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# Russian Security Market: Outcomes for 2009 and Forecasts for 2010

Security market professionals evaluate main drivers for development in our branch quite adequately. In the previous research conducted by GROTECK at the height of world financial crisis and in the beginning of Russian economic recession, we mentioned that the depth of decline of the Russian technical security means market would directly depend on the rate of State activity. The outcomes for 2009 reveal that financial, legislative and compulsory activity of the State affected the market of technical security means in Russia in a way that it hasn't fallen dramatically.

**A**nalyzing diagrams with security market specialists' opinions on what factors will affect mostly the development of the market in 2010, we may see that the experts don't expect any big changes.

## Political Factors

According to respondents' estimations, this is the State that will keep forming principal demand in the Russian security market. This is the State that has main factors of development of the sector. (figure 1.) A surprising fact is that among respondents' answers, generally this is neither legislative activity of the State nor budget allocation but such a non-material factor as attention of the heads of the State towards the national security issues. (These issues are the fight against terrorism, ensuring safety of the state borders, preventing technogenic catastrophes, providing fire safety to social institutions.)

Of course, hardly anyone believes today in insurance principle of providing security and safety. However, the fact that 15% of respondents mark this as a possible factor for the development of technical security means market in 2010 proves that such scenario is possible. After technogenic, terrorist and fire disasters that happened in Russia during recent years and that proved total inability of the administrative system to ensure compliance with legislative requirements on security and safety, many experts believe that our State might transfer dramatically from administrative enforcement to insurance principle.

## Legislative Factors

It is pleasing that over 50% of respondents indicated state regulation (in particular, adopting technical regulations and entering special branch legislation into force) as a basic factor of legislative nature that will stimulate the market development in 2010 (figure 2.) If we compare the two diagrams, we may conclude that respondents expect a certain succession in actions by the State,

i.e. replacement of administrative pressure by legislative regulation and consequently transition to insurance principle.

## Social Factors

Personally for me, it is interesting that our forecasts and our feelings of the market regarding influence of social factors diverge (figure 3.)

In late 2008 we were telling that in 2009, the market of consuming technical security means by natural persons would remain on the same level or it would possibly reduce percentage wise. Though, almost half of the respondents consider that people's desire to ensure safety for their homes and real property in the situation of unemployment and increasing volume of illegal immigration will become a significant market driver in 2010. Reports by leading companies reveal that in 2009 consumption of technical security means in the private sector even increased in spite of the main market players' anticipations. The range of opinions we attained during our survey, presents one of its most interesting results.

