this fact when, in the 1996 Act, it "permitted the BOCs immediately to provide interLATA services that originate outside of their in-region states."[44] Viewed in this context, Section 275(a)'s exclusion of Ameritech from external growth in the out-of-region alarm monitoring market makes no policy sense.

Notwithstanding the lack of evidence supporting its position, the AICC has consistently opposed the entry of the BOCs into the alarm monitoring business on the ground that the BOCs would be in some unspecified way in a position to use the local exchange "bottleneck" to discriminate against unaffiliated alarm monitoring companies or cross-subsidize their own alarm monitoring operations. The bottleneck argument, of course, never applied to out-of-region services, which constitute three quarters of the alarm monitoring services provided by SFA.[45] Moreover, since long before the 1996 Act the argument has been wholly without substance as to Ameritech's in-region alarm monitoring services because of the Computer III, ONA and statutory safeguards against discrimination and cross-subsidization. See pages 2-3, 11 and 18-20, supra. Nor has AICC ever even attempted to articulate how Ameritech could successfully discriminate or subsidize.

---

44 *Non-Accounting Safeguards Order*, 11 FCC Rcd at 21908 (¶ 3).

45 Approximately 75 percent of SFA's alarm monitoring customers are located outside the Ameritech region. Exhibit E, ¶ 4.

In short, there is no reason why Ameritech's competitors in the business of providing alarm monitoring services should be protected by a regulatory regime that is not available to firms that compete in any other market in this country.[46]

V. The Commission Should Consolidate This Proceeding With the Pending AICC Motions and Set an Expedited Schedule for Decision of the Consolidated Proceeding.

Ameritech requests that the Commission consolidate this forbearance proceeding with the proceedings involving the pending AICC motions (CCB Pol. Nos. 96-17, 97-8, and 97-11) and establish an expedited briefing schedule to ensure prompt action. Consolidation is in the interest of all parties. It will enable the Commission to conserve its resources, since an affirmative decision on this petition will moot the pending AICC motions.[47] Consolidation will also ensure that all interested parties' views are heard. Therefore, the Commission should consolidate the proceedings and establish the following schedule, with all dates measured from the date this petition is filed:

---

[46] Cf. *IXC Forbearance Order,* 11 FCC Rcd at 20763 ("There is no reason why the business of providing Interexchange services offered by nondominant interexchange carriers should be subject to a regulatory regime that is not available to firms that compete in any other market in this country.")

[47] On the other hand, an early decision granting any or all of the pending AICC motions would not moot any portion of this petition.

Comments from Interested Parties:	30th day
Ameritech's Reply Comments:	45th day
Commission Decision:	90th day

This schedule permits fair opportunity for comment for all interested parties and adequate time for the Commission to make its decision within the one year time period mandated by Section 160. Such a schedule also gives Ameritech the opportunity to plan a comprehensive and more efficient operation of its alarm monitoring services.

Conclusion

Because all three statutory criteria are met, the statute requires that the Commission refrain from enforcing Section 275(a).[48] Even if the statutory language were permissive, forbearance would be warranted.

A regulatory forbearance provision such as Section 160(a) "is a congressional charge to 'go forth and do good.'"[49] The best way for the Commission to do good in the alarm monitoring industry is to forbear from applying Section

---

[48] 11 FCC Rcd at 20734; 98-220 at para 26 and 27; H.R. Rep. 104-458, at 184.

[49] MCI Telecommunications Corp. v. FCC, 765 F. 2d 1186, 1194 (D.C. Cir. 1985).

275(a). Forbearance is fully consonant with "the most fundamental goals of the Act, . . . opening all markets, . . . ensuring free consumer choice of every kind, and lowering all barriers to entry in the name of competition."[50] Forbearance will also free Commission resources for more appropriate uses by bringing to an end AICC's campaign to use the Commission to hamstring Ameritech's attempts to compete in the alarm monitoring industry. The Commission has already wasted far too much of its limited resources on the AICC's petitions seeking to deter additional competition. As the Commission noted in a recent decision to forbear from regulating IXCs, "the public interest would be better served by the Commission devoting these resources to its enforcement duties."[51] Put another way, rather than dealing with hypothetical dangers dreamed up by the AICC, the Commission can and should "police conduct and make decisions based on real facts."[52] Finally, a decision to forbear will allow

---

[50] Statement of Chairman Kennard before the Subcommittee on Communications of the House Committee on Commerce, Science and Transportation, March 25, 1998, at 3.

[51] 11 FCC Rcd at 20766.

[52] *Technology and Regulatory Thinking: Albert Einstein's Warning*, Presentation of Commissioner Michael Powell before the Legg Mason Investor Workshop at 6 (Mar. 13, 1998).

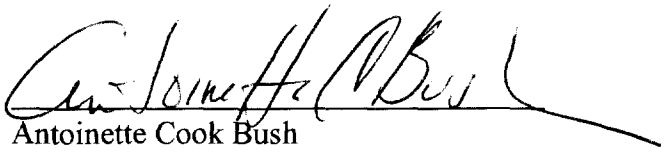
the Commission to refrain from addressing the constitutionality of Section 275(a) as applied to Ameritech.[53]

---

[53] This issue is before the Commission. See Remand Comments at 40-41. The only court to decide the issue has held that Section 275 is an unconstitutional bill of attainder. SBC Communications, Inc. v. FCC, 981 F.Supp. 996, 1005-1006 (N.D. Tex. 1997) (appeal pending before the Fifth Circuit).

Wherefore, for all of the foregoing reasons, Ameritech respectfully requests that the Commission forbear from applying Section 275(a) in any manner to Ameritech.

Respectfully submitted,



Antoinette Cook Bush
Mark C. Del Bianco
Skadden, Arps, Slate, Meagher & Flom LLP
1440 New York Avenue, N.W.
Washington, D.C. 20005
(202) 371-7000

Kelly R. Welsh
Stephen S. Schulson
AMERITECH CORPORATION
30 South Wacker Drive
Chicago, IL 60606
(312) 750-5200

Marc P. Katz
Security Link from Ameritech, Inc.
Two Mid America Plaza
Suite 200
Oakbrook Terrace, IL 60181
(630) 573-1575

Evan M. Tager
Mayer, Brown & Platt
2000 Pennsylvania Avenue, N.W.
Washington, D.C. 20006
(202) 463-2000

CERTIFICATE OF SERVICE

I, Trent Jones, hereby certify that on this 13th day of May, 1998, copies of Ameritech's foregoing Petition for Forbearance were served by hand delivery or by U.S. first class mail, postage pre-paid*, on the following:

William E. Kennard
Chairman
Federal Communications Commission
1919 M Street, N.W.
Room 814
Washington, D.C. 20554

Susan Ness
Commissioner
Federal Communications Commission
1919 M Street, N.W.
Room 832
Washington, D.C. 20554

Harold Furchtgott-Roth
Commissioner
Federal Communications Commission
1919 M Street, N.W.
Room 802
Washington, D.C. 20554

Michael K. Powell
Commissioner
Federal Communications Commission
1919 M Street, N.W.
Room 844
Washington, D.C. 20554

Gloria Tristani
Commissioner
Federal Communications Commission
1919 M Street, N.W.
Room 826
Washington, D.C. 20554

A. Richard Metzger, Jr.
Chief
Common Carrier Bureau
Federal Communications Commission
1919 M Street, N.W.
Room 500
Washington, D.C. 20554

Richard Welch
Deputy Chief
Common Carrier Bureau
Federal Communications Commission
1919 M Street, N.W.
Room 500
Washington, D.C. 20554

Michelle Carey
Policy & Program Planning Division
Common Carrier Bureau
Federal Communications Commission
1919 M Street, N.W.
Room 544
Washington, D.C. 20554

Janice Myles
Common Carrier Bureau
Federal Communications Commission
1919 M Street, N.W.
Room 544
Washington, D.C. 20554

