TO SELL OR NOT TO SELL
Advice For Security Alarm Business Owners
Position Your Alarm Company To Sell At A Premium Price
Best Practices For Maximizing Your Business Value

Small business owners constantly juggle critical decisions on where to best invest their money. Should you upgrade your equipment? Add on new services? Increase your marketing budget?

While the business is expanding and thriving, the thought of selling someday might seem like a distant concern.

However, ensuring there are some important must-haves in place now, will help position your alarm company for a future sale, whether that’s a long-ways down the road after a well-earned retirement, or sooner than you think, due to an unexpected circumstance.

Planning Ahead

Here are our must-haves for ensuring your company sells at a premium price, whenever that day comes:

• **Strong customer contracts**
• **Your own telephone line**
• **A diversified account base**
• **Up-to-date paperwork**
• **Clear accounting records**
• **Low attrition**

Now let’s look at best practices for each of these items.

“Planning is bringing the future into the present so that you can do something about it now.”

-Alan Lakein
Well-structured and current contracts can make a significant difference in the valuation price of your company.

Contracts should contain an **automatic renewal clause** (sometimes referred to as an “evergreen clause”), to the extent allowable by state laws, which vary.

Include **assignability language** that allows you to properly transfer ownership to a new buyer, without the customer having to sign a new agreement. But, you shouldn’t just rely on auto-renew.

You should **track expiration dates** of the initial contract term and contact the customer to sign a new contract, rather than just rely on the renewal provision. That allows you to maintain customer contact and have the opportunity to sell additional services and systems.

In addition, your contracts should provide a **limitation of liability** against you and your business in the event there is loss of property and/or life at a home or business where you’ve provided an alarm system or service.

*The single most valuable asset your company has is... Your contracts!*
Other Contract Provisions

For residential sales, your contracts should have a 3 day right of rescission provision, along with the appropriate form for the customer to exercise that right.

You also might consider having an indemnification provision in all of your contracts, whereby the customer holds your company harmless from any damages arising out of a failure of system or service.

Summing Up

Buyers prefer contracts that include

✓ Automatic renewal clause
✓ Assignability language
✓ Limitation of liability
✓ Right of rescission provision
✓ Indemnification provision
Your Own Telephone Line

_Do you use a third-party monitoring center?_

If so, do you own the telephone line that connects your accounts to the central station, so that upon sale, the accounts can be transferred to the buyer’s central station facility via a simple line-swing?

If not, and systems have to be reprogrammed either through a site visit or remotely from the central station, the buyer will expect you to reimburse him for the cost of doing so.

If you think sharing lines is a common practice that shouldn’t impact your selling price – we’re here to say that it isn’t, and it does negatively impact the selling price.

As brokers of numerous acquisitions, we’ve seen this often used by buyers in negotiations to reduce the selling price. Buyers know that it can be costly to reprogram customers to a new line, either through site visits or downloads, and they are going to want you to shoulder that cost, not them.
Diversified Account Base

Are you diversified enough?

Work towards a well-diversified account base, with a **mix of residential and commercial clients**, as well as a **mix of services**. This doesn’t mean you need to go crazy and be all things to all people, but it does mean you should keep, or improve, the balance.

Having signed clients for a balance of core services that are consistently offered in your area (for example, fire, intrusion and video) will decrease your risk of lost accounts and improve your appeal to buyers.
Mind The Paperwork

Keep your bookkeeping up to date and your accounts receivable current.

In addition, your accounting should be constructed in such a way that you can manage and evaluate the various sectors of your business to determine what is profitable and what is not.

You should also review your licensing and insurance on an annual basis to ensure you have proper coverage for the various services you offer, as well as your employees.

Don’t Give Them A Reason To Balk

Buyers will scrutinize your paperwork and your financials, looking at any vulnerabilities as a reason to lower the valuation.

