

## **The Changing Face of the Market**

People speak of “the market” as if it were a living thing. The market grows and shrinks. It changes and evolves. It has expectations of those who participate in it.

The electronic security market has been especially dynamic, and is in midst of fundamental changes in structure. This market, which includes alarms, surveillance products, access control, badging and sensing devices, is following the widespread trend of consolidations among both buyers and sellers. To these consolidations, a large scale technological shift away from stand-alone, proprietary solutions to open architecture networked solutions, and it is clear that large scale changes are needed by those who expect to succeed and profit in this market.

Diebold, a long-standing provider of electronic security solutions, expects to both succeed and profit. To realize this expectation, the company is making proactive changes in its sales and marketing approach to the industry.

## **A Refocused Effort**

Just a few years ago, both insiders and outsiders questioned Diebold’s long-term commitment to the electronic security market. The company decided to discontinue sales of its flagship alarm monitoring product, the 5100D Presider, a proprietary alarm head end device. While support for the product continued, there were no sales to new customers.

Internationally, the company scaled back its electronic security efforts, particularly with distributors. The result was that some people developed the incorrect perception that Diebold was significantly scaling back its electronic security offerings. In fact, the new sales restriction on the 5100D was the only reduction in product offerings. The company continued to sell, install and maintain a wide variety of electronic security products.

In mid-1999, the company intensified its commitment to this market with a renewed emphasis on electronic security solutions and a new approach to the market. To develop and implement this new approach, the company formed the Integrated Security Solutions Group (ISSG), charged with providing global sales, service, installation, project management and monitoring of electronic security products. ISSG’ targets include financial, retail and commercial customers.

Members of the group identified four fundamental shifts in the electronic security market. Addressing these changes required only subtle shifts in Diebold’s existing product offerings and business processes.

## **Four Forces for Change**

### **1. Financial Mergers**

Few markets have been more caught up in merger mania than the financial market. Just a few years ago, banking customers were served by thousands of local and regional financial institutions across the United States. There were a few, very large financial organizations with broad regional coverage. BankAmerica mainly served the west coast while Citibank and Chase Manhattan mainly served the east coast. The electronic security needs of these local and regional organizations were met by the many local and regional suppliers.

Then the large regional institutions began to expand through mergers and acquisitions in order to create economies of scale, add services and develop national coverage. As they consolidated, they often found themselves with diverse and often incompatible electronic security products and a mishmash of different security signals and alarms. These systems, in turn, were serviced by an assortment of supplier organizations of various sizes and capabilities located all over the country. It created a management nightmare for security managers.

Bank administrators found themselves in desperate need of reliable, single-source, suppliers able to install and service their ES systems coast to coast.

### **2, Supplier Consolidation**

Paralleling the consolidation of financial institutions was a consolidation of electronic security service companies. In the last two years, Tyco International purchased ADT Security Services, Holmes and Wells Fargo Alarm, while Mosler acquired LeFebure Corporation. Where once there were five or six potential competitors for national electronic security contracts, there now are only two or three able to successfully provide coast-to-coast service.

In the electronic security service market, size does matter. Only the large organizations can effectively compete for national service contracts, and in many cases system sales included the requirement for national service.

### **3. Technology Shift**

In the past, manufacturers typically provided proprietary security systems. These stand-alone alarm systems were connected via phone line to a bank's central alarm monitoring center. Financial institutions found themselves over a technology barrel because they were locked into the original manufacturer for new equipment or upgrades that were compatible with the equipment in their existing installation.

Today electronic security system deployers command open systems, able to be readily interconnected and freely interchanged with devices from other manufacturers. Digital video, alarms and access control signals are transmitted via local or wide area networks to desktop workstations and central monitoring systems throughout the organization, making network know-how an essential trait in system installation and service organizations.

#### 4. Manufacturers' Extend Their Reach

The final force for change in the electronic security systems market is an approach by device manufacturers to increasing their sales.