Carol Mattey, Chief
Policy & Program Planning Division
Common Carrier Bureau
Federal Communications Commission
1919 M Street, N.W.
Room 544
Washington, D.C. 20554

Claudia Pabo
Policy & Program Planning Division
Common Carrier Bureau
Federal Communications Commission
1919 M Street, N.W.
Room 544
Washington, D.C. 20554

John Nakahata
Chief of Staff
Office of Chairman Kennard
Federal Communications Commission
1919 M Street, N.W.
Room 814
Washington, D.C. 20554

Thomas C. Power
Legal Advisor
Office of Chairman Kennard
Federal Communications Commission
1919 M Street, N.W.
Room 814
Washington, D.C. 20554

Paul Gallant
Legal Advisor
Office of Commissioner Tristani
Federal Communications Commission
1919 M Street, N.W.
Room 826
Washington, D.C. 20554

Kyle Dixon
Legal Advisor
Office of Commissioner Powell
Federal Communications Commission
1919 M Street, N.W.
Room 844
Washington, D.C. 20554

James Casserly
Senior Legal Advisor
Office of Commissioner Ness
Federal Communications Commission
1919 M Street, N.W.
Room 832
Washington, D.C. 20554

Kevin Martin, Legal Advisor
Office of Commissioner Furchtgott-Roth
Federal Communications Commission
1919 M Street, N.W.
Room 802
Washington, D.C. 20554

Christopher J. Wright
General Counsel
Federal Communications Commission
1919 M Street, N.W.
Room 614
Washington, D.C. 20554

David H. Solomon
Deputy General Counsel
Federal Communications Commission
1919 M Street, N.W.
Room 644
Washington, D.C. 20554

Wendy Lader
Policy & Program Planning Division
Common Carrier Bureau
Federal Communications Commission
1919 M Street, N.W.
Room 544
Washington, D.C. 20554

Susan Launer
Policy & Program Planning Division
Common Carrier Bureau
Federal Communications Commission
1919 M Street, N.W.
Room 544
Washington, D.C. 20554

Danny E. Adams*
Steven A. Augustino*
John J. Heitmann*
Kelley Drye & Warren, LLP
1200 19th Street, N.W.
Suite 500
Washington, D.C. 20036

Patricia M. Shea*
Headquarters Counsel
Communications Workers of America
501 Third Street, N.W., Suite 800
Washington, D.C. 20001-2797

Jeffrey H. Olson*
Paul, Weiss, Rifkind, Wharton & Garrison
1615 L Street, N.W., Suite 1300
Washington, D.C. 20036

ITS
1231 20th Street, N.W.
Washington, D.C. 20037

Art Brodsky*
Communications Daily
2115 Ward Court, N.W.
Washington, D.C. 20037

Trent Jones

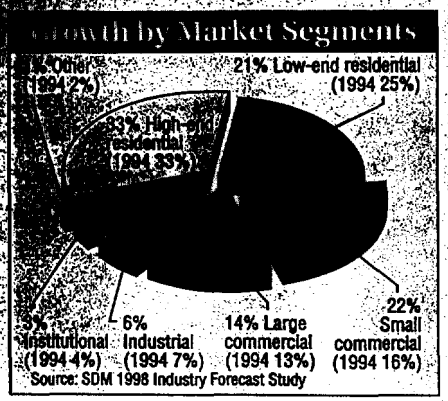
A

ALL-STATE® LEGAL 800-222-0510 FT6511 RECYCLED

WHOSE ADVANTAGE?

There's growth and diversification. Marketing muscle and closer customer relations are crucial. But can the economy and its housing boom continue?

By Bill Zalud
Editorial Director, SDM



The movement? To small commercial while large firms are concentrating more on low-end residential and large commercial.

That sector of the security industry that resells, installs and at times monitors electronic systems for residential and commercial customers continued its healthy growth last year.

This year, the sector plans continued strong purchasing of burglar and fire alarms, more sophisticated systems and especially CCTV surveillance as well as some growth in non-alarm home systems.

Busts Through $14 Billion

According to the annual SDM Industry Forecast, the sector busted through $14 billion in revenue in 1997, with 5.2% growth over 1996. In a first-time "same-question" survey of SDM 100 firms, the largest dealers that install, this group reported 1996-97 growth of 14.8%.

For 1998, the largest dealers see prolonged revenue growth of 15.4%, while the bulk of the sector—mostly local dealers—are extremely cautious, projecting a mere 1.1% in revenue growth.

Always a sector with many small, local dealer businesses and fewer, pace-setting regional and national firms, the group has grown more comfortable with its paradoxical evolution in the market.

Inside of Growth

On the one hand, local dealers see increased customer demand, better marketing and home growth in their specific coverage area as top reasons for increased 1997 revenue. On the other hand, the largest SDM 100 firms peg their success last year to "working the plan": through internal growth and acquisitions more than increased customer demand.

EXECUTIVE SUMMARY

The SDM Industry Forecast, security's longest-running study of the electronic security dealer, installer and monitoring sector, reports many firms foresee a strong 1998.

But there are numerous challenges, too.

ELECTRONIC SYSTEMS

➤ There are about 16,100 separate business units that deal, install, monitor or provide related services.

➤ These business units are rather uniformly distributed, when categorizing them by individual unit revenue. About 4,300 units have revenue of $100,000 or less; about 3,800 have revenue of $1,000,001 or more.

➤ When viewing units as part of a parent company or affiliate structure, the number of firms with revenue of $100,000 or less make up 33.8% of the total, while the number of firms with revenue of $1,000,001 or more make up 17.1%.

REVENUE SIZE,GROWTH

➤ Revenue for 1997 in the sector is $14.05 billion.

➤ The largest firms — with revenue of $1,000,001 or more — have about 74% of total sector revenues.

➤ Revenue growth from 1996 to 1997 was 5.2%.

➤ The largest firms—as reflected through the SDM 100 security dealer companies that install—report revenue growth of 14.8% 1996 to 1997 as compared to 5.2% for the entire sector.

➤ The total sector projects an extremely conservative growth rate of 1.1% for 1998 as compared to 1997.

➤ The largest firms — as reflected through the SDM 100 — project revenue growth of 15.4% for 1998 as compared to 1997.

➤ Mergers, acquisitions, partnerships and alliances continue to impact the sector. About 10% purchased another security-installing company during the period October 1996 to September 1997. More than one-third (35.2%) belong to an authorized dealer program.

➤ About 60% of acquisitions October 1996 to September 1997 were made by the largest firms, with revenue of $1,000,001 or more.

DRIVING THE BUSINESS

➤ Economic conditions and crime, especially within the geographic reach of the security business, are the two most important factors that will affect sales of security systems in 1998.

➤ Protecting profit margins; finding and retaining good employees; and selling more systems are top challenges in 1998.

➤ Burglar alarm, CCTV surveillance and fire protection systems were most often bought and resold by dealers in 1997.

➤ CCTV surveillance, burglar alarm and fire protection systems are the top planned purchases for resale in 1998.

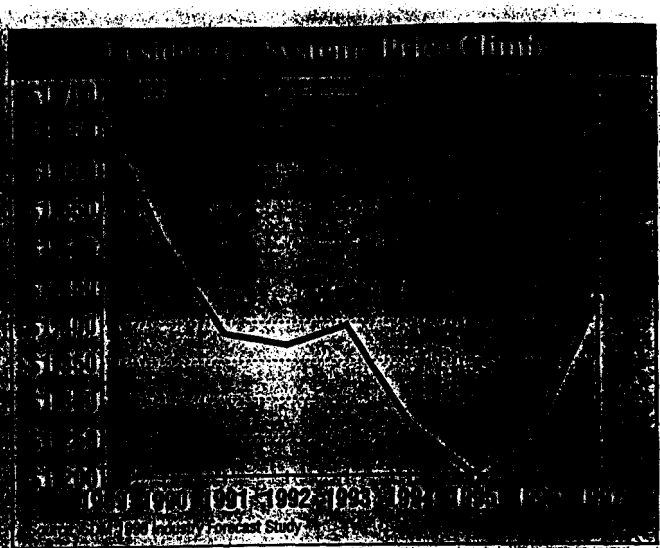
➤ Home theater systems show very strong growth for 1998, although about 24% of this sector handles the technology.

