



A Chesley Brown White Paper



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STATE OF THE UNIFORM SECURITY INDUSTRY

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The uniform security industry in the United States has a long rich history with companies such as The Pinkerton National Detective Agency founded in 1850. The founder, Allan Pinkerton, was also the organizer of the United States Secret Service who protected Abraham Lincoln during the Civil War. Other major players in the U. S. security market included Wells Fargo, Burns, American Protective Services, Kroll and Wackenhut.

In the late 1970's, another uniform security company was launched when Charles Barton Rice founded Barton Protective Services in Atlanta, Georgia. Rice was a true visionary within this industry. He saw security as substandard and wanted to raise the level of service and the quality of the employees. He developed a strong brand by focusing exclusively on the Class A market, where up until this point, security companies were generalists. Rice saw his company as a cut above and, in fact, for many years they were. They were considered expensive and they were thought of to be the first company to truly provide benefits (although we can argue later as to whether or not the true value of the benefits they provided security officers).

By the late '80s and into the '90s it was considered prestigious to have Barton officers on your property. This was important to the brand that Charles Rice had built. It also meant that Barton would turn down potential clients if they didn't believe them to be in the same category of importance. An example of this was a large, upscale nationally renowned golf club. Barton was given the opportunity by a security consultant to provide uniform security there; however, the property only needed one security officer at the gate. This was beneath Barton's standards and, therefore, they declined. Another example took place in the early 1990's when Barton took over an entire portfolio from a company that also included a regional mall. However, Barton did not view themselves as a regional mall company. In fact, by this time two other players in the security industry focused exclusively on regional malls; they were IPC International Corporation and Valor Security Services. Besides the prestige of only being in Class A office buildings and not regional malls, my theory is that because the risks are far greater in the mall environment, Barton chose, as part of their strategy, to not venture into this market. However, because this property was attached to a larger portfolio, Barton ultimately did enter this market albeit with one or two properties.

The breakdown of the uniform security industry prior to 2005 was as follows:

- Large National Companies. CPP Pinkerton, APS, Wells Fargo, Kroll, Wackenhut, Barton Protective Services, Burns.
- Mid-Size, Regional and Specialty Companies. Vance International in the Washington, D. C./northern Virginia area. Founded by a former Secret Service Agent who had married President Ford's daughter, his company developed the prestige and the brand for the D. C./northern Virginia market. This category would include companies that focused exclusively on specific industries such as mall and retail. Companies included IPC International and Valor Protective Services.
- The Mom and Pops. These are generally very small companies that operate in one office with few resources. The company founder or owner tends to be actively involved in the operations of security services. These are rarely quality companies whose owners who tend to get business in their area simply based on price.

Mergers and Acquisitions.

By the late 1990's/early 21st Century, the old established American-owned security contract companies were falling by the wayside through foreign purchases. Some of the larger companies who experienced this movement included Pinkerton, Burns, Wells Fargo, Argenbright Security Services, and American Protective. This established an entirely new trend to the industry in that most of the large American namesakes no longer existed and were replaced by companies like Securicor, Securitas and G4S. It should be noted, however, this would be an entirely different White Paper to discuss how a foreign-owned company protects U. S. based companies and government contracts in direct violation of laws.

The value of a guard company, generally speaking, is valued less about EBITDA and more about:

- Gross revenues
- Billable hours

Therefore, it makes it easier for companies that are regional players or even some "Mom and Pops" to be scooped up in large mergers and acquisitions. In fact, in many cases, security guard companies are simply building hours and/or gross revenues with little attention to the bottom line or their EBITDA. Historically this brings a handsome payback to the founder of these guard companies.



