

SECURITY MARKET INDEX

A Bimonthly Measure from the Security Industry Association

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Change in Confidence Since July Index:
▲ More ▼ Less ■ No Change

The Security Industry Association (SIA) represents and advocates for the electronic, physical security and life safety markets by providing education and training, government relations, research, and technical standards. SIA members are involved in several market segments, including CCTV, access control, biometrics, computer security, burglar alarms, and home automation, just to name a few.

SIA develops research that is of practical value to its members in the day-to-day operation of their business. It effectively lobbies for industry positions that are beneficial to industry stakeholders, including government, law enforcement, standards and conformity assessment sectors. For more information on SIA's research and technology programs, products and services, contact Ron Hawkins at (301) 804-4713 or rhawkins@securityindustry.org.

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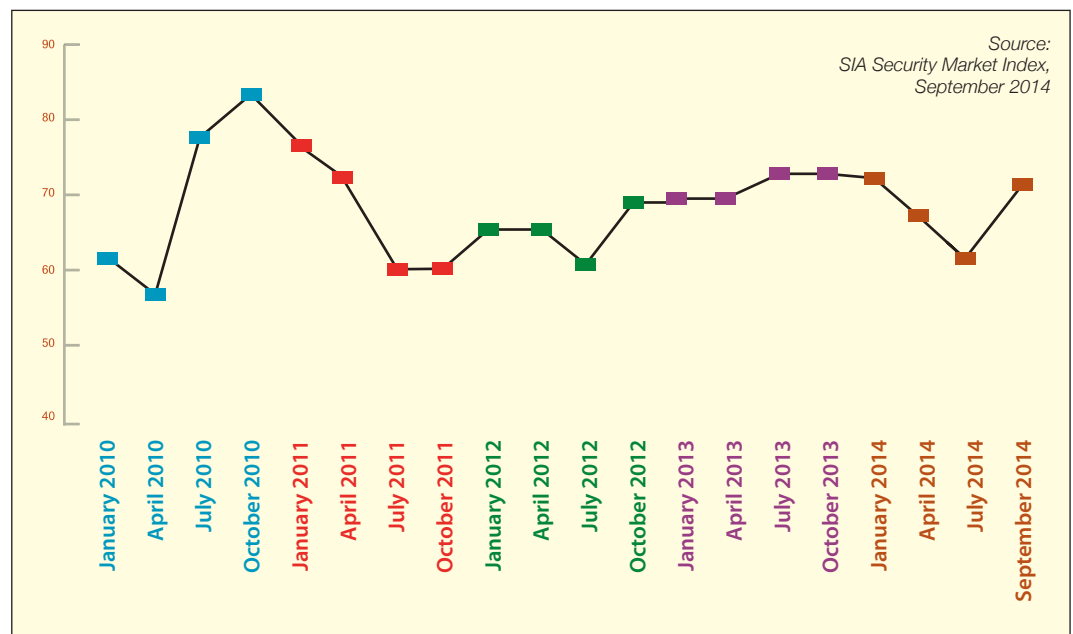
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Turning Point or Typical Autumn Lift? Security Market Index Climbs Strongly

The six-times-a-year Security Industry Association Security Market Index hit 72.3 in September 2014, as compared to the previous July 2014 Index of 62, the latter reflecting a cooler outlook compared to the latest, more business-comfortable Index.

Based on a survey of select SIA members, whose identities and individually-linked responses are held confidential, and conducted through the Web by an independent researcher, the Index was 67 in the First Quarter 2014 with a Fourth Quarter 2013 Index of 71.3, a bit of a gain compared with the Third Quarter 2013 of 71.1.

SIA Security Market Index, September 2014



Confidence hits an encouraging high mark in September 2014, climbing decisively from July 2014.

The strong September 2014 Index and its equally strong and fast gain from July 2014 may indicate a growingly robust security market. Similar economic indicators, ranging from The Conference Board Leading Economic Index (LEI) and the Realtors' existing home sales statistics to the quarterly survey of manufacturers by the National Association of Manufacturers, support the feeling that the security industry is at an encouraging turning point.

