

## **2. PEST Analysis**

### **INTRODUCTION**

This chapter identifies the main external influences on the UK market for private security and fire protection, using the four headings of a PEST analysis: political, economic, social and technological.

Where such influences have more than one dimension, they are considered under the heading that is considered to be the most relevant.

### **POLITICAL FACTORS**

#### **The Terrorist Threat**

Precautions against terrorist attacks have been stepped up since the events of 11th September 2001, and there is strong demand for security services and equipment in the public sector. The UK, and especially London, has been on a high level of alert since the war in Iraq. Some of the UK's export customers are also concerned about the threat from terrorism.

#### **Airport Security**

In the important airport and airline security sector, the effects of terrorism have been mixed. In the US, the Federal Government took over all passenger screening from the private security industry, and it plans to retain direct control until 2005. Because UK firms play an important role in airport security, this meant the loss of an important customer sector. In the UK, the Department for Transport (DfT) took over the approval of companies providing airport security, but it left the work in the private sector.

Around the world, heightened awareness of the need for airport security has been a positive driver for the private security industry. There are still many airports where security needs to be improved.

#### **Regulation of the Security Industry**

After at least 8 years of discussion, compulsory regulation of the security industry has begun in England and Wales. It will take some time to extend registration to all regions and all the security activities that need to be covered, but the result should be improved standards and improved customer confidence in the manned security sector. However, the increase in

labour costs caused by regulation is likely to eliminate some of the lower-cost services and raise the prices of others.

The Scottish security industry is in favour of similar legislation for Scotland, but it will take some time for this to go through the Scottish Parliament and for a scheme to be set up.

### **The Expanded EU**

The expansion of the EU should assist the development of the Union's new members and lead to growth in construction work in these countries, which will in turn produce demand for security products. UK manufacturers are already facing growing competition from manufacturers in Eastern Europe, but the opportunities for exports are also improving.

### **EU Legislation on Services**

In July 2004, the Chairman of the British Security Industry Association (BSIA), David Dickens, expressed concern about a proposed European Directive on Services in the Internal Market. This Directive would allow EU nationals to market their services in the UK while complying only with the regulations that apply in their home countries, regardless of any additional rules that may exist in the UK. The Directive would cover a very wide range of services, including security services.

Mr Dickens pointed out that the legislation could cause abuses of competition in the private security industry and would encourage providers of security services to set up their operations in the country with the lowest requirements. Anyone seeking to establish a private security business in the UK would need to obtain authorisation, yet a firm could be set up elsewhere without authorisation and still operate in the UK market. The BSIA wants the security industry to be exempted from any such legislation.

### **Congestion Charging**

The introduction of the Central London Congestion Charge led to an increase in the cost of Central London cash-collection services in 2003/2004. Any decision to copy the scheme in other large cities would have a similar effect.

### **Neighbourhood Wardens and Street Wardens**

Neighbourhood Wardens or Street Wardens have been introduced in many areas of Great Britain, and there is considerable scope for more contracts for the private security industry. The concept of Neighbourhood Wardens has been judged successful by the Office of the Deputy Prime Minister Neighbourhood Renewal Unit, which is helping to finance some of the schemes between 2000 and 2005.

Neighbourhood Wardens provide a uniformed, semi-official presence in residential areas, with the aim of improving the local quality of life. They can provide community safety and assist with environmental improvements and housing management. Street Wardens are similar to Neighbourhood Wardens, but they have a greater emphasis on environmental problems, such as litter, graffiti and dog fouling. Their role is also to deter anti-social behaviour, to reduce the fear of crime and to foster social inclusion.

### **Minimum Wage and Working Time Legislation**

The National Minimum Wage was introduced in April 1999, and a European Directive on working hours and holidays came into force in October 1998. The UK was able to introduce a voluntary opt-out of the 48-hour week, but the UK regulations are to be tightened and opinions seem to be divided as to whether this is to the long-term benefit or detriment of the guarding sector.

### **Outsourcing of Police and Public-Sector Security Work**

A growing proportion of police and public-sector security work is being outsourced to private security firms, and this 'civilianisation' is expected to continue. Private firms already have a well-established role in the operation of private prisons, the monitoring of tagged offenders and the escorting of prisoners to and from court, and duties within police stations are beginning to be handed over.

### **Illegal Immigrants**

The problem of illegal immigrants continues to embarrass the Government. The contract guarding industry, including dog patrols, is involved in the security measures and the electronic-security sector has developed some sensitive instruments to hunt for stowaways.

### **Public-Sector Campaigns**

The public authorities run many advertising campaigns, award schemes, etc. with the aim of improving security and fire protection.