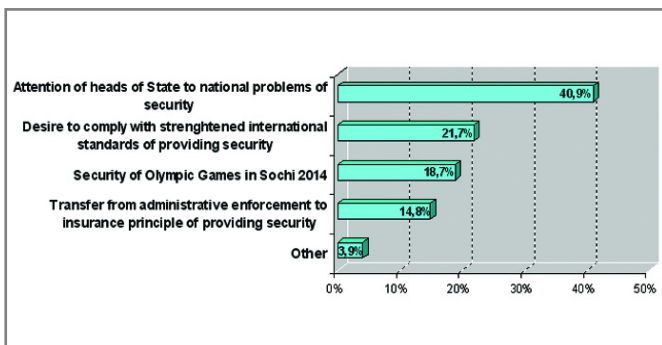


Figure 1. Development of Russian security market in 2010. Political factors

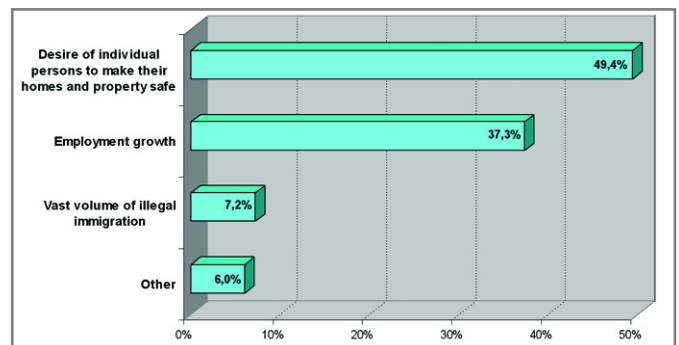


Figure 3. Development of Russian security market in 2010. Social factors

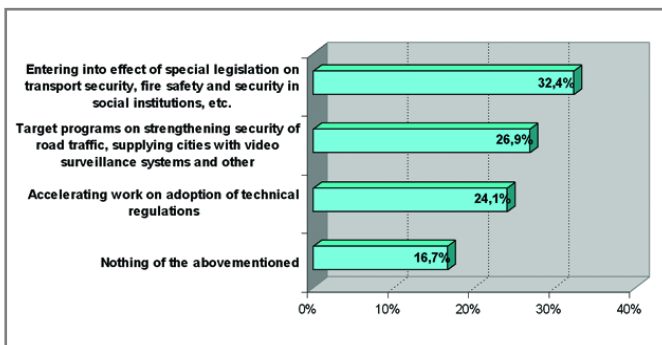


Figure 2. Development of Russian security market in 2010. Legislative factors

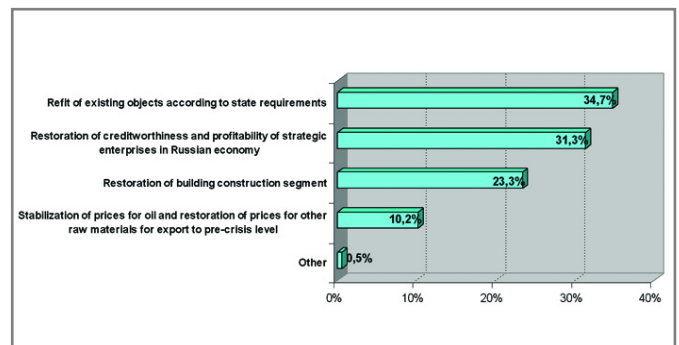


Figure 4. Development of Russian security market in 2010. Economic factors

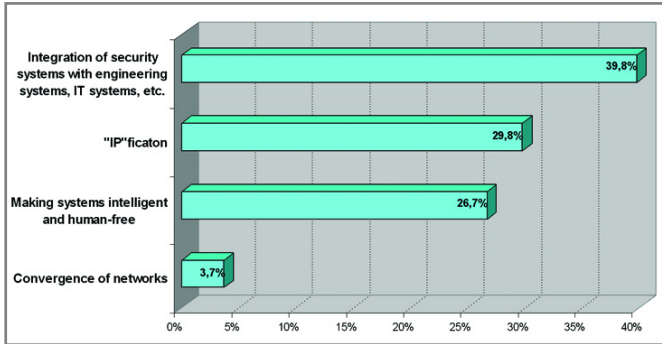


Figure 5. Development of Russian security market in 2010. Technological factors

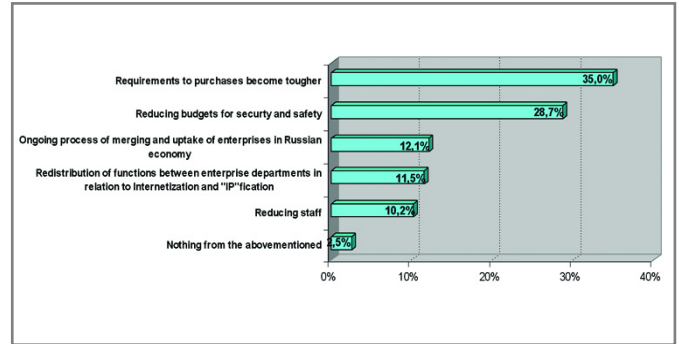


Figure 7. Factors of development of Russian security market in 2010 on the customer's side