Most electronic security products manufacturers do not sell directly to customers, and do not offer installation and service as part of the sale. Instead they relied on dealers or distributors to promote, install and service their products.

Manufacturers are taking two steps to increase sales of their products. First, they are increasingly calling on customers in an effort to get their equipment specified in upcoming projects. Through product information, demonstrations and loaned equipment, they help to ensure that the customer will include their equipment when the project is let for bids.

Second, manufacturers recognize the expectation by customers for national installation and service of their equipment. Rather than create their own service organization, manufacturers are jumping on the strategic alliance bandwagon and partnering with organizations that can provide this national service resource.

#### **Meeting the Market's Needs**

Faced with these four forces for change in the market, Diebold's ISSG group developed and has begun putting in place a new strategy to ensure that it will continue to be an active...and even more profitable...player in the electronic security systems market.

#### **Building on a Strong Reputation**

Diebold has been a prominent force in the electronic security field for decades, with a reputation for reliable service. While much of the company's experience comes from protecting ATMs and bank facilities, it also provides electronic security solutions for commercial, retail and other markets.

To provide security solutions for its financial customers, Diebold developed a national service resource with over 2,300 field technical associates. This service network provides the technical expertise and geographic coverage needed to also serve the company's increasing base of electronic security customers. Providing coast-to-coast service for electronic security systems is a natural fit with what Diebold has been doing for years.

With its years of experience and experience national service team, Diebold can lay claim to being a true single-source, national supplier for electronic security installation, service and maintenance. (The above paragraph was highlighted, but there were no comments about what to do with it. After re-reading it, I thought it needed some repairs. )

#### **Partnerships Provide Products**

Selling “total solutions” is Diebold's fundamental approach to filling customer needs. Rather than sell individual devices, software or service components, the company presents customers with a package deal addressing every aspect of their requirements.

In electronic security systems, the Diebold offering had been somewhat limited. The company had a small and defined group of products, including both Diebold-made and third party provided devices. While the company remained true to its total solution approach, that solution often included products other than what the customer preferred. Diebold was reluctant to provide products not included on its list of standard offerings.

Customers now have higher expectations regarding the range of products offered. Like consumers of all kinds, they have become accustomed to almost unlimited choices. In many cases, as a result of the effective pre-sale efforts by manufacturers, customer Request for Proposals often specify an exact make and model for components in their electronic security system.

Diebold understands the wisdom of this simple truth: It is much easier to sell a customer what they want. To ensure that its solutions include the products that customers want, Diebold is shedding second-tier and closed system suppliers. Instead, it is building or expanding linkages with the major electronic security manufacturers, the firms that build the products that are most preferred...and most often specified...by customers.

Third party manufacturers' equipment has always been a part of Diebold electronic security solutions. The majority of electronic security products that Diebold offers are purchased from third parties. It is just impractical for a single company to manufacture alarms systems, CCTV, access control, badging systems, video and alarm transmission equipment, alarm and video receiving equipment and other electronic security components. Better to rely on the industry leaders in each of these technologies.

### Open Systems Only

Many of Diebold's earlier electronic security products were proprietary, able to be sold and serviced only by Diebold associates. Competitors followed the same approach. Today Diebold is reducing its proprietary offerings and replacing them with the open systems that customers are clamoring for.

Customers today turn up their collective noses at these proprietary systems. Instead, they demand open systems that give them the flexibility to choose freely between several comparable products and the ability to easily interconnect devices from various manufacturers. If the relationship with the organization that sold or services the equipment goes sour, the customer can readily switch to a different supplier or negotiate a better deal with a competitive supplier.

The market is going to off-the-shelf components, and Diebold is creating a larger shelf stocked with open system solutions to meet the market's needs. Part of future solutions will be Diebold's new alarm head-end, based on the company's popular SecureStat family of alarm panels.

### System Plus Service

Open systems allow deployers to interconnect and readily replace devices, but the components don't always “play nice” with one another. Distributors and resellers all have access to the same products, but building a network with these open system components does not guarantee they can be easily integrated into an effective security system. Interconnecting and servicing these systems, with devices provided by a variety of suppliers, can be a technical nightmare.

