

# Security 50 2003/2002: Slower Sales, Better Earnings

On average, 2003 revenue growth was slightly lower than 2002. Yet, overall profit, on average, reached 38 percent as opposed to 22 percent in 2002. This increase underscored better earnings environments among the various security players even though overall sales volume had decreased. A&S looks back at the highs and lows of the past year.

By EDITORIAL DEPT.

Financial figures were reconfirmed three times, 15 internal meetings and discussions were held, 20 in-house editors and consultants worked on the project, piles of papers and interviews were shuffled and reshuffled during the past 90 days all to give our readers the results of this year's Top 50 Security Companies ranking for 2003/2002.

This year, A&S opened the rankings to publicly as well as non-public listed companies. Even though, Tyco Fire/Security (1) and Assa Abloy (2) reigned as king and queen, GE Infrastructure, Security (5), Kaba (6) and Bell (10) kept their places in the top 10. Samsung Electronics, VSS (9) saw its star rise from 16th in 2002. First-time participants, Honeywell Security (3), Bosch Security Systems (4), Checkpoint Systems (7) and Johnson Controls, Fire/Security (8) filled out the uppermost tier.

For the 2002 to 2003 fiscal year, one-fifth of the security companies saw sales revenue skid, while sales at another 17 companies grew 20 percent on average. Meanwhile, revenue growth averaged 18 percent.

In 2003, an outbreak of SARS affected security business strongly, especially in Asia. According to Cliff Chan, CEO of Hong Kong-based TeleEye Group (47), "Economic recovery after the SARS outbreak in Asia was faster than expected."

Allen Han, vice president and general manager of Honeywell Security Asia Pacific seconded

this. "The good news is that SARS lasted for only two to three months. Afterward, our sales came back on track and hit annual targets."

Looking at profit growth, only six companies saw profits decline in 2003. Meanwhile, one-third gained more than 30 percent with some achieving remarkable 110 percent growth. On average, profits increased 38 percent in 2003. Cogent Systems (31) and Bioscrypt (43)—two biometrics pioneers—had outstanding performances, ratcheting up profit growth of 92.68 percent and 69.47 percent, respectively. In addition, some hardware-based manufacturers from Taiwan and Korea, such as AV Tech (27), Everspring (33), Dynacolor (42) and Hitron (11) stood out from the crowd as



Good customer relationship management and regular customer surveys have delivered 16 percent sales growth for Bosch Security Systems.

well.

Compared with 2002's average profit growth of 22 percent, 2003's 16 percent growth indicated that the industry still was capable of posting brilliant earnings, even though sales were slowing. Through interviews with a wide array of profitable performers in 2003, A&S learned how the various players have been shifting tactics to maintain strong growth.

### More than Moving Boxes

Different business models have different profit-calculation methods. For manufacturers or OEM and ODM suppliers, the priority centers on reaching economies of scale.

According to most Asian producers, volume in 2003 was driven by interest in digital products with networkable functions. "Our tremendous growth stemmed from significant DVR and speed-dome-camera sales in Europe and the U.S.," said Warren Chen, president of Dynacolor. The company turned negative sales growth around, posting 19.5 percent growth in 2003.

Understanding that sales volume is the basis of manufacturer earnings, Chen explained that, "You have to bet on the right trend. The ability to foresee and cope with market trends is key."

Total integration and total solutions were also crucial. Asian companies, whose power is based on hardware manufacturing, moved toward more software development to ride the market wave. Jemmy Huang, general manager of Everfocus (25) said: "We realized that hardware manufacturing does not always give you the advantage. Everfocus, therefore, focused two-thirds of its research-and-development resource on software development," said Huang.

Lawrence de Guzman, managing director of Axis Communications (24) Asia Pacific noted that, "Contemporary security business has to be more than selling boxes. Offering software-based and solution-based service is a must."

Obviously, suppliers have listened to the market, moving to embed IP concepts in vital security solutions and surveillance-management systems. J.H. Choo at Korea-based Hitron said: "IP is driving the wheels of the security industry."

Pertti Woitsch, vice president of marketing at Mirasys (46) reasoned that, "The message IBM sent at this year's IFSEC where it introduced security solutions is that traditional software companies and IT players are entering the security market as integrators. This means new sales channels are emerging."

"Vendors should pay close attention to distribution and customer service rather than attempting to maximize their returns," pointed out Huang.

"The technology to develop innovative products as well as

## Six Companies' Profit as of Revenue over 50 Percent

Rank	Company	Country	Profit as % of Revenue
1	Cogent Systems Inc	U.S.	68.2%
2	TeleEye Group	Hong Kong	63.6%
3	Viscount	U.S.	57.6%
4	Mirasys Ltd	Finland	56.3%
5	Fermax	Spain	55.8%
6	MultiVision Intelligent Surveillance	Hong Kong	55.6%

( 37 of 50 companies provided profit figures to rank.)