The Secure Car Parks Scheme is one example. Over the 4 years to 2002/2003, £106m was spent on closed-circuit television (CCTV) schemes to improve security in more than 1,000 car parks. In 2004, this scheme came to the end of its term and was replaced by the Safer Parking scheme. This is an initiative by the Association of Chief Police Officers (ACPO), with the co-operation of the Government and industry.

The Small Retailers in Deprived Areas Scheme, launched in June 2001, allocated £15m to help 12,500 small businesses to improve their security.

The scheme awarded £3m in 2001/2002, £6m in 2002/2003 and the final £6m in 2003/2004.

The Office of the Deputy Prime Minister runs fire safety campaigns. The Office has employed radio advertising to promote the use of smoke alarms and publishes advisory leaflets and posters on fire precautions.

## **Transport Policy**

Government policy on issues such as investment in road-building, investment in public transport and taxation of motorists is an important factor in the decision as to whether to own a car. This affects the market for cars and, in turn, the market for vehicle security products.

## **Alarm Response Policies**

Because of the high rate of false alarms from intruder alarms in private, commercial and public-sector buildings, the police forces have to reserve an emergency response for those alarms that are likely to be reliable — in other words, those that have been professionally installed to the current standards and are monitored, so that an incident is confirmed by a second type of detector before the police are called.

ACPO sets the policy on attendance for England, Wales and Northern Ireland. Its firmer stance, in force since October 2001, has resulted in a reduction of false alarm call-outs and has been a beneficial influence on the alarm installation and monitoring sectors. Scotland has its own policy, established by the Scottish Association of Chief Police Officers (SACPO) in 2002.

## **Data Protection**

The Data Protection Act 1998, which came into effect on 1st March 2000, has several implications for CCTV operators. Clear signs must show where surveillance schemes are in operation, and there are restrictions on the use of recordings. Covert viewing is only permitted if a specifically identified criminal activity is under surveillance; general and routine covert surveillance are illegal.

In addition, members of the public have the right to request access to CCTV data if they believe that these data include coverage of them. No explanation is necessary and the security service is not entitled to ask why enquirers think that they have been recorded. On the other hand, the security service must not reveal data about other individuals without their consent — which may mean blanking out faces. The security service also has a responsibility to keep accurate records showing who was allowed access to the recorded data, and is required to verify enquirers' identities.

## **Reform of the Fire Service**

A White Paper from the Office of the Deputy Prime Minister, *Our Fire and Rescue Service*, sets out plans for the reform of the fire forces. The proposed new service would focus much more on the prevention of fires and would have a wide remit, dealing with major transport accidents, floods, explosions and other disasters.

The proposals are relevant to the fire-protection industry because they could affect the equipment required by the new service. The White Paper also refers to government plans to simplify the complex regulations concerning fire safety.

## **ECONOMIC FACTORS**

### **World Events and Business Confidence**

One of the effects of the terrorist attacks of 11th September 2001 was a setback to the US economy and, to some extent, the world economy. Business spending became more cautious and some investment plans were postponed. This led to delays in some of the larger security contracts in the UK and in UK manufacturers' export markets. However, confidence appears to have improved greatly by 2004 — in the UK, at least.

### **Tourism**

The tourism industry was also affected by the events of 11th September 2001. A reduction was seen in demand for hotel security products, such as locking systems and room safes. This demand has now improved.

### **Construction Output**

The volume of construction output is an important factor in the demand for security products and services. The very important private commercial sector showed increasing demand for new construction work in the 1990s, but demand appears to have levelled off in the first years of the 21st century, and construction work in this sector fell in 2003. Nevertheless, this is still the most valuable sector for the construction industry. It provides considerable opportunities for manned, physical and electronic security, and for fire protection, because it includes shops, offices, financial-sector buildings and places of entertainment, as well as private schools, private hospitals, etc.

The private industrial sector, which mainly consists of factories and warehouses, also has a strong demand for security and fire protection. Construction in this sector has been fairly depressed in recent years, because of the decline in business suffered by many of the UK's manufacturing

industries. According to Table 2.1, output of new building work dropped significantly in 2002 but improved slightly in 2003.

Non-housing construction output in the public sector grew strongly between 2000 and 2003, providing many opportunities for security firms. Infrastructure (roads, bridges, tunnels, etc.) is also a fairly strong sector with regard to new construction activity, although spending fell in 2003. The infrastructure sector provides some opportunities for CCTV and other security devices.

Output of new public-sector housing grew by 23.3% between 2000 and 2003, while demand in the larger private sector grew by 9.3%. Construction of new housing is particularly important for the locks sector and for manufacturers of smoke alarms. It also leads to later demand from householders for alarms, additional locks and other household security and fire-protection products.