Gaps in insurance coverage and/or compliance can impact your selling price, as can poorly kept financial records.
Keep Attrition Under Control

*A low attrition rate may get you a higher selling price.*

What’s the standard attrition rate in your geographic area? Is it 7%? Is yours higher? Lower?

**A higher-than-average attrition rate is a red flag to a buyer** that they will need to overcome lingering negative perceptions of the company. This can definitely impact the price you are offered for the company, as rebuilding a client base is much harder than taking over a business with a solid reputation.

**Manage It All With An Annual Review**

It’s easy to get caught up in day-to-day operations and not realize that one or more areas of your business might be slipping. Schedule time each year for your own internal audit that keeps you mindful of your must-haves and aware of what areas of your business are positioned for optimal value, and which ones aren’t.

This will ensure that should the day come when you do need to sell, even if it’s under pressure due to unforeseen circumstances, you can expect to receive a price that reflects the hard work you have poured into your business throughout the years.
When Is The Right Time To Sell Your Security Business?
Is Now The Right Time To Sell?

As a business owner, you’ve probably had more than a few down days. After a particularly bad day – or week or year – it’s only natural to start thinking about packing it in and selling your company to the first decent offer that comes your way.

On the other side of the coin, it can be easy to mistake a string of a few good days as a sign that you should keep plugging away even if other market factors aren’t really swinging in your favor.

Deciding Which Way To Go

Before making that all-important decision of whether or not to sell your business, take a step back and look at the situation from as many angles as you can.

While you may be worried about facing a cold case of seller’s remorse later down the line, you also don’t want to miss the chance to reap the rewards you’ll receive from selling your business at the most opportune time.

We’ve put together a list of 10 things you should consider when making your decision.

“\textit{I believe that in the next three to four years there will be more changes in our industry than we have seen in the previous 17. There has probably never been a more important time to get out of the security industry.}”

\textit{–Mike Jagger}
10 Factors To Consider

Start your own personal evaluation of your business situation by asking yourself the following 10 questions.

1. How comfortable are you with the up-and-coming technological advances in the security alarm industry?

Smart homes, remote monitoring and management, multi-connectedness, integrated devices… There’s a lot going on in the security alarm industry right now.

With the recent purchase of Nest for $3.2 billion, even mega-corp Google is dipping its toe into the home security market. What types of products and services will customers expect five years from now? Will you be able to deliver?

2. Do you still enjoy going to work every day, or do you look for any excuse possible to avoid the office?

While you shouldn’t make your decision based on a few bad days (or a few good ones), it is important to take your general attitude into consideration.

If you no longer have the passion and drive that you did when you first started your company, your bottom line is eventually going to suffer. Not only will that affect your current RMR, but it could also bring down your overall business value and negatively impact your future selling price.
3. **What are the short-term and long-term economic outlooks in your geographical location?**

Are the neighborhoods you service on the upswing or on the decline? If your pool of potential customers is starting to shrink or if income levels and employment rates are going down, you may want to get out of the security business before you start suffering from diminishing returns.

4. **What is the maximum number of years you want to wait before definitely selling your business?**

You’re not open to the idea of selling your business today, but you know you definitely want to be out of the game sometime within the next 10 years.

Will you be able to increase the value of your company during that time frame, or would it be better to cash out now and use those funds for more lucrative opportunities?

5. **How much would you need to reinvest in your company in order to go head-to-head with your top competitors?**

Even if you do have enough equity to make some major upgrades and give your competitors a run for their money in today’s world, you could be faced with this same scenario again in a few short years.

Will you be able to recoup this current reinvestment before it’s time to start planning the next one?
6. Is it currently a buyer’s or a seller’s market?
What types of multiples are other sellers receiving at this time, and are those rates likely to go up or down in the near future?
This can be a tough area to research on your own, since your competitors are unlikely to want to spread this information around – and even if they do drop a number here or there, they may be embellishing a bit. To get a more accurate analysis of the market and an unbiased valuation of your security business, contact AFS for a free consultation.