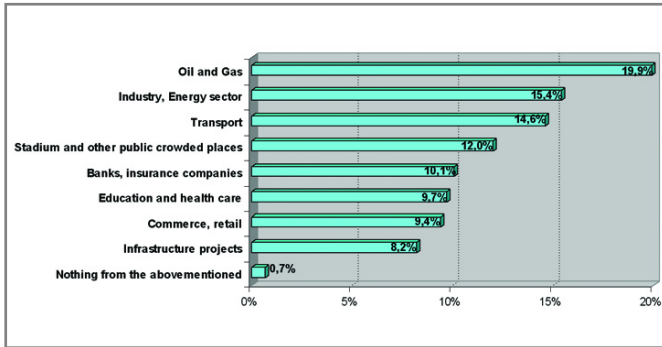


Figure 6. Segments of Russian economy – the biggest consumers of technical security means in 2010

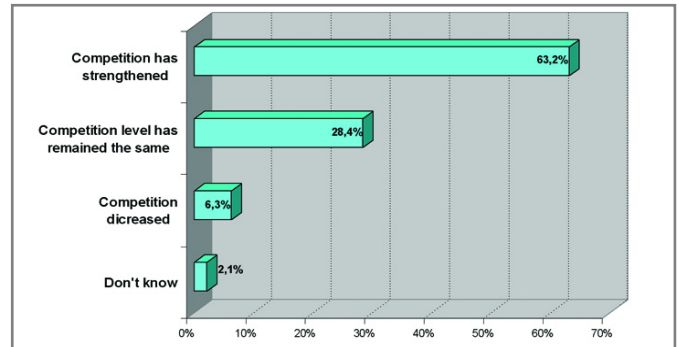


Figure 8. Competitive environment

### Economic Factors

Assessing economic factors of the market development in 2010, the respondents don't reveal anything new in comparison with the previous questions (figure 4.) Up to one third of respondents rely on stabilization of prices for oil and recovery of building construction segment. Due to the significant role of the state in the development of security market, over one third of respondents rely on refit of the existing objects according to state requirements- this is the most popular answer.

All the above mentioned reveals one fact: it will be the same in 2010 when finances and legislative activity of the state (especially the process of speeding-up technical regulations adoption) under the eye of the heads of state will play the main role. The only question here is - will customers use the most efficient solutions or those ones recommended by respective state structures under such administrative pressure?

We think that state orders will support the sector as they did before due to such global projects as Asia-Pacific Economic Cooperation-2012 on the Russkiy Island,

Sochi-2014 Olympic Games, Kazan World Student Games-2013; building high speed railways and motorways, gas pipelines Nord Stream and South Stream, Eastern Siberia-Pacific Ocean oil pipeline; arranging four gambling zones; implementing programs "Safe City", "Safe Region", "Safe Country." The recovery of the market growth rates is possible only with the recovery of commercial consumption sector. But, to our surprise, respondents do not anticipate this. Thus, up to one fourth believe that the situation in building construction will stabilize. Almost two thirds of respondents predict a conservative scenario for the development of the technical security means market in 2010. Its main drivers will become restoration of credit worthiness and profitability by strategic Russian enterprises (whose investing program is approved by Russian Government and whose control stock belongs to the State), and refit of the existing objects according to state requirements (social institutions, housing, power plants, offices, transport infrastructure and others.) 10% of respondents who indicated stabilization of prices for oil and other export products as main economic factor for the

development of the security market probably hope that the model, which was effective in 2000-s, will be still actual in 2010. Oil money is distributed to all the sectors of Russian economy, at the expense of which commercial demand in the security market grows as well.

### Consumption sectors

Diagram 5, on the one hand, reflects consumers' hopes that their budgets will be unfrozen including the projects blocked in 2009 (incl. technical security means purchases.) On the other hand, we see certain expectations from the part of vendors and installers. As usual, there are no evident leaders among the answers. There is a more or less equal correlation.

