



The Unforeseen Cost of Low-Priced Security

by Lenny Holden
Area Manager
Securitas Thailand

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Most of us have utilized the services of a babysitter. When deciding on what babysitter to utilize, did you send out a notice asking potential babysitters for their hourly rates and then select the babysitter who would perform the required services the cheapest? Probably not. Instead you most likely asked around and tried to identify a babysitter others recommended, then you interviewed the babysitter to gauge their experience, and just importantly determined during the interview can you trust this babysitter with your children and in your house alone. This is the prudent process for selecting a babysitter.

Yet many companies when needing security services to look after their business, their property, and their staff, will merely contact security companies sight unseen and contract the lowest bidder. The soliciting company hands over the keys to their business (their kingdom) to another 3rd-party company based solely on the fact that this company provides the cheapest services. This process does not appear sensible, yet so many companies to include hotels and resorts, factories, and even residential communities do just this. There are no queries concerning the out-sourced security company's experience, level of trustworthiness, training of security, liability, etc... - the only important consideration is that the out-source company can provide the best price per guard. [*The soliciting company in these instances is most likely getting a manpower provider, not a security provider.*] In due course the questioning of the out-sourced security company's experience, training, and trustworthiness eventually come; however normally at a time after the security contract is awarded and an incident occurs.

The "lowest-priced bid" approach would be relevant if all security companies were alike or if perhaps there was a security certification process or even regulatory guidelines and standards that security companies must obtain before providing security services. But that is not the situation – at least not in Thailand. There are literally 1,000's of security companies in Thailand, but only a hand few operate professionally based on international standards - and (btw) these few are not the cheapest. The bulk of Thai security companies are local area based, operated family style by someone who was most likely formerly in the police or military. Since there are no need for certification or standards in Thailand, many local companies do not



adhere to any sensible standards or guarding requirements as they would merely add to their cost.

Such local and even some of the larger security companies who offer cheaper rates are not doing so because they are operating more fiscally or are compromising on their profit margins. Conversely most of these companies offering cheaper rates achieve much higher profit margins than the properly run companies because they save in costs. Examples of their cost savings (which we know from our experience in replacing such local companies) includes:

- Employing foreign nationals. By Thai law a security officer must be a Thai citizen. Many companies employ foreign nationals (illegally) and then pay them less than minimum wages knowing these illegal workers cannot file a complaint against the company. Of note some more “robust” companies who provide bundled services also hire foreign nationals as cleaners (which is allowed in Thailand), but then post them as security guards (again not allowed).
- Employ underage and senior citizens. Companies employ teenagers or senior citizens at rates far less than minimum wages knowing that such employees will not petition the labour court for fear of losing their jobs.
- Employing workers with criminal backgrounds or who have been terminated by proper operating security companies. Because many local companies do not pay minimum wages, most eligible security officer workers will not seek employment with them. Instead companies not paying proper wages must meet their manning requirements through hiring persons who cannot find legitimate work elsewhere to include former criminals or “undesirables.” An example of Improper Company Wages in comparison to Proper Company Wages is reflected in the table on the next page (wages are based on a 12-hour shift).

Security companies paying foreign, underage or senior citizen sub-standard rates also save costs on social security and worker compensation and benefits as none of these employees are properly registered.



	Improper Company	Proper Company*
Daily Wages	380	450
Social Security	0	16
Benefits	0	16
Training	0	38
Inspector / Management	5	20
Total	385	540
Charge out Rate	600	733
Profit	215	193
Profit Margin	35.8%	26.3%

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Sample Cost Savings / Increased Profit of improper-operated companies

Other differentiators between improper and proper companies which impact their internal cost, performance, and allow them to offer security at “cheap” rates:

- Do not provide proper initial training and definitely no recurring sustainment training to their security officers. Their security officers “learn as they go.”
- Lack Insurance coverage. Many local companies do not carry proper insurance coverage - another cost savings. In the event of an incident in which the security company may be liable, the company will initially attempt to avoid paying the liability and if it cannot, will file bankruptcy and create a new security company under another name.
- Lack security systems. Today’s security consists of a multitude of security systems to supplement manned guarding. Local security companies normally do not have the capital or cash flow to enable them to invest upfront in the cost to take advantage of such systems.

