

What's Next for the Industry

The past 10 years of security have been predefined by Sept. 11, 2001. A tremendous boom with double- or even triple-digit growth took place until the recession dampened the market's giddiness. With market uncertainty, what's next for the coming 10 years? We find out more from Security 50 participants, along with industry players who are not at liberty to disclose physical security sales.

BY LING-MEI WONG

Change. Convergence. Customers. When considering the future of security, these three C's figure prominently in the conversation.

The impact of 9/11 is immeasurable. As the attacks spurred a flurry of activity, security experienced meteoric growth. Strong sales and margins were achieved



Cyril Clocher,
Business Manager for
Video Surveillance,
Texas Instruments



Kevin McCaughey,
VP of Security Solutions,
Buildings Business,
Schneider Electric

by security players who listened carefully to their customers and delivered solutions tailored to their needs and concerns. The growth potential of a "pro customer" approach attracted a number of traditional building or IT/IP players to the physical security space, such as Cisco Systems, Johnson Controls and Siemens Building Technologies. However, the "Great Recession" slowed growth, creating tougher competition. The surviving companies have had to adjust and restructure; while large companies can afford to acquire, smaller companies have relied on organic growth.

Our annual Security 50 coverage examines industry trends, with the customer coming up again and again in our interviews. We found that the successful companies managed to achieve 50- or 60-percent growth, even in dire market conditions. These industry leaders beat the market by targeting core needs and delivering value to their customers. While security is important, companies

that went the extra mile to provide business benefits guaranteed their survival.

GROWTH POTENTIAL

There may be a smaller playing field in security, but it continues to beat the market. Component maker Texas Instruments (TI) started investing in dedicated security chips in 2005, which has paid off. "When the economy is taken into account, the growth of security versus the overall market is faster," said Cyril Clocher, Business Manager for Video Surveillance. "It's still a healthy, high-growth market for TI."

Growth has slowed in security, but not stopped. "Growth rates are still robust, and the security market still presents a strong opportunity for the manufacturers, systems integrators and service providers that focus most on better understanding end users' challenges in a truly intimate way," said Kevin McCaughey, VP of Security Solutions, Buildings Business, Schneider Electric. "It may sound old hat, but there's nothing

old or tiring about knowing a customer's business so well that you are in a position to make valuable recommendations that positively impact that customer's bottom line. The next 10 years are all about harvesting ROI from the investments made in security in the 10 years since 9/11 — for customers first and providers second."

Emerging regions and IP solutions will drive this growth. "While there is no doubt that global economic uncertainty has slowed the security market in some segments and regions, we continue to be bullish about overall prospects," said Warren Brown, Director of Product Management, Enterprise Commercial Solutions, Tyco Security Products. "We see the IP video



Warren Brown,

Director of Product Management, Enterprise Commercial Solutions, Tyco Security Products



Steve Gorski,

GM for the Americas, Mobotix



Adlan Hussain,

Marketing Manager of CNL Software



▲ The network connectivity of IP changes the role of security. It is no longer an isolated system but a business enabler.

market — cameras, NVRs and VMS — continuing its strong double-digit growth, with wireless intrusion solutions and managed security — access control and video — showing significant growth opportunities as well."

Emerging markets will see strong growth, particularly in the Middle East, China, India and Latin America. "Key to our success is building a powerful, unified solution, with thoughtful localization for regional and national needs," Brown said.

A major component of growth is listening to customers. "Global organizations need to truly immerse themselves in the various markets they serve, whether it is geographic regions or vertical markets," said Steve Gorski, GM for the Americas, Mobotix. "The key to success in the security industry is to understand the needs of the partners and customers in their specific markets."

DISTINGUISH YOUR BRAND

Standing out in a crowded playing field is hard, but not impossible. A savvy solution provider should conduct market analysis to identify its position, and then improve internal processes to get to that

desired position. If this is not done, companies will be eliminated for not being sufficiently competitive.

A comprehensive service approach is one way to go to market. "In this competitive environment, companies can stand out by delivering an integrated, end-to-end solution that removes risk and complexity," said Mabel Ng, VP and GM of APAC, Honeywell Security. "Of course, quality and reliability are always essential, and companies are also looking to work with a stable partner, one that they can count on being there in the future to support their system."

Focusing on customer business needs also sets a company apart. There is nothing but pressure on revenue models that see security as an overhead and not a business benefit. "Solutions that add considerable efficiencies, reduced costs and eliminate the need for rip-and-replace are growing faster than other segments of the security industry," said Adlan Hussain, Marketing Manager of CNL Software.

