



A G4S private security guard stands at the perimeter fence of the International Convention Centre, Birmingham

GROWTH OF THE MANNED SECURITY MARKET FOR 2016

The market for manned security is growing, despite the fact that low-cost delivery demands continue to push down prices, making competitive contract bids even more difficult for smaller firms in the manned security industry. Indeed, according to Mintel's latest research, the UK's manned security market grew by an estimated four percent in 2015, reaching a value of more than £3.7 billion. Market growth has been predominately driven by the custodial services sector, where the outsourcing of probation services has improved trading conditions for some large operators. Despite this public sector boost, companies of all sizes undertook internal cost cutting and restructuring to remain competitive in what remains a price-sensitive market. Larger operators continue to invest in

technology to reflect the change occurring in the closely related security equipment market. And while contract wins and renewals helped push up revenues in 2014-15; the market continues to suffer from an over reliance on large public sector contacts as the commercial sector's recovery is still cautious.

The custodial services sector is the strongest element of the manned security industry, increasing by an estimated six percent in 2015 led by larger operators managing and delivering sector contracts. The Government's spending reductions have also increased outsourcing for prison management and led to the restructuring and tendering of probation services in 2014. Between 2011 and 2015 the sector achieved an estimated cumulative growth of 46 percent in five years.

While the wider manned security industry has suffered since the onset of recession in 2008, the manned guarding sector has been particularly affected as margins have been driven down, with the sector perceived as low skill. Trade sources suggest that price has become the single most important factor when bidding for contracts and that the cost-effectiveness and the return on outlay are often not weighed appropriately. While the manned guarding sector accounts for 56 percent of the manned security industry, its share remains steady over the last three years following a decline from 59 percent in 2011. Electronic security is acting as a threat to manned guarding, and the manned guarding industry is seeing an increased proliferation of electronic security as a cheaper long-term substitute for manned guarding. Providers are investing in technology and creating partnerships with electronic security operators to offer a bundled manned security and electronic offering, alongside technical innovations that help manage staff and contracts more efficiently.

But while the manned guarding sector continues to face strong price competition as contract bids are still predominately cost focussed, new contract wins throughout the year have helped increase revenues for some companies.

Cash-in-transit services grew by an estimated two percent as the number of ATMs increased, but cash transactions continued to decline. The increase in the number of ATMs has been offset by declining cash transactions as more consumers move to contactless card payments. Meanwhile, banks and building societies are also looking to close branches due to an increased focus on online transactions. Cumulative growth over the five years to 2015 sat at just six percent with the sector responsible for 24 percent of the market.

The market for manned security will exceed £4 billion in 2016 and is projected to reach in excess of £4.3 billion by the close of 2020. Although the prison and custodial services sector will continue to increase, manned guarding sales are forecast to decline marginally as substitution for electronic security solutions gradually erodes demand.

The report concludes that the manned security industry is expected to become even further polarised over the coming year as Government outsourcing contracts increases the bias of the market in favour of the largest partners for the public sector. These companies' market share will accelerate further as the revenues from long-term contracts flow in.

Real-term growth of six percent is forecast for 2016, but this masks continuing challenging trading conditions for most operators. The fruits of growth will not be evenly distributed among firms, and smaller companies are expected to struggle as revenues from the commercial and business sectors stabilise rather than increase. Wider economic growth and modestly rising revenues from the commercial sector will provide some forward momentum for the manned guarding

UK market for manned security, 2010-14

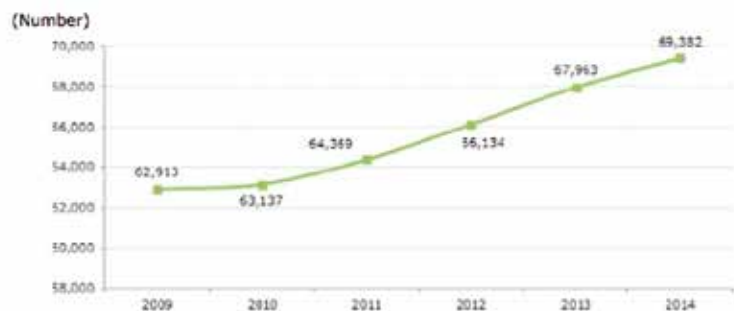


(£ Million)

Note: Historic estimates have been revised

Source: MBD and trade estimates

Number of cash machines in the UK, 2009-14



Source: UK Payments Statistics 2015 (previously Payments Council prior to 2014)

and cash-in-transit sectors in 2015 and 2016, but this will be limited compared with the prison and custodial services sector.

The intensity of competition for commercial contracts is only expected to rise as revenues for manned guarding solutions fall in real terms, eliminating the prospect of margins climbing to more stable levels in the coming years. Companies already struggling to turn a profit will become vulnerable to takeover, with acquisition and merger activity expected to remain a feature of the market to 2020. This will be additionally boosted as operators increasingly look to provide integrated security offerings combining manned guarding and electronic security solutions.

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