SECURITY SUMMIT CANADA

June 6,2018

Preserving RMR— Managing Attrition

TRG Associates, Inc.

40-1 River St., PO Box 1076

Old Saybrook, CT 06475

Ph: 860-395-0548

Fax: 860-388-5300

John M. Brady, President

TRG Associates, Inc.

Call Us: 860-395-0548

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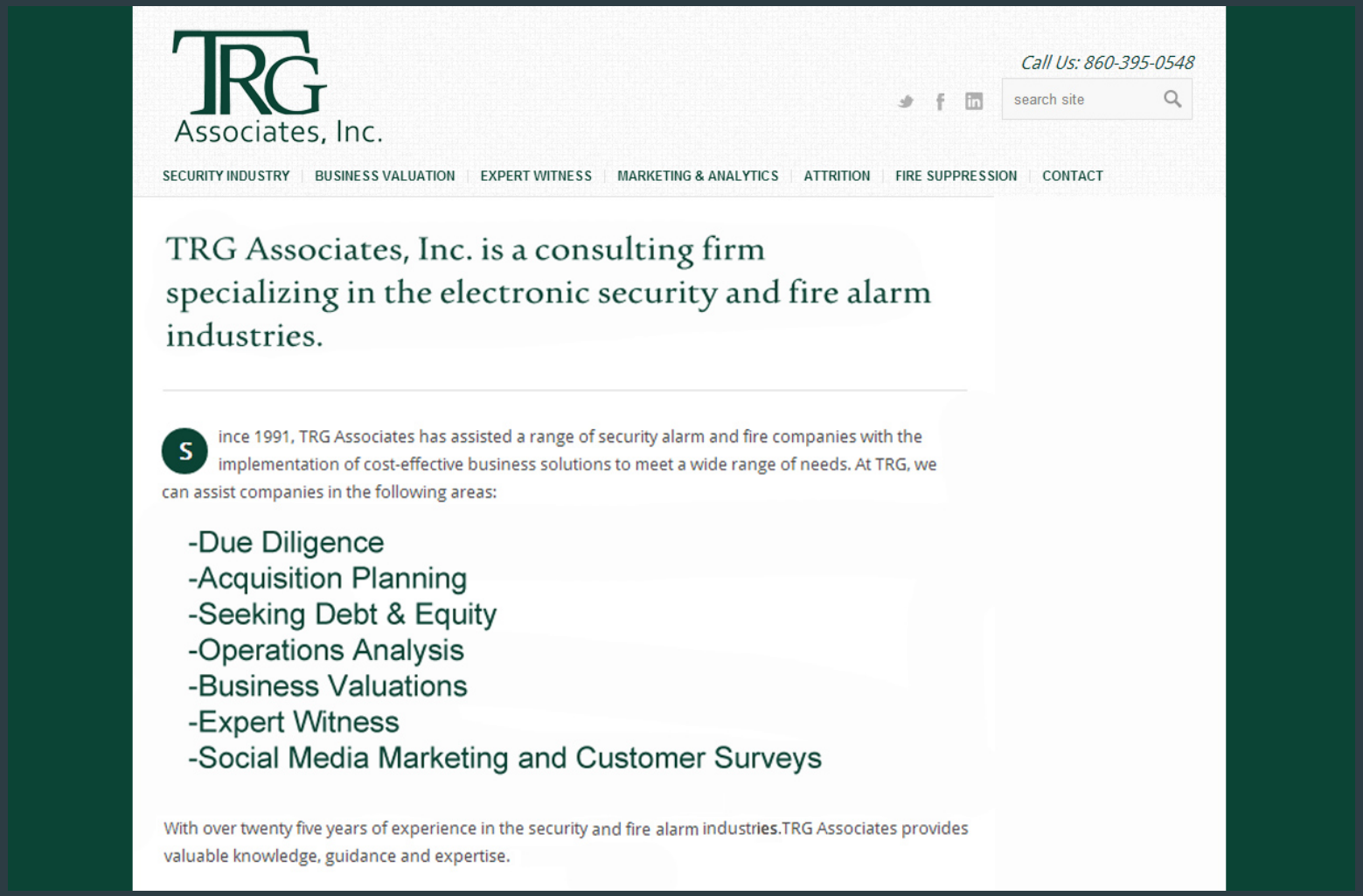

www.trgassociates.com

Defining Attrition

- Gross Attrition
  - The loss of existing customers and their associated recurring monthly revenue (RMR) for contracted services during a particular customer/ calendar cycle

- Net Attrition
  - Gross Attrition plus the add back of “like customer” gains thru resigns of the existing locations –
    - - The Home/Business location is your ultimate customer
    - - Price increases for inflation
    - - Price increases for additional services or technology

Defining Attrition

- The Short Version
  - The measurement of customer dissatisfaction with or need for the system
- Why Measure?
  - Attrition measures customer dissatisfaction which, for the most part, is company caused.
  - The Attrition Tracking Process should be managed to identify, focus on, and rectify those causes within each organization.

Attrition

- **What is not included in the Gross to Net Attrition definition?**
  - **Saving RMR via a moved customer who has a new security system involved.**

    Why not included? A new investment decision is most likely made

  - **Transfers – Take Overs**

    Why not included? A new customer and most likely involves an investment decision thus should be included with Growth of RMR.