➤ Most firms (61%) believe the current average price of a single-family residential security system will remain the same in 1998.

➤ And most firms (78%) believe the current average monthly monitoring price ($24.40) will stay about the same in 1998.

Most respondents, no matter the geographic coverage of their firms, [illegible] feeling that, this year, three factors — the economy, crime and sales and marketing [illegible] primarily will push up or pull down the [illegible] of security systems. And that the three [illegible] primarily play out locally: cities and regions have stronger or weaker economies and building activity.

According to Daryl Delano, of Reed Research Business Economics, the U.S. economy remains fundamentally sound. The current economic expansion—which began in the spring of 1991—will continue through 1998. Federal Reserve Board and Clinton Administration economic policy makers have continued to do an outstanding job of guiding the economy between the twin risks of recession and accelerating inflation, says Delano.



The average price of a residential system has again increased. Mass marketing and bundling systems brings down the average system price when these "deals" are factored in.

[illegible]

SDM Industry Forecast [illegible] can easily transition [illegible] the entry level systems [illegible] as well as [illegible] [illegible]

Corporate Security Threats, Concerns

Biggest Concerns, 1998	Biggest Concerns, 1997
[illegible]	[illegible]
2. Property Crime	2. Property Crime
[illegible]	[illegible]
4. Violence **	4. Access/Egress Control
[illegible]	[illegible]
6. Parking Lot/Garage Security	6. Workplace Violence

* Fire and life safety concerns broken out as a separate question this year.

** Workplace violence broken out as a category under life safety concerns this year. On security side, workplace violence and violent crime combined together this year into one category called violence.

Source: SECURITY Magazine

Technology Purchased in '97, Planned for '98

Top Products, Systems, Services Purchased In 1997	Planned Purchases This Year
[illegible]	[illegible]
2. Two-way Radios	[illegible] Radios
[illegible]	[illegible]
4. Access Cards	Access Cards
[illegible]	[illegible]
6. Electric, Electromagnetic Locks	Electronic Access Controls
[illegible]	[illegible]
8. Electronic Access Controls	Security Lighting
[illegible]	[illegible]
10. Security Lighting	Sensors & Detectors

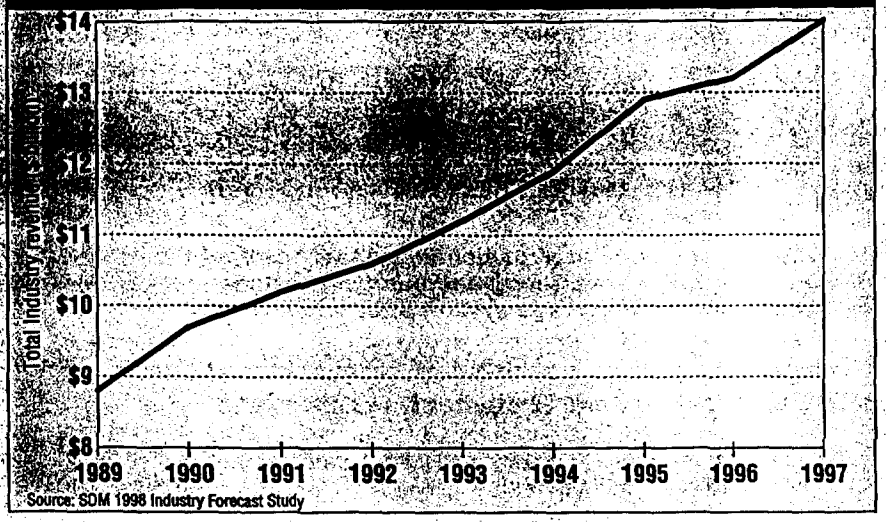
Source: SECURITY Magazine

[illegible] in some [illegible] communications [illegible] protection for [illegible] in parking lots and [illegible]

[illegible] [illegible] security [illegible]

WHOSE ADVANTAGE?

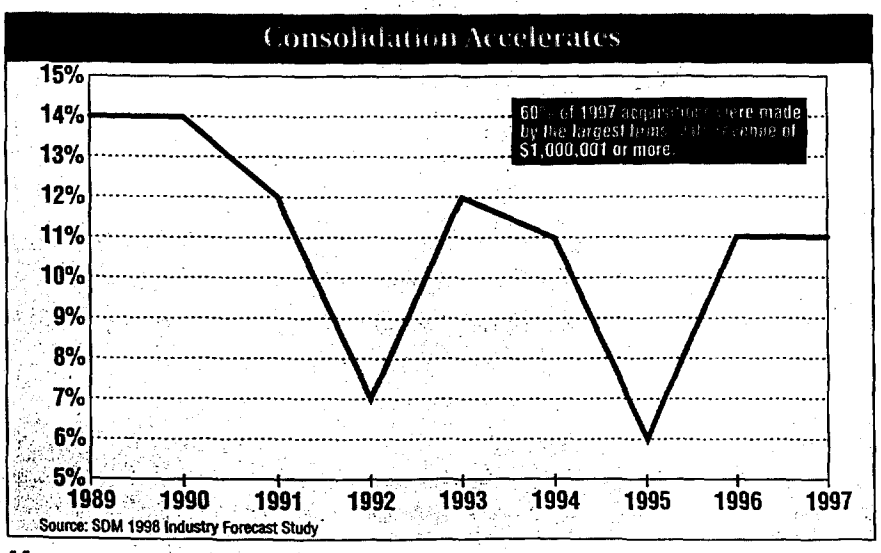
Increased customer demand, better marketing and acquisitions are among the key reasons this sector of the security industry reported a strong 1997.



Security dealer, installer and monitoring firms report that solid 1996 growth repeated in 1997. The largest firms were most bullish in 1997.

In the U.S., overall growth in GDP should reach 2.3% during 1998, with business investment and exports again leading the way. Inflation will remain relatively benign, and long-term interest rates will stay low enough to keep housing investment, consumer durable goods purchases, and business capital spending at reasonably solid levels.

While economists generally see moderate though steady growth of the economy this year and next, some contend there's a growing chance of a recession, say a 25% chance, by 1999. And housing growth, tied inherently to the sale of residential security systems, will decrease slightly (2-3%) this year, according to builder groups.



Mergers, acquisitions and partnerships continue to change some of the make-up of the dealer sector. The vast majority of acquisitions (60%) are by the largest firms.

Impact of Crime

Crime overall also is decreasing, but at a much faster rate and over nearly five years.

Yet, declining crime rates have yet to have a dampening affect on the sale of electronic security. Local crime concerns and the general citizen perception of crime and morality tend to—so far—outweigh the descent. Security dealers also have diversified into commercial and corporate businesses, where crime and security concerns continue to rise, and into home systems, unaffected by crime rates.

Among the sector's paradoxes, consolidation continued in 1997, with gas and electric utilities joining phone company Ameritech as "big buck" buyers, in addition to aggressive regional and national security firms. The pressure of consolidation hasn't much changed the total number of businesses: a little more than 16,000, with the bulk still local, independent firms.

Consolidation Rates

Almost 11% of firms in the SDM Industry Forecast say they purchased another security-installing company during the period October 1996 to September 1997. But about 60% of those acquisitions were made by the large firms, with revenue of $1,000,001 or more. According to survey respondents, 1998 should prove a "lull" year as growth through acquisitions slows. An analysis of a decade of SDM Industry Forecast reports shows a pattern of two or three years of double-digit acquisition activity, then a "lull" year or two.