Repair and maintenance work grew strongly in most sectors between 2000 and 2003. Some of this work will have generated demand for security devices. For example, the refitting of shops can include the installation of new retail security systems.

**Table 2.1: Construction Output by Type of Work at Constant 2000 Prices (£m), 2000-2003**

	2000	2001	p2002	p2003
<b>New Work</b>				
Private-sector commercial	12,653	12,546	12,692	11,947
Private-sector housing	8,666	8,070	8,449	9,476
Infrastructure	6,453	6,904	7,438	6,640
Private-	3,716	3,792	2,863	3,030

sector				
industrial				
Public-sector housing	1,319	1,349	1,483	1,626
Other public sector	4,854	4,896	6,018	7,211
<b>Total new work</b>	<b>†37,660</b>	<b>37,557</b>	<b>†38,944</b>	<b>39,930</b>
Repair and maintenance work	32,016	33,530	35,146	37,432
<b>Total</b>	<b>69,676</b>	<b>71,087</b>	<b>74,090</b>	<b>77,362</b>

*p — provisional*

*† — does not sum due to rounding*

*Source: Monthly Digest, May 2004, National Statistics website © Crown copyright material is reproduced with the permission of the Controller of HMSO (and the Queen's Printer for Scotland)*

## **Insurance Claims**

An indication of the cost of crimes and fires can be found in the statistics for insurance claims. Figures from the Association of British Insurers (ABI) show that, in 2003, theft claims on domestic and commercial policies cost £630m, while fire claims cost £1.02bn. The total cost of claims, including those resulting from bad weather, subsidence and business interruption, was approximately £2.7bn. Fire was by far the largest category, since fires can cause immense damage. Fires would also have contributed to the £92m claimed on business-interruption policies in 2003.

A downward trend has been observed for theft claims since 2000, despite inflation. This may reflect the success of security measures. However, there are also other factors, such as the industry's clampdown on inflated claims, so it would be premature to credit the apparent improvement to improved security. Claims for fires were very high between 2001 and 2003.

The claim statistics do, however, show one aspect of the cost of crime and fire, and they illustrate the need for continued vigilance.

**Table 2.2: Gross Incurred Theft and Fire Claims on Domestic and Commercial Property Insurance (£m), 1999-2003**

	1999	2000	2001	2002	2003
Theft claims	708	740	728	728	630
Fire claims	866	855	1,049	1,040	1,016

*Source: © Association of British Insurers*

The cost of motor-vehicle theft claims is shown in Chapter 8 of this report — Vehicle Security.

### **The Influence of Insurance Companies**

Insurance companies can have a strong influence on the security and fire-protection markets by making conditions in their policies and by offering discounts to customers using certain types of equipment. This is relevant to the vehicle security market, as well as to the market for physical and electronic security and fire-protection products for the home.

### **Currency Exchange Rates**

The recent strength of sterling against foreign currencies, especially the euro, has affected the UK's ability to compete in export markets and has also increased the competitive pressure from imports in the UK market.

## **SOCIAL FACTORS**

### **The Crime Level**



Tables 2.3 and 2.4 show the level of recorded crime in England and Wales and in Scotland. Many crimes (mostly minor ones) go unreported, so, as high as these figures are, they do not show the full problem. Further figures are available from the British Crime Survey, which is also reported in the Home Office Statistical Bulletin. However, for the purposes of this report, the police figures suffice to indicate the continuing problem.

After improving between 1992 and 1997, the level of reported crime in England and Wales has tended to increase again, as Table 2.3 shows.

**Table 2.3: Number of Notifiable Criminal Offences Recorded by the Police in England and Wales (000 and number), Years Ending March 1998/1999-2002/2003**

	1998/ 1999	1999/ 2000	2000/ 2001	2001/ 2002	2002/ 2003
<b>Offences (000)</b>					
Property	4,303.7	4,410.5	4,260.8	4,525.1	4,694.0
Violent	605.8	703.1	733.4	813.3	991.8
Other	199.6	187.6	176.6	186.9	213.7
<b>Total</b>	<b>5,109.1</b>	<b>5,301.2</b>	<b>5,170.8</b>	<b>5,525.3</b>	<b>5,899.5</b>

Number of offences per 100,000 people	9,785	10,111	9,814	10,440	11,327
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*Source: Home Office Statistical Bulletin 07/03*

In Scotland, which classifies crimes slightly differently, there was a slight upturn in the overall crime level in 2002, but the general trend since 1998 has been rather better than in England and Wales, with a continuous fall in the number of recorded crimes of 'dishonesty'.