  - **New Customers**

    Why not included? New investment decision

  - **Overall – a lot of companies portray their attrition levels as net figures – inclusive of losses and newly added RMR – no matter what the source.**
  - **This hides the investment decision and criteria involved with growing your business versus the costs to maintain your existing business.**

The Attrition Calculation of Choice

Weighted Ending RMR Method

Alternatives to Measuring Attrition

Weighted Ending RMR Attrition Method

Step 1: Cancelled RMR for the Reporting Period = Monthly Attrition
Sum of Ending RMR for Each Month

Step 2: Monthly Attrition (from Step 1)* 12 = Annualized Attrition

ATTRITION CALCULATION - EXHIBIT A

RECURRING RATE RECONCILIATION MONTHLY TREND

FOR THE PERIOD: 1/1/2010 - 12/31/2010

PREPARED BY:

	1	2	3	4	5	6	7	8	9	10	11	12	Y-T-D
A. Beginning Monthly Rate	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
LESS:													
Cancelled RMR	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other RMR Decrease / Erosion	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
B. Gross Removed/Disconnected Monthly Rate	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
PLUS:													
Re-signed RMR	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Price Increase RMR	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Price Increase Rescinded RMR	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
C. Net Removed/Disconnected Monthly Rate	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
PLUS:													
New RMR Activated	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other RMR Increase	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
D. Sub-Total New RMR	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
E. Acquired RMR	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
F. Total RMR Increased / Decreased (C+D +E)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
G. Ending RMR (A +F)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
H. Beginning Number of Accounts	0	0	0	0	0	0	0	0	0	0	0	0	0
Number of Accounts Added	0	0	0	0	0	0	0	0	0	0	0	0	0
Number of Accounts Lost	0	0	0	0	0	0	0	0	0	0	0	0	0
I. Ending Number of Accounts	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Increase (Decrease) of Accounts (H - I)	0	0	0	0	0	0	0	0	0	0	0	0	0

Months Included in Calculation	1	2	3	4	5	6	7	8	9	10	11	12	12
Gross Attrition Rate (Annualized)	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Net Attrition Rate (Annualized)	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

Prepared By TRG Associates, Inc. (860) 395-0548

ATTRITION CALCULATION - EXHIBIT A
CANCELLATION SUMMARY

FOR THE PERIOD: 1/1/2010 - 12/31/2010

PREPARED BY:

Reason / Category For Cancellations	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	Y-T-D
Collection - Non Payment - RMR	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Collection - Non Payment - # of Accounts	0	0	0	0	0	0	0	0	0	0	0	0	0
Moved - With In Market - RMR	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Moved - With In Market - # of Accounts	0	0	0	0	0	0	0	0	0	0	0	0	0
Moved - Outside of Market - RMR	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Moved - Outside of Market - # of Accounts	0	0	0	0	0	0	0	0	0	0	0	0	0
Poor Service - Central Station - RMR	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Poor Service - Central Station - # of Accounts	0	0	0	0	0	0	0	0	0	0	0	0	0
Poor Service - Administrative - RMR	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Poor Service - Administrative - # of Accounts	0	0	0	0	0	0	0	0	0	0	0	0	0
Poor Service - Technical - RMR	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Poor Service - Technical - # of Accounts	0	0	0	0	0	0	0	0	0	0	0	0	0
Lost To Competition - RMR	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Lost To Competition - # of Accounts	0	0	0	0	0	0	0	0	0	0	0	0	0
No Longer Using System - RMR	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
No Longer Using System - # of Accounts	0	0	0	0	0	0	0	0	0	0	0	0	0
Sold / Out of Business - RMR	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Sold / Out of Business - # of Accounts	0	0	0	0	0	0	0	0	0	0	0	0	0
Financial Difficulties - RMR	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Financial Difficulties - # of Accounts	0	0	0	0	0	0	0	0	0	0	0	0	0
Property Abandoned / Vacant - RMR	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Property Abandoned / Vacant - # of Accounts	0	0	0	0	0	0	0	0	0	0	0	0	0
End of Contract Term - RMR	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
End of Contract Term - # of Accounts	0	0	0	0	0	0	0	0	0	0	0	0	0
Deceased / Rest home - RMR	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deceased / Rest home - # of Accounts	0	0	0	0	0	0	0	0	0	0	0	0	0
False Alarm Issues/Cost - RMR	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
False Alarm Issues/Cost - # of Accounts	0	0	0	0	0	0	0	0	0	0	0	0	0
Price Increase Rescinded - RMR	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Price Increase Rescinded - # of Accounts	0	0	0	0	0	0	0	0	0	0	0	0	0
Gross Removed/Disconnected - RMR	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Gross Removed/Disconnected - # of Accounts	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0

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Attrition Update through Year End 2016

	2014		2015		2016	
Region	Gross	Net	Gross	Net	Gross	Net
Northeast	11.12%	9.15%	11.74%	9.74%	12.19%	10.43%
Southeast	12.49%	10.64%	12.84%	10.85%	12.91%	10.92%
Midwest	12.44%	10.86%	11.72%	10.15%	12.29%	10.70%
Southwest	13.51%	11.99%	13.60%	11.98%	14.39%	12.65%
West	12.26%	10.12%	12.27%	10.10%	12.64%	10.39%
International	12.15%	10.42%	13.57%	12.09%	13.90%	12.18%