Diebold's long-standing reliance on third-party manufacturers for the majority of its electronic security solutions has created an impressive body of product experience and expertise. Field technical associates are well acquainted with products from the leading security systems suppliers. The extensive knowledge base compiled at the company's tech support call center provides additional assistance when field associates come up against unknown product-related problems.

In addition to product knowledge, Diebold associates also have tremendous experience in building and operating networks. Engineers at the corporate level gained their experience in the course of systems development for Diebold products and related, third-party devices. Field associates developed their network expertise in the course of installing, troubleshooting and servicing customer solutions across the country.

Armed with broad product knowledge and in-depth networking experience, Diebold associates are capable of providing electronic security customers with total integration and service, from system installation through day-to-day operation.

### Building The Technical Support Structure

As the company builds and refines its slate of manufacturer partners, it faces the challenge of quickly acquiring the related body of technical knowledge for their products. To ensure that this knowledge will be readily available, Diebold has made technical support and product training one of the key requirements of alliance agreements. Beyond outstanding products, Diebold expects thorough documentation and strong technical support from its partners.

The company also expects that the increased electronic security business will require growth in its field sales force. Other electronic security service organizations have stumbled as they tried to develop a national service presence. Diebold already has a national organization, with over 2,700 field personnel at 400 United States locations, but it must ensure that the size and capabilities of this group keeps pace with the expected growth.

The company is monitoring growth in its electronic security business, adding and training staff as necessary to provide the same high level of service that customers have come to expect. This paragraph could maybe be moved... [How about after Competitors Cooperate (below)?]

### **The New Diebold Sales Model**

To build business for its electronic security group, Diebold has launched a two pronged sales approach. It includes aggressive sales of service contracts combined with cooperative sales calls with manufacturer partners.

#### **Service...Then Systems**

Service agreements have always been an important part of the total solutions offered by Diebold. In addition to selling and installing systems, the company offered on-going service and maintenance contracts. With its ability to service both Diebold-made as well as other manufacturers' equipment, the company was able to offer customers one-stop shopping for service. This greatly simplified the life of system managers by giving them a single phone number to call for any technical problem, rather than trying to determine who had service responsibility for a particular device.

Diebold has also pursued service contracts for systems it did not install. That pursuit is being intensified. In addition to the immediate revenue generated, these service contracts provide a very useful entrée to future hardware sales. When system upgrades or replacements are required, Diebold can be there first with a quote. That quote will be based on a solid understanding of the system's structure and function, giving Diebold an insider's advantage on all future sales.

#### **Hand-in-Hand Sales Calls**

Diebold's increased focus on the electronic security market depends heavily on its manufacturer partners. In addition to relying on its partners for products and the related technical support, Diebold is also encouraging its partners to include them on sales calls.

In the past, manufacturers would sell a product and, if asked, provide customers with a list of authorized installers located across the country. Customers today are increasingly saying "I want one organization that can handle service and maintenance across the country for your products, not just for one product and not just at one location." Diebold is promoting itself as that organization, and encouraging the manufacturers to take them on customer calls to present them as the preferred service provider.

This works to the advantage of all parties. The customer is able to purchase products with the confidence that they will be installed properly, brought on line and serviced. The manufacturer is able to satisfy the customer's concerns for coast-to-coast support, increasing the likelihood of a successful product sale. Diebold secures the installation and service contract, with the prospect of long-term revenue and potential future product sales.

Customers are already seeing sales presentations by manufacturers accompanied by their Diebold partners, and these calls are paying off in increased sales for both organizations.

### Representing Competing Manufacturers

The partnerships being formed by Diebold create some obvious conflicts. The company will be in the position of representing multiple, competing suppliers for many solutions. The suppliers are aware of this conflict but, nevertheless, choose to partner with Diebold.