**Table 2.4: Number of Notifiable Criminal Offences Recorded by the Police in Scotland (000), 1998-2002**

	1998	1999	2000	2001	2002
Dishonesty	275.4	276.2	260.9	239.9	235.7
Violence (non-sexual)	14.3	15.5	15.2	15.1	16.5
Other	141.9	144.0	147.1	166.1	174.8
<b>Total</b>	<b>431.6</b>	<b>435.7</b>	<b>423.2</b>	<b>421.1</b>	<b>427.0</b>

Source: Scottish *Executive Statistical Bulletin*, Criminal Justice Series CrJ/2003/3

### Retail Crime

The regular surveys conducted on behalf of the British Retail Consortium provide information on the cost of crime to the retail sector. In 2002, the sector's losses from crime, mainly from stolen or damaged goods or from damage to property, totalled £1.7bn. On top of this figure, an estimated £540m was spent by the retail industry on crime-prevention measures.

**Table 2.5: Cost of Crime to Retailers (£bn), 1998-2002**

	1998	1999	2000	2001	2002
Losses from crimes	1.39	1.62	1.76	1.80	1.70
Spending on crime prevention	0.55	0.61	0.76	0.61	0.54
<b>Total</b>	<b>1.94</b>	<b>2.23</b>	<b>2.53</b>	<b>2.41</b>	<b>2.24</b>

*t — does not sum due to rounding*

*Source: Retail Crime Surveys, British Retail Consortium*

Customer theft accounted for 44% of losses in 2002, with staff theft taking a further 37%. Security staff, company employees and contract services account for a large proportion of retailers' spending on crime prevention: 59% in 2002, according to the survey.

### **Fire Statistics**

The incidence of fires varies from year to year, and the relatively large numbers of fires attended in 2001 and 2002 (see Table 2.6) are not necessarily significant. The most dangerous and damaging fires are usually those in buildings, and these show less fluctuation.

There was an 8.5% fall in the number of fires in buildings between 1999 and 2002. The decline was mainly due to a reduction in the number of fires in dwellings, which occurred in spite of the fact that the number of dwellings is increasing. This may be a sign of improved home safety, but it is too early to be sure that it will be a lasting trend.

**Table 2.6: Number of Fires Attended by Fire Brigades and Number of Fires in Buildings in the UK (000), 1998-2002**

	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
Fires attended†	409.7	468.8	476.5	546.8	519.4
Fires in buildings	112.9	115.9	112.7	112.7	106.0

*t — excluding false alarms*

*Source: Fire Statistics United Kingdom 2002, Office of the Deputy Prime Minister, © Crown*

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Further statistics on the incidence of fires are shown in Chapter 9 of this report — Fire-Protection Equipment.

Although the official statistics are limited to fires attended by the publicly funded fire brigades, private fire brigades also provide a substantial demand for fire-fighting equipment and chemicals. These private brigades are owned by some of the high-risk industries, such as petrochemical, marine and defence.

### **Ageing Population**

The UK has a gradually ageing population: the birth rate has fallen and people are generally living longer than they did in the past. Since most older people prefer to live in their own homes for as long as possible, this means that there will be increased demand for personal protection systems.

### **Public Attitudes to Privacy and Protection**

Local and national authorities have to strike the right balance between privacy and protection. In the UK, the general public has been very tolerant of the use of CCTV cameras, accepting (on the whole) that their benefits justify the intrusion of privacy. However, public acceptance still has to be borne in mind when positioning new cameras.

The next big area for attention is biometric security. Again, there seems to have been little objection to the devices that have been introduced so far. However, more widespread measures, such as the introduction of compulsory identity cards with fingerprint data, are of much greater concern.

### **The Environmental Impact of Security Products**

Security has to be achieved without making public areas look ugly and depressing. Security decisions that can occasion local concern include the choice of school security, the type of shutters that shops are allowed to use, and the style of CCTV cameras and support masts.

Another planning issue concerning security is the desirability, or otherwise, of private 'gated' communities.

## **TECHNOLOGICAL FACTORS**

### **Keeping Ahead of the Criminals**

Technical innovation occurs constantly in the security industry, although much of this goes unnoticed by the public. Locks, safes, mechanical and electronic vehicle security products, retail security systems and even fences and barriers are among the products that regularly undergo development and improvement.

### **The Environmental Impact of Fire-Fighting Chemicals**

Halon gases have now been banned except for very specialised uses. Several alternatives exist, but new products are still being developed.

Damage to the ozone layer is not the only environmental issue. Water can cause tremendous damage to equipment, works of art, books, etc. when it is used as an extinguishant, so alternative products need to be available.

### **Data Transmission**

The use of electronic security products offering Internet Protocol (IP) data transmission is increasing, but growth in this sector is being held back by a lack of understanding among customers and by a lack of expertise on the part of some installers.