Attrition Update through Year End 2016

	2014		2015		2016	
Co. Size	Gross	Net	Gross	Net	Gross	Net
3-50	7.10%	6.09%	6.55%	5.83%	8.32%	7.64%
51-100	7.97%	6.06%	6.16%	4.88%	9.43%	7.44%
101-200	9.46%	8.02%	9.17%	8.21%	9.18%	7.90%
201-500	9.32%	7.90%	9.57%	8.10%	10.66%	8.93%
500+	12.46%	10.61%	12.68%	10.79%	13.06%	11.17%

Attrition Update through Year End 2016

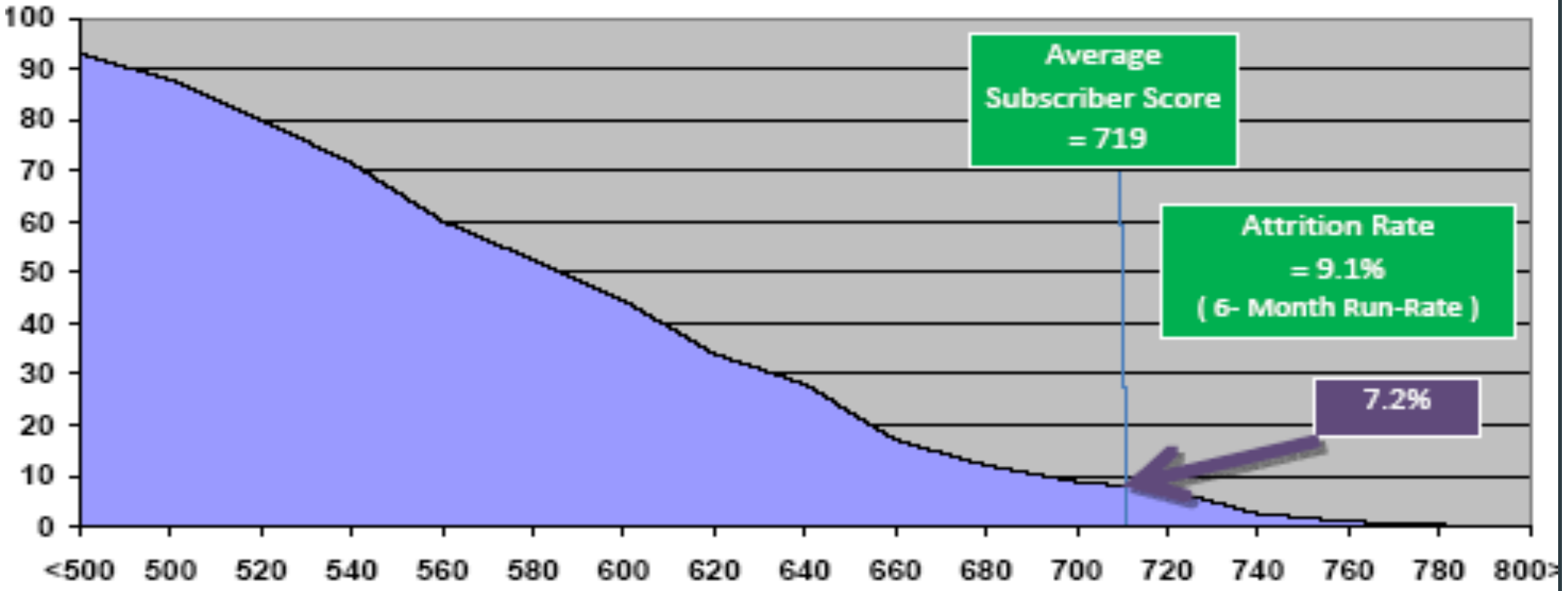
	2014		2015		2016	
Source	Gross	Net	Gross	Net	Gross	Net
Dealer	12.59%	10.91%	12.95%	11.29%	12.99%	11.66%
Traditional	11.86%	9.86%	11.62%	9.56%	11.96%	9.96%
Mass Market	12.66%	10.94%	13.30%	11.55%	14.01%	11.98%

