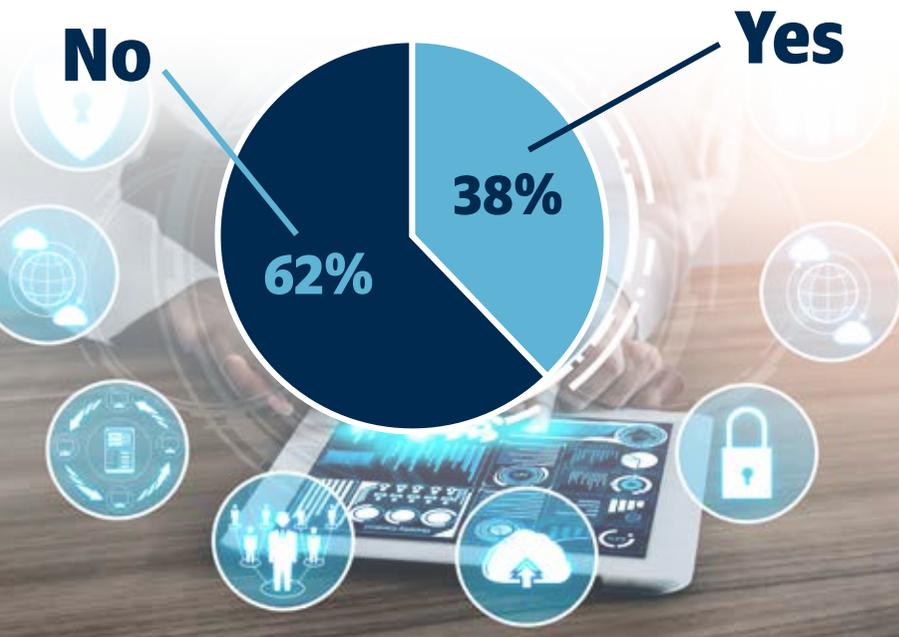
“ We help DIY customers with direct customer support, including phone support or a technician in the home, if needed. ”

“ They can offer low-priced alternatives even though some are very poor quality. It lowers the expectation of what people think they should pay for professional security. ”

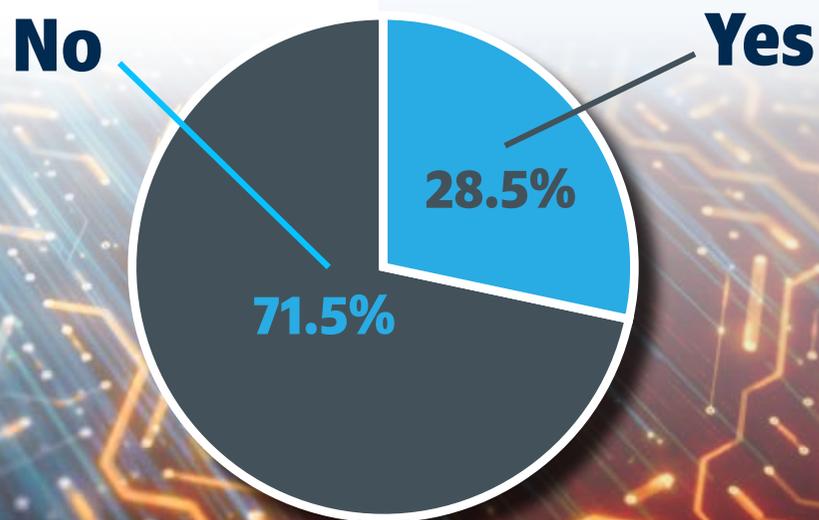
Impact of **Managed Services** and **Cybersecurity**

Respondents were asked the following questions about the impact of cybersecurity and managed services on their business model:

Have you fully or partially transitioned (or plan to transition) your business to a managed service provider model (as a Service offerings)?



Do you offer Cybersecurity products and/or services?



Integrators Beginning to See the Value of Transitioning to a Managed Services Model

Anyone familiar with the security integration industry has seen a strong consensus within the industry that managed services – particularly the Managed Services Provider (MSP) business model – represent the future for physical security systems integrators.

“Managed services” does not mean performing fix-and-repair service or call response on a fixed RMR basis, although a few companies have managed to do that with certain customers. It is not about providing one-time services like installing and setting up products, and waiting for service calls. Instead, it is about continuous value-added service that is the basis for continuous revenue.