The main consumer in 2010 traditionally will be oil and gas sector, industry, energy sector and transport. Few respondents think that the purchases of technical security means for infrastructure projects will start in 2010. Actually, this year it is very likely that designing and constructing roads and oil pipelines will begin. As for the purchases of technical security means, they will take

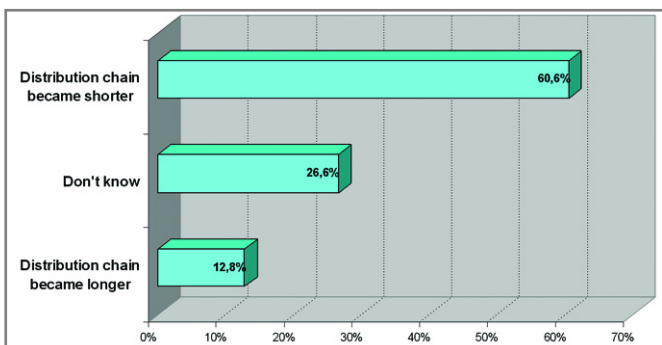


Figure 9. Respondents' answers to question "Has dumping become the basic factor for competence?"

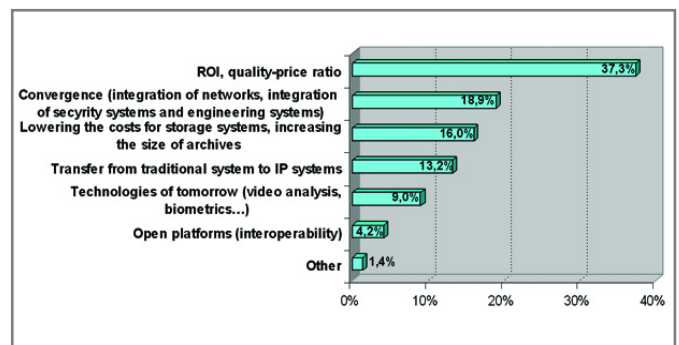


Figure 11. Factors of choosing technical security means in 2010

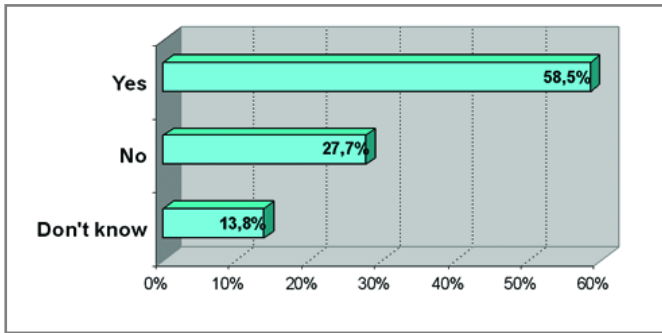


Figure 10. Character of changes in delivery

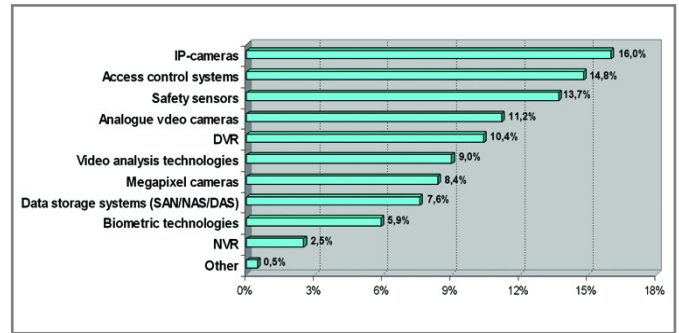


Figure 12. Share of various technologies in general structure of demand for technical security means

place in 2011-2012. Our respondents think that banks, trade organizations, crowded public places, health and education institutions will contribute 40% into the whole stock of commercial demand.

### Technological factors

Our suggestions concerning technological drivers are fully confirmed by experts' opinions (figure 6.) "IP"fication is ranked the second. Integration of security systems with engineering and IT systems is ranked the first. However, everyone understands that a real integration is impossible without using IP. In fact, the respondents answered in favor of the same process described differently. Actually, integration on the basis of a unique and preferably open protocol perhaps became the main line in Russia as well.

