

Drive for Glory...but Putt for Profit

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This month we are going to have a look at some economics, and specifically about making money (something that most of us are interested in!). There is a saying in golf that you drive for glory but putt for profit, ie the drive is the dramatic bit, but it is the putting that makes the difference between champagne and lobster or fish and chips. In business it is much the same, but you can replace 'driving' and 'putting' with 'turnover' and 'profit'. There is something in all businesses, but particularly, or at least so it seems, in the security industry that likes to crow about the turnover whilst paying almost no attention to what seems to be the obvious question of 'How much money are we actually making out of this?'. Although it is (slightly) understandable if we are talking about small companies that are trying to create a name for themselves, when a company as large as ArmorGroup starts to get into trouble, then it is probably worthwhile asking a few questions. If you are not aware of their story, here are the basic figures.

In the first half of 2006, ArmorGroup increased turnover by over 30% (to USD \$ 134m), yet total profits fell by 20% to only USD \$3.7m – causing a fall-off in share prices by over 40%. These numbers meant that they were operating in a basic profit ratio of about 2.5%, and as anyone who knows anything will tell you, you can't run a business on that.

Having won the Kabul US Embassy contract (USD \$190 million), the figures that were published just before ArmorGroup was bought by G4S in March 2008 showed that in the previous year turnover had risen by 8% (to USD \$295m), yet profits more than halved to USD \$8.4m.

The company was then bought for £43.6m (USD \$85m) by G4S , who were happy to buy a world-wide company that could increase its global scale as well as range of services for what was in effect a knock-down price.

So, as always, what can we learn? The first thing is that you have to decide whether you are going to be a big company or a little company. A wise man said to me many years ago, in business it doesn't really matter how much you make, it is how much you spend that brings you down. If you are going to have the fancy offices, the corporate fish tank, two receptionists and six people on company cars – then the pressure is on to pay for all of that out of profit (after tax!) If you keep it simple, keep 'non-productive' personnel to the minimum, and make sure that everyone is involved in making the company profitable, then you are in with a chance.

In the SIA launch event in London in 2003, Thomas Berglund, president and chief executive of Swedish guarding contractor Securitas Security Services, predicted that the result of the SIA would be increased professionalism within the security industry, higher training and personal skills, as well as a raise in wages to around £15.00 per hour (ie, close to double what was then the norm). He also predicted that security service providers would be competing with each other on skills and standards rather than price. Even at the time this seemed slightly fanciful (that is diplomatic speak for 'What sort of fairy dust has he been smoking?'). In a classic competitive economy, especially where the customer holds the power, it is much more likely that the customer will say 'Rather than use you on three of our sites, we will use you on seventeen of our sites – but you must drop your prices'. It is a tough business decision to make to look at that increase in turnover by 600%, but still realise that the profit is almost zero, and that it is better to walk away.

So how do you find the balance? It is true that there is still a place for quality to be offered at a premium price, but if you are going to do that then you need to make sure that all of your other service provisions are also in place. The secret of effective business is to find the balance between mass production where you have little if any personal contact with your client, and the 'concierge service' where you are almost providing a personal one-on-one support. In business, in most cases, it is the personal relationship that is important – people like doing business with people that they like – and if you get that bit right (as well as actually delivering what you promise when the crunch comes), then the likelihood is that you will get the business and will also make some money at the end of it – and if you can do that, then you are always in with a chance.