In the early 1990's Charles Rice, Chairman of Barton Protective Services, brings in a new CEO, Tom Ward. While Rice has always been the visionary for Barton Protective Services, he had not been directly involved in the day-to-day for many years. Bringing in Tom Ward set a new tone for the company. Tom Ward is what many would refer to as a "professional CEO"; a builder of companies; a builder of the value of a company. By all indications, when Tom Ward was brought into Barton Protective Services they were debt free. They were a substantial player in the Class A real estate sector and a tremendous brand. Tom Ward, however, brought in disciplined, driven energy; was determined, and had a mission.

- It was predicted, at the time, that Tom Ward was brought in to sell the company or at least prepare the company to be sold. It was my opinion that the target was five-years out. However, it ended up being a ten-year target. By this time, Charles Rice rarely visited regional offices, and Tom Ward was rarely at the corporate headquarters in Atlanta. Always on the road, Tom Ward worked directly with the Regional Managers and VPs; always driving them to build bigger operations. Prior to Tom Ward's arrival, Barton had developed into three different companies: Barton Protective Services which was their main brand; Continental Security Services which was a B grade brand supplier; and the Barton N2000 which was an upscale client division of Barton Protective Services. Although these three companies operated independently with their own CEOs, they routinely competed against each other for the same client. It was often seen that Continental would advertise themselves as "We're Barton's, just cheaper"; while N2000 strived for larger margins and better quality officers. Tom Ward immediately set out to scrap all of this. Before long, Continental's President was dismissed and immediate steps were taken to merge back into the Barton Company. The N2000 Division, although not officially scrapped, was ultimately merged back into Barton Companies. Ward sought out bigger portfolios and five-year contracts making the company more valuable to someone to purchase. While Charles Rice was the true Entrepreneur and Visionary, Tom Ward was looking to expand billable hours, expand contracts from one to five years, expand offices and regions, and reduce and collapse all of Barton ancillary operations.

Ward set out to acquire companies that were in regions where he wanted offices. As previously mentioned, this was believed to be a five-year plan; it turned out to be a ten-year plan. Around 2005, the sale of Barton was completed with Allied Security Services. Allied had been a company that developed quickly through the acquisition by Spectaguard. During that acquisition, they dropped the name Spectaguard and kept Allied. When the acquisition was complete, Allied became Allied Barton, keeping the strongest brand name of the two, however very little stayed the same.



The purchase of Barton Protective Services escalated the setback of the uniform security business. While it has always been routine for the large national companies to be less quality, more hours, and more gross revenues, Barton had always strived towards high margins, and high quality. However, with this purchase and Allied Security being a numbers driven company with the same polyester mentality of the other companies, quality quickly started to suffer; however the business grew. Prior to the Barton merger, managers were replaced if they were not on target; promoted and given bonuses when they made their numbers. Brand was strong enough at the time to withstand. After the merger, however, the Atlanta headquarters of Barton was scuttled. Leaders of Barton were dismissed. The impact was far-reaching.

- There was no Class A company of similar size to exclusively handle the Class A office real estate market.
- Quality takes a tumble. When companies compete on margin without the hindrance of integrity or quality, margins and quality tumble, while the former Barton clients dealt with the frustration of having to look for better options with relatively few to choose from.

Allied at its core was a poly guard company and their DNA started to surface with the takeover. Numbers and margins dropped as quality continued to drop.

- Former Barton executives moved to various poly guard companies that previously had no market and not much more than low bid business with a bad name. These former Barton executives played the Barton brand relationships card. DNA with old school guards took hold.

The Economic Crisis of 2009.

While the industry was making adjustments to its backward spiral of non-quality security services in the field and low margins, the economic crisis of 2009 hit. The integrity was already down in the market and then the economy downturn followed. Clients were focused on budget cuts and couldn't find quality security options. Budgets were slashed. Wages took a hit. Benefits were greatly reduced if offered at all for security officers. Margins plummet. The quality suffers in all aspects of the uniform security business. Bids go out. Companies take little to no margins to survive, and remember, to be sold required higher revenues and more guard hours. Many of the Barton executives that went to these various poly guard companies were brought in just for that purpose: increase revenues and guard hours at any cost. Quality was not part of the culture.



