

Innovative Providers Emerge from Downturn Unscathed

As the economic downturn reverberates, a number of newcomers managed to beat the odds. A&S finds out how these smaller players gained ground against more established names.

BY LING-MEI WONG

The global financial crisis hit security hard, with a number of manufacturers reporting falling sales after years of growth. However, some makers landed on their feet and grew. Smaller makers increased market share with competitive offerings, while larger companies saw profits shrink.

Established brands were among the hardest hit. Niscayah, formerly known as Securitas, implemented an efficiency enhancement program to save about US\$24.8 million in 2011. The company plans to strengthen its competitiveness by laying off 350 staffers, closing unprofitable local offices and centralizing operations within each country, said Niscayah's President and CEO Hakan Kirstein, in a prepared statement.

IT giants felt the squeeze as well. Cisco Systems emerged with disruptive network video solutions four years ago, then announced a partnership with Pelco in September 2009. Cisco now OEMs network cameras from Pelco, shifting from being a pure IP player to partnering with a mature brand.

CONSOLIDATION

While consolidation has slowed due to reduced cash flow, some security players increased market share through acquisitions. The industry continues to be fragmented, making mergers inevitable.

Innovative companies with a competitive portfolio were most likely to be bought, such as ioimage's purchase by DVTel. "This market has too many players, and it must be consolidated," said Eli Gorovici, President and CEO, DVTel. "We expect to see more mergers take place as this is the nature of the security industry."

Other makers expected more consolidation based on

technical strengths. "In our market segment, there will definitely be more M&As, because many major manufacturers have fallen so far behind in HD/megapixel camera development that they have no choice but to acquire the necessary technology, if they want to remain in the business," said Paul Bodell, CMO of IQinVision.

Some players do not see acquisitions as a way to grow. "Our strategy is to expand our product line with innovative product development programs and to drive deep partnerships with the top technology firms in the security industry," said Scott Schafer, Executive VP of Sales and Marketing, Arecont Vision. "M&As are not a part of our expansion and growth plan."

REVENUE GROWTH

The financial crisis slowed growth for most companies. While some makers had positive growth, sales paled compared to previous years.

Zavio, a network camera maker, posted strong growth for 2009. "The financial crisis temporarily slowed our growth, but had a rather small impact on us," said Shau-Chau You, Director of Product Marketing for Zavio.



▲ **Surajit Biswas**, Director of Marketing for Asia Pacific, ADI Global Distribution



▲ **Scott Schafer**, Executive VP of Sales and Marketing, Arecont Vision



▲ **Eli Gorovici**, President and CEO of DVTel

"Due to the global financial crisis, there was increased demand for cost-effective network cameras."

For NVR maker Nuuo, its earnings remained unchanged, with a new development. "The only thing we found interesting was that customers changed the frequency of stocking," said Deane Liu, Partner Alliance Manager for Nuuo. "Our hybrid system is the key to take customers from analog to IP or megapixel."

Several Asian makers were affected by factors unrelated to the recession. "During 2009, our revenue grew 15 percent," said Jake Lim, Sales Manager for Servntec. "But we were affected by currency changes. Our profit margin did not grow as much as revenue did."

Companies in newer technologies such as IP fared well. "DVTel experienced single-digit growth in 2009, which is positive overall given today's economic climate," Gorovici said. "In years past, DVTel has averaged a 20-plus percent growth rate, which is a trend we expect to continue once the economy rebounds."

Network video companies continued to grow, though at a slower pace. "Despite the economic climate, IQinVision managed to grow and remain profitable again in 2009," Bodell said. "Our growth was not at the triple-digit rate to which we had grown accustomed."



▲ Some security manufacturers survived the financial downturn by providing good service and listening to customers.



▲ Szonja Balogh, Head of Communications, Intellio



▲ Paul Bodell, CMO of IQinVision



▲ Deane Liu, Partner Alliance Manager for Nuuo

High-resolution video providers stayed afloat. "At Arecont Vision, our revenues and earnings have increased by more than 50 percent over the past 12 months," Schafer said. "We did see some project delays and cancellations throughout the year, but our business was very solid."

Software companies also did well. "Intellio almost doubled its turnover for 2009," said Szonja Balogh, Head of Communications, Intellio. "The need for video content analytics (VCA) is rapidly growing. We stabilized our position and are entering new markets such as Romania, Serbia and Bulgaria."

For distribution, sales reflected product trends. "Overall, last year video surveillance remained the biggest category and will continue to grow with increasing share of IP and entry-level category products," said Surajit Biswas, Director of Marketing for Asia Pacific, ADI Global Distribution. "Customers were definitely careful about their purchases and investments."

CORPORATE STRATEGY

Smaller network video providers managed to grow last year, but not without sacrifices. Some measures taken included reducing product prices, eliminating extraneous features and cutting marketing budgets.

Several companies cut their marketing budgets. "All of our costs have been cut, such as exhibition participation, dealer events and ads," Balogh said. "Prices have been adjusted several times to match mainstream market prices. Due to the market slowdown, Intellio changed its strategy to provide VCA-enabled cameras at the price of simple network cameras, which helped grow market share."