### Customers' requirements

Most of the respondents mention that the requirements towards purchases from customers' side have become tougher, which is very important to my mind (figure 7.) Economic efficiency of the system and possibility to provide security in a more automated and human-free way are very topical for many customers. Both installers and

vendors understand this. When an enterprise has normal profits, the desire of senior management and department management to control subsidies. But in a situation when the prices for oil fall and the profits consequently fall, great attention is paid to the ways of increasing profitability due to cutting expenses. It is supposed that with less money one can achieve better results. A serious fight for efficiency of safety and security systems starts. Thus, requirements to purchases become tougher from both up and down. Hence, the process of grounding purchases becomes longer. Sellers' costs for maintenance of purchases increase. It is necessary to produce much more information and to deliver it to the client during pre-sale preparation period, from different parts - through print editions, professional events, the Internet, friends...

### Competition and supply chain

It is very interesting to compare diagrams 8, 9 and 10. The absolute majority of respondents (2/3) say that competition has become harder. Approximately the same number of respondents think that the main factor of competition is dumping and that

the distribution chain has shortened. Let's have a look at these data from different angles.

What do those who talk about increased competition really mean? The main market players reacted in the following way: before, only 3-4 companies participated in tenders; now, there are over 40 applicants. The companies that didn't struggle for the any orders before, entered it (for various reasons.) Some companies have "developed their muscles" during the crisis. In some cases, "one-day" companies appeared. Somebody began offering Low-End solutions to big companies adjusting thus to their budgets.

Thus this is not competition that intensified. This is the desire of companies to work with those customers remained in the market and to look for new niches and possibilities which has increased.

This process has a reverse side however. Such "games" totally disoriented the customer, having destroyed his ranking - who works with who. A unique picture of the market has been destroyed like a puzzle onto separate small pieces. Besides personal feelings of increasing competence we may see an objective process - toughening

