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Get it Right, Now: Focus on building a successful VAR business

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Published in:
Security Dealer & Integrator

2009

[Link to publication](#)

Citation for published version (APA):

Weaver, B. (2009). Get it Right, Now: Focus on building a successful VAR business. *Security Dealer & Integrator*. <http://www.securityinfowatch.com/article/10516041/get-it-right-now>

Total number of authors:

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Get it Right, Now

Focus on building a successful VAR business

Benjamin Weaver

Oct. 21, 2009



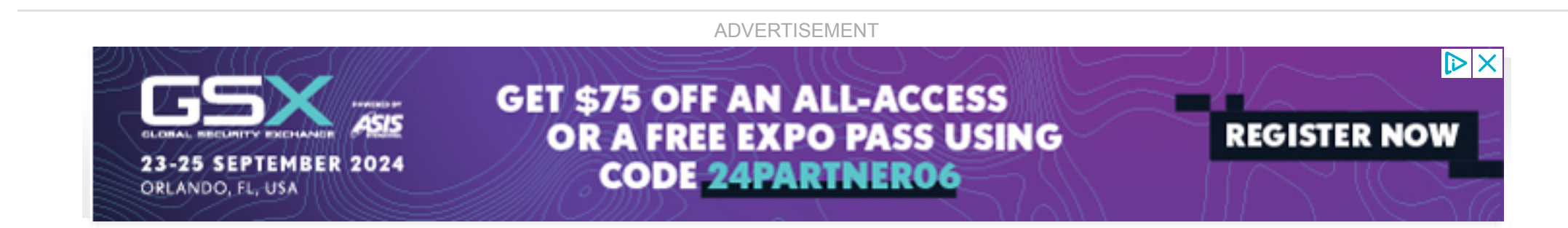
In the wake of convergence, traditional security integrators and VARs face increasing competition from IT players who are diversifying into the security market. Some of the major IT giants have made inroads into the security market, going after a host of the most technologically advanced projects. Building management companies are also targeting the security sector aggressively, offering advanced IP-based integrated systems, while telecommunications operators are starting to offer remote monitoring and Alarm Receiving Center services. At the lower-end of the market, local IT and IP installers are starting to target smaller businesses and niche segments such as schools or retail.

Security integrators and VARs are being squeezed both at the top and the bottom by competitors who are attempting to leverage their IT and IP capabilities to gain a position in the security market. Unencumbered by legacy technology and old ways of doing business, these new players can fully exploit their superior skills in software, IP and networking as they target the most profitable and high-tech market segments and customers.

For many observers—especially those coming from the IT- and IP-sides of the industry, the convergence scenario described above has been expected to lead no less than a major disruption in the structure of the industry. With the shift to digital platforms, security work in companies was expected to come under the auspices of IT managers, who would rather source their security solutions from efficient IT companies. Some went as far as predicting the imminent demise of those traditional security players who failed to jump on the digital bandwagon in time.

However, a few years into the process of convergence, this scenario has not played out. While IT players were all over the security industry in 2006, making bold statements of intent, their actual impact has so far been relatively modest, especially in the high-end of the security integration market. Indeed, rather than the defeat of traditional players, the past few years has seen the rise and fall of some high-profile, new-breed, IT- and network-savvy integrators.

So why didn't IT take over as quickly as expected? There are several reasons why IT players have had a hard time encroaching on the incumbent security integrator's territory.



First, the actual impact of IT and IP technology and the pace of change has not been as rapid as many first expected. Conservative and discriminate security end-users demand solutions that have been rigorously tried and tested in actual field settings, not the latest and greatest gadgets and gizmos that the IT folks are so fond of. In contrast to the IT market—where hardware and software is replaced and updated frequently—investments in security systems are long term. Hence, product replacement cycles even for more advanced systems such as video surveillance can run as long as a decade, explaining why the security sector is one of the few technology industries where a wait-and-see approach can be a winning strategy.