7. Are you diversified enough to weather unexpected changes in the marketplace?
Does your client list include a good mix of residential and commercial accounts, and are you offering a wide enough range of services? If not, your future plans could be easily disrupted by outside forces. Selling now may be the best way to deal with those vulnerabilities.

8. How happy are you with your current staff?
Every business owner has staff problems from time to time, but if managing your employees seems to get tougher with each passing day, this should be a key consideration point when deciding whether or not it’s time to sell your company.
9. How strong is your current foothold in your geographical location?

Is your business reputation starting to slip a bit because of a couple of poor customer service experiences? Are you facing more competition today than you were a few years ago?

If you need to really ramp up your marketing expenditures just to achieve non-negative growth, you may have reached the tipping point where selling your business is your best option.

10. What are other security alarm business owners doing?

Are other companies in your area making major investments in new technologies, or are you starting to see a lot of new competitors enter the market?

Even if you might be willing to reinvest enough in your business to keep up with the competition, there’s another point to consider. Since they’ve already demonstrated they’re looking for expansion opportunities, this may be the perfect time for you to sell to them and receive top dollar for your accounts.

What Should You Do First?

Before making any decision, get in touch with the experts at AFS and discuss all of your options. Not only will AFS give you an unbiased, free valuation of your security business, but they’ll also be able to advise you on current market conditions and help you get the best price when and if you do decide to sell.
Another Option: Sell Some Or All Of Your Accounts
It’s Not An All Or Nothing Zero-sum Game

The security industry is currently facing a number of unique challenges. A lot of fresh players – including the great Google giant – are entering the field, and it seems like new, game-changing technologies are being announced every week.

If you own a security alarm business, you’ve probably heard the whispers that now is the time to sell your company so you can get out while the getting’s good.

But what if you’re just not ready to pack it in and call it a day?

Knowing Your Strengths

Despite all the so-called obstacles you keep hearing about, you know you have a solid company that’s doing well. You have a team of dependable, hard-working employees who are both highly skilled and loyal.

Your company name is respected, and you have a great relationship with your client base. Plus, you actually like what you do – and that “asset” alone is priceless.

If you aren’t ready to sell your business, but you do need more cash on hand for expansion projects or other reasons, selling some of your security alarm accounts is an excellent option.

“Before everything else, getting ready is the secret of success.”

-Henry Ford
You’ve put together a nice list of reasons why you’re not ready to sell your business, but there’s one topic you’re trying to avoid. **Your customers’ expectations are starting to change.**

In order to stay competitive, you need to start making some major investments in new technologies and equipment. You may even need to add some new services to your mix because your clients are looking for bundled packages.

Your recurring monthly revenue (RMR) may be strong now, but you know it won’t stay that way for long if you don’t start making changes soon. What options do you have? Where is the money you need to grow your business going to come from?

You could always start searching for lenders, but you’re not crazy about the thought of racking up a lot of debt.

There’s no reason why you should feel pressure to take the all-or-nothing route. Instead, you can choose to **sell some or all of your accounts and use that money to reinvest in your existing business.**
Benefits Of Selling Your Accounts

1. **You can close fast.** In most cases, you will be able to seal the deal within 30 days and use the cash to start putting your growth plan into action.

2. **You won’t need to worry about loan payments and interest rates.** It’s often more beneficial to cash out on some of the equity in your company than it is to seek outside financing. If you’re not sure which path is right for you, contact AFS to learn more about your options.

3. **From the customer’s viewpoint, it’s business as usual.** Your company name and identity will remain the same – even on your customers’ billing statements. No one will know that you sold your accounts, unless you decide to tell them.

4. **Your company’s branding and reputation stays intact.** You get to keep all of your existing marketing materials and the good name that you worked so hard to build. Logos, yard signs, decals… They all stay the same.

5. **You keep earning ongoing revenue.** All service revenues, leads, and referrals remain yours. What if a customer requests an equipment add-on? You receive the revenue from that, too.
The Reinvest Or Sell Tipping Point
Should You Take The Money And Run?