The bottom line is that both the suppliers and Diebold are trying to build sales. The suppliers realize that failure to align with a national distributor will, in the long run, limit their sales opportunities. By partnering with Diebold, they immediately extend their sales and service force to a national level.

For Diebold’s part, it gains entree to markets and accounts that it would not otherwise be able to easily access. Diebold enters these accounts with instant credibility based on its own reputation combined with the reservoir of trust the customer has in the manufacturer.

Some manufacturers might prefer to have an exclusive sales agreement with Diebold, but that simply isn't practical. It runs contrary to meeting the customer expectation for a single supplier able to bring the best of several manufacturers, of giving the customer what they want instead of what the company has to offer.

### Competitors Cooperate

The most remarkable and telling example of these partnerships is probably the Diebold / NAVCO alliance. NAVCO is a highly respected provider of surveillance systems. Like Diebold, it offers sales, service and installation organization, so the companies have competed for many years.

The two organizations recently signed an agreement that authorizes Diebold to act as a NAVCO dealer. In some cases, Diebold sales associates may actually be selling against NAVCO representatives for the same business.

The reason for this seemingly strange alliance is NAVCO’s need to offer coast-to-coast coverage. The company had developed strong customer bases along both coasts but its coverage through the middle of the United States was weak. It needed to expand beyond its coastal customer base and was able to accomplish that goal by forming an alliance with Diebold.

NAVCO will continue to manufacture products for the financial market and provide them to its sales, service and installation associates. At the same time, it will offer those products through Diebold, including the related technical support and training, to provide coast-to-coast coverage and reach new customers.

## **Far-Reaching Business Opportunities**

### **Financial, Retail and Commercial Opportunities**

Since 1859 when the company manufactured its first bank vault, Diebold’s primary focus has been on serving customers in the financial market. The company’s electronic security sales efforts will focus first on the financials to capitalize on its strong market position. Many financial institutions put their electronic security systems service contracts out for bid on an annual or semi-annual basis, creating a constant stream of opportunities for Diebold to pitch its electronic security solutions.

Diebold also will look to the commercial and retail markets where it has a growing presence. Many products formerly purchased only by financial organizations are increasingly being deployed in these other markets. Pharmacies use drive-up units like the Diebold VAT. All commercial and retail facilities need some sort of cash and coin safe, alarm and surveillance systems and in many cases, central station monitoring of alarms. Many retailers have placed ATMs in their facilities, a natural entree for Diebold as a leader in ATM development and deployment.

"Big box" retailers and pharmacies are especially promising targets because, like the national financial organizations, these organizations typically want a single-source, national provider for installation and service. The retail and commercial markets, with their need for electronic security, physical security and transaction equipment, are a perfect match with Diebold’s product mix and total solution approach.

### **International Strategy**

In international markets, Diebold’s electronic security strategy is to follow its ATM sales. As part of a total solution offering, each time the in-country Diebold associate proposes an ATM, he or she can also offer related electronic security products and service to protect the ATM, the area around the ATM and facility in which it is housed.

Providing this total solution differentiates Diebold from other ATM providers, simultaneously enhancing ATM sales as well as the related electronic security systems.

As in the United States, Diebold will rely on a combination of its own products and third-party manufactured security devices, including products from in-country manufacturers.

### **Evolution...Not Revolution**

The renewed focus on electronic security products and service is not a revolutionary change for Diebold. Instead it represents a very rational effort to capitalize on shifts in the market by building on the organization’s strengths.

Expanding its list of partners through strategic alliances, and relying on these partners to actually bring Diebold in as a partner on sales calls, is a different approach for the company. Diebold expects that this approach will open many doors that in the past were not chosen to knock on. [I think the active version was better than the passive...but that’s just my opinion...for what it’s worth...take it or leave it...it’s really up to you, of course...I trust your opinion entirely...and that’s all I have to say about that.]

Once through the door, the company’s national sales and service organization, proven ability to integrate products and systems from various manufacturers, and decades of network experience, positions Diebold very well to provide customers with total electronic security solutions from coast to coast.

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