ATTRITION MEASUREMENT
DEVELOPING MEANINGFUL TRENDS

Overview of 2010 Results
The Attrition Trend Is Reversed

TRG Associates, in conjunction with the Central Station Alarm Association (CSAA), continues to accumulate annual Attrition results from a growing number of small on up to large national security companies. The 2010 Report publishes the results for the tenth straight year of this Study and includes results for over $156 million of Recurring Monthly Revenue (RMR) from companies across the United States, Canada and Europe. The consistency of the companies reporting continues to enhance our insight into the Attrition trends within the Security Industry. The Study seeks to provide a measurement of the Attrition results across the marketplace as to the level of Customer RMR losses (Gross Attrition) and the offsets to those losses through resigns of like customers/locations and other increases in the RMR related to the same base of customers (Net Attrition).

Attrition percentages decreased in 2010 to reverse the increasing trend of the last two years. With the US economy having “Bottomed Out” and the economy having stabilized in the later part of 2009 and early 2010, the Average Residential/Commercial Gross Attrition figure decreased from 11.65% to 11.20% and the Average R/C Net Attrition figure decreased from 9.07% in 2009 to 8.57% in 2010.

The Dollars of RMR are broken down by Geographic Region, Size of Company, Customer Source and Customer type. The number of participating companies continues to grow while we gained some additional International participation. On a national scale, the results continue to be broken down by respective Branches in a number of cases as to geography, size, etc. which help to identify the actual results of varied branch sizes in different geographies within larger organizations.

Most of the US regions grew as to actual dollars of RMR reported. The majority of the growth in the RMR emanated, predominately, from the Dealer and Mass Market customer sources (including some of the I-15 Utah corridor companies from their branches around the US) as we also added a number of companies to the study that have in excess of $501,000 in RMR. In each region, except the International, we experienced a decrease of the Gross Attrition figures over the 2009 results. More importantly, we recorded a decrease in Net Attrition in every region in 2010

The smaller companies (3-50 RMR) experienced a decrease in the Gross and Net attrition to the lowest level in four years but the overall size of that group continued to decrease due to acquisitions. At the other end of the spectrum, the larger companies (501+ RMR) experienced a decrease in Gross Attrition and also in Net Attrition from 9.09% in 2009 down to 8.68% for this 2010 Study. The mid-market companies (101 - 200 of RMR) saw the most dramatic decrease again in both Gross Attrition and Net attrition, settling down to the lowest levels since the Study began (Gross Attrition of 8.67% and Net Attrition of 6.00%).

The most significant factors that contributed to this lower Net Attrition figure were the impact of a higher “resigns” of RMR in like locations where the company had maintained a security system for a new homeowner and an expansion of services for an existing customer that led to an increase in RMR for those existing customers.

The Dealer sourced segment experienced a decrease in Gross and Net Attrition for the fourth year in a row, while Traditional also saw a small decrease for both Gross and Net Attrition.

The Commercial customers experienced a small decrease in Net Attrition and experienced a small decrease in Gross Attrition. The Commercial base also continued, for the third year in a row, to outperform the Residential base as to Net Attrition. There was a corresponding decrease over 2008 and 2009 in the commercially driven Cancellation Reason “Sold/Out of Business” as it fell from a high of 12.8% in 2008 down to 6.3% in 2010.

Of note, the Collection/Non Payment reason for attrition increased slightly to 21.6% versus 20.9% in 2009 and Moves (combined Within and Outside of Market) decreased from 38.4% in 2009 down to 31.3% in 2010. The Lost to Competition category decreased for the second year in a row to 7.9%. We continued to see a number of companies in 2010 be more proactive to reduce their RMR per customer to “save” a customer from cancellation as the average household income was still down and being redistributed to more basic essentials. We continued to see fewer price increase initiatives from companies as they worked to maintain their residential and commercial customer bases in the midst of the continuing “troubled economy”. In concert with that effort to “save” a customer, we saw the RMR Reduction reason jump up to 4.7%.

“No Longer Using the System” declined from a high of 14.1% in 2009 down to 9.4%. We would attribute this decline, in part, to the extension of residential security beyond the home via the increased adoption of the interactive technologies that allows the homeowner to “take their security and home management” with them via the Internet, iPhone and other portable devices. Included also is a capsule view of the Alarm.com 2009 & 2010 Attrition Study that TRG assisted with to quantify the increased account longevity (decreased attrition) that came with customers who actively interacted with their systems via the remote interactive technologies versus just having a system with wireless signal forwarding (WSF).

For the second year in a row, we gathered publicly available RMR and Attrition data on the largest Publicly Held Security Company (PHC) in the US to facilitate a broader perspective of the Attrition trends in the security industry in 2010. Based upon that information, we found that the Net Attrition results still jumped from 8.68% for the independent 501+ RMR entities up to 11.42% for all companies inclusive of the PHC though this was a decrease from 2009’s results of 12.29%

We also found that there was a swap in positions as Commercial Net Attrition outpaced Residential after factoring in the PHC entity results. Commercial Net Attrition jumped to 11.41%, while Residential only increased from 8.92% to 11.06%.

This Study will be updated again at the end of 2011 with the assistance of the existing participants and any new companies that would like to join the Study. Participation in the Study is open to all companies, is free and we maintain the strictest of confidentiality as to the individual company results. We wish to thank all of the participants that took the time to report their 2010 results.

Please do not hesitate to call John Brady at TRG Associates (www.trgassociates.com) or Monique Talbot at CSAA (www.csaaintl.org) for information on how to participate in this Study for 2011. The 2010 Presentation will be made available on the TRG and CSAA web sites within the next few weeks.