Most businesses routinely reinvest in their company – upgrading services or software, hiring additional staff, purchasing additional equipment, etc. These routine upgrades are a traditional part of growing a business, and it’s no different for the security alarm industry.

But how do you know when the time is right to stop re-investing and start planning for a financially rewarding exit?

Have your exit strategy already planned.

“If you don’t know where you are going, you might wind up someplace else.”

-Yogi Berra
If only I had ...

In a perfect world, your business plan would be executed exactly as written. You’d hit your targets when you predicted and position the company to sell when you predicted, whether that was in five, ten or twenty years.

But as we all know too well, the world is not perfect. Chances are, you’ve run into some bumps along the way.

Perhaps the alarm industry changed more rapidly than you predicted and you had to reinvest more than you planned to keep up with current technology trends. Or an unexpected competitor opened up shop and started a pricing war that impacted your forecasted revenues.

The Tipping Point

Suddenly, you are reinvesting more into the company than you planned. The business equity you thought you would have built by now is not at the levels you hoped, and retirement starts to seem like a far-away dream.

How do you know when you’ve reached the tipping point – the point where re-investing capital will not get you the return you hoped for, and selling is a better option?
Evaluate Your Current Condition

Ideally, you’d like to be able to sell your security alarm business at the point in time when you can maximize the selling price. Pinpointing that exact time isn’t always possible, but there are several things you can do to gauge your position so you can pick the best course of action.

Take Stock Of Your Assets On A Regular Basis

In addition to keeping an eye on your client list, your recurring monthly revenue (RMR), your attrition rate, and the current value and condition of your equipment, **monitor your other “assets” as well.**

- Do you have a good relationship with your staff? If a key employee decided to leave your company, how would that affect your business?
- How respected is your company name? Are issues such as poor customer service or accounting mix-ups starting to tarnish your reputation?
- How much does your business depend on certain critical accounts? Would losing one or two of these accounts create a domino effect that might force you to close your doors?
Perform A Competitive Analysis

Make a list of your competitors, and note the strengths and weaknesses of each one. Ask yourself the following questions:

- Do you really need to compete head-to-head with each company on the list, or are you more focused on a niche market?
- How tough is it for a newcomer to start a competing security business in your area? Could a tech-savvy startup set up shop overnight and immediately put a dent in your bank balance?
- Who would you classify as your biggest competitors? What are they offering that you can’t currently beat or match – and how much would you have to invest to overtake them?

Re-Examine Your Target Market

Are neighborhoods in your area growing or shrinking? Are current economic conditions having a positive or negative impact on local businesses, home prices and employment rates?

In short, how hard is it for you to currently attract new clients – and will it be harder or easier in the future?
Keep Up With The Latest Technology News

Five years ago, the concept of smart homes and the “Internet of Things” movement may have seemed like sci-fi dreams, but technological advances are moving these ideas closer to reality every day.

Are you willing and able to invest in new technologies that potential customers will expect to have integrated with their security and alarm systems?

Honestly Assess Your Own State Of Well-Being

Do you enjoy getting up and going to work each morning, or are you constantly filled with dread? Are you always in crisis mode, waiting for the next inevitable problem that only you can fix?

As a business owner, you’re always going to be subject to some level of stress, but if it starts to impact your health – physical or mental – then it is definitely time to make some changes.

Outline Your Expectations For Reinvestment

In order to make your investment worthwhile, what would you need to gain? What milestones will you use to gauge your success in meeting these goals? Are the potential rewards worth your efforts?
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Where Will The Security Alarm Industry Be In Five Years?
Welcome To The Tech Wars

With each passing day, we rely more and more on technology to be the invisible hand that guides us.

We have cars that can parallel-park themselves and ovens that can be turned on and off remotely via smartphone. We receive personalized recommendations, based not only on our past activities but also on our browsing history and the online “likes” of our friends and family members.