Attrition Update through Year End 2016

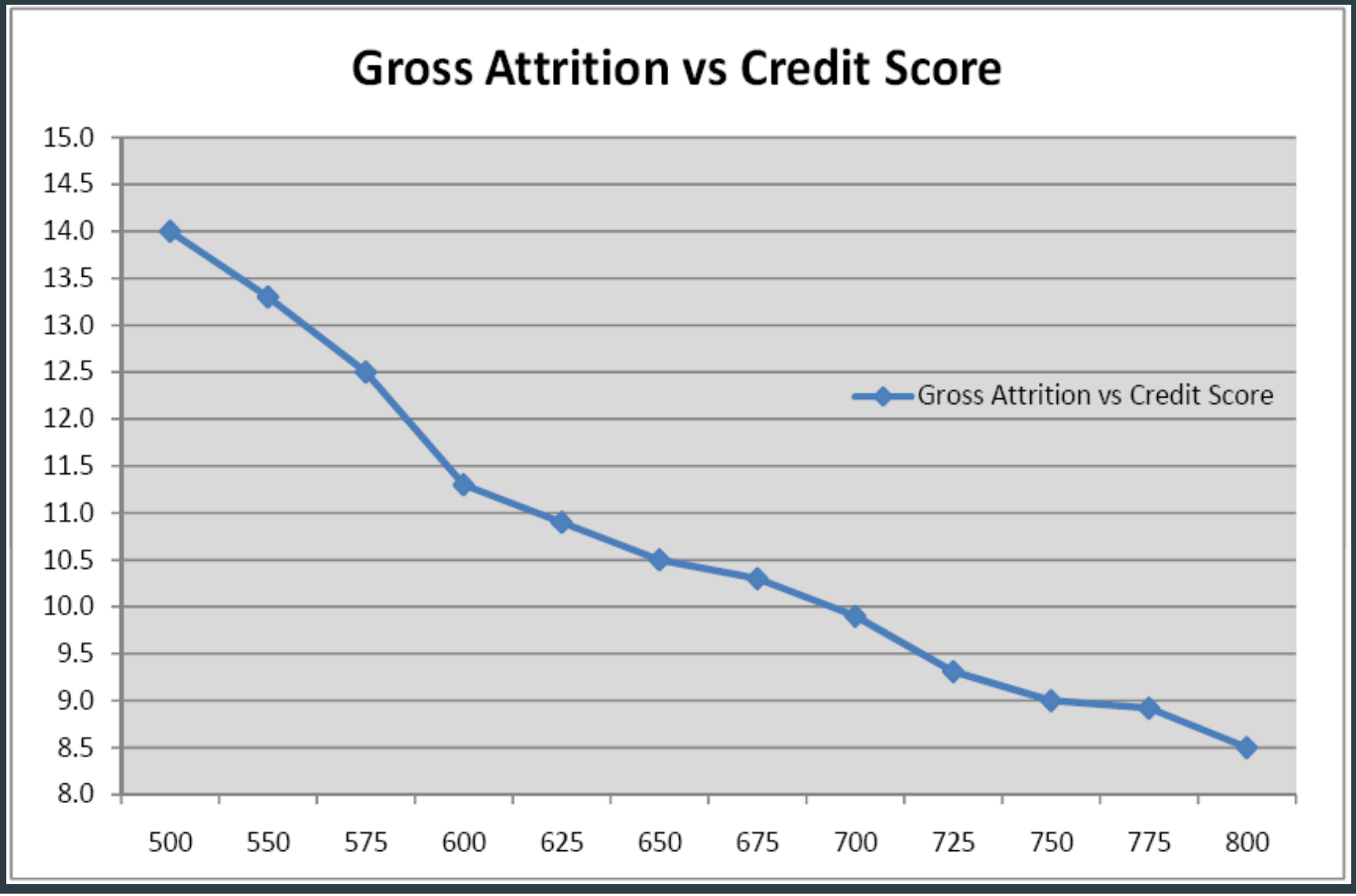
	2014		2015		2016	
Customer Type	Gross	Net	Gross	Net	Gross	Net
Residential	12.42%	10.60%	12.90%	11.03%	13.40%	11.50%
Commercial	12.10%	10.25%	11.89%	10.05%	12.15%	10.32%

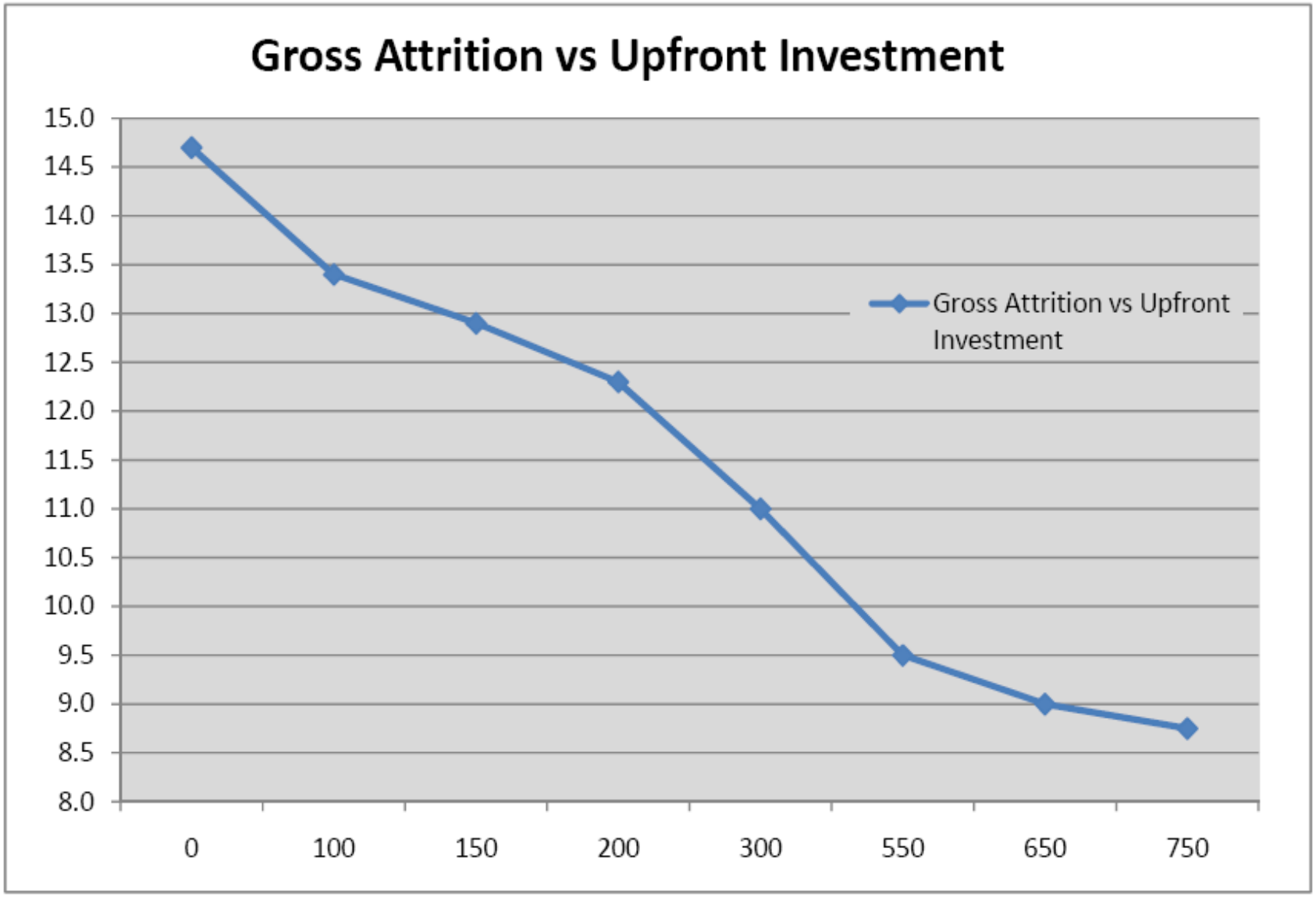
Attrition-Correlation Between Upfront $ and Credit Score