Still, over the years, past SIA Index surveys have shown a pattern of a Fall seasonal bump up as members get ready and attune their manufacturing, existing products, new introductions, marketing, sales and new order handling to major exhibitions such as ASIS International and ISC East.

Comments by September 2014 survey respondents are diverse, though most see the silver lining rather than any storm clouds. "Integrator and end user interest in improving their security technologies bodes well," wrote one security video manufacturer. "Residential, driven primarily by security, now has expanded value with energy management and easier-to-use smart home features," stated another.

Overall Rating of Current Business Conditions of Company

	Excellent	Good	Average	Fair
September 2014	36%	39%	14%	10%
July 2014	30%	36%	17%	12%

Source: SIA Security Market Index, September 2014

More Index respondents believe their own firm's business conditions are excellent to good in the September survey as compared to the July 2014 survey results.

"Corporate top management now realizes risks better and supports more physical and cyber security efforts," added yet another.

The enhanced SIA Security Market Index includes commentary from respondents, although the mentions are not attributed by the independent researcher to any specific person or firm so as to maintain confidentiality while urging openness.

In every survey, respondents are asked to rate current business conditions of their companies. And three-quarters (75 percent) rate conditions excellent or good. That favorably compares to July results in which two-thirds (66 percent) rated conditions excellent to good.

"Good news as market gains confidence moving forward."

The Index, overall, is a compilation of responses across ten types of products and services. Check elsewhere in this issue for a detailed description of the updated Index instrument. The most bullish sectors in September include access control, identity, residential, systems integration, security video and cybersecurity, more sectors rating current business conditions as high or higher than the group as a whole.

At the other end of the spectrum: those less bullish are fire/life safety, distribution, officer services and consulting, sectors similar to those in July 2014.

In another section of the September 2014 Index survey, when asked about expected business conditions in the next three months, respondents are even more buoyant as compared to July 2014. More than one-third (35 percent) expect much better business conditions while 41 percent expect things a little better. The most near-term

upbeat: access control, cybersecurity, identity, systems integration, security video and residential. "Expecting faster move from analog video and attraction to HD in certain applications." Another respondent: "Consolidations, broadband players, mass market and DIY will impact us one way or the other."

In the longer term, survey respondents – when asked what they expect over the course of the next 12 months specific to their company's aggregate level of capital spending for both plant and equipment/services – are more encouraging than in the previous July 2014 survey. Overall, 55 percent (as compared to 45 percent last Index) expect such spending to increase while another 35 percent in September 2014 (46 percent in July) expect spending to remain the same.

The SIA Security Market Index consists of respondent expectations of their firm's increase, decrease or remaining the same over the next three months in nine categories:

- Number of Employees or Hours Worked
- Marketing Spending
- Product Production/Service Output
- Capital Equipment Spending
- Product Inventories/Service Backlogs
- R&D Spending
- New Product/New Service Introductions
- Product/Service Sales
- New Orders/New Contracts

On a six-times-a-year basis, a representative panel of high level executives who are members of the association participate in the SIA Security Market Index survey.

The SIA survey, started in 2004, can provide an even better understanding when viewed in conjunction with other ongoing measurements such as the latest Conference Board Leading Economic Index (LEI), the Realtors' existing home sales statistics and the quarterly survey of manufacturers by the National Association of Manufacturers (NAM).

For instance, The Conference Board LEI for the U.S. increased 0.9 percent in July 2014 to 103.3 (2004 = 100), following a 0.6 percent increase in June and a 0.6 percent increase in May.

"The LEI improved sharply in July, suggesting that the economy is gaining traction and growth should continue at a strong pace for the remainder of the year," reports Ataman Ozyildirim, economist at The Conference Board. "The pace of economic activity remained reasonably strong in July," adds Ken Goldstein, also a board economist. "Although retail sales were a little disappointing, hiring and industrial activity improved. July's increase in the LEI, coupled with its accelerating growth trend, points to stronger economic growth over the coming months."