This year, shifting attention from acquisitions, say survey respondents, are crucial issues closer to home: protecting profit margins; finding and retaining good employees; and selling more systems. Concern over profit margins is a recurring issue in the SDM Industry Forecast and may become an even sharper and potentially divisive issue this year.

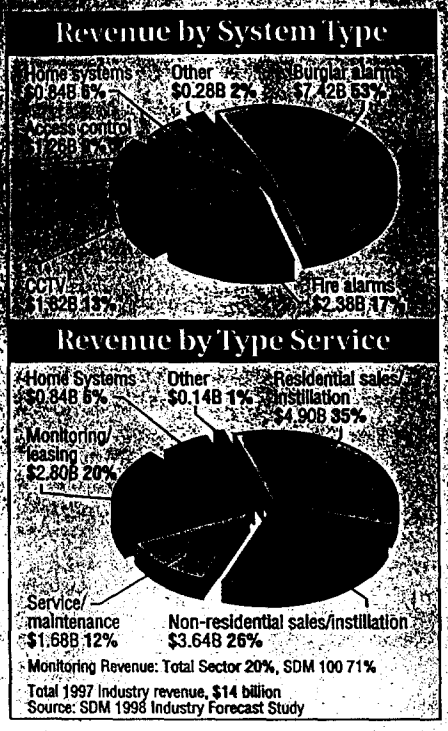
At the November 1997 Security Industry Association Forum, the annual meeting of manufacturing and monitoring executives, some speakers suggested that the home security hardware price wars (free and $99 deals) may shift to monthly monitoring fee give-away deals as utilities view home security systems as more a strategy to bundle services and hold onto customers than as lucrative recurring cash flow.

Beyond profit margins, concern over finding and retaining good employees makes its first appearance as a top worry of dealer, installer and monitoring firms.

With unemployment at its lowest in 24

WHOSE ADVANTAGE?

Most of the sector opens mergers and acquisitions to slow this year, but there's potential monitoring price pressure from bundling utilities.



CCTV surveillance had the greatest growth in 1997, while burglar and fire alarms comprised most of the business last year. For most security dealer firms, significant revenue flows from equipment and installation, while, for the larger firms, significantly more revenue flows from monitoring.

years, and the shifting of attention inward, it's not surprising that firms of all sizes now are concerned about the quality and stability of their workforce.

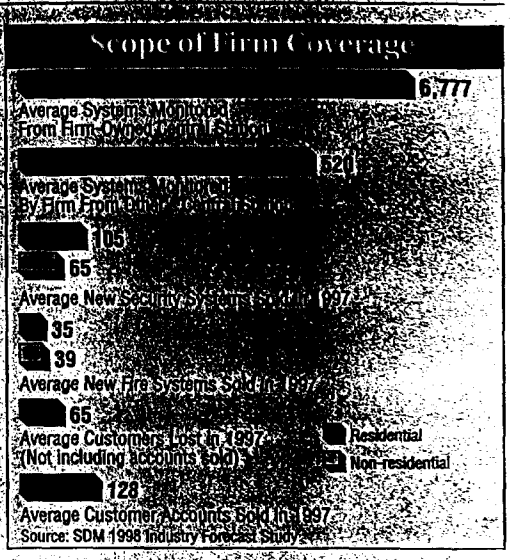
Instead of paradoxical, some survey results are consistent. The resale of burglar alarms, for example, accounts for more than half of the sector's revenues, with fire alarms amounting to about 17% of total revenues. As a percent of total revenue, CCTV surveillance systems have climbed again last year, the sector rated CCTV as the fastest growing part of their business. There's also growth in electronic access control systems and home systems.

Looking at revenue from a service perspective, residential sales and installation account for more than a third (35%) of revenue, while non-residential sales and installation, growing strongly, now account for a little more than one-quarter (26%) of revenue. For the entire sector, monitoring is 20% of total revenue, although it accounts for a little more than seventy percent (71%) of revenue of the SDM 100 firms, say some experts.

More than half (54%) of the SDM Industry Forecast respondents continue to see residential, and especially high-end residential, as the source of most revenue growth. But small commercial continues to grow as an attractive target market.

When the survey shifted from revenue sources to the average price of hardware, installation and monitoring, things become a bit more complex.

For the first time, dealer firms have ranked the ability to find and retain good employees as one of the top three factors that are major challenges for the businesses in 1998.



For the entire sector, about 60% of systems monitored are residential and 40% are non-residential. More than one-third (36%) say the number of accounts they will sell to others is increasing.

Pricing Stable or Not?

In 1997, all respondents reported the average hardware and installation price of a residential system was $1,428. However, in an analysis of results of the SDM 100 survey and the weighting of systems by the largest, mass marketing firms, an average price of residential hardware and installation falls to $650 per system.

There's more consistency in monthly monitoring fee. The average: $24.40 per residential system.

Most SDM Industry Forecast respondents feel that sales and installation as well as monthly monitoring will remain about the same this year.

Not remaining the same but decreasing sharply has been crime, the growth and fear of which drives sale of security systems, say many dealers in the SDM Industry Forecast. In a way, the growth of electronic security in residential and non-residential facilities is one factor in improving the crime picture.

Serious Crime Continues Drop

Serious crime in the U.S. dropped significantly for the fifth year in a row, according to preliminary Uniform Crime Reporting (UCR) figures for the first half 1997.

Still, using the latest U.S. Department of Justice Victimization data which go beyond crimes reported, about five Americans out of 100 (5,079 per 100,000) were victimized by criminals in 1996.

The UCR report ticks off a crime every two

WHOSE ADVANTAGE?

Top concerns this year? Protecting profit margins; retaining good employees; and selling more. Low unemployment is troubling.

About the SDM Industry Forecast

The SDM Industry Forecast is based on random-sampling questionnaires of dealer, installer, and monitoring firms, and complementary personal interviews conducted in September, October and November. New this year, a survey of the SDM 100. The master survey of 100 contains some answers from SDM 100 companies, but at a rate reflecting their number within the total number of firms overall.

seconds, and a violent crime every 19 seconds, a murder every 27 minutes, a forcible rape every six minutes, and a car stolen every 23 seconds.

The Perception of Crime

The enigma: crime continues a downward trend, yet it continues to touch many people, with more people sensitized to crime, even incidents far away, and demanding tougher prevention and punishment programs.

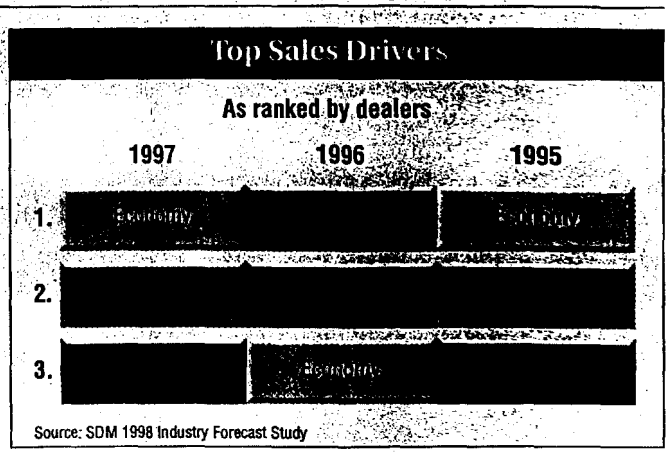
The greatest drop: in the most densely populated urban areas, where community policing, crime prevention programs and electronic security systems are most used.

The nation's law enforcement agencies reported a 4% decrease in serious crimes reported during the first 6 months of 1997 when compared to figures reported during the same time period of the previous year, according to Uniform Crime Reporting Program figures by the Federal Bureau of Investigation. The FBI figures are a compilation of crime incident reports from local law enforcement agencies.