% of Accounts 90-Days or More Past Due by Credit Score

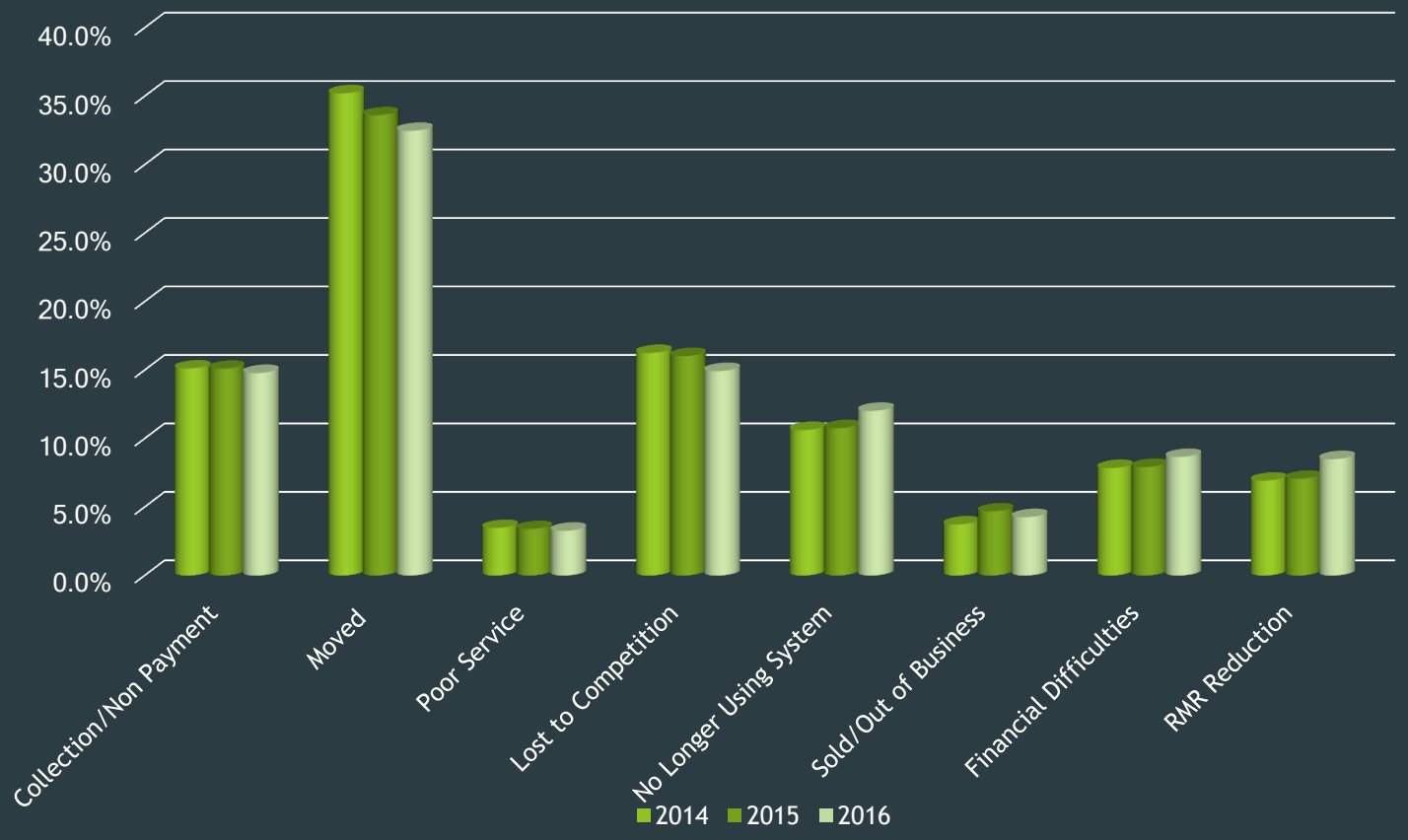


Proven Correlation Between Credit Score and Ability / Willingness to Pay


Gross Attrition vs Credit Score
15.0
14.5
14.0
13.5
13.0
12.5
12.0
11.5
11.0
10.5
10.0
9.5
9.0
8.5
8.0
500
550
575
600
625
650
675
700
725
750
775
800
Gross Attrition vs Credit Score


