

## **ATTRITION MEASUREMENT CONTINUING TO DEVELOP MEANINGFUL TRENDS**

### *Overview of 2007 Results Seven Straight Years of Results*

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 2007 Report publishes the results for the seventh straight year of this Study and includes results for over \$80.0 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).

Overall in 2007, Gross Attrition figures continued, for the third year in a row, to decline. The Average Residential/Commercial Gross Attrition figure was lowered to 10.83% from 11.56% but the Average Net Attrition figure inched up from 8.06% to 8.15%.

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 even though we lost some International participation due to acquisitions. 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 substantially as to actual dollars of RMR reported. The growth in the RMR was equally divided between residential and commercial customers and emanated, predominately, from the traditional customer source (RMR internally generated at a profit or breakeven gross profitability) as we added a number of companies to the study that have in excess of \$500,000 in RMR. In each region we experienced a decrease of the Gross Attrition figures over the 2006 results. The Southeast continued to improve as it recovered from the Hurricanes of 2005 though we have already seen some increase in the interim results for 2008 based upon the recent hurricanes in Louisiana and Texas. The Midwest and the West are the only US regions to experience an uptick in the Net Attrition versus 2006.

The smaller companies (3-50 RMR) experienced an increase in the Gross and Net attrition for the first time in three years and the overall size of that group decreased due to acquisitions. At the other end of the spectrum, the larger companies experienced a very small increase in Net Attrition from 7.92% in 2006 up to 8.18% for this 2007 Study. The differential between Gross and Net Attrition narrowed for the fourth year in a row for these companies, which would suggest that these companies and the larger branches are continuing to improve their ability to track and resign the customer/location after the initial customer cancellation. The mid-market

companies (51-100 of RMR) saw a dramatic decrease in both Gross Attrition and Net attrition, settling back down to the 2005 levels of 9%-10% Gross Attrition and 7% Net Attrition.

The Dealer sourced segment experienced another increase in Gross and Net Attrition for the second year in a row, while Traditional and Mass Market inched down slightly for both Gross and Net attrition. On the Mass Market segment, the customer base's that were created while making an investment in that customer, continues to improve its attrition characteristics as that remaining customer base grows more mature.

The Commercial customers have experienced a small increase in Net Attrition while lowering the Gross Attrition and narrowing that resign gap. That increase can be seen within the Reasons for Attrition as both Property Abandoned/Vacant increased from .1% up to 1.2% and the Financial Difficulties category has increased up to 7.0%

Unlike what we have seen in the interim results for 2008, the Collection/Bad Debt reason for attrition decreased in 2007 to 13.1%. The Lost to Competition category has increased which would suggest that price is becoming more of a competitive driver to maintaining a customer while No Longer Using the System went down a bit. Customers are keeping their protection but getting more sensitive to the RMR pricing for that protection. We have already seen a number of companies in 2008 be more proactive to reduce their RMR per customer to save a customer in these difficult economic times as the average household income gets redistributed to energy and food costs. We are also seeing fewer price increase initiatives from companies as they work to maintain their residential and commercial customer bases in the midst of a "troubled economy".

This Study will be updated again at the end of 2008 with the assistance of the existing participants and any new companies that would like to join the Study. Participation in the Study 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 2007 results.

Please do not hesitate to call John Brady at TRG Associates ([www.trgassociates.com](http://www.trgassociates.com)) or Celia Besore at CSAA ([www.csaaul.org](http://www.csaaul.org)) for information on how to participate in this Study for 2008. The 2007 Presentation will be made available on the TRG and CSAA web sites within the month.