

## ATTRITION MEASUREMENT CONTINUING TO DEVELOP MEANINGFUL TRENDS

### ATTRITION HOLDS STEADY “14” OVER “13”

*Lost to Competition is Up; Residential Net Attrition Rises to 4 Yr. High*

TRG Associates continues to accumulate annual Attrition results from a growing number of small on up to large national security companies. The 2014 Report publishes the results for the fourteenth straight year of this Study and includes results for over \$307 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).

This year we have augmented our reporting to provide a 10 year Attrition trend profile for the first time. This decade long historical depiction seeks to inform how Attrition rates have fluctuated the past 10 years as a whole and within separate segments of the customer population.

All of the Regions grew as to actual dollars of RMR reported (up \$17,870,289 in total dollars reported over 2013).

Residential Net Attrition percentage ticks up slightly in 2014 for the Study Participants (10.51% in 2013 as opposed to 10.61% in 2014).

The Average Residential/Commercial Gross Attrition figure went up from 12.25% in 2013 to 12.26% in 2014 and the Average R/C Net Attrition figure increased from 10.37% in 2013 to 10.43% in 2014. Over the last 5 years the Commercial group has experienced a steady rise in Attrition.

In all sizes, we experienced slight increases in the Net Attrition figures over the 2013 results with the only large increase being from the 51-100 RMR group. (3.73% in 2013 versus 6.06% in 2014). Still, over the last 10 years the 51-100 RMR group has had a slowly decreasing Attrition percentage with a lower than average year in 2013 followed by another true to form year in 2014.

The smaller companies (3-50 RMR) experienced an increase in the Gross and Net Attrition for the second time in two years (6.82% gross and 5.53% Net in 2013 versus 7.10% and 6.09% in

2014 respectively) as the overall RMR size of that group decreased; also for the second time in two years. (\$275,858 in 2013 to \$232,868 in 2014)

At the other end of the spectrum, the larger companies (500+ RMR) experienced a minimal decrease in Gross Attrition (12.48% in 2013 to 12.46% in 2014) and a slight increase in Net Attrition from 10.57% in 2013 up to 10.61% for the 2014 Study. The 500+ RMR companies Net Attrition has been increasing every year since 2006 save a one year drop in 2010. The RMR size of this particular pool grew by \$18.8 million.

As the mid-market companies/branches segment (201-500 of RMR) went down in overall RMR size, we saw an increase in Gross Attrition and Net Attrition (Gross Attrition of 9.27% and Net Attrition of 7.73% in 2013 versus 9.32% and 7.90% respectively in 2014.)

As for Reasons for Attrition, Moved is slightly down as a Reason (35.6% in 2013 to 35.2% in 2014) but is still lower than 2012 by almost 2% and has all but plateaued in the last two years, unlike 2005-2010 where we saw a large decrease in moves only to spike upwards in 2009 and then back down in 2010 which mirrors the *recent depression* economic cycle.

The Sold/Out of Business category within Reasons for Attrition increased slightly from 3.1% to 3.7%, but is still lower than 2012 and 2011.

No Longer Using the System increased (10.4% in 2013 versus 10.7% in 2014) while Lost to Competition also increased for the second year straight (14.3% in 2013 versus 16.3% in 2014) and remains one of the leading Reasons for Attrition. Clearly the larger companies in the industry are still losing customers to the mid-sized and smaller security industry players as customers seek to maintain their security with another provider. Of note, the Collection/Non Payment reason for attrition decreased to 15.1% versus 16.1% in 2013 and has been on the decline since 2010 as can be seen on page 23 of the PowerPoint in a graph entitled Net Attrition by Reason Code.

The Dealer sourced segment experienced a decrease in Gross and Net Attrition returning back to form after the first increase in 5 years occurred in 2013, while the Mass Market segment had an increase in Net Attrition over the 2013 results (10.74% in 2013 versus 10.94% in 2014) continuing a three year upwards trend. The Commercial segment experienced an increase in Net Attrition and Gross Attrition for the fourth year in a row but still stayed under both the Net and Gross Residential Attrition.

For the sixth year in a row, we gathered publicly available RMR and Attrition data on the two largest Publicly Held Security Companies (TLC) in the US to facilitate a broader perspective of the Attrition trends in the security industry in 2014.

Based upon that information, we found that the Net Attrition results decreased slightly for the participating 500+ RMR entities down from 12.53% to 12.08% in 2014. Inclusive of the TLC companies, Commercial Net Attrition decreased from 11.68% in 2013 to 10.79% in 2014 while Residential Net Attrition decreased from 12.82% in 2013 for 12.53% in 2014. For further insight please see the 10 year Residential vs. Commercial Attrition Graph on page 18 of the 2014 PowerPoint.

We look forward to the continuation of this Attrition project, measuring 2015's results and beyond. If you would like to start or continue participating in the project please go to [trgassociates.com](http://trgassociates.com) and download our Attrition template to use for free or send us your own Attrition findings/questions to [rbrady@trgassociates.com](mailto:rbrady@trgassociates.com) and/or [jbrady@trgassociates.com](mailto:jbrady@trgassociates.com)