The property management side of the industry started changing from simply wanting low bid and cutting budgets to insisting that no benefits were paid because they were not inclined to pass that cost on. They also began to pass the buck on liability; simply transferring every aspect of liability that they could possibly get by with to the security guard vendor. This meant that insurance rates skyrocketed. It meant that security companies had to become experts in dealing with insurance and in some cases nothing more than insurance brokers. This ultimately meant a drop in the quality of services. It also meant that reputations suffered. Clients' reputations have also suffered because the perception is, and to a large extent the reality, that quality Class A companies are no longer in the marketplace.

Where Do We Go From Here?

The question could be asked, "Where does the industry go from here?" and the answer is "Only up." The poly guards will always be poly guards. However, there are new opportunities for companies that are creative, innovative and look for better solutions for their clients. New American companies are starting to emerge. However, I caution you to look strong at their background and DNA. Many of these new American companies have the same DNA of the poly guards because they have the same or similar founders of the poly guard companies that sold to the foreign companies in the late '90s and early 21st Century.

A solution to this is blending boots with technology. We live in a time where technology has given us far more opportunities in providing quality security than ever before. However, it is only the companies that take advantage of these technologies and put the money into the infrastructure that will succeed. There is always a need for security officers or what I refer to as "boots on the ground". However, many times the traditional poly guard companies don't understand how to mix technology with "boots on the ground". Their DNA insists that they look for how many guards they can put on post, how many man hours they can bill for and how big they can build their gross revenues as well as their gross billable hours. The next generation companies have to understand the needs of their clients; understand the needs and benefits of real security; and educate the clients to get them on board with that. A client simply buying a low bid service and transferring all their liability does not protect them. At the end of the day, they still have reputations and real security events that can compromise their business. They have to understand that there is a fine line to the minimal amount you can pay a guard for them to provide adequate security. That means that everyone should be on an even keel and it starts with security officers' wages. All too often we hear concerns about turnover in the industry. Few security providers educate their client base to realize how their turnover is truly affected. I've always had the philosophy that some turnover is good. If you take the example of the young up and comer who wants to come work in the security business for a few years while they're either going to college or building their resume, I would rather have a security officer that is sharp, intelligent and bright; that works for us for six months to a year and provides a great service to our clients, as opposed to a mediocre security officer who will stay with us for fifteen years.



The industry continues to change. When Chesley Brown entered the security industry in 1990, the average security manager was a security guard that outstayed every one or the old retired beat cop. However, times have dramatically changed. Security managers currently tend to be better educated. Most have four-year degrees. Many of them have advanced degrees. We've seen an increase in security programs since the establishment of Homeland Security. We also see bright, innovative, creative people that want a career in the security business and not necessarily law enforcement. These are all positives to the industry and where we're going. I view this as an opportunity to be a pioneer in the industry. Just like Pinkerton was when he started his company in 1850, he saw an incredible opportunity, seized it, and created an incredible company. Although that company doesn't exist anymore, all of us in the industry should take heed to understand why he established such a company and how it, for the most part, withstood the test of time. Those of us who are willing to strive for better, more creative, more innovative approaches to security will be the success of this century. It will be our companies' names that are talked about and mentioned when they talk about the term "next generation security".

About Chesley Brown International: Founded in 1990, Chesley Brown is a security management company providing customized security solutions including consulting, on-site management, and interactive remote monitoring. It's founder and CEO, Brent C. Brown is widely recognized as an industry expert and is routinely called on by local, national and international news services for commentary and advice and security related issues. News agencies include: NBC, MSNBC, FOX, ABC, CBS. Wall Street Journal, London Times, Japanese and German TV and many more. Chesley Brown, headquartered in Atlanta, GA USA has clients in 28 states and 3 countries. For more information and/or additional white papers please go to www.chesleybrown.com .