Need to find a good Italian restaurant in an unfamiliar city or be reminded when your car needs an oil change? There’s an app for that.

And We Want More...

We are starting to move past the stage of merely accepting these technological facts of life to the point where we actually expect them.

If the safety and security products and services you are offering through your alarm business can’t meet these ever-growing expectations, your customers are going to start looking for another company that can.

“Civilization advances by extending the number of important operations which we can perform without thinking of them.”

-Alfred North Whitehead
Even Google Is Edging Into The Alarm Industry

We may not be living in the age of *The Jetsons* quite yet, but that future may be a lot closer than you think – especially if mega-companies like Google continue to push in that direction.

Over the past year, Google has spent billions of dollars to cement itself as a key player in the “Internet of Things” movement.

One of these activities was the **$3.2 billion acquisition of Nest**, an innovative company that is reimagining the design and functionality of thermostats and smoke alarms.

**Why Does Google Care?**

Why is Google so interested in thermostats that can program themselves and smoke detectors that talk to you instead of just beeping? The same reason it’s interested in self-driving cars, robotic dogs, and anything else related to artificial intelligence and learning algorithms.

It’s all about the data. The data that smart tech uses to make our lives less complicated and more worry-free is the same data that defines our personal habits and where we float in the sea of marketing demographics. And, that latter information is extremely valuable in the hands of an entity like Google.
From Smart Phones to Smart Homes

At the end of last year, Tony Fadell, the co-founder of Nest, spoke to Quentin Hardy of *The New York Times* about his company’s philosophy. When asked what others in his industry thought about Nest’s progress, he replied:

“I don’t think the big manufacturers in this field really understand what we are trying to do.

We came from the world of connected smartphones and apps. We don’t just see a thermostat with a better user interface; we see a smartphone that has thermostat functions. That is a very different thing.

We don’t see a smoke alarm; we see a smartphone with a fire sensor. When you redefine the world that way, it opens it up to many more possibilities.”

The Near Future

In 5-10 years, when people buy a house, will they really be buying a bundle of hardware components, connected by software and encased in the brick or wood design of their choice?

Don’t think we’re quite there yet? A team from Stanford has already made incredible progress in the design and construction of a smart home model that is both sustainable and affordable, and there are quite a few other players moving along that same path.

*The Nest app can be used to set up, control, and get alerts for both Nest Protect and the Nest Learning Thermostat.*
How Will This Affect Your Security Alarm Business?

Over the next five years, we will continue to see rapid advances and changes in the technology that people use to manage their homes – and some of these technologies will likely be “hard-coded” in the framework of newly-designed houses.

Do these possibilities excite you or fill you with dread?

If you own a security alarm business, now is the time to step back, take stock of your existing resources, and think about how comfortable you would be if you were forced to move your company in this direction in order to keep up with competitors.

If you haven’t thought about selling your business in the past, it’s an option you may want to consider now before your services and methodologies become outdated.
Get A Free Confidential Business Valuation

We’ll help you start planning your future today.

Are you interested in any of the following?

• Selling your business
• Cashing out some of your equity
• Developing an exit strategy
• Finding out how much your business is worth in today’s market

Contact AFS Today For A Free Consultation

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Acquisition & Funding Services (AFS) is one of the oldest independently operated funding providers in the security alarm industry.

AFS specializes in mergers, acquisitions and financing in the dynamic security alarm, fire and integration industry.

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About Rory Russell – Owner of AFS

- Founded AFS in 1996 based on his extensive industry expertise.
- Owned & operated Empire Security, at the time, one of the largest regional security companies in the Northeast, handling $5 million per year in sales & installations.
- Was awarded AT&T’s top sales and customer service awards three years in a row.
- Actively supports and gives back to his local community, and is a long-time member of the Lake George Association, a leading citizen group responsible for conserving Lake George. He actively supports both ChildHelp.org, a national organization dedicated to the prevention and treatment of child abuse, as well as Double H Ranch, which provides year-round support for children dealing with life-threatening illnesses.

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