There are companies (customers) whose management teams when confronted with the illegal and inappropriate practices of many security companies will say that this is not their problem. “We require them by way of contract to abide by Thai laws” – if they do not the contracting company



has plausible denial. Such management in essence are contracting the security company to enforce laws and regulations on their property knowing that the security company does not follow rules on their own accord. It makes no sense. If and when an incident does occur, repeated media reports demonstrate it is not the security company that is the news, but the contracting company's brand name. Obviously the goal is to avoid any incidents, let alone bad media, to begin with AND that begins with a proper security company – which in most instances is not the cheapest.

There are also hidden (additional) cost when contracting low-priced security. Traditionally lowest bidding security companies winning the bid:

- Have High Turn-over. Security officers who earn less regularly switch companies, leading to high turn-over.
- Work Extended Shifts. High turn-over leads to security officers working extended shifts (18 to 36 hours) [you are paying for ineffective security after 12 hours].
- No Site Experience. High turn-over leads to new security never getting past the learning curve nor understanding your procedures & security processes.
- Lack Creditability / Authority. Seeing a new face on post results in your staff quickly losing respect and confidence in the security company. Increased internal staff problems (fights, theft, contraband, etc..) may ensue.
- Contracting Company's Risk Increases. Security personnel you pay to protect your premises include undesirables who may take advantage of their access to your facilities and property.
- Stagnate Security Program. Since the security company cannot invest in systems, only low-paid manpower, it is not prudent for the security company to recommend equipment or technology to supplement security personnel or improve the overall security program.
- "One Year "Bait-and-Switch" Contracts. High turn-over, extended shifts, lack of training results in your company regularly changing security companies. Always going back to square one – no growth / improvement. Adds precious (limited) work time to your procurement, management, and human resources personnel.



- Your boss may question your decision-making capabilities / wasting money on ineffective services.

Who in your company decides on what security company to contract? Regularly in our experience the decision resides with the Financial Controller - and again the decision is primarily cost related. With some contracts the Owners or Human Resources Manager selects the security company and again it is a cost-related decision. Does it make good security sense for the Financial Controller or the HR Manager to select security?

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There are other services / needed items a company contracts. For example a hotel will decide on what meat vendor to select for its restaurants? Will that be the decision of the Financial Controller? Will the driving decision factor be cost over quality? Can you imagine a fine hotel going onto the Soi to buy its chicken from a street vendor? Although this is probably the cheapest solution it is probably not the way meat is procured. Instead it is most likely the F&B Manager who is an expert in this area who will select the appropriate vendor and that is after extensive product comparison and behind the scene assessment looking at a long list of criteria such as how the vendor gets the meat, how do they store it, how do they ship it, etc.... What about your reception area / lobby? Who is left to decide on the design aesthetics of your reception area? Is it your Financial Controller who makes a purely cost-related decision? Probably not. Normally you will contract out a professional interior designer or perhaps use your own Corporate design team to create a good first impression for those who enter your premises. But remember prior to your staff and guest entering your reception area they have to pass by the contracted security first. At most company premises it is the security at the entrance who establish the first impression for your company. Do you want that impression to be cheap and unprofessional? When it comes to important contracting decisions you will normally defer to the subject matter expert. Is security of your premises and staff also important?

None of this means security should be utilized regardless of the cost – or the most expensive security company is the best. Security still remains a cost, a line-item on your P&L that has to be considered / budgeted for. However initially instead of focusing on the cost, focus on why are you going to pay for the service?



What are your security requirements?

- Conduct a self-assessment and identify your risks. (This process is described in detail in our Securitas Thailand 2015 Newsletters for February, March and April). Then determine
- Does your current security program properly negate (or at least mitigate) your risks? Have you experienced theft, shrinkage, incidents on your premises, etc?
- Can your security program improve?