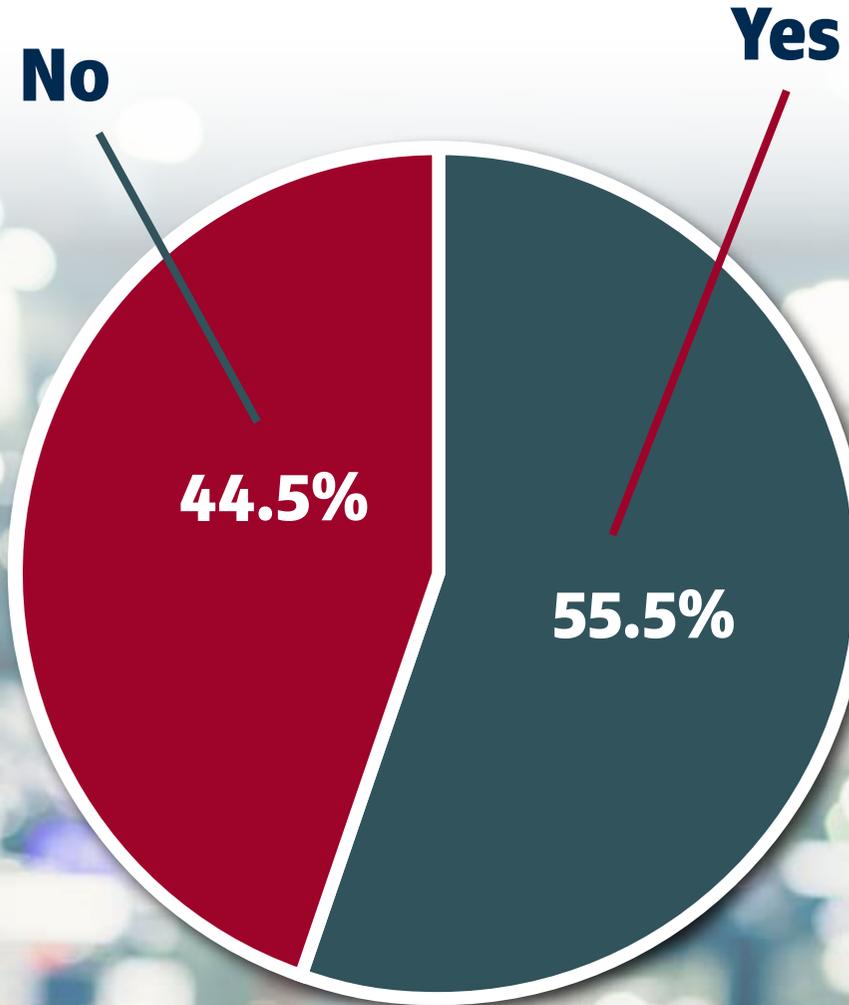
While it has taken several years, a continued emphasis on this evolving business model by organizations like PSA Security Network – which has specifically created a Managed Security Service Provider (MSSP) Program designed to help their integrators diversify service offerings and realize the full potential and benefits of a managed services business model – has spurred its adoption among many formerly “traditional” security integrators.

Established business and home security provider Bates Security, which also owns Sonitrol of Lexington, is one example. The company expanded into IT infrastructure and managed services in December 2019 with the launch of Heron Managed Services to meet the growing needs of its clients.

In the past 15 months, *Security Business* has profiled several traditional integrators who have successfully made this business transition, including Orlando, Fla.-based Star Asset Security and Iowa-based Communications Engineering Corp. (CEC).

Moving on from **COVID-19**

Do you plan to budget funds for attending or exhibiting at any in-person trade show or conference in 2021?



Integrators in their own words...

“We will not be attending any live trade show/vendor exhibits until a vaccine is available.”

“Hoping that they don’t continue to be virtual.”

“Yes, but not nearly as many as we used to.”

“It 100% depends on the availability of a vaccine.”

“Time will tell, but we have not made a formal decision yet.”