Gross Attrition vs Upfront Investment
15.0
14.5
14.0
13.5
13.0
12.5
12.0
11.5
11.0
10.5
10.0
9.5
9.0
8.5
8.0
0
100
150
200
300
550
650
750
Gross Attrition vs Upfront Investment

Top Reasons for Attrition



Reason Code Analysis

Cancellation Reason	2013	2014	2015	2016
Collection/Non Payment	16.1%	15.1%	15.1%	14.8%
Moved	35.6%	35.2%	33.6%	32.5%
Poor Service	3.3%	3.5%	3.4%	3.3%
Lost to Competition	14.3%	16.3%	16.0%	14.9%
No Longer Using System	10.4%	10.7%	10.8%	12.0%
Sold/Out of Business	3.1%	3.7%	4.7%	4.3%
Financial Difficulties	9.3%	7.9%	7.9%	8.7%
Property Abandoned/Vacant	0.1%	0.1%	0.1%	0.1%
End of Contract Term	0.7%	0.2%	0.8%	0.4%
Deceased/Rest home	0.5%	0.4%	0.4%	0.5%
PI Rescinded/RMR Reduction	6.6%	6.9%	7.1%	8.5%

Revisit the Cost of a Wasting Asset or Loss of Value from Attrition

- If the company and its management spent as much time and economic effort controlling attrition – the loss of customers – as they did trying to find and buy into the next new customer, the net value of the business would be enhanced.
- Example
  - 50,000 Beginning company RMR
  - Add 25 new customers per month at $24.95 for monitoring
  - Use Weighted Ending RMR Method for Calculating Attrition
  - Market Value Assumption – 35 Multiple

	Ending RMR				
	Year 1	Year 2	Year 3	Year 4	Year 5
6% Annualized Attrition	54,343	58,434	62,287	65,915	69,338
8% Annualized Attrition	53,348	56,431	59,274	61,902	64,335
11% Annualized Attrition	51,873	53,546	55,049	56,392	57,600

Loss of Value from Attrition

	Valuation Difference				
	Year 1	Year 2	Year 3	Year 4	Year 5
6% vs. 8%					
Annualized Attrition	34,825	70,105	105,455	140,455	175,105
8% vs. 11%					
Annualized Attrition	51,625	100,975	147,875	192,850	235,725
6% vs. 11%					
Annualized Attrition	86,450	171,080	253,330	333,305	410,830

What are the signs?

The most troubling terminations come from those you didn't see coming. Company-wide awareness is key. Customer behavior changes are the best signals but that level of awareness takes time and money to cultivate.

- Asking for copy of their contract
- Historically good pay now they are late
- Asks for an upgrade quote every couple of years but doesn't pull the trigger
- Voice messages left after hours for various reasons
- Avoids calling back after a proposal was given
- If you gain access to alarm history – you can run reports for alarm system usage
- Email correspondence going in circles
- Letters documenting displeasure
- Hostile phone calls
- Asking for programming code to panel

High Level View of Attrition Management

Truth: A balance must exist in your business in order to have true attrition management. If one area fails, another cannot compensate – you must have equally effective and balanced strength in your organization.

Attrition Management: Set Expectations

Clean-up Your Processes…

Whether you are a 3-man shop or a large business – you must create policies and procedures! Write them so anyone can figure it out. Don't leave anything to a guess.

Create Step by Step How-To

- How to handle a termination request
- Instructions on how to handle a complaint
- What to do when an early sign of dissatisfaction or termination is detected

Implement to All Employees

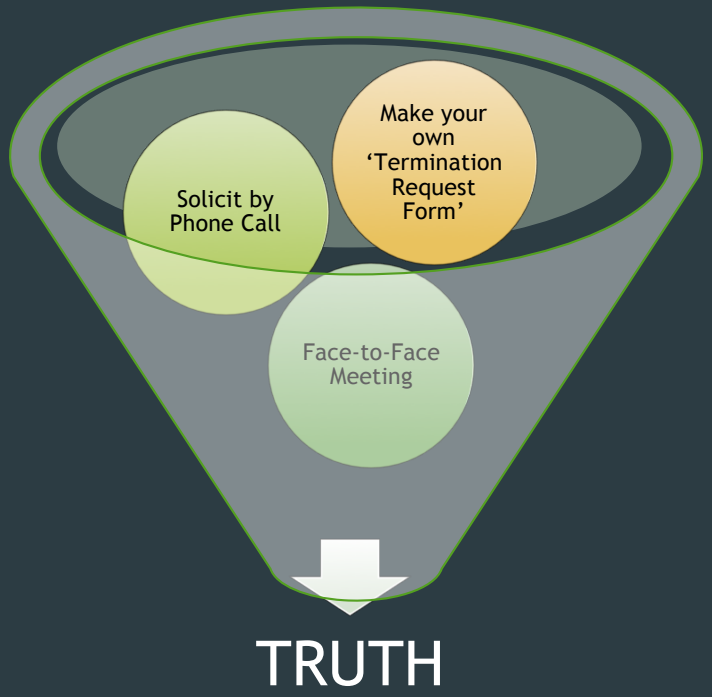
- Deploy your policies with clarity
- Practice and roll-play scenarios; make sure it is the way you want it handled