What comes first: the risk analysis or the budget? The budget cannot define the risk; risks define the budget.

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When soliciting for a security provider, so many companies merely replicate the security they currently have and use these (manning) numbers, and perhaps security posts as the basis for their inquiry / RFP. These companies are living in the past. Look to the future. There have been great leaps in security-focused technology systems. Concurrently manpower labour rates are constantly on the rise. It is quite possible that you can reduce your security budget and increase your security effectiveness through a combination of security manning supplemented by appropriate security systems. Defer on copying "the way you always do it" and allow for alternative approaches to properly (and professionally) secure your premises.

You will need to decide on which potential company to hand over your "keys to the kingdom," and entrust them with the safety and security of those who rely on you. Do you start with the Internet or an advertisement you saw in a magazine? Not a good idea. When considering potential security companies consider:

Peer conversations. Before you start the RFP process, a good practice is to contact those businesses similar to yours and in your area to see which security companies they recommend you consider and perhaps just as importantly which security companies to avoid.

Visit the Security Companies. Most likely security is not your organization's core mission. Visit select recommended security companies and get first-hand knowledge of their operations and capabilities before deciding which security companies will bid for security of your company. Seek out their professional security consultancy. Discuss your anticipated security requirements and allow the security company to make prudent / cost



effective recommendations to refine your RFP and inevitably improve your security program.

Once you have identified your security needs, included what security features you would like to improve, and have identified potential professional security providers, you are prepared to design your request for security (or if you utilize the RFP process). Your RFP will be a tool to do cost comparison. Keeping in mind that all security companies are not alike, the RFP should solicit not only cost-related information, but also background information on the company and its approach to security. This will enable you to better compare like-for-like.

RFPs should:

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- **Site Assessment.** Allow the security bidder to properly assess the site, take into account the threats and risks, observe each security post and the associated requirements, review the existing security systems, and assess the requesting company's security process and procedures. [The site assessment may also occur prior to the RFP during the selecting a security company phase which could also assist in defining / refining the RFP.]
- **Alternative Solutions.** Enable the security bidding company to submit alternative solutions and/or provide a collaborative proposal, not just a "man-for-man" quote.
- **Compliance.** Require the bidding security company to abide by Thai laws regarding their employees.
- **Background Checks.** Insist the winning bidder agree to provide proper identification and background checks on the security staff they intend to position at the company.
- **Wages.** Set the minimum wages for the security officers positioned at your site to ensure the security companies participating are paying legal and appropriate wages. (Be aware of industry standards)
- **Location / Response.** Determine if the security company has a nearby presence which includes decision makers at your location.
- **Surge.** Determine if the security company can provide additional security manning (and systems) in the event of a short-notice emergency or an increased requirement or risk.



- Liability. Require the security bidding company to provide current proof of insurance.
- References. Require the security bidding company to provide a list of their security customers with business similar to the soliciting company or in the same geographical area.
- Key questions. Require the security company to submit for your consideration:
 - How does the security company differentiate itself from competing security companies?
 - What are the company's key performance indicators (KPIs) or measurements of success?
 - How does the security company recruit? What is their screening process? Does it include criminal checks, drug tests, etc...?
 - What is the security company's training program? Can the soliciting company observe the training?
 - Does the security company recognize successful staff? How? Give examples.

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Final Thoughts:

Security isn't merely guys in a uniform. Security is not a commodity*.

Security and your P&L. Security does not just have to be a cost center. Proper security should be able to increase select revenue lines and quantifiably (not conceptually) reduce costs of others.

Our Security / Your Ambassadors. The out-sourced security company's officers will be seen by your staff and guests more often than you or your key staff. The security officers will represent your image and brand.

You get what you pay for. In the end employing the lowest bidding security company can not only degrade security standards, they can actually prove more expensive.

* Commodity is a product or service without qualitative differentiation across the marketplace.