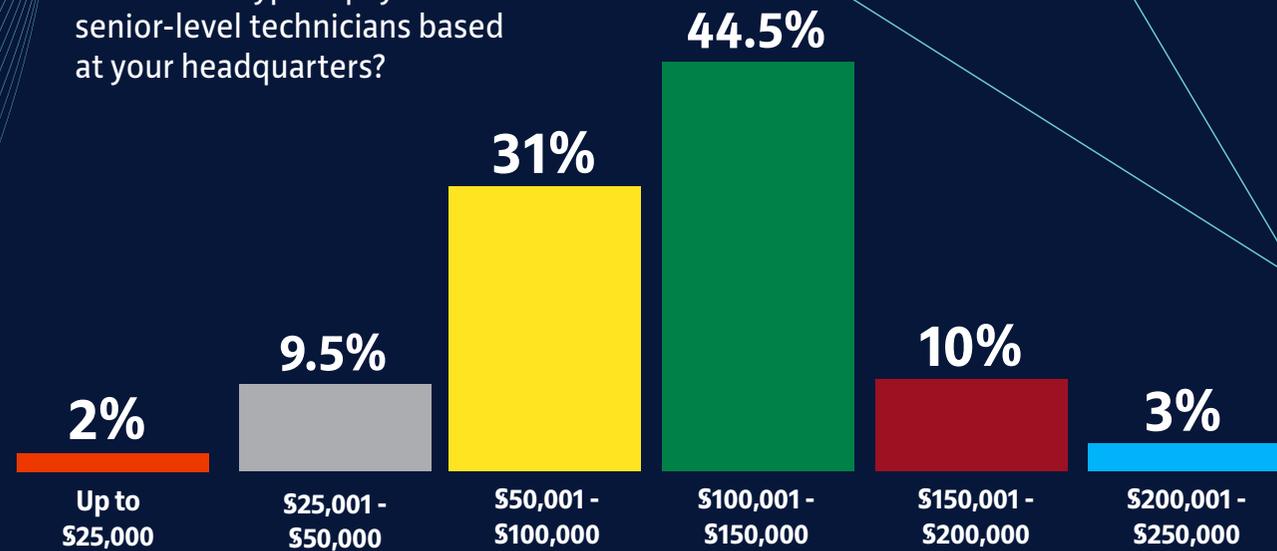
Touchless Access Solutions

Healthier Openings

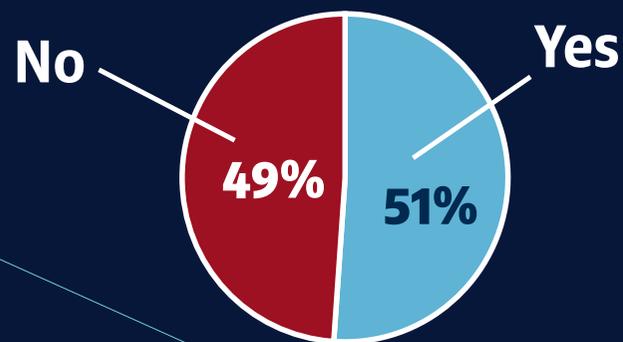
Sneak Preview: Security Integrator Sales & Technician Salary Survey

Here is a sample of the results from our exclusive **Security Business magazine 2020 Salary Survey**, where we asked security integration business owners about average salary levels and benefits offered for entry-level and senior level technicians, as well as compensation for salespeople. The valuable information from the full results of this survey are free – just visit the link at the bottom of this page.

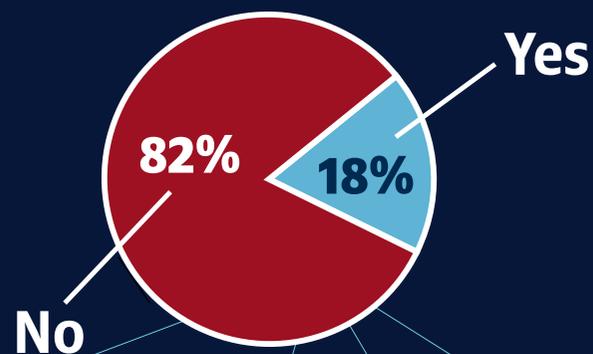
What is the typical pay scale for senior-level technicians based at your headquarters?



Do you offer additional compensation to salespeople based on amount of RMR sold?



Do you outsource or otherwise leverage the gig economy as part of your workforce?



Check out the full salary survey at www.securityinfowatch.com/21163547



Low energy swing door operators



Touchless switches

Reduce the spread of germs in your facility.

Touchless access is crucial in high contact public places such as healthcare facilities, restaurants, schools, offices and restrooms. dormakaba offers many solutions to fit your needs for touchless access including touchless switches and low energy swing door operators. Minimizing high frequency touchpoints contributes to healthier facilities. **Safe, Healthy, and Secure Access Solutions**

touchfreeaccess.com