Follow-up

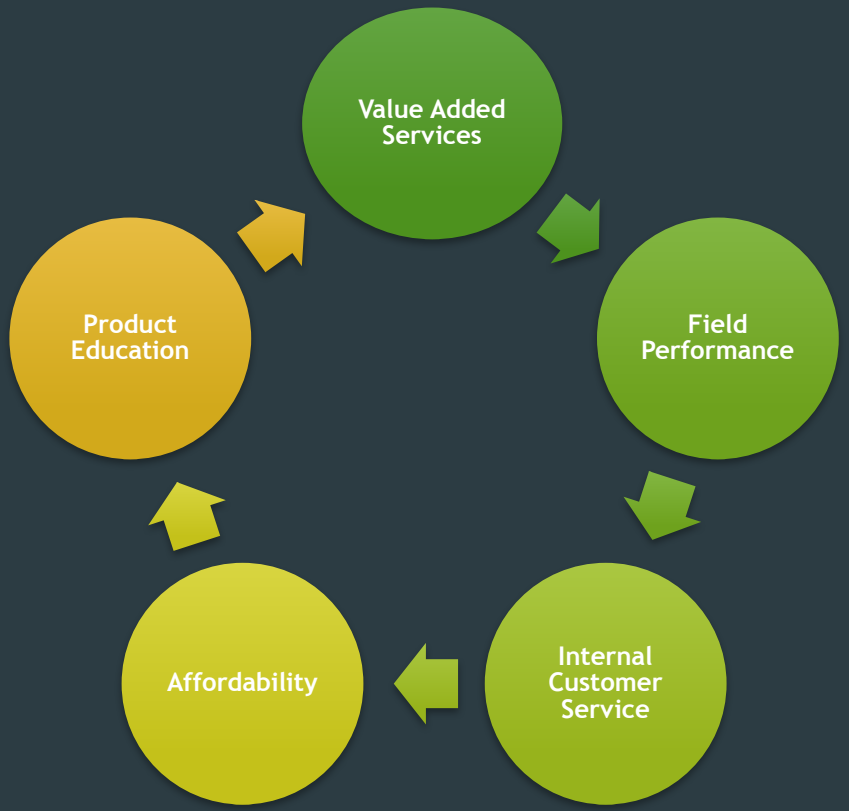
- Policies and procedures die if they don't get attention; tweak if necessary; seek feedback
- Reward "saves"

Dig Deep for the Truth

Your attrition data is an important piece to making appropriate changes in your business. Use standardized reason codes like those provided by TRG Associates in order to compare to national averages. Make sure your processes makes every effort to collect this data.



Focus on the things you can change



Minimizing Attrition By Reason or "Maintaining the Investment"

- Management's priority is to minimize the Investment in Customer Growth by maintaining Superior Service.
- It takes an enormous amount of "blocking and tackling" to keep each customer after any sale.
- So much management effort and organizational focus goes into growing the customer base while often so little effort or organizational focus goes into keeping those "precious assets".

Continued Marketing

- Service
  - The market is not driven by the lowest price over the long haul.
  - Contract needs to be clear if maintenance is included or not.
    - Fashion your contract to properly account for maintenance.

Service

Timely Response

- Acceptable Industry Standard – 24 hour response
- Service Dispatcher – do not define “Timely” for the customer – listen to their needs – they determine “appropriate level of service”.
- Quote standard response – offer out of ordinary response for a fair extra fee – night and weekend service.
- On Call Policy
  - Rotating Shifts
  - On Call Bonus Program $50/week extra
  - On Call Rates – Technicians
    - Time and a half pay – roll rate
    - Phone Resolution included in On Call Bonus

Service

One Time Solution

- Installed Equipment Data Base
- Properly Stocked Service Trucks or Dual Purpose Trucks
- Track Go Backs
  - Customer Caused
  - Lack of Proper Parts on Truck
  - Lack of Panel Knowledge
  - Lack of Time for Resolution

Service

Continued Focus / Listen & React

- Track and Report to Management on Service Calls completed Billed / Non Billed
  - By Day
  - -By Technician
  - -Avg. – 5 to 6 per day expected determinates
    - Scheduling Layout Districting
    - Traffic Patterns
    - Trained Status
    - Weather
- Call Ahead to Next Call – Preplanning
    - Technician
    - Office

Service

Continued Focus / Listen & React (cont'd)

- Customer Signature on Service Ticket to acknowledge receipt and acceptance of service
- Second call, same issue free within 1 month – not customer caused.

Customer Focus and Reaction

Customer Problem Notification System

- False Alarm/Dispatch
  - Review by Management
  - Contact the Customer to seek cause / resolution
- Second service call, same problem
  - Management follow up
  - Contact the Customer to Listen
- Management established
  - “Exception Reporting”
  - It is worth the time and effort

Customer Focus and Reaction

Management Involvement

- Members of Management and Entrepreneur must participate in service efforts and systems.
- Call 5 old customers and 5 new customers per week to establish dialogue about the varied company departments performance.
- Cancelled Customer Exit Interview.