Education and customer service are essential for manufacturers to maintain relationships with resellers and users. "Manufacturers need to

invest in the success of their resellers through educational seminars, training, service offerings and comarketing opportunities,” Gorski said. “We live in a world where one bad experience can be immediately broadcast through social media or other publicity channels, and therefore, we need to make sure we are providing the support, training and service necessary to ensure a customer’s commitment to our technology.”

STAYING POWER

Security has experienced the natural boom-bust cycle of all industries, when investment capital pours in and companies develop new products. One way to



Ray Mauritsson,
CEO of Axis Communications



Toby Koh,
MD of Ademco Security Group



Tony Yang,
International Marketing
Director for Hikvision Digital
Technology

get growth in a slow market is to acquire it, resulting in a number of companies ending up in the hands of a few.

For security, reliability is a key benchmark. Larger companies may have some advantages in providing a complete end-to-end solution, but ultimately, scale is not the deciding factor. “There may be some consolidation, but this is a strong and dynamic industry and one that will likely always attract new players and ventures,” Ng said.

While some level of consolidation is expected, security is unlikely to be dominated by a handful of players. “A handful sounds very low in a market that is today very fragmented,” said Ray Mauritsson, CEO of Axis Communications.

Other observers felt that the number of security players will only increase, not diminish. “A few factors are essential for companies to have staying power, such as having a sound understanding of the marketplace and a strong vision to grow regionally, and eventually globally,” said Toby Koh, MD of Ademco Security Group, a Southeast Asian system integrator. “As technology continues to advance, what will also set a successful company apart from the rest is its progressive approach to achieving breakthroughs in building more powerful and effective security systems at lower costs that will deliver a more competitive solution to that of the incumbent.”

One of the key elements for companies to survive is to keep moving.” Looking back at security history, at every stage we’ve created lots of security companies,” said Tony Yang, International Marketing Director for Hikvision Digital Technology. “There was a boom in compression cards, then DVRs. But

over time, many companies merged and integrated. I don’t know if the overall number of security players will decrease, but what’s for sure is the next stage will have another crop of players.”

Finding the right people is crucial for companies to compete on a global level. “It is critical that companies invest in employees — from executives and salespeople to marketing and technical development professionals,” Gorski said. “Your employees are the face of your organization, and it is critical to hire an experienced and professional team.”

INNOVATE OR DIMINISH

Once a company knows the market and has identified a niche, it has to develop solutions that address customer needs. This means that R&D spending should be immune to budget cuts for a company to have an edge. “Companies should continue to invest in down times,” said Marc Holtenhoff, CEO of Aimetis. “If you can execute to have the resources to survive and be successful, you will come out



▲ Security is highly fragmented, with more consolidation activity expected in the future.

stronger if there's a downturn."

Apart from consolidation, being a technology "fast forwarder" or innovator is the way to survive, said Simone Santambrogio, Product Management for Security Systems, Promelit.

Other companies are confident they have a manageable and sustainable model. "Milestone Systems will be one of the consolidators," said Lars Thinggaard, President and CEO. "We invest 16 to 22 percent of revenue in R&D, and our product portfolio is being strategically expanded to compete, grow and attack all market segments."

Solutions must provide flexibility for end users to adapt to their future needs. This could be a migration path to increase or decrease the size and scale of the solution or to enable

the addition of new technologies as they emerge, Hussain said.

Quality technologies should meet user needs, rather than launching a new product each month that has no real value. "This is one thing to build a camera; it's really another type of activity to have a whole system work together and provide value to the end user," Clocher said. Solution providers have the differentiation to combine all security applications — video surveillance, access control and intrusion — into a single integrated system, thanks to IP technology.

COVERING ALL BASES

Market pressures have resulted in Tier-1 brands moving from large projects to the midmarket. This year, Bosch Security Systems launched an "engineered software

and solutions" division for highly complex projects requiring tailored project management, said Gert van Iperen, Chairman of the Board of Management. "At the same time, we are expanding our portfolio in the lower price segment for customers who aren't looking for holistic security systems. Those products are easy to understand, to use and to maintain. Quality and reliability always remain the same."

Honeywell has also launched a new line for small security sites. It is not positioned to compete with bargain-basement products but offers a simple yet integrated solution for smaller projects. "The new line is to tackle the APAC region," said Sufan Kan, Senior Manager of Line of Business Marketing for APAC, Honeywell Security. "In 2011, it's



Marc Holtenhoff,
CEO of Aimetis



Simone Santambrogio,
Product Management for
Security Systems, Promelit

achieved three times of sales growth. We project the aggressive growth to continue in the next couple of years.”