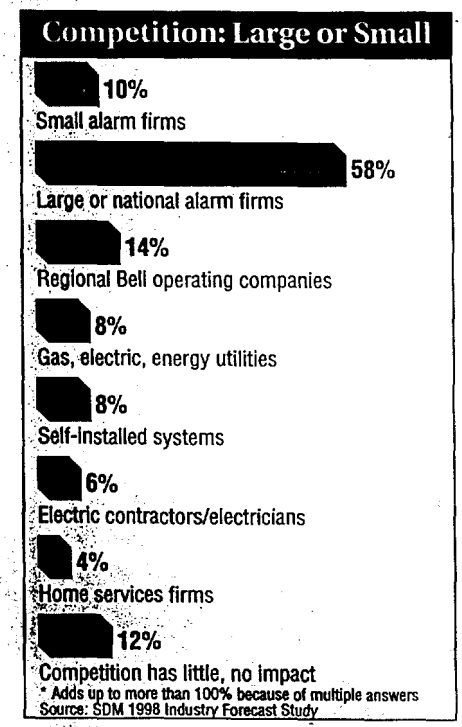
Violent crime decreased 5% and property crime fell 4%.

Among the property crimes, arson decreased 9%; motor vehicle theft and burglary both dropped 5%; and larceny-theft declined 4%. Serious crime decreased in all of the geographic regions. Declines recorded include 6% in the Northeast, 5% in both the Midwest and West, and 3% in the South.

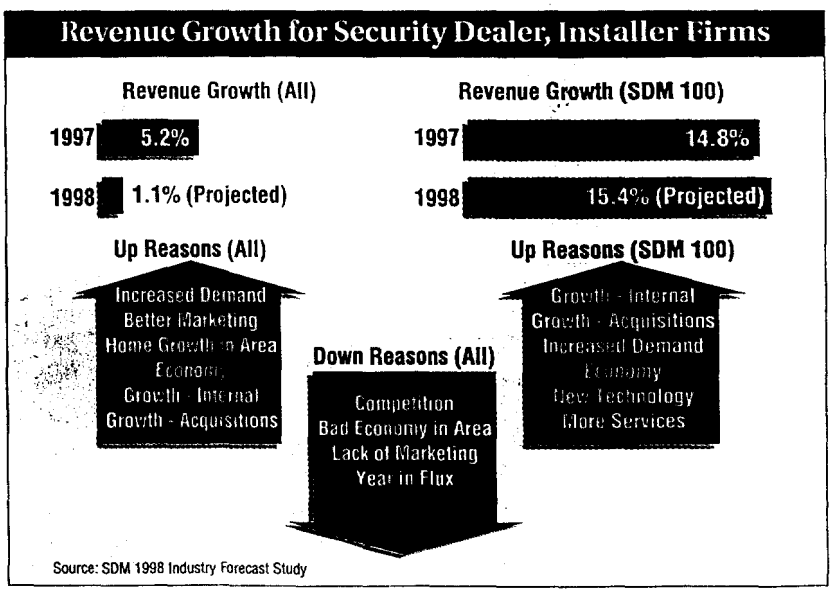
According to statistics, all cities showed a decline in serious crime for the 6-month period, with the largest population groups, cities over 250,000, recording the largest decline, 6%. Decreases reported by suburban and rural county law enforcement agencies were 3% and 1%, respectively. **SDM**



While more dealers see potential in small commercial and large commercial business, fewer see non-residential building activity and capital spending by business as significant factors driving their revenue.



While top industry leaders and Wall Street talk about utilities, the bulk of the dealer sector takes utilities less seriously than firms already well-established in the business.



The largest firms are the most encouraged about high growth this year, although all firms in the sector see strong residential, non-residential and diversified systems growth.

B

By Patrick O'Toole, Staff Editor, SDM

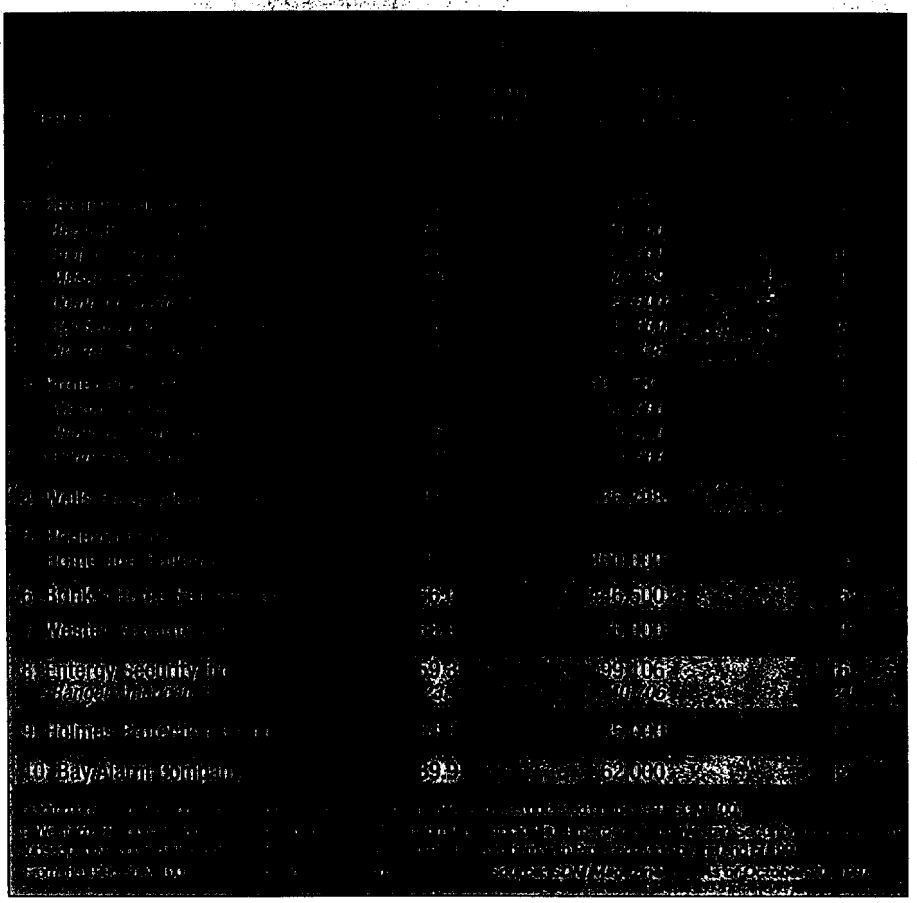
The Importance of Being Number One

ADT Security Services, Boca Raton, Fla., has something that other large alarm firms desire: An unquestioned position of leadership in a growing industry.

A spate of industry mergers in recent weeks has been driven by a number of factors, but none less important than the desire to be number one, "or a strong number two or three," commented Robert A. Guerin, former president of Republic Security Services Inc. after the company was sold to SecurityLink from Ameritech. "Only the strong survive, and this is an eat-or-be-eaten industry."

Republic's exit from the industry came only two years after it first entered. In August 1995 Republic bought Kertz Security Systems in Southern Florida on its way to becoming one of the 10 largest security firms. Its acquisition spree sputtered and stopped a year later in a failed bid to become number one. A $5 billion merger agreement between Republic and ADT broke off due partly to opposition by Western Resources Inc., Topeka, Kan.

— continued on page 40



Recent months have witnessed an unprecedented spate of high-level mergers and acquisitions in the alarm industry. Figures from the end of 1996 serve as the basis of this re-ranking of top companies.

