ATTRITION MEASUREMENT
CONTINUING TO DEVELOP MEANINGFUL TRENDS

Overview of 2009 Results
Nine 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 2009 Report publishes the results for the ninth straight year of this Study and includes results for over $139 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).

In concert with a second year of difficult economic times in the US, Gross Attrition continued to increase though not at the same proportional rate as in 2008. With the US economy having "Bottomed Out" and the economy having stabilized in the later part of 2009, the Average Residential/Commercial Gross Attrition figure still increased to 11.65% from 11.29% and the Average R/C Net Attrition figure continued up from 8.59% in 2008 to 9.07% in 2009.

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 regained some 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 helps to identify the actual results of varied branch sizes in different geographies within larger organizations. It is also of note that in 2009 there was a consolidation of some of the branches of companies as smaller branches were closed and those customers were rolled up into larger branches. This consolidation appears to have impacted attrition in those respective branches as most of them experienced increased attrition over the 2008 results.

Most of the US regions grew as to actual dollars of RMR reported. The growth in the RMR was from commercial customers and emanated, predominately, from the Dealer and Traditional customer sources (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 $501,000 in RMR. In each region, except the Midwest, we experienced an increase of the Gross Attrition figures over the 2008 results. The Midwest was the only US region to experience a decrease in Net Attrition from 8.51% in 2008 down to 8.18% in 2009.

The smaller companies (3-50 RMR) experienced a decrease in the Gross and Net attrition to the lowest level in three 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 small increase in Net Attrition from 8.71% in 2008 up to 9.09% for this 2009 Study. The differential between Gross and Net Attrition expanded as companies found it harder to replace the lost customers with “like resigns”, especially on the residential side. Companies and larger branches were unable to replace their customers primarily because they lost customers who simply eliminated their security services as is demonstrated by the significant increase in the Cancellation Reason - Collections. The mid-market companies (51-100 of RMR) saw a decrease in both Gross Attrition and Net attrition, settling back down to the 2006 levels

The Dealer sourced segment experienced another increase in Gross and Net Attrition for the third year in a row, while Traditional inched up only slightly for both Gross and Net Attrition. The Mass Market segment (the customer base’s that were created while making an investment in that customer) experienced a large proportional increase versus 2008 in its Net attrition results while it’s Gross Attrition actually decreased (11.12% in 2008 vs. 10.85% in 2009). In previous years this Group was beginning to mirror the Traditional group as it seemed to be maturing but that trend has been reversed in 2009.

The Commercial customers experienced a small increase in Net Attrition while reaching the highest Gross Attrition in three years. The Commercial base also continued, for the second year in a row, to outperform the Residential base as to Net Attrition. There was a corresponding decrease over 2008 in the commercially driven Cancellation Reason “Sold/Out of Business” as it fell from a high of 12.8% in 2008 down to 7.3% in 2009.

Not surprisingly, the Collection/Bad Debt reason for attrition increased dramatically to 20.9% versus 14.7% in 2008 and Moves (combined Within and Outside of Market) jumped to 38.4% in 2009 versus 29.9% in 2008. The Lost to Competition category decreased after a significant jump in 2008. In 2009, Customers made the decision to terminate their service due to the economic hardships they found themselves in the midst of. We continued to see a number of companies in 2009 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 also saw a number of companies institute a military discount to save military families from an outright cancellation. 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”.

For the first time in this Study, we gathered publicly available RMR and Attrition data on the two largest Publicly Held Security Companies (PHC) in the US to facilitate a broader perspective of the Attrition trends in the security industry in 2009. Based upon that information, we found that the Net Attrition results jumped from 9.09% for the 501+ RMR entities up to 12.29% for all companies inclusive of the PHC. 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 12.20%, while Residential only increased from 9.72% to 11.05%.

This Study will be updated again at the end of 2010 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 2009 results.

Please do not hesitate to contact John Brady at TRG Associates (www.trgassociates.com) or Celia Besore at CSAA (www.csaaul.org) for information on how to participate in this Study for 2010. The 2009 Presentation will be made available on the TRG and CSAA web sites within the month.