Percent of Respondents Saying They Will Increase Activity or Dollars In:

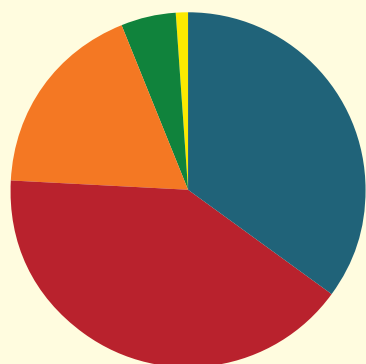
	Sept 2014	July 2014	1st Q 2014	4th Q 2013	3rd Q 2013
New Orders	71% Increase	56% Increase	61% Increase	68% Increase	72% Increase
Product/Service Sales	69% Increase	52% Increase	65% Increase	70% Increase	71% Increase
New Product Intro	61% Increase	55% Increase	53% Increase	49% Increase	59% Increase
Employees/Hours	59% Increase	40% Increase	41% Increase	44% Increase	47% Increase
Capital Equip Spend	44% Increase	33% Increase	30% Increase	27% Increase	31% Increase

Source: SIA Security Market Index, September 2014

New product introductions and number of employees or hours worked are among nine elements explored in the Index and both these elements show a healthy increase compared to previous surveys.

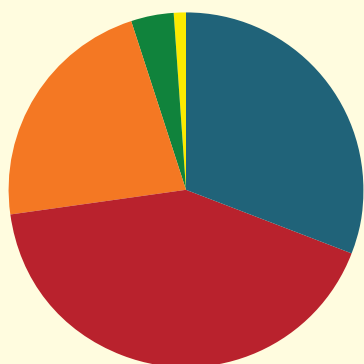
Expecting Business Conditions for Company in Next Three Months

September 2014



Much Better	35%
A Little Better	41%
No Change	18%
A Little Worse	5%
Much Worse	1%

July 2014



Much Better	31%
A Little Better	42%
No Change	22%
A Little Worse	4%
Much Worse	1%

Source: SIA Security Market Index, September 2014

With Index respondents expressing continued and steady confidence in business conditions in the next three months, some still feel outside elements can impact the near-term future.

When it comes to the residential security, smart home and home automation markets, growth depends to a large degree on new construction and sales of existing homes – two areas where security and automation decisions are made by a builder or home buyer.

So the good news from the National Association of Realtors (NAR) – existing home sales increased in July to their highest annual pace of the year while the ongoing decline in distressed sales reached an important milestone – means good news for the security market, too.

Total existing home sales, which are completed transactions that include single-family homes, townhomes, condominiums and co-ops, rose 2.4 percent to a seasonally adjusted annual rate of 5.15 million in July 2014 from a slight downwardly-revised 5.03 million in June. Sales are at the highest pace of 2014 and have risen four consecutive months.

Lawrence Yun, NAR chief economist, says sales momentum is slowly building behind stronger job growth and improving inventory conditions. “The number of houses for sale is higher than a year ago and tamer price increases are giving prospective buyers less hesitation about entering the market,” he comments to the SIA Security Market Index. “More people are buying homes compared to earlier in the year and this trend should continue with interest rates remaining low and apartment rents on the rise.”

When it comes to U.S. manufacturing, there is complementary good news, too. For example, the Second Quarter 2014 National Association of Manufacturers (NAM)/ IndustryWeek survey of manufacturers saw the highest expected sales (up 4.1 percent) and capital investment (up 2.3 percent) figures in two years. Manufacturers also see an improving economy (75.1 percent), new product development (57.3 percent) and increased efficiencies in the production process (48.6 percent) as the biggest drivers for future growth. ■

The Index, with Ongoing Member Input, Emphasizes Confidence Measurements, Product/Service Specifics

With the previous July 2014 Security Market Index, up to then called the Business Confidence Index, changes aim at making the Index even more useful as well as more customized to sectors of membership based on type of product and service. In another change, the Index will be conducted every two months with the September 2014 issue and going forward in November, January, March, May and July issues.