DEALER Q&A

The Thrill of Winning and Surviving in the 90s

Company: Premier Security Systems, Inc., Cranberry Township, Pa., suburban Pittsburgh.
Owners: Jeffrey Lancaster and a group of private investors
Years in business: Seven. (Lancaster has 22 years of alarm industry experience.)
Number of accounts: Monitor about 2,000 and own more than 1,000.
Major clients: We protect the Duquense Club in downtown Pittsburgh. We also protect The Boyd School, a specialized college. Others: New Federal Cold Storage Inc., a facility with 100,00 square feet of coolers and freezers; a police building, the Pine-Bradford-Woods Township shared municipal facility.
Number of employees: 16
Central station: Yes.
How long?: Two years. Built from the ground up.
Principal markets served: Geographically, the greater Pittsburgh area. Until the last few years, we were 80 residential and 20 commercial. Now it seems that we are 50/50. I attribute that to a better business environment. We're doing more access con-

"There's a market segment that still buys quality; that's the segment we have always served," says Jeff Lancaster.

— continued on page 30

The Importance of Being Number One

— *continued from page 25*

"We recognize that it would take considerable management time and corporate resources for Republic to achieve the leading position in electronic security," said Republic chairman H. Wayne Huizenga of the sale to SecurityLink. "This sale frees management to focus on businesses where we enjoy leadership positions."

What is so important about being the industry leader? Lots, says industry analyst and investment banker Michael Jones of ProFinance Associates, Wilton, Conn., co-sponsor of the recent *Securing New Ground* mergers and acquisitions conference held in New York. "Size is a very important factor especially if you are already a large company in other areas. You want to be one of the leaders or you don't feel like you have critical mass."

Beyond a feeling of critical mass comes very tangible benefits, said Jones, namely: a natural attraction of more customers, more money and attention from Wall Street, and more opportunities for partnerships and dealmaking. Additionally, density of accounts brings added efficiency, greater profitability and wider name recognition to top companies looking for an edge.

Presently 80 percent of the market is owned by local and regional firms. Jones feels that will shrink to 60 percent or 50 percent in the next five years.

Subscribers vs. Revenue

ADT, now a subsidiary of Tyco Industries Ltd., Exeter, N.H., has a wide lead over its nearest competitors in terms of total annual revenue. The company is a cinch to pass $1 billion in sales this year. By contrast SecurityLink from Ameritech, Oak Brook, Ill., will likely have sales near $500 million and Protection One, Culver City, Calif., will come in with $325 million this year according to some estimates. A comparison of subscriber totals, however, reveals far greater parity.

Using baseline figures from calendar year 1996, ADT, SecurityLink and Protection One, have subscriber bases of approximately 1,430,000; 912,577; and 901,531 respectively. All three companies will report large increases over these figures for 1997, but the point, said Jones, is how much ground SecurityLink and Protection One have gained in this area.

Another measure of leadership is profitability. According to Jones, Secu-

Beginning today, all video-based security installations will begin with the following simple procedure.

CIRCLE NO. 100 ON INQUIRY CARD

Hello. We're GVI Security, manufacturers of innovative electronics for the security specialist. We offer a full range of video products, each designed for optimum performance and rugged reliability.

To find out more, and reach a sales representative near you, please take a moment to send away for a complete package of information. Or, give us a call at 1-602-998-3400 Ext. 9626 7:30-4:30 MST.

GVI Security offers a full-line of video security components, including VCR controllers, time lapse VCRs, 2.4 GHz wireless camera systems and video enhancement devices.

GVI

Seeing is believing.

GVI is a division of Go-Video, manufacturer of the Dual-Deck™ VCR and other fine consumer electronics. ©1997 GVI Security.

OPTICOM
TECHNOLOGIES INC.
OPTI-CAM
ONE
Featuring:
- Waterproof
- Plug & Play
- Compact
- Multiple Lenses

1/3" B/W CCD 400 HTVL

OUR 25th YEAR OF SERVICE

Contact: Opticom Technologies Inc.
936 Peace Portal Way, Blaine, WA 98230
Telephone: (604) 739-0049 Fax: (604) 739-1349
TOLL FREE: 1-888-FOR-CCTV
Email: opticam@ultranet.ca Internet: www.Opticam.com

For FREE information circle 35

It may not look like much to you, but to a VCR it can be a real turn on.

Our GV-311U Automatic VCR Controller turns any VCR into an event recorder with date and time stamp. All at a cost far less than that of a time lapse VCR.

With easy connections to a standard CCD camera, any type of alarm sensor, a standard VCR, and a television or monitor, the GV-311U automatically activates the VCR's record function when an alarm sensor is tripped. Recording can be continuous or programmed to stop after a set period of time, allowing only alarm events to be recorded for efficient video review. Contact us by calling 1-602-998-3400, Ext. 9626, 7:30-4:30 MST.

GVI
Seeing is believing.

GVI is a division of Go-Video, manufacturer of the Dual-Deck™ VCR and other fine consumer electronics. ©1997 GVI Security.

For FREE information circle 36

rityLink and Protection One boast a bigger percentage of higher-profit residential accounts than ADT. The upshot: net revenues and profitability might be the closest measure among the top three companies.

"All things being equal, if I had the same amount of recurring revenue, I would make more money in the residential company than the commercial one," Jones explained.

The Merger Scorecard

September and October were busy months for SecurityLink from Ameritech. On Sept. 29, it purchased Republic Security for $610 million and on Oct. 2, it followed that up by buying Rollins Protective Services, Atlanta for about $200 million.

The pending merger of Westar Security Services with Protection One and their subsequent acquisitions of Network Multi-Family Security Corp., Dallas, and Centennial Security, Madison, N.J., helped Protection One stay roughly equal to SecurityLink in terms of size of subscriber bases. Both Westar and P1 are now approaching one million accounts.

Western Resources also made a $7.5 million investment in Guardian International, Hollywood, Fla., buying 37 percent of the firm's stock. It provides wholesale monitoring to 16,000 subscribers and owns 12,000 accounts.

Entergy Security Services, Raleigh, N.C., made two important acquisitions in recent months. It acquired Ranger American Inc., San Antonio, and, more recently, the alarm monitoring business of Day Detectives Inc., Jackson, Miss.

John Hesse, executive vice president of Protection One, predicts even greater rounds of consolidation in years to come. To what extent: Four companies with more than one million subscribers by the year 2000. Three are nearly there now.

Jones agrees and sees the top 100 companies in the industry assuming a greater total share of the market. Presently 80 percent of the market is owned by local and regional firms. Jones feels that will shrink to 60 percent or 50 percent in the next five years.

Which direction will local and regional players move? According to Jones, acquisition-driven leaders will likely shape an industry with greater emphasis on "dealer programs, third-party monitoring companies" and a diversity of niche-driven players.

C

R
INDUSTRY FORECASTS

MORE IS BACK!

There's more demand for electronic security; but there's more and tougher competition and more and harder business choices to make.

By Bill Zalud
Editorial Director, SDM

While demand for more security remains strong, with consumers driven by fear of crime and businesses driven by more complex protection strategies, that sector of the industry involving reselling, installing and monitoring remains unsettled.

There was growth in 1996. There will be growth in 1997. According to the *SDM* Magazine Industry Forecast, the sector generated about $13.19 billion in revenue in 1996 and projects $13.24 this year.

Looking more closely at revenue by system type, dealers report stronger growth in access controls and home systems but with almost seven of ten dollars still coming from burglar and fire alarms. Slicing revenue by service type, monitoring brings in 20 percent of all dollars while installation is spilt between residential and nonresidential.

The growth forecast for this year compared to last may seem too cautious. Just a decade ago, revenue was pegged at under $8 billion.

But *SDM's* annual look at the industry — based on a scientific mail sampling of magazine readers — indicates that there's more concern about profit margins this year and more uncertainty over the future direction of the business of electronic security systems in home and commercial applications.

Transformation

For one thing, the industry continues to undergo a significant transformation.

There was a speed up of consolidation, with about 11 percent of firms making some type of acquisition in 1996 compared to about half that the year before.

This most recent acquisition binge, say dealers and confirmed by the *SDM* Industry Forecast, comes from within, as the largest national and regional firms buy smaller firms and accounts. That trend seems destined to continue, with cash-rich utilities, Wall Street investors, telephone companies and chain retailers now security industry insiders.