Second, the convergence of IT and security is not just about technology. It is also about the meeting of two separate business logics, with very different go-to-market strategies. The convoluted process of selling an integrated security system—often involving a plethora of decision makers such as consultants, specifiers, integrators, installers and subcontractors—can be very non-transparent to outsiders. Just identifying the right target for a sales pitch, let alone devising an effective marketing and channel strategy has been a major challenge for IT integrators who have attempted to enter the security market. In addition, collaborating with security integrators and dividing up the work has not been a realistic option. As IT players seek to leverage their capabilities in the most profitable and technologically advanced market segments, they find themselves competing head-to-head with security integrators who want to move away from lower-margin installation work to providing more complex, integrated systems and value-added solutions and services.

For many IT players the issues described above were learned the hard way. Given the sheer size advantage of some of the IT giants, one might wonder why they haven't simply solved these problems by acquiring leading security integrators to gain quick access to specialized security skills and end-customers. But this would be both costly and risky, as fragmentation makes it difficult to gain a footprint in the market through acquisitions. In view of this, IT players cannot be expected to go to any lengths to penetrate the security market, and some of them may simply have decided that the market is too small and unattractive to be worth pursuing—at least for now.

This does not mean that incumbent security integrators can simply sit back and declare victory. Far from it. Everyone knows and agrees that integrated systems based on IT and IP is the future of the security industry. While the IT players may be licking their wounds at the moment, they can be expected to launch a second wave anytime soon. IT companies are well accustomed to rapid change and have adapted their organizations and employees to quick retraining. The IT side made a mistake in believing that electronic security would simply become a subset of the IT industry overnight. As that didn't happen, IT entrants of the second wave have realized they have to understand the nuts and bolts of the security industry in order to formulate winning entry strategies.

At the lower-end of the market, things are already stirring in this direction. Smaller security installers and VARs are increasingly seeing local IT and network companies taking over parts of their foreseeable market. These smaller security incumbents, who cannot build up the customer lock-in and advanced integration expertise already held by the larger integrators will find it difficult to compete against nimble and fast moving IT competitors offering sophisticated solutions at reasonable price points.