Prices also came down, as users had less to spend. "One initiative we implemented in 2009 to help our customers get through the economic downturn was to offer innovative designs and product cost reduction programs, enabling us to pass on some significant price reductions

to the industry on our H.264 camera line," Schafer said.

Some companies made their high-end models available at a lower price. "Our customers had demand for day/night network cameras, which were very expensive," You said. "We made them affordable."

To eliminate cost, underused product features are being taken out. "As customers still preferred better quality at a good price, many manufacturers got rid of additional features to make products cost-effective," Biswas said. "As an example, you have a camera of 520 TVLs with dual voltage. However, customers can accept a camera with only 12V DC voltage and 480 TVLs for the same application, making it a cost-effective proposition."

Despite the cost-cutting measures, product development remains a budget priority. "Your competitive advantage is what makes you fitter than others," You said. "You cannot reduce budget in those areas, even in a crisis."

Servntec continues to invest 20 percent of its operating profit in R&D, enabling it to launch HDcctv solutions and hybrid DVRs, Lim said.

Some makers trimmed costs by refining production. "We believe this industry has tremendous potential, so we haven't stopped investing in R&D," Gorovici said. "Earlier this year, we purchased ioimage, and that is part of our strategy to invest in our technology offerings. DVTel hasn't reduced sales prices, but we have improved profitability and increased margins by improving processes."

Some makers have diversified their portfolios through partnerships. Japanese lens maker Tamron partnered with NEC to produce a long-range IR camera and a panoramic camera, for a mutually beneficial business deal.

ASSOCIATIONS AND ALLIANCES

As IP heats up and brings greater connectivity, industry standards enable interoperability. For smaller providers, this allows them to reach more buyers who want to maximize existing investments.

The ONVIF comprises more than 180 members, including up-and-coming players like Zavio. Other associations focus on total solutions apart from video, such as the PSIA. Arecont Vision, DVTel and IQinVision are members of both ONVIF and PSIA, indicating their commitment to open systems. The ONVIF announced on April 7 access control protocols are being incorporated in the framework and development road map.

With standards, interoperability allows product makers to expand to their reach. "We partner with virtually every NVR/VMS manufacturer in the industry as well as with many complementary technology companies such as storage, transmission systems, lens manufacturers and more," Bodell said.

Open standards enable more benefits from integration. "We are extremely active in working with nearly 100 technology partners focusing on network video recorders, storage solutions, network platforms and analytics providers," Schafer said.

Servntec is a member of HDcctv Alliance, as well as national bodies. "We are a member of the Korea Digital CCTV Research Association, which unites major security companies in Korea," Lim said.

LONG-TERM GOALS

Most companies said the recession did not affect their plans for the next three to five years. IP providers in particular expected the future to be bright.

Analytic providers will see strong growth. "This year, we plan to double our income," Balogh said. "In the next few years, we intend to increase our market reach by growing regional sales coverage."

High-resolution cameras are expected to take off with more market uptake. "Arecont Vision's strategy, which has not changed and will not change, is to lead the security industry in megapixel video security technology," Schafer said.

Other IP players, such as management software providers, predicted convergence will see more uptake. "DVTel strongly believes in providing an end-to-end IP based physical security solution which leverages the complete functionality of our video surveillance, intelligent video analytics from ioimage and full line



▲ Jake Lim, Sales Manager for Servntec



▲ Shau-Chau You, Director of Product Marketing for Zavio

of network cameras and edge devices,” Gorovici said. “The continued focus for us in the future is utilizing all of this information cohesively to create easy to use, understandable information that has been gathered and is available.”

Some makers take a more responsive approach to planning. “Our plan is to continue to develop highly differentiated, market valuable features, but my crystal ball is not good enough to tell you what those will be in three to five years,” Bodell said. “Technology and customer requirements change every few months, so planning three to five years out is a little risky.”

SURVIVAL TIPS

Business means risk, with the financial downturn heightening difficulty.

In the midst of trying circumstances, some providers made it through with old-fashioned service, prudent business management and a competitive portfolio. “We aspire to give more new services to our partners,” Balogh

said.

Wise financial planning is more important than ever for product makers. “Cash is king,” Gorovici said. “It’s all about the bottom line and making sure you’re profitable and self-sustained — there really is no other solution. You have to manage your costs in order to survive a tough economic climate.”

Providers must be attentive to clients to stay relevant. “My best tip is to listen carefully to your customers and manage your business conservatively,” Bodell said.

Understanding a client’s perspective gives makers an edge. “We ask our customers what is important to them,” Schafer said. “What we hear is that customers are looking for two things: first; how can you provide more value to my organization, and second; how can you help by delivering lower cost solutions.”

Ultimately, a company must offer unmatched value. “In the end, it goes back to any company’s value, which is to offer a unique market solution,” You said. “If you can meet market needs, you will survive.”

