ATTRITION MEASUREMENT
CONTINUING TO DEVELOP MEANINGFUL TRENDS

Overview of 2011 Results

Attrition Trend Is Mixed In 2011

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 2011 Report publishes the results for the eleventh straight year of this Study and includes results for over $178 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 increased in 2011 in most categories. With the US and International economies still struggling to rebound from the “Recession” of 2008 and early 2009, the Average Residential/Commercial Gross Attrition figure decreased slightly from 11.20% to 11.18% but the Average R/C Net Attrition figure increased from 8.57% in 2010 to 9.08% in 2011.

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 did lose some International participation due to Investment changes in some entities. 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 helps to identify the actual results of varied branch sizes in different geographies within larger organizations.

All of the US regions grew as to actual dollars of RMR reported. The majority of the growth in the RMR emanated from the Mass Market customer source for the second year in a row (including some of the I-15 Utah corridor companies from their branches around the US). We also added more large companies to the study that have in excess of $501,000 in RMR. In the US regions we experienced a mix of increases/decreases in the Gross Attrition figures over the 2010 results. More importantly, we recorded an increase in Net Attrition in every US region and the International segment in 2011.

The smaller companies (3-50 RMR) experienced a decrease in the Gross and Net attrition to the lowest level in five years while the overall RMR size of that group also increased. At the other end of the spectrum, the larger companies (501+ RMR) experienced a slight increase in Gross Attrition and a more significant increase in Net Attrition from 8.68% in 2010 up to 9.02% for this 2011 Study. The mid-market companies/branches (101 - 200 of RMR) saw the most dramatic increase in both Gross Attrition and Net attrition (Gross Attrition of 9.30% and Net Attrition of 7.10% in 2011 versus 8.67% and 6.00% respectively in 2010).

The most significant factors (Reasons) that contributed to the increase in Net Attrition figures were the impact of continued RMR Reductions and Lost to Competition. We continued to see a number of participating companies in 2011 be more proactive to reduce their RMR per customer to “save” a customer from cancellation as the average household income in the US continues to fall.

The Dealer sourced segment experienced a decrease in Gross and Net Attrition which continued the downward trend for that category for the last four years. The Traditional and Mass Market segments experienced an increase for both Gross and Net Attrition over the 2010 results.

The Commercial customers experienced an increase in Net Attrition and Gross Attrition. Correspondingly, there was a small increase over 2010 in the commercially driven Cancellation Reason “Sold/Out of Business” as it edged up from 6.3% in 2010 to 6.8% in 2011. The Commercial base also continued, for the fourth year in a row, to outperform the Residential base as to Net Attrition.

Of note, the Collection/Non Payment reason for attrition decreased slightly to 19.1% versus 21.6% in 2010 and Moves increased from 31.3% in 2010 up to 33.9% in 2011. The Lost to Competition category jumped up to 13.5% from 7.9% in 2010 which confirms that the industry is not losing the security customer rather they are just changing providers. 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 “rebounding economy”.

“No Longer Using the System” declined for the second year in row from a high of 14.1% in 2009 down to 7.6% in 2011. We would attribute this decline, in part, to the continued 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.

For the third 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 2011. Based upon that information, we found that the Net Attrition results still jumped from 9.02% for the independent 501+ RMR entities up to 11.73% for all companies inclusive of the PHC though this was still under 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 from 11.41% in 2010 to 11.83% in 2011, while Residential only increased from 11.06% to 11.44%.

This Study will be updated again at the end of 2012 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 2011 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 2012. The 2011 Presentation has been made available on the TRG web site and will be available on the CSAA web site within the next few weeks.