## 14 Companies' Profit Growth over 30 Percent

Rank	Company	Country	2003 Profit Growth (%)
1	Dynacolor Inc	Taiwan	623.59%
2	Everspring Industry Co Ltd	Taiwan	118.17%
3	Cogent Systems Inc	U.S.	92.68%
4	Hitron Systems Inc	Korea	89.66%
5	AV Tech Corporation	Taiwan	84.85%
6	Bioscrypt Inc	Canada	69.47%
7	Mirasys Ltd	Finland	49.75%
8	Precise Biometrics	Sweden	46.91%
9	MultiVision Intelligent Surveillance	Hong Kong	43.27%
10	Magal Security Group	Israel	36.45%
11	Viisage	U.S.	34.89%
12	LG Electronics, Security Business	Korea	33.33%
13	Viscount	U.S.	32.36%
14	Sentry Technology Corporation	U.S.	32.22%

( 37 of 50 companies provided profit figures to rank.)

after-sales service to maintain customer relationships are determinants in company success," noted Mark Chen, general manager at Yoko Technology (26) in Taiwan.

The truth is that for hardware manufacturers, new competition is giving them new opportunities to develop innovative solutions as well as a deeper understanding of end-users.

### Integration Upgrades

Companies involved with systems integration for many years are looking at solutions from user points of view. Thinking from a customer perspective is, therefore, taking root in the industry and is seen as being critical to creating good margins whether for CCTVs, access control or intrusion alarms.

Yvonne Hao, vice president of Global Marketing at Honeywell Security, who is based in the New York headquarters interpreted this trend. "Integration is not simply about combining separate devices for the sake of combining them. Instead, it is about creating practical, reliable systems that solve customer problems." Honeywell came out with a lot of integration solutions last year that cater to banking, retail, education, traffic-management, stadium and hospital needs. "We have seen what vertical markets need, and their aims have become ours as well," said Hao.

Karen Holland, director of marketing & communications, Asia of Tyco Fire & Security, also seconded, "With terrorism

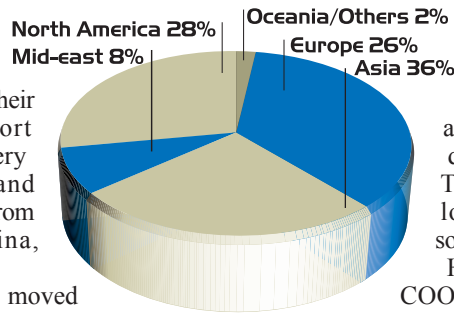
as a constant threat to businesses worldwide, we have proactively moved into vertical markets such as the Sea Ports and offering customers' integrated security packages that can help to protect their businesses. The series of Port Seminars earlier in 2004 were very well received by customers and reached a wide base of audience from all over Asia, including China, Philippines, Korea and Indonesia."

Indeed, "Security concepts have moved from analog cameras and analog storage to analog cameras with digital storage right up to the present network cameras with digital storage,"

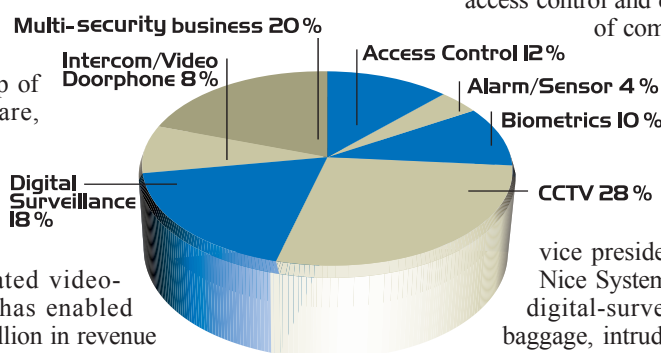
said de Guzman. "Players recognized that digitization is only the tip of the iceberg. Suppliers are, therefore, developing matrix solutions to suit various vertical-application markets." The philosophy behind selling suitable integrated video-surveillance solutions has enabled Axis to earn US\$48.8 million in revenue in 2003.

Its strengths in innovating and putting solutions together with software programming have allowed Axis to manage ever-changing market needs. For the past three to four years, the company has operated a partner program called ADP (Application Development Partner) that, today, has around 170 third-party developers globally. Doris Grammer, vice president of global marketing at Bosch Security Systems

## Top 50 Headquarters by Region



## Top 50 Break-down by Industry



added, "Digital technology is no longer an optional solution but is becoming a standard in video surveillance applications. The digital matrix and network-based recording are the core of all these solutions."

Meanwhile, huge demand for integrating access control and EAC with CCTVs, intrusion detection and alarms also pulled Sentry Technology, Checkpoint Systems and Kaba to look for ways to seamlessly develop total solutions.