A panel of top SIA member executives, representing total SIA membership minus media, exhibit firm and other association representatives, has been established and will be surveyed consistently. And responses will be both totaled overall as well as counted within product and service sectors.

The enhanced Index survey now contains space for respondents to provide comments at the end of each question. Comments, when used, will not be attributed to any individual or member firm. In fact, and since 2004, completed survey results are provided as a compilation to the Security Industry Association and do not nor have they ever identified individuals or their companies. The long-time

researcher, Maddry Associates, only reports total percentages.

In addition, the Security Industry Association can add additional once-only questions related to programs, issues, legislation, regulations, economics or other elements of topical interest. ■

The new and enhanced SIA Security Market Index reports on overall confidence as well as specifics within ten types of products and services of member firms. Current and past issues are free to members at www.securityindustry.org.



SECURITY VIDEO

Seemingly Everywhere, the Picture is Rosy with a Touch of More Intense Competition

Among types of product and service firms surveyed for the SIA Security Market Index, a hefty

video essential.” And, “Marketing now reflects IT’s involvement.”

No doubt, the prolonged migration from analog to network video surveillance, coupled with continued expansion in use of video surveillance, has sustained growth rates, as emphasized in the Index as well as other complementary market studies. At the same time, there is growth in IT components often used in larger network designs as indicated in a comment by an Index responder. One example: Ethernet

So the growing size and complexity of video surveillance networks fuel growth for Ethernet switches as part of infrastructure needs, often chosen and/or maintained by an end user’s IT area.

Getting back to an Index respondent’s comment relative to IT equipment makers working with security video vendors, field reports and research studies found that a number of Ethernet switch manufacturers have started producing lines of products tailored for use in video surveillance

“Growth continues; emphasis on more sophisticated systems.”

applications, sometimes in the form of a partnership. Such partnerships are likely to lead to video surveillance being increasingly incorporated on wider networks with more than one purpose. The latter trend is also validated by distributors surveyed for the September Index.

Current Conditions – September 2014

	Security Video	Overall
Excellent	42%	36%
Good	43%	39%
Average	7%	14%
Fair	8%	10%
Poor	0%	1%

percentage (85 percent) of security video sector executives rate their firm’s current business conditions as excellent to good. No one surveyed in this group rated their business conditions as poor. And about the same percentage (86 percent) expect their firm’s business conditions in the next three months to be much better of a little better.

Still, some security video vendors remain cautious as integrators and end users decide to move more decisively to IP networking, higher definition and various levels of analytics through an enlarging number of competitors. Video is an increasing component in residential systems but the sector views DIY as a potential element to expanding professionally installed.

For the September 2014 Index, respondents to the security video section provided the highest number of comments. Among them: “IT [industry] manufacturers are now more often looking to me.” Another: “My clients see PoE as a network

switches in video surveillance applications and linked to Power over Ethernet (PoE). Of course, most networked security cameras have PoE capability with – thanks to an Index comment from a systems integrator respondent -- end users only just realizing the full potential. The result: Integrators are designing video surveillance networks with PoE Ethernet switches as standard.

Marketing Spending

Increase – Sept 2014	39%
Increase – July 2014	41%
Remain Same – Sept 2014	52%
Remain Same – July 2014	41%

New Product Introductions

Increase – Sept 2014	66%
Increase – July 2014	57%
Remain Same – Sept 2014	29%
Remain Same – July 2014	36%

Respondents representing security video providers also showed:

- A 70 percent increase in number of employees or hours worked;
- Sixty-five percent of respondents say they expect to increase product production in the next three months, as compared to July’s 46 percent;
- An increase in product sales (76 percent compared to July’s 57 percent); and
- An increase (74 percent as compared to July’s 64 percent) in new orders.

Among comments:

**“State and local buying seems
to be picking up.”**

**When it comes to residential uses,
“DIY, broadband and big box stores
could float all boats.”**

ACCESS CONTROL

Continued Growth, Tech Advances, Upgrades and More Integration to Come

Respondents to the SIA Business Confidence Index who