Customer Focus and Reaction

Attitude and Compensation

- Every member of the staff affects Customer Service and thus impacts Attrition.
- The Customer Problem you don't take care of will help create a cancellation.
- Compensation Programs should include an Attrition Compensation segment of the Performance Bonus.

Customer Focus and Reaction

General Manager

- Up to 30% of the Bonus structure should be measured by reducing attrition goals (driven by %).

Sales Manager - who manages a Customer Retention Group

- Up to 10% of the bonus structure should be measured by reducing attrition goals.

Service Manager

- Up to 40% of the Bonus structure should be driven by reduction in the number of Go Backs if a problem
- Up to 10% of the Bonus structure should be driven by reducing attrition figures.
- Remainder focused on Billing dollars per Department or Technician (avg.).

Customer Focus & Reaction

Accounting Manager

- Up to 20% of the Bonus structure should be driven by reducing attrition.

Customer Retention Dept.

- Adds, Moves & Changes
- Resigns
- Transfers

- Focused on reducing Attrition and saving existing customers.

Collection Procedures

ACH/Direct Debit

- ACH method of billing / collecting can reduce attrition by up to 2% annually
- ACH Authorizations
- Improved Cash Planning

Collection Procedures

Collection Timing (Billed in advance of Service)

- Thirty day mail notification
- Forty five day phone collection call
- Seventy five day cancellation notice
- Ninety day monitoring cancellation

Collection Procedures

Collection Process

- Mail
- Phone
- Central Station – Recording of call with beeps

  Friday afternoon at 1:00pm to 3:00pm

Collection Procedures

Shut-Off Methodology

- Mail letter citing shut-off date
- On date (preferably Friday) call to record activity and final notice of cancellation
- Use 3:00pm time frame

If payment plan is offered – do not cancel this one time until payment date has passed with no payment

Continued Marketing

Sales Follow up

- The sale doesn't end with the installation sign off
- Sales follow up – salesmen to call the existing customer base
- Other management members to call customers after Service calls completed

Strategy: Customer Loyalty Campaigns

Some ideas to consider…

- Provide helpful information: security tips, inspection reminders, local security news
- Create a generous referral program: discounts toward additions and upgrades, credit to account, gift cards
- Recognize years of loyalty with special offerings, token gifts or personalized anniversary letter
- Invite your Clients to appreciation events that involve family and food!

Industry Challenges

Industry Challenges

Those of the Past

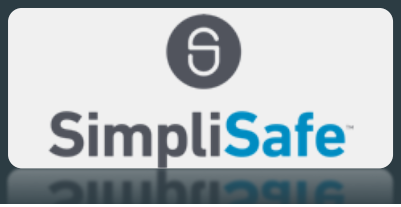
- The Baby Bells
- The Cable Industry
- $9.95 Monitoring
- The Utility Industry
- False Alarm Issues – see Present

Those of the Present

- False Alarm Issues
  - Verified Response
- The Decline of POTS
- Home Automation Trends
- DIY/MIY

Do It Yourself Security
DIY/MIY

- Stimulates adoption
- New Consumers, younger consumers, tech savvy consumers
- Were they ever going to buy?
- Does it affect Brand?
- Does it drive value?
- 2% of the market and here to stay!



What Drives Value

What Drives Value?

- As Part of a Customer Base/Going Concern
  - Size of Customer Base
  - Geographic Dispersion
  - Service Quotient
  - Historical Attrition /Resign Rate
  - Company's Ability to Replace Attrition and Generate Growth

What Drives Value?

- **Accounts value driven by:**
  Per Account
  - Contracted Status
  - Performing Status - Payment History
  - Nature of the Services included in RMR
  - Quality and Consistency of Install and Equipment Utilized
  - Average Price of those services in comparison to market
  - Price increase characteristics

The Market Place

The Market Segments

Market Dynamics

- Fire - Increasing Legislation and Code grows this segment.
- Burg (Intrusion) - Increasing Asset Protection with Home Automation capabilities
- Environmental - CO Detection and Child Monitoring
- PERS - Health Care Legislation & Health Care Cost Containment
- Access Control - Left Over Effects 9/11
- Remote Monitoring - Camera – IP Video
- System Integration - Manageable Multiple Systems

The Marketplace

	Market Multiple Ranges				
RMR Range	1988	1998	2000	2001	Today
$5K - $25K	20-24	22-29	22-29	20-27	20-25
$25K - $50K	22-26	27-36	29-36	26-32	24-28
$50K-$100K	29-32	35-42	33-44	30-36	26-32
$100K-$200K	31-34	41-47	38-46	34-40	32-36
$200K-$350K	34-38	44-50	41-49	38-43	34-40
$350K-$500K	37-45	48-53	44-51	40-47	37-42

Final words…

- Don’t get hung up on uncontrollable attrition circumstances – put all your energy in attrition suppression for ‘Controllable’ and ‘Voluntary’ types.
- The “great” people you have been working along side you for years can pick up a few bad habits…or you simply put up with it for so long – have the talk; give them the resources they need to make changes
- No news is not good news – customer contact develops a relationship that matters at the end of the day.
- Be sure you are the first to suggest or recommend to your customer – don’t let your competitor do it!
- Stay positive.