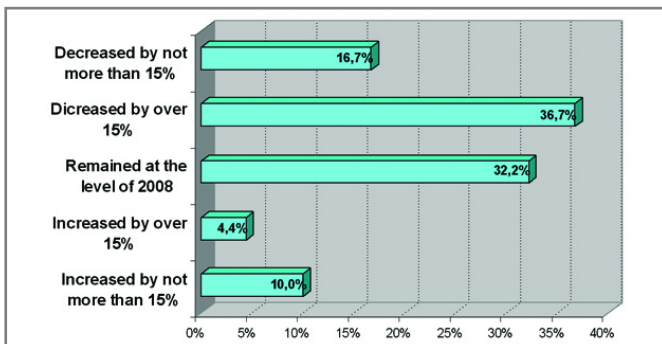


Figure 13. Dynamics of changes in security market in 2009

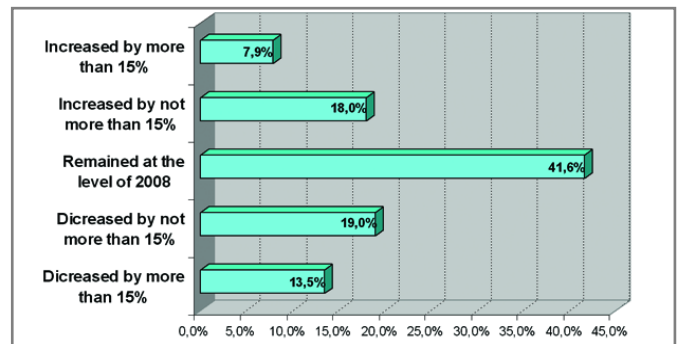


Figure 15. Dynamics of changes in volume of video surveillance segment in 2009

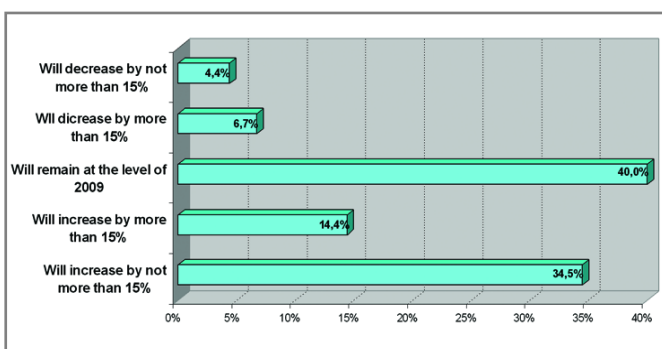


Figure 14. Forecast for changes in security market volumes in 2010

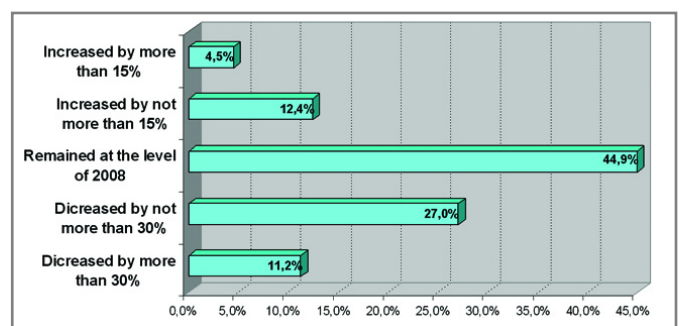


Figure 16. Dynamics of changes in volume of access control systems segment in 2009



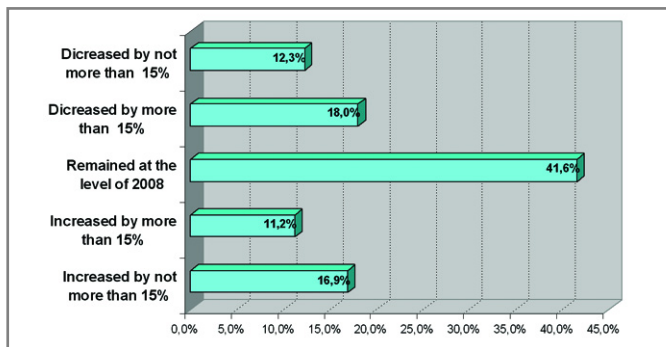


Figure 17. Dynamics of changes in volume of fire alarm systems segment in 2009

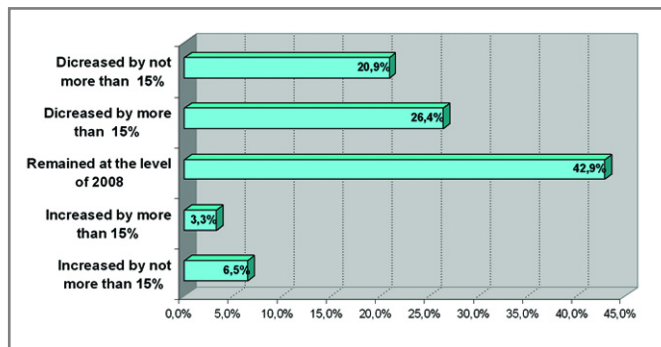


Figure 19. Dynamics of changes in volume of perimeter security systems segment in 2009

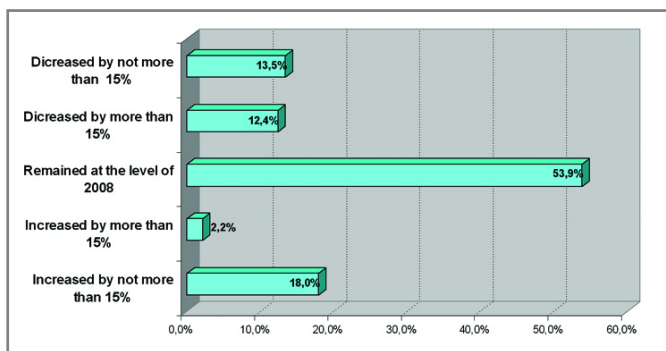


Figure 18. Dynamics of changes in volume of burglar alarm systems segment in 2009

of requirements to the conditions of conducting tenders, competitions and auctions.

