ATTRITION MEASUREMENT
CONTINUING TO DEVELOP MEANINGFUL TRENDS

NET ATTRITION INCHES UP IN 2023 OVER 2022

"Out of Business/Financial Difficulties Up Again; Price Increases Make a Difference

TRG Associates continues to accumulate annual Attrition results from small on up to large national security companies. The 2023 Report publishes the results for the twenty third straight year of this Study and includes results for over $900 million of Recurring Monthly Revenue (RMR) from companies across the United States, Canada and Europe/Asia. 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 offsets such as Price Increases in the RMR related to the same base of customers (Net Attrition).

We continue to reflect the attrition trends over the past decade for the industry as we publish the 2023 Study and reflect those trends in a graphical profile for each category.

Many of this study's larger and mid-sized participants continue to refine their attrition measurement tracking by accumulating the gross attrition, resigns and other aspects of the RMR changes by branch and reporting on them separately. The 2023 Study results were further influenced by a continuing effort by many of the participants to report and track attrition by residential and commercial segments of their customer base at the branch level.

The Residential Net Attrition percentage climbed back up a bit in 2023 (12.3%) over 2022 (11.76%) for the Study Participants as the larger participants influenced the results as more companies continue to analyze and report attrition "by branch" and by customer channel. This is the first year in three that the Residential RMR Gross Attrition rate fell below 14% in the Study which is very positive.

Commercial Gross Attrition and Net Attrition increased over 2022 just slightly – up to 11.81% and 9.77% respectively in 2023 versus 11.44% and 9.07% in 2022. The continued addition of some new participants to the study who focus on Integrated Systems, Access and Video, which historically experience a more imbedded, consistent provision of security services, was not enough to offset some of the increases in the larger companies/branches.

All the Region categories increased in dollars of RMR over 2022 except the Midwest. Attrition results were mixed – Net Attrition rose in the Southwest, Midwest and Southeast while dropping in the other regions – especially in the Northeast and International.

When we reviewed the attrition results of some of these channels and “acquisitions” as reported by the participant’s in 2022 and 2023 – we concurred that the classification and the attrition results bear out the classification decisions – Dealer and Mass Market attrition went down for the second year in a row while Traditional Gross and Net Attrition increased slightly over 2022 (Traditional Net Attrition in 2023 – 11.25% versus 2022 – 10.54%).

The significant efforts that a number of participants put into tracking attrition at the branch level also influenced our distribution of the RMR and attrition results by RMR company/branch size. Another important factor that influenced this category’s results was the loss of a number of long time participating companies thru acquisition and continued consolidation of smaller/mid sized companies into newly established, venture driven consolidators and existing large entities who continue to expand their territories and capabilities. Each category’s net attrition increased versus 2022 results – most notably the $3,000-$50,000 RMR sized company category where we lost a number of our smaller reporting entities who historically have much lower attrition than the rest of the market because of their laser focus on “resigns” and price increases while independent.

The 500+ RMR company size category net attrition increased in 2023 (11.26% Net Attrition in 2022 increasing to 11.64% in 2023.) The International segment outperformed all the reporting segments as Gross Attrition and Net Attrition came down – Gross Attrition dropped to 12.18% from 12.61% in 2022 and more impressive was the decrease of Net Attrition from 10.42% in 2022 to 9.01% in 2023 – successful price increases helped to improve the delta between Gross and Net – solid management at work in these companies.

We also have reflected some history of the Attrition comparative for this company category as we recant the Gross and Net Attrition from 2010 on $137M of RMR for 500+ sized companies – Gross of 11.41% and Net of 8.68% in 2010 - versus 2023 on $835M of RMR at Gross Attrition of 13.16% and Net Attrition of 11.64%.

This extended period of comparison of “like attrition results” speaks to the “controllable nature” of one of the key subscriber dynamics in our industry and the “importance” of the provision of our “life safety services” to the residential and commercial marketplace across the nation.

REASONS FOR ATTRITION

As for Reasons for Attrition, “Moved” is down in 2023 versus 2022 (36.46% in 2023 from 40.08% in 2022) but is still the most significant Reason for Attrition. Several companies continued to track this Reason carefully and offer a number of creative sales and service alternatives to resign their customers or existing locations.

With the 3G to 4G transition completed in the US, we see the remnants of that transition having a minuscule attrition impact of .09% in 2023. It is important to point out that what everyone outside of the industry predicted was going to be a huge customer disruption – was actually very well managed by the respective management teams in our industry. Yes, this cellular platform change absorbed a lot of time and resources ($$$) but it was not as disruptive to the existing customers as originally projected.

The Financial Difficulties category, combined with the Sold/Out of Business category within Reasons jumped for the third year in a row from 13.57% in 2022 to 15.82% in 2023 as small business continued to experience some challenges amid this period of high inflation, rising labor costs and high interest rates.

No Longer Using the System declined again in 2023 (13.86% in 2023 versus 14.3% in 2022) while Lost to Competition also declined for the first time in years from 12.29% in 2022 down to 11.82% in 2023. We still see the DIY and other mass marketers growing nicely but clearly not at the expense of the rest of the industry – so we can conclude that the industry must be continuing to increase its penetration into the available market.

PI Rescinded/RMR Reduction increased in 2023 (4.23%) versus 2.23% in 2022 but what really drove this is the dramatic level of Price Increases that companies, across the board, implemented during the year to cover a good portion of their gross attrition losses. For the second year in a row we saw a continuation of the application of price increases across our participants which directly resulted in giving back a higher % on the Price Increase rescinds – but overall the participant's managed their Gross to Net attrition very well thru this business dynamic.

The Collection/Non-Payment Reason for Attrition climbed from 11.68% in 2022 to 12.95% in 2023 which again points to the realities that our tight economy has been experiencing. Clearly this result continues to confirm the importance of security to subscribers in difficult economic times even when their "disposable income" is being diminished through inflation and higher grocery, insurance and fuel costs experienced in 2023.

PERS ATTRITION

For the seventh year in a row, we were able to gather an Attrition Profile from some of the PERS participants and tracked a slight increase in that metric from a Monthly Average of 2.55% in 2022 (Annualized 30.6%) up to 2.61% in 2023 (Annualized 31.4%). The growth in the DTC portion of the market, utilizing more mobile services at higher ARPU, is one of the main drivers of the increase in the attrition rate. The Healthcare side on the business continues to enjoy lower attrition rates versus the DTC channel. We were also able to gather the Reasons for Attrition as set forth in the Presentation. Death/Assisted Living as a Reason was down slightly versus 2022 but still the dominate Reason for a loss of PERS subscribers.

Collection/Non-Payment was up to 19.19% from 12.77% in 2022 while Refuse to Use dropped dramatically to 7.61% from 18.57% in 2022 but seems to have been replaced by Equipment Issues which went from 13.12% in 2022 to 29.47% in 2023.

The PERS industry continues to evolve to a Mobile product offering versus In Home/Landline applications which has allowed the PERS industry to offer lighter, two-way voice, GPS based systems that now include Fall Detection. These new mobile products would appear to be more challenging for the elderly to adapt to as new products such as watches, and wrist worn devices are introduced.

We look forward to the continuation of this Attrition project, measuring 2024's results and beyond. If you would like to start or continue participating in the project, please go to trgassociates.com and download our Attrition template to use for free or send us your own Attrition findings/questions to cbrady@trgassociates.com and/or jbrady@trgassociates.com