Something is going on in the residential, small business alarm market

It is becoming clear that something is definitely happening to values in the residential security market. Let's look at some anecdotal evidence pertaining to this and the small business alarm market all the while but keeping in mind that the US and Canadian markets are not always the same.

- Brinks/Monitronics, a very large US dealer based residential and SMB alarm company of necessity had to go through a complete financial restructuring about a year ago. Based on what I have heard, they were simply paying their authorized dealers multiples that were too high and the attrition rates on the accounts they bought was climbing significantly. It all caught to them.
- 2 US banks- Bank of America and Capital Source – have recently announced they are pulling out altogether of the alarm lending market. This is a pretty big deal. Again increased attrition on some of the bases they had lent against was reputed to be the one of the reasons.
- The recent Barnes Buchanan annual security conference talked about a "slowdown in the residential & SMB market" in terms of growth and "higher attrition rates "Barnes also talked about a move "towards higher installation fees and lower RMR rates".
- In the US, the DIY market is reputedly growing at a rate of 20% per year right now. This is huge growth which is eating into the professionally-installed market. Many of these new DIY systems are being monitored. There is far less data available in Canada but it appears that DIY is not nearly as popular here as in the US.
- In Canada I am getting more calls from dealers these days asking about an exit from their monitored accounts and the most common reason is the increasing influence of the telcos like Telus and Rogers. These dealers say they just cannot compete.
- Buyers in Canada who have normally been very keen to buy any kind of monitored account are now being much more discriminatory.

I don't think this means that those in Canada owning residential and SMB monitored accounts should panic. However there are several forces at work in the residential market that should make owners pay more attention to their residential accounts.

Connected to this it appears that doing business there is becoming more difficult for professional alarm dealers:

- Alarm dealers cannot afford to let their residential customers sit with old technology anymore like they used to. If they don’t offer to upgrade them, a cable company will come along and do it for them.
- In Canada, more so than in the US, there has been some push back on the ever higher and higher monitoring rates being trust at customers. Although most residential alarm customers accept the need for cellular and a sizable number like the interactive features offered today by alarm.com etc, they don’t want to pay $60/th for these services. So there is a move to higher install fees and lower RMR rates. The telcos have realized this and offering all these services for much less.
- Just staying up to date on new technology today is more time consuming for an alarm dealer. And this technology can be expensive. It is much more difficult for an alarm dealer to offer a basic system for free when the panels cost twice what they did 10 years ago.
- As mentioned DIY has arrived in the US and will soon come in more force in Canada. Although it is helping to expand the overall market for alarm systems, I don’t think it is helping the average Canadian alarm dealer.
- In terms of buyers there are fewer buyers of alarm accounts in Canada both for smaller blocks of accounts and even the larger platforms companies. Private equity is more in interested in fire and integration companies these days.
- Multiples for blocks of accounts have fallen off somewhat. ADT’s 500,000 accounts sold to Telus for 33X ADT’s RMR

I cannot over-emphasize the impact that the major telcos have had on the alarm market recently in Canada- much greater in Canada than in the US. If you look across the country all the best deals for new interactive panels are being offered by the telcos- Rogers, Bell, Telus and Eastlink- and these are almost all deals that an independent cannot match. In addition, the telcos are using their marketing power to make it so that any new customer in Canada will likely go to a telco first to get a quote. In Western Canada one industry colleague of mine was threatening to sue Telus for some of its practices including encouraging his customers to break their existing contract. To my eyes the offerings that most of the telcos are putting out there do not compute financially if taken on its own. Secondly even with their recent success alarm accounts are and will remain a small fraction of the telcos overeall business. We have to assume that they are “investing” in the alarm customer in order to either hold onto existing cable, internet or cell customers or get new ones.

So what effect does all this noise have on the market for alarm accounts? Here is my take. Residential/SMB accounts are not in as much demand as they used to be. Multiples are coming down. Buyers are being more discriminating. It is becoming much more difficult to sell small blocks of accounts- i.e. less than 250 accounts. Secondly, gone are the days that dealers can get away with trying to sell alarm accounts without signed contracts. Buyers want that waiver of liability on the back of the contract. I am constantly surprised at how many dealers don't have signed contracts. Trust me on this. The buyer does not care if you ran your business for 30 years without signed contracts. They don't care if you relied on your liability insurance. They want contracts. So get at least a one year monitoring contract signed now.

Next buyers want accounts that are on call forward lines. Otherwise the dealer will most likely have to move the accounts to the buyer's station before they get paid.

These are the top 3 issues when selling accounts= size of the base, signed contracts and accounts on a call forward line.

When you add up what's going on day by day in the residential market and the increased difficulty in getting deals done at multiples done in the past, it makes for an all round much more difficult story in the residential, SMB market.

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