First of all it concerns the price, which caused shortening of supply chain. With a long supply chain, a company will never win a tender. An ideal system is the one where the vendor himself wins a tender, then he hires his main dealer as a subcontractor to have basic supplies distributed through the him.

### ROI: new ideology of choice

Analyzing the results of the survey conducted, we cannot find any contradictions in the presented data. This is confirmed once again by a leading position of quality-price ratio among factors of choosing equipment in 2010 (figure 11.)

Comparing the number of opinions supporting such factors as "toughening customer's requirements" and "shortening distribution chain" and the total number of answers in favor of "quality-price ratio", "convergence" and "reduction of storage costs", we may receive once again the evidence that price dumping has become a kind of reaction to strengthening customers' requirements to quality-price ratio rather than a tool for providing projects. Of course, dumping is a reflection of impossibility to ground one's price by comparing it with competitor's price and quality, unpreparedness of many installers and vendors in Russia to ground the cost through the total cost of ownership (technical security equipment.)

It is good that ROI is supported by almost 40% of respondents. This tendency may take us out of the frameworks of administrative enforcement. Even now customers, while reducing budgets and staff, generally approach the matter of choosing systems, technologies and suppliers more adequately.

### Technologies

I wouldn't recommend trying to evaluate real desires of customers to purchase and those of suppliers to sell while studying diagram 12. The obtained results actually demonstrate the domination of a group of technologies and systems in information environment. Let's have a look at our publications, evaluate our professional events - the major activity today belongs to suppliers of IP cameras and IP Access Control Systems. As it is well known, there is no prosperity without publicity.

### Outcomes-2009

Throughout 2009, we were told everything was bad. As a real situation has revealed, this is not so (figure 13.) The diagram demonstrates that the market volume will decrease. But there is no one opinion to what extent. Having quite a big range of standpoints concerning evaluation of 2009, we prefer to support a conservative position: the market level remained as in 2008, it reduced by 5-10% in USD and it increased by the same 5-10% in RUB. As for the other sectors adjoining security (information security, for example), we can see that those who were in the middle, increased their circulations by 5-10%, first of all due to services offered.

### Forecats-2010

Respondents demonstrate extra optimism in regards to 2010. (figure 14.) The forecast

that the market volume in 2010 will reduce in comparison with 2009 is a vanishingly small indicator (not more than 16%.) It is important to compare indices 32.2% and 40% in diagrams 13 and 14, and to understand that the key part of the audience supports a conservative scenario. In 2010, the Russian security market will remain at about the same level as in 2009, calculated in average currency calculation (in spite of abrupt fluctuation in the EUR/USD, RUB/USD and RUB/EUR exchange rates) - the market will increase or decrease slightly within statistical accuracy. Diagrams 13 and 14 perfectly illustrate the main thing that companies rely on while planning their expenditure budget for 2010. Correlation between 2009 and 2008, 2010 and 2009 is like a "flat plateau". This means the only thing - those who want to earn will care firstly about expenses and intensifying their domination in the information field.

### Security market segments

It would seem that the greatest optimism should be demonstrated by video surveillance markets and access control systems. However, the situation is quite opposite as these segments were first affected by strengthened requirements on purchases, in particular concerning the price (figures 15-19.) These segments representatives clearly understand, like nobody else in the market, the general economic constituent of the security branch development. Even the segments of burglar and fire alarm that fell down the most of all due to the fall of building construction market, had the biggest rise in Q-IV, related with the start of toughening state requirements. Today, these markets demonstrate good optimism - they keep rely on the role of state and merely on the restoration of fallen demand.

The segment of perimeter systems means almost always state orders and big customers that financed their projects in past and that will finance them in future. Sure, perimeter security market representatives do not expect dramatic growth, nor they expect dramatic decrease. Perhaps, for us perimeter is the main indicator of the situation which will be in the Russian technical security means market in 2010.

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