

SHOULD SECURITY PROVIDERS BE ALARMED BY BROADBAND SMART HOME AUTOMATION PLAYS?

A COMMERCIAL BANKING PERSPECTIVE



AT&T, Google and Comcast are just a few of the big names that are increasingly moving into security and riding new technologies, channels and bundled products to help propel the 19% growth in monitored accounts in 2013.¹ These large, new entrants are promising not just a “safe” home, but a “smart” home, by harnessing the dual waves of mobile device connectedness and broadband convergence in their chase for lucrative recurring monthly revenue. For example:

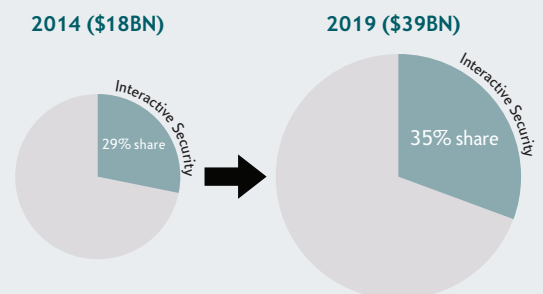
- Launched in 2013, **AT&T Digital Life** is now available in more than 80 U.S. markets, sold at 2,200 AT&T stores and will enter the European market in 2015 with **Telefonica**. To celebrate Digital Life’s first anniversary in June 2014, AT&T offered \$0 upfront costs for their security package (a \$249.99 savings) and Q2 2014 represented their best quarterly net gain. What’s more, as of 3Q 2014, AT&T reported that one-third of their customers opt for security solutions.
- **Comcast** markets its XFINITY Home Secure 300 service (with 24x7 security and professional monitoring) for \$39.95 per month. If a customer signs up for XFINITY Triple Play, the monthly service drops to \$29.95 per month, including \$925 in equipment and a free indoor/outdoor camera.
- **Google’s** acquisition of **Nest** for \$3.2 billion, **Samsung’s** launch of its Smart Home platform and **Apple’s** new Home Kit framework for apps highlight technology leaders’ ongoing ventures into the home automation arena.

While teleco and cableco competition is increasing, broadband-based security solutions are also accelerating market growth. One in five of *Consumer Reports’* subscribers already use a phone or tablet to remotely control some home electronics or components today, and almost 70% of those who do not indicated interest in doing so in the near future.² At the same time, broadband penetration has risen, from 75% in 2012 to 78% in 2014. The number of households with an active security system has increased

from 29.7 million in 2013 to 31.1 million in 2014,³ and the monitoring and related residential security market was worth an impressive \$21 billion in 2013.⁴

Interest in smart home solutions is expected to escalate, with U.S. consumer spending on smart home systems and services projected to more than double between 2014 and 2019. Furthermore — as illustrated by AT&T’s results above — security is becoming an increasingly important component of the smart home, and is likely to account for a greater share of total smart home spending. Global expansion should drive smart home systems and services even further and will likely bolster the residential electronic security market as well.

CONSUMER SPENDING ON SMART HOME SYSTEMS AND SERVICES



Substantial growth in smart home systems is likely to impact the interactive security domain positively.

Source: *Battle for the \$18 Billion U.S. Smart Home Heats Up*, Strategy Analytics

So why does one recent study project that **established security dealers will lose half of their market share to these new entrants?**⁵ And how should traditional players compete with these new entrants to prove this forecast wrong and capture a higher

share of the growth? We believe three key strategic directions for established firms to consider will help them individually and collectively respond to the threats from the telecos and cablecos which are rapidly changing the competitive landscape:

- **Stress specialization**

The mammoth, new entrants tend to focus on product bundles for price-conscious customers who seek the simplicity of one contract and bill. Instead, your firm may want to champion your customized security solutions and reputation for specialization, supported by security experts who deliver installation and ongoing service. Consider well-established industry leaders, **ADT** and **Protection 1**, that emphasize access to trained specialists at all times.

A recent consumer study of over 100,000 U.S. broadband households reveals that a surprisingly high 25% of those with smart home devices experience problems monthly.⁶ As a result, the value of a robust and local tech support service is likely to be paramount for established firms. The same study reported that more than half of consumers with IP security cameras, smart electronic door locks or smart thermostats would value tech support services for these solutions. Is this an arena in which your firm can position your specialized services?

In addition, mass market products may not offer the high level of protection that is inherent in specialized, higher-end solutions from providers with fully redundant monitoring centers and skilled service organizations.

- **Emphasize presence**

A monitoring and support presence in the community can help an established firm stand out, as not all companies offer this advantage. For example, **ADT** touts a 3,900-strong sales force and 4,300 installation and service technicians, based in 200 U.S. sales and service offices.

Investing in your local presence can advance a consultative delivery model. By expanding your firm's expertise in designing, choosing and implementing the right product, stressing specialization (as stated above) and servicing products locally, you may strengthen a competitive advantage in providing strong local service and technical support that the new entrants, which rely on distant call centers, simply do not possess.

- **Rethink marketing**

With the increased visibility that the large, new entrants are providing the industry, it's increasingly important to establish awareness of your brand and your competitive advantages. This can be your specialization, customization, experience, unbiased advice and/or community presence. Your key marketing messages should evolve to meet the changing landscape. For example, **APX Alarm** changed its brand to **Vivint** in 2011 to emphasize its evolution from a security alarm company to a home automation provider. Should you consider an expansion of your lead generation, an increase in brand-building or new media? Sophisticated direct marketing programs, like **Defender Direct's**, require investment but deliver growth when managed well.

Consider targeting affluent consumers looking for and able to afford advanced systems and specialized services — particularly those who are in the market for a new home. Benchmarking

other providers' special offers may yield ideas for positioning against competitors that provide, for example, free installation service or 50% discounts on activations with up to \$1,500 of free equipment. An upgrade or discount offer for referrals is also a proven model.

Thinking out-of-the box may mean creating your own "bundles," such as offering monitoring and management packages to local property management companies or partnering with successful real estate agents who cater to the affluent by offering free security assessments for premium buyers. A two-pronged approach may be warranted: identifying and pursuing more sophisticated customer segments while enhancing your specialized or premier security service offerings to meet these high-end needs.

The time to address the rise of telecos and cablecos is now

Whether you are a successful local competitor, a super-regional or a national player, emphasizing dimensions that differentiate your capabilities from new entrants will ensure your firm not only survives, but benefits from the expanding industry landscape. As mentioned, this includes stressing specialization, emphasizing presence and rethinking marketing.

There is ample room for regional leaders to succeed not in spite of, but because of, the big players that are entering the arena. Consider that the industry's penetration rate was only 19% at the end of 2013.⁴ Future growth will be driven by increased consumer and business needs, greater awareness generated by big-budget teleco and cableco advertising, and ongoing technological advances. The time to create and execute a plan to succeed — emphasizing your key strengths and characteristics, and integrating service, delivery, marketing and M&A strategies — is now.

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¹ "Fourth Annual Barnes Associates/SSN/CSAA Wholesale Monitoring Study," Security Systems News, www.securitysystems.com, April 23, 2014

² Consumer Reports survey, www.consumerreports.org, May 2014

³ "Connecting for a Home Run," Security Sales & Integration, August 2014

⁴ Barnes Associates, www.barnesassociates.com, 2014

⁵ ABI Research, www.abiresearch.com, March 26, 2014

⁶ "Evolution of Smart Home and the Internet of Things," Parks Associates, www.parksassociates.com, August 2014