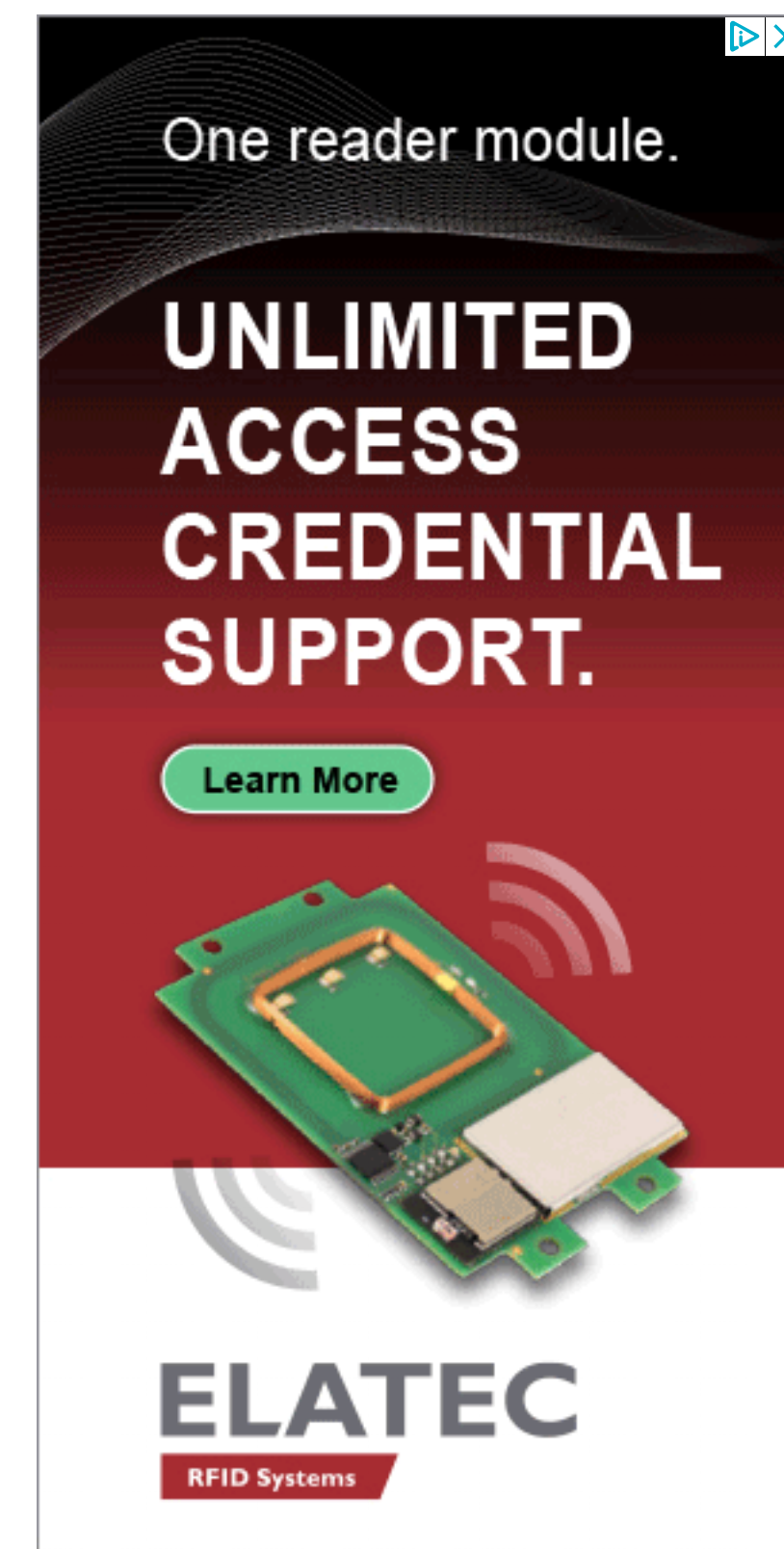
Compared to the smaller installers, the larger security integrators are in a better position to defend their positions. The slow and incremental pace of change in the industry has already allowed them valuable time to bridge the knowledge gap to the IT side. However, in the face of a second wave of convergence, security integrators will need to focus harder and identify and capitalize on their most important advantages over the IT competition. In particular, security integrators will need to leverage three distinct strengths:

- 1.) Security integrators have a major competitive advantage in the strong, trust-based customer relations they have been built up over decades. These customer relations translate into hard-earned knowledge of the particular requirements of different vertical markets or geographical locations or conditions.
- 2.) Security integrators are today in a unique position to grasp both the 'old' and 'new' ways of the security industry. Security integrators understand (and have in many cases installed) the legacy systems that many customers will continue to use for years yet. Provided that they manage to ramp up their IT and IP capabilities, they should be in an excellent position to help legacy customers migrate to the latest digital technologies, while providing backwards compatibility and continued maintenance of legacy systems for as long as these remain operational.
- 3.) Traditional security integrators are uniquely positioned to provide a total, one-stop security solution. While IT and IP integrators have seized eagerly on network surveillance and emerging technology such as video analytics, they are less likely to start addressing legacy systems or more traditional aspects of security, such as fire and intrusion detection.

Although the challenges posed by convergence are many, incumbent security integrators and VARs who get it right have everything to gain. Although they might not be able to acquire the leading-edge capabilities of some of their IT competitors, the integrator's firm grasp of all aspects of traditional security, their unique ability to integrate old with new technology, and perhaps most importantly, their knowledge of the market and its end-users, will give them a unique advantage in becoming successful in the converged market.

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