Heribert Allemann, Access System Division COO at Kaba Group Asia Pacific, clarified that, "The trend toward integration is applied in our Total Access Strategy. The combination of mechanical-locking technology, electronic access control and door automation through the means

of common, multifunctional identification systems has already resulted in revenue growth increasing by 50 times in the American market since 2001." Kaba's profit growth in 2003 was 21 percent.

Doron Eidelman, corporate vice president and president of NiceVision at Nice System (35) observed that the company's digital-surveillance systems are divided into baggage, intruder, vehicle and crowd detection to enhance effective security operations and applications because "Customers are becoming very aware of the need for complete solutions that integrate video surveillance. They do not want low-capability CCTV systems."

Nevertheless, by migrating to digital and IP networking technology, the alarm and sensor industries are also providing customized products, open-communication platforms and a variety of product options.

Ariella Shoham, marketing communications manager at Israel-based Electronics Line 3000 (30), mentioned that, "Digital technology is flexible in terms of cost, size and price reductions, thus accommodating market requirements." Electronics Line had revenue of \$36.8 million in 2003.

"When Everspring revamped its product lines, positive reaction in Italy, Germany and Southeast Asia increased profits to \$9.8 million from \$4.5 million in 2002," said President Eric Kao.

## Clear Positioning

"By knowing your customers' needs, you can then define your market position," said Hao at Honeywell Security. "We are clear about being a products provider. Our strategy is to grow through helping our dealers and



TeleEye's cocktail party to meet co-founders.



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integrators. We are committed to the dealer and integrator channels and understand fully that security services are not our business." This focus and strategy generated 7 percent sales growth for Honeywell in 2003.

According to Bo Kastensson, CEO of Bewator (16), "In the supply chain between the manufacturer and end-user, massive investment in technical development and training is taking place. You have to create a level playing field to please your customer base."

Most Top 50 companies are very clear about their market position. Through different marketing strategies, these winners have proven their leadership and thus experienced real growth despite severe price pressure.

Grammer at Bosch Security Systems, noted that, "To find the right position, one key element is analyzing your client database. We conduct regular regional customer surveys, and this information has delivered 16 percent sales growth."

According to Meng Hwa Gan, marketing manager at Vision Fire&Security (14) Asia Pacific, "The key to our success has been development of strategic channel partners and a vertical market focus. Predominately, we target market sectors such as utilities, CMS (Central Monitoring Station), government and infrastructure. These market sectors typically have mission-critical facilities and remote multiple sites that are sometimes unmanned. This marketing approach

## Those Included, Those Excluded

Last year, A&S delivered its first-ever World's Top 50 Security Companies by ranking publicly-traded security companies. This year, however, we opened our arms to non-publicly-traded companies. We also broadened the business scope to include distributors, solutions providers, agents and wholesalers.

An online submission form was sent to a worldwide base together with targeted company invitations. Companies were excluded for the following reasons:

1. Non-public listed companies do not have to disclose their financial details. This included companies such as Pelco, Dedicated Micro, Norbain, HID, Dallmeier Electronic and Lenel.

2. Japanese publicly-traded companies, such as JVC, Mitsubishi, NEC, Hitachi, Canon, Matsushita, Sanyo, Seiko, Fujinon and Ikegami, refused to reveal business revenue figures because of corporate regulations. Mitsubishi did, however, supply the figure for its security business. It has listed security-related sales separately since 2003, but the figures are not available for public yet.

3. Acquisitions and Mergers: Sales totals at Silent Witness, which merged with Honeywell Security, VCS, which was acquired by Bosch Security System, and ZN Vision Technologies, which is a joint venture, were included in those of their parent companies.

4. Late information. Companies, such as Tagmaster, were unable to provide their latest annual report or financial figures before our deadline.

5. Components suppliers and security guard companies like Optelecom, Atmel, Omron, Gunnebo Security and Chubb are not listed this year due to our new criteria.

6. Companies, such as Wooju and 3R, are undergoing restructuring and are, therefore, not included. In addition, Korea-based Samsung Techwin refused to provide financial figures although it is a public company.

Several new members joined this year's list, including VisioWave, Fermax, Mirasys, Electronics Line, Johnson Controls, Bosch Security Systems, TVS, AV Tech and Kodicom. Some are public companies that we missed last year; some are privately-owned but were willing to participate. ■

allowed the company to achieve 26 percent growth in profits in 2003.

Dennis Li, president and COO of MultiVision Intelligent Surveillance (37) seconded this line of thinking. "The strategy of targeting high-end enterprises and mission-critical markets like casinos, banks and transportation has delivered results. It is less crowded and dominated by only a handful of strong players. Therefore, our margins are not being squeezed as much as in low-end markets.

