

Customer & Market Due Diligence Of Security Services Provider: Establishing Market, Technology, And Competitive Dynamics In Niche End-markets

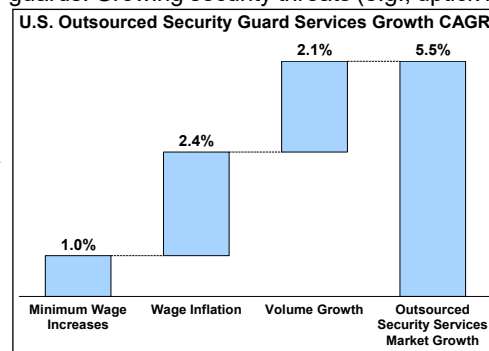
The Challenge: Our client, a large PE firm, was looking to acquire a niche security services provider as an add-on to its portfolio company that provided facilities services. Our client was attracted to the target's blue-chip customer base and its presence in niche end-markets like education, hospitality, healthcare, and tradeshows. However, our client was concerned about the security services market's growth outlook, the changing role of technology in the security space, and the target's competitive positioning/reputation. To this end, Gotham was asked to conduct a 3-week customer & market due diligence to establish: (1) the target's reputation and competitive positioning in the security services market; and (2) the market dynamics and growth outlook of the target's business.

Security Labor And Emerging Technology Assessment: Gotham undertook a comprehensive and multi-faceted effort, including:

- Conducting interviews with and online survey of security services buyers to pin down security needs by end-market, outsourcing dynamics, the security services procurement process, and the target's reputation and competitive positioning
- Leveraging government and industry data and secondary research to identify security demand drivers in each end-market, the role of technology in the end market's security strategy, and how security demand is impacted during a recession
- Building an employment-based market sizing model and projecting future growth based on such factors as payroll growth, volume growth, and outsourcing trend
- Deciphering competitive dynamics of the complex security services market by segmenting ~7,000 providers based on size and service capabilities and establishing each segment's competitive positioning and key players.

Large, Stable Security Services Market Growing At 5.5% CAGR Driven By Increased Outsourcing

The security services market is relatively stable as demand is not very sensitive to economic conditions. The market is expected to grow at 5.5% CAGR due to growing security needs and wage inflation leading to service providers passing on costs to their customers, as well as due to an increase in outsourcing as a result of labor shortages and high turnover rates, driving the need for security service providers' expertise in recruiting, vetting, and training security guards. Growing security threats (e.g., uptick in violent crimes, increasing concern around school shootings, remote work policies leading to empty offices), along with technology use in the security space requiring a more specialized security response all promote outsourcing. The increasing use of technology-based security offerings has a two-faceted effect on the industry – while use of technology has reduced dependence on manual labor, it has also increased the skills required by labor to manage and monitor this technology. For example, access control devices employing Bluetooth and biometric technology ensure that only authorized entities can enter the area, doing away with the need for manual identity verification; AI and facial-recognition-based monitoring systems and real-time automated patrol by robots and threat detection equipment are better than humans at identifying security concerns, reducing reliance on physical patrol guards.



Security Services Vary Significantly Driven By Unique Requirements Of Different End-markets And Settings

The security industry requires a large diversity of skills and services. Security guards can be: armed or unarmed, off-duty police officers with the right to make arrests, EMT officers trained to assist with medical emergencies, or K9 security guards with access to professionally trained guard dogs. In addition to supplying guards, security vendors provide building security and event security services, professional services (e.g., risk management, security program assessment), and technology services (e.g., access control and monitoring). The services provided vary by end-market with security personnel assigned based on their proficiency in market-specific security skills. For example, security guards working trade shows and events need crowd control skills to maintain order and prevent incidents caused by crowd accumulation, along with expertise in metal detection equipment. Whereas guards deployed in hotels require client interaction skills to deal with guests on a daily basis and provide assurance during emergencies. Guards in healthcare institutions must be trained to deal with intoxication, mental health, and suicidal ideation, while those in educational establishments must focus on student safety (e.g., by acting as a walking escort).

The Security Industry Has Experienced The Barbell Effect As A Result Of Consolidation

Even though there are ~7,000 contract security firms, the top 3 companies make up ~65% of the total market by competing on brand recognition, scale, national presence, and breadth of offerings (physical, technological, and professional services). Moreover, these companies have acquired most of the scale players, resulting in consolidation into only a handful of national and regional players. Despite this, the 3 major players are less adept at serving specialized end-markets, leading to the growth of smaller players – ~150 local companies and ~6,800 mom-and-pop players leverage their personalized service and strong client relationships to continue to compete in this market. Consolidation activity continues to be driven by PE firms who are attracted by the opportunity to build scale, increase geographical presence, and develop integrated offerings to better compete for national and regional contracts. Security providers are contracted by customers either via selectively issued RFPs (~36%) or through an informal process (~39%) by regional or location-based management. Providers are typically given contracts for 1-3 years, with most customers renewing the contract with an existing provider.

The Outcome: Gotham's in-depth analysis of the security services market provided our client with clarity on the market's current size and growth outlook, its labor and technology landscape, and the target's competitive positioning/reputation. This clarity allowed our client to proceed with confidence and successfully close the deal.