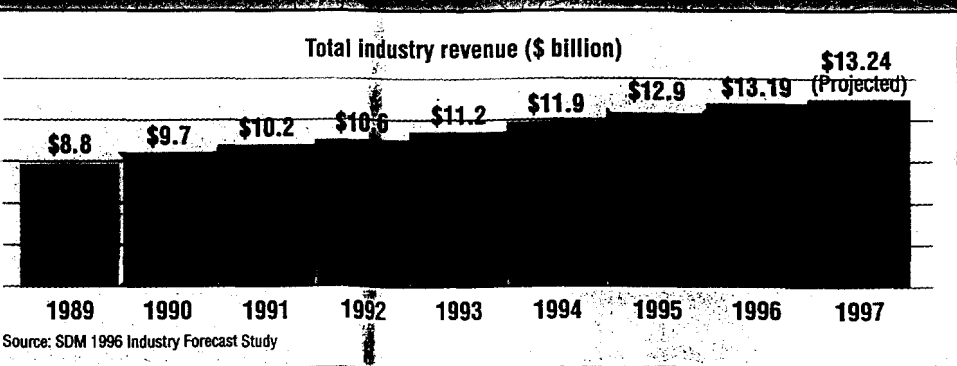
So it's no surprise that a vast majority of respondents to the *SDM* Industry Forecast agree on their top worry.

In one word: it's competition. More security

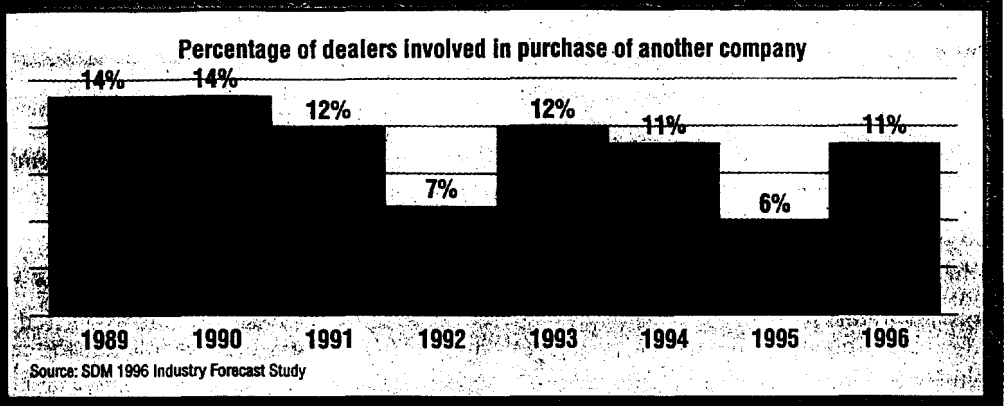
As ranked by dealers
(last year)

2. Control costs (3)

Source: *SDM* 1997 Industry Forecast Study



Source: SDM 1996 Industry Forecast Study

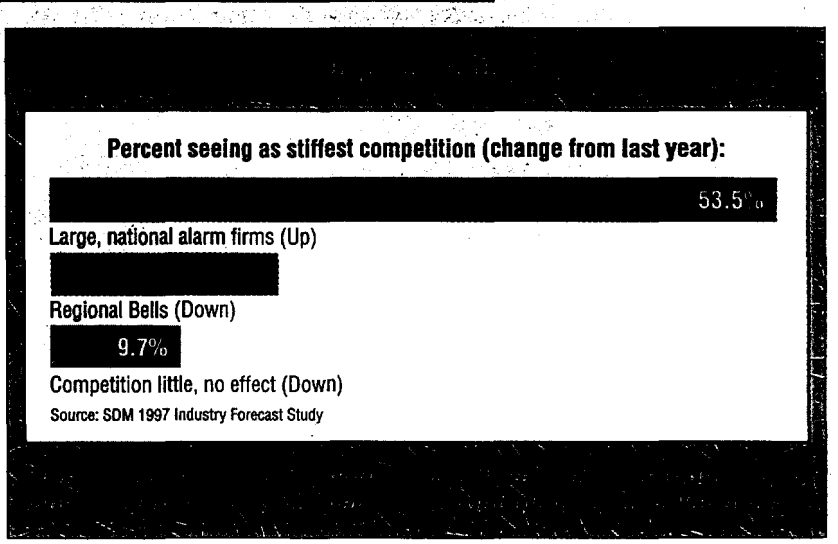


firms are under more competitive pressure, which is threatening profit margins and clouding strategic planning for companies wanting to grow their home security business or modify their business into home automation, commercial or specialty areas.

The diversification movement, signaled in previous *SDM* Industry Forecasts, continues, but not at its previous pace.

Last year, mid-size commercial proved a strong customer base. High-end residential continued to percolate. More dealers agreed there's a business in home systems. But "bread-and-butter" mid-range residential continued its slide into mass marketing.

There are plenty of exceptions. Most often the exceptions arise because of a strong local economy, strong new construction, a strong acquisition plan or local crime problems.



Moving to Larger Clients

This year, dealers responding to the *SDM* Industry Forecast report more interest in large commercial, where they can transform themselves into systems integrators, reap higher profits and have longer-lasting corporate and commercial client relationships.

Other recent studies indicate the strategy is

It Takes More to Beat the Competition

More advertising.

More emphasis on customer referrals.

More diversification into commercial, integrated systems, CCTV and access control.

More pricing adjustments.

"What will I do this year in the face of more and tougher competition? More of the same thing," says Sharon Kenny, among security dealers interviewed in follow-up telephone calls as part of the annual *SDM* Magazine Industry Forecast.

Kenny shared a confidence in her company and an aggressiveness over the future with dealer, installer and monitoring firm colleagues, according to the mail-out, mail-in *SDM* Industry Forecast and follow-up phone survey.

One of the primary conclusions of the survey: there's more and tougher competition out there. But dealers are ready. Among top competitive strategies: adjusting prices more often in the face of competitors and their advertising; more advertising by local dealers as they face mass marketing techniques, often by the largest security firms; and more emphasis on referral business, often the surest customers.

With pricing a strategy to fight the competition, it seems that for many the strategy is to hold the line or decrease prices in selected cases.

While the *SDM* Industry Forecast, an annual mail-out questionnaire that scientifically samples the total dealer base, reports a slight increase in equipment prices last year, a follow-up telephone survey indicates that most smaller dealer firms disagree, with twice as many indicating system prices have not increased. In the follow-up study, only 30 percent of dealers believe that monitoring fees will increase this year. — **Compiled by Bill Zalud, *SDM* Editorial Director, from research compiled by Tom Ventriss of Ventriss Associates**

Consolidations and diversification are two factors that indicate the security industry is transforming itself.

a sound one.

SECURITY Magazine, the world's largest circulation magazine for corporate, commercial and government in-house security operations, reports strong corporate security spending, more outsourcing and projects calling for systems integrators.

There are plenty of people — inside the industry and in the investment community — sold on security's continued vibrant growth, particularly in home security. Recent security firm acquisitions by gas and electric utilities have accelerated attention to lucrative cash flow and home "connection" aspects.