Economic uncertainty isn't always bad, as it can become an opportunity to speed up time to market. “Strategic outsourcing can not only stretch the dollar in tight budgetary environments, but also create incremental sales opportunities with which Honeywell can pursue other pressing initiatives,” Kan said. “Global sourcing efforts can help Honeywell realign the current market realities.”

IP FALLOUT

IP offers tremendous benefits, but presents a high technology threshold to cross over. “The market is highly fragmented,” Holtenhoff said. “As the world moves to IT-fication, we’re going to see shakeout.”

Scaling the IP learning curve can be lucrative but difficult. “Since the cost of entry to IP-based security is higher than it used to be with analog, there will be fewer players in the future as IP technology becomes more

advanced,” Clocher said. “Only a few companies will be able to master this technology to the degree needed in the video security space.”

However, a steep learning curve for IP does not mean the security industry will wind up in the hands of a single company. “Our industry is specialist,” said Charlie LeBlanc, President of Security Services for FrontierMEDEX, a US consultant. “For a large company, it consolidates all that and reduces the ‘speciality’ for efficiency. It’s hard under one umbrella to be efficient and active with the client base.”

MORE THAN YOU BARGAINED FOR

The migration from analog to IP means security is no longer an isolated system but a business enabler. “What we learned in the past few years is people understand the value of IP-based solutions,” said Bill Stuntz, VP and GM of the Physical Security Business Unit for Cisco Systems. “You get information on the basic situation and better communication for first responders.”

As security goes IP, network administrators deal with more security management, introducing a new dynamic involving more stakeholders. “Over the next five years, the convergence of security and business operations management will increase several-fold,” Koh said. “Business cost is increasing globally, and well-managed companies are on a constant lookout to improve processes.” The security platform, with a renewed focus on understanding more diverse customer needs and solving their business problems, will be key to achieving this.

More companies now extend the value of their offerings by

addressing business efficiencies, not just security needs. When solutions not only improve security but also enhance the bottom line or business processes with concrete metrics, security proves itself to be a smart investment. The IP world operates on a larger scale, requiring a better handle on a wider range of organizational needs and “turf war.” “IP has greater benefits for multiple sites,” Stuntz said. “Those small sites will hold onto DVRs and stand-alone systems longer than large customers. The opportunity for growth is on the IT side.”

IP offers the ability to specialize through more data, for better management and know-how. “IP and integration have been around for a long time now, often used but never completely understood or embraced,” Hussain said. “Fortunately, time and money have been invested in creating systems that take the complexity out of integrations, allowing physical security information to be aggregated and managed. We see huge growth here in the next few years as organizations look to harness the power of these systems.”

Smarter integration promises to make security better. “The first set of the value proposition delivered to the customer is more effective security systems,” Stuntz said. “We can be tying the security systems into operations in a store. The same cameras used to protect the store at night could look at traffic or shoplifting patterns in the day. Customers can get multiple uses of the cameras, spread costs throughout departments and accelerate deployment.”

IP goes beyond securing an enterprise, producing a result that was not previously possible. “The

same hardware, software and databases that comprise an access control system can be used in a manufacturing setting, for example, to integrate with plant automation systems in order to ensure that the right number of qualified personnel is logged in at assembly workstations," McCaughey said. "IP makes this integration possible, achieving a new result that impacts the customer's bottom line." Such business-security integration requires understanding customer operations and business requirements deeply.

Take retail. Management may be interested in understanding customer and employee behavior, or improving operational efficiency. "The key is minimizing the time and equipment on-site, while making it easy for a broader range of users to access the information they need on a range of devices — Web, mobile and so on — in a range of formats," Brown said.

IP demand will grow in both the public and private sectors. "We see a decent shift from analog to IP-based security, and that's because, as SMBs



Gert van Iperen,
Chairman of the Board of Management, Bosch Security Systems



Sufan Kan,
Senior Manager of Line of Business Marketing for APAC, Honeywell Security



▲ IP developments will shape security in the unseen future. Greater efficiency is starting to be realized through PSIM, video analytics and cloud services.

and enterprises grow particularly in emerging markets, they realize the advantage of having safety and security based on IP as opposed to analog," Kan said. "Governments are taking stringent measures to enhance security infrastructure. Additionally, large enterprises, transportation and educational institutions are investing in securing their premises from external threats."

TECHNOLOGY TRENDS

As IP defines the future of security, technology developments are reshaped as well. PSIM, VCA and cloud-based services are three things that will influence the industry, if not the world.

