Eyes on the prize: Taking full advantage of continued revenue growth

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The systems integration industry is abuzz. Access control is super-hot, and the product category continues to grow. IP video surveillance specifications are moving along at break-neck speed. New technology categories in the security market – energy management, home automation and interactive services – are helping savvy dealers and systems integrators grow their businesses.

But do these companies really know how to take full advantage of all the possibilities for continued revenue growth? Do they have all the right moves to ensure they increase the value and equity of their businesses?

Barry Epstein, president of Vertex Capital Corp. in Dallas, concurs that 2015 is shaping up to be a strong year for dealers and integrators – if they carefully examine their company's profitability. Epstein has more than 20 years of industry experience, representing buyers and sellers in the life safety sector. He has completed numerous acquisitions in areas that include monitoring, integration, fire, guard and medical alert.

Smart companies will benefit

"With interest rates remaining low and safety fears increasing, the demand for new integration projects and updating current systems will fare well for smart companies," Epstein says. *"The risk, however, of a good year from a revenue perspective is that of taking one's eyes off the ball regarding margins, expenses and recurring contracts. Focusing on these three items will pay dividends both this year and well into the future."*

One of the metrics that requires constant attention from integrators is the completed job margins, he says. *"When I ask dealers at what margin they bid out the job, they always have a response. It may range from 20 to 50 percent and usually settles around 30 to 35 percent depending on the competition and whether it is a negotiated or bid opportunity. It is common knowledge jobs rarely go as planned [in order to yield] the exact gross margin with which you won the job. In fact, many projects bid at 30 percent gross margins end up losing the integrator money."*

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Epstein says a smart strategy is for integrators to look at each completed project and analyse the actual margins versus what the project was bid at. *"Examining the variance will lead to conclusions that will impact the profitability of future projects, and the bottom line, in a positive way,"* he says.

The second area he says needs focus is obtaining and pricing recurring revenue contracts. *“Alarm companies are extremely focused on recurring revenue contracts, while integration companies focus more on the installation revenue and sometimes pay little attention to recurring revenue. The service, monitoring or maintenance contract is usually there for the asking. Make sure your sales force is incentivised to ask for the contract. Also, make sure they aim high on the monthly recurring revenue. Pricing varies greatly but is often in the neighbourhood of 10 percent of the installation charge on an annual recurring basis. I have seen many companies happy to get half of what they could have received in new monthly recurring revenue and unaware of how much money they left on the table,”* he comments.

A final area requiring focus is what Epstein refers to as “profitability by sector”. He says many companies look at the bottom line, assume they had a decent year, and move on. They never delve deeper by analysing profitability by sector.

“I have spoken to dealers who haven’t made a penny of profit in five years in the audio/video side yet keep spinning their wheels because profitability is ‘just around the corner.’ Epstein says he worked with one integrator who did an analysis of a specific sector and found he was breaking even year after year. He woke up, discontinued that area of concentration and moved his people to another vertical market where the “math” was much more favourable.

“The integration market, while strong, is still very competitive,” he advises. “Taking a deep look at one’s results will make any operator more profitable in a short amount of time. If you aren’t making money in some areas or aren’t asking for recurring revenue contracts, you are running your business sub-optimally and your competitors couldn’t be happier,” Epstein concludes.

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Deborah L. O’Mara, SourceSecurity.com's dealer/integrator correspondent, is a veteran of the security marketplace, having extensive experience in security, fire alarm technology and integrated systems.