"For next year, we expect to see broad-based growth in most segments, with highlights including government,



Vision Fire&Security targets market sectors such as utilities, CMS (Central Monitoring Station), government and infrastructure. And this marketing approach allowed the company to achieve 26 percent growth in profits in 2003.

transportation, industrial and health care," said Steve Thompson, director of marketing at Johnson Controls Fire & Security Solutions.

Soonhong Ahn, senior manager VSS marketing group at the Digital Video Division at Samsung Electronics explained that, "Home security has morphed into multi-functionality in the contemporary security world; it is more than just locking out intruders." As technology has matured, the home-security business is generating increased sales.

When talking about the raging price war, Xavier Heusghem, marketing director at Switzerland-based VisioWave (38), commented that, "It is not fair to say that only cheap products can be sold in Asia. It is a matter of how you position yourself."

VisioWave has parlayed its strengths in public utilities and transportation security solutions into a strong performance in the Asia market.

## Consolidation

Security giants, such as Honeywell Security, Bosch Security Systems, GE Infrastructure, Security and Assa Abloy, have continued to make acquisitions and mergers for technology expansion as well as for profit enhancement in 2003.

Hao shared this: "Our dealers, integrators and distributors gained greater opportunities for different kinds of projects under the Honeywell umbrella. Although we are still considering future acquisitions, we are focusing on our brand and the value that Honeywell Security can bring to our customers."

The convergence of multi-security product lines has not only created total solutions but also much clearer market positions. Meanwhile, vendors should pay close attention to distribution and customer service rather than attempting to maximize their returns.

ities to expand to other nongovernmental projects; comprehensive solutions are key," said Bernard Bailey, president of Viisage.

However, active mergers are not the privilege of security giants alone. In 2003, many mid-sized companies became

involved with acquisitions or strategic partnerships, mostly to expand horizontally into adjacent product areas. For example, network-video provider Axis Communications acquired a Danish software developer last year to facilitate advanced IP video solutions.

According to Jeffrey Chen, president at Taiwan Video System (32): "It is not only about working with right partners but sharing the advantages to create

add-on values for markets and customers."

The convergence of multi-security product lines has not only created total solutions but also much clearer market positions.

In Woitsch's opinion, "While the digital CCTV market is maturing, the number of serious competitors is actually decreasing as a result of consolidation. In the end, providers are finding it easier to position themselves as well as promoting their products."

## Moving Ahead

Some companies, however, saw revenue decline in 2003 for a variety of reasons such as less government funding, poor economic policies, weaker demand for security and fewer innovations because of mature technology.

Bosch also united all its security-related products and brands into Bosch Security Systems. According to Grammer, "Bosch is very enthusiastic at different levels of security products and markets. Although sales performance depends on region, the convergence of multiple businesses including alarms, CCTVs, DVRs, access control and even biometrics is our new specialization." In 2003, the giant saw sales growth of nearly 16 percent.

After merging with ZN Vision, Viisage (29) teamed up with Bosch Security Systems on facial-recognition solutions to enhance the market for commercial organizations. "We need to pool our capabilities



Yvonne Hao, vice president of Global Marketing at Honeywell Security, said, "Integration is about creating practical, reliable systems that solve customer problems."

investor and consumer sentiment have hurt the Korean security business. We used to have more than 100 DVR manufacturers in Korea. In 2004, however, maybe only 30 to 40 players are left."

In addition, weak demand for commercial access-control products in the Americas and Europe's weak economy

Huang at Everfocus stressed that, Korean companies are used to getting support from the government and big local names.

"They lack the knowledge needed to respond quickly to market changes," said one Korean DVR supplier. "Certainly, weak

dragged on Assa Abloy's total turnover; sales growth was negative in 2003.

As for biometrics, according to Prianka Chopra, program manager of biometrics, smartcard and security at Frost & Sullivan, a U.S. market-research company, "The main factor accounting for lower-than-expected growth in the biometrics industry was lower government expenditures. The industry mistakenly believed that government spending would generate the most revenue, but this slowed in 2002 and 2003."

Although bad economic conditions disrupted sales performances, C.G. Cho, general manager of LG Electronics (13) pointed out that, "We are positive about sales of DIY security products and standalone DVRs."

Ahn of Samsung Electronics agreed. "Samsung's security business grew 22 percent in 2003; we expect 17 percent in 2004."

Meanwhile, Kastensson pointed out that, "We see technological convergence as important, and the main challenge is to significantly bring down the level of complexity in order to deliver truly seamless total solutions. It is not simply about which application markets we will target, it is more about what type of solutions we will deliver." **AS**

### The Terms

- In the 2003/2002 rank, 37 companies provided profit figures. And the average profit growth is the sum of what these companies which had a result of 38 percent growth.
- The sales growth and profit growth is the comparison of 2003 and 2002 figures.