PSIM

PSIM as a term is relatively new, but has gained greater recognition in the past five years. Today, PSIM is in the early growth stage of its product life cycle, having passed through the development and market introduction stages but not yet reaching maturity, Hussain said.

Several criteria mark the early growth phase. First, increased sales have resulted in cost reduction from economies of scale. "Globally, the number of PSIM deployments have

increased significantly over the last year," Hussain said. "There are currently in excess of 400 deployments worldwide, and this number increases every week."

Second, there is greater competition in this space. While not all solutions offer the same degree of integration, it reflects the market's need for true PSIM solutions, Hussain said.

INTELLIGENT VIDEO

The rise of HD imaging makes intelligent video all the more relevant. While more pixels may not necessarily make the algorithms more accurate, basic motion detection could significantly reduce storage costs by only recording in HD when something happens. If nothing occurs, the camera can record at a lower resolution.

VCA does not occur in a vacuum, as it requires some way to report an event. "Our view is that the algorithm is only half of the equation," Holtenhoff said. "The ability to get benefit out of that is a VMS that leverages metadata."

Analytics help make data more usable, processing information from cameras and storage. "What you have is a big warehouse of data, without the ability to search through the data

or analyze it in real time," Holtenhoff said. "It's like going to the library to find a book on Shakespeare, but there's no coding tool."

Intelligent video is clearly a trend, enabling a camera to count people or monitor traffic. "You have one product, and if the processor is smart and flexible enough, you can generate multiple uses," Clocher said. "One analogy is in the morning, I use my iPhone to listen to music, then call my customers when at the office, then in the evening my kids turn it into a gaming console. Finally, I use it to read my favorite newspaper. It's exactly the same for cameras. It can be for security; then you have an intelligent app in the camera. You can then differentiate and add features to the camera, thanks to software. This is what's happening today."

CLOUD

The cloud concept is simple enough to understand, but devilishly tricky in the details. Present iterations are mostly private cloud offerings from vendors teaming up with alarm-



Bill Stuntz,
VP and GM of the Physical Security Business Unit for Cisco Systems



Karen Evans,
President of Sielox

monitoring companies for hosted video, access control or more holistic management solutions.

While there is palpable excitement, not everyone is convinced the cloud is the way to go. "Cloud and hosted services are OK for consumer business models, but not for professional ones," Santambrogio said. Megapixel video over a wide-area network would not be practical, limiting use for enterprise users.

In his experience, customers prefer on-site storage for bandwidth and privacy reasons. "People don't like to store this kind of data in an unsecured data center," Santambrogio said. In sensitive markets such as Italy, privacy would be the main argument against public cloud deployments.

The hype about cloud is offset by practical concerns. "Cloud is talked about, but the adoption rate is not as broad as people are saying," Holtenhoff said. "There's a lot of pulp, but it hasn't delivered yet."

While the kinks are being worked out, there is no denying that cloud deployments reduce upfront equipment cost. "We absolutely believe in a future with more video surveillance being delivered as a service based on a hosted model," Mauritsson said. Axis will continue to roll out its hosted offering in more markets through partners.

CNL was among the first vendors to offer SaaS in 2004, which required a significant upfront investment in time and effort. "We still see them as an option for a large number of organizations, but this is still a real challenge for the enterprise-level solutions we are deploying through our channel partners today," Hussain said. "There are no major technology barriers in the way, but how to operate, who will operate and how to

deploy are still significant unknowns that need to be decided for this to become a reality."

Honeywell has launched private cloud services in the U.S. through its various offerings. "Cloud is a technology trend for the central service model," said Jerry Jia, Technology Director for APAC, Honeywell Security. "Every day, millions of events from customer panels go through the Honeywell private cloud."

For Sielox, its hosted access control services have been a sustainable business model, especially for the company's business partners, said Karen Evans, President. Managed platforms eliminate the need for full-time IT professionals or investment in new hardware.

Cloud will figure prominently in the future. "A lot of excitement has been generated in the area of Web connectivity of field devices, such as sensors, based around the much discussed concept of the Internet of Things," said Clemens Krebs, Head of Marketing Communications for Bosch Security Systems. Key standards bodies include the IP Smart Object Alliance and the Internet Engineering Task Force.

As the security industry shifts from explosive growth to a steadier pace, it is buoyed by companies committed to the long term. The recession proved that smart companies in step with customer needs and a continued R&D investment could help survive lean times. Security will also evolve into a business asset, creating lasting value. Overcoming the IP learning curve will be mandatory for success in the future, which in turn offers tremendous benefits. Convergence, change and customer service are the way forward for those willing to win.