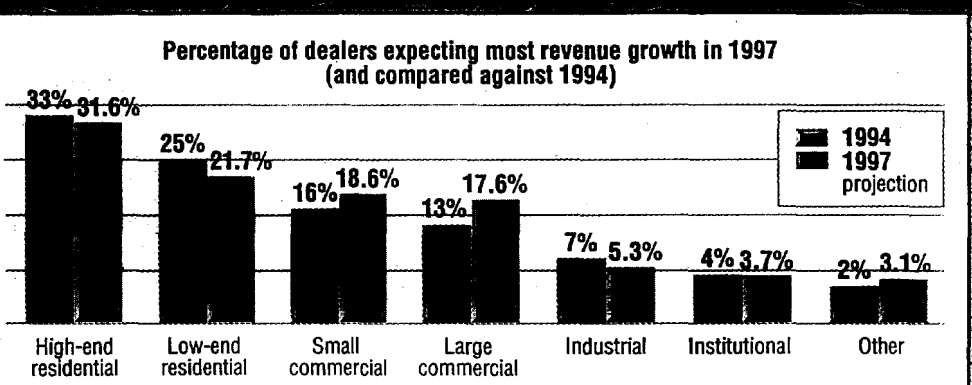
Slight Pricing Change

Although some dealers in follow-up studies to the *SDM* Industry Forecast dispute the conclusion, the average price of a home installation has started to go up again, but only slight-

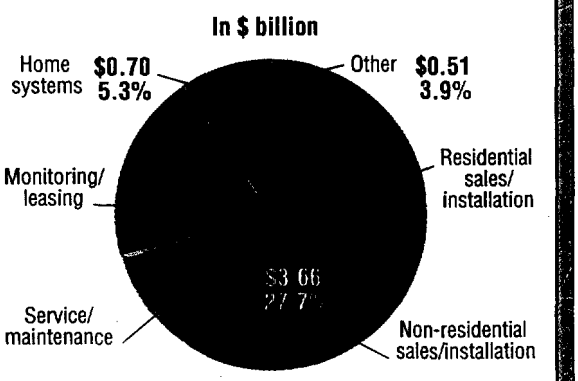
As ranked by dealers
(last year)

2. Sales and marketing (3)

Source: *SDM* 1997 Industry Forecast Study

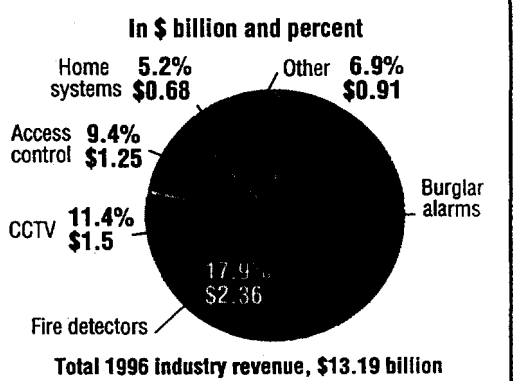


Source: SDM 1997 Industry Forecast Study



Total 1996 industry revenue, $13.19 billion

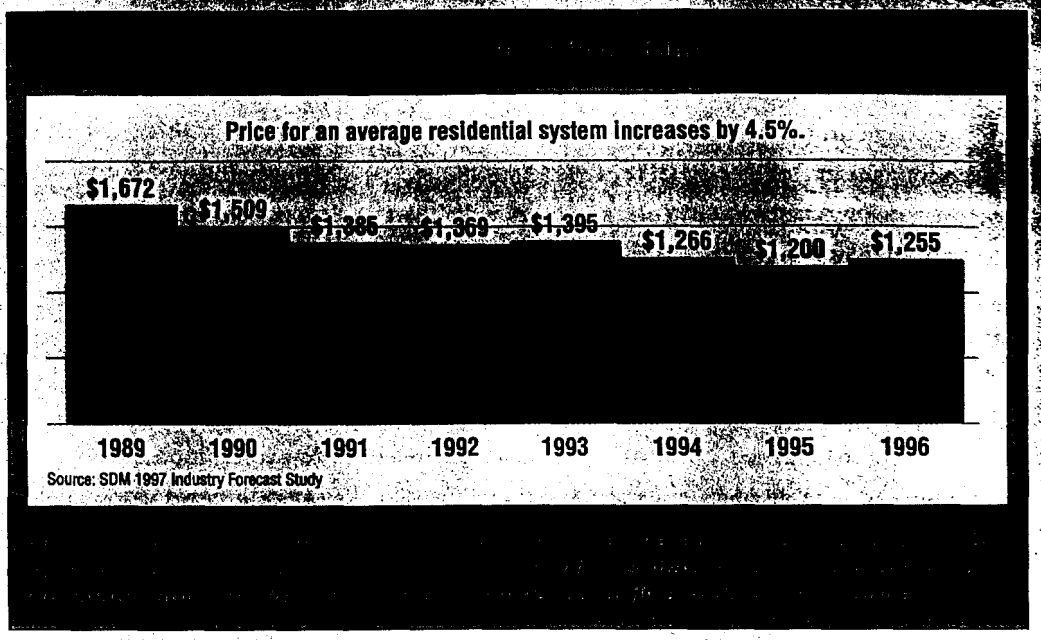
Source: SDM 1997 Industry Forecast Study



Total 1996 industry revenue, $13.19 billion

Source: SDM 1997 Industry Forecast Study

Luck, a strong local economy, new construction and even bad crime news are among elements that lead to a firm's success.



How dealers expect the average price of a home security system will change this year:

	Price Change
Down 12.9%	- $15.35

Source: *SDM* 1997 Industry Forecast Study

ly – about $55 more.

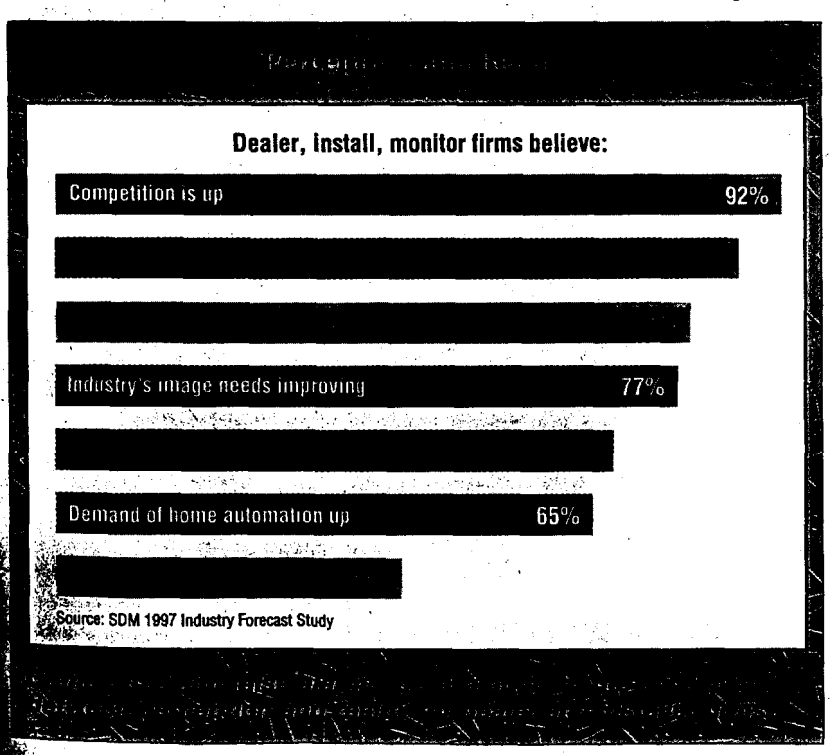
But there are more hard-edged questions yet to be answered.

One is the potential size of the consumer market: how big is it really and how big can it grow? Will, for instance, home security monitoring be as big as cable service, especially in the face of decreasing crime, the primary driver of home alarm sales? In terms of penetration, where is the saturation level?

How tightly is home security tied to computer and telecommunications advances? It now seems advances such as multi-media, wideband communications into homes, fiber optic and interactive, high-speed cable is farther away and more expensive than at first blush.

Even in the face of sputtering but forward moving new home construction, some builders still lack enthusiasm for home automation, although more are specifying in sophisticated burglar alarm systems.

And what does the industry make of the do-it-yourself (DIY) business and its potential growth and impact on the dealer channel? The sale of home computers with home automation bundled in, and the sale of DIY sensor, detector and even CCTV components coupled with "when you're ready" alarm monitoring turn-on, indicates electronics retailers and home center stores may have found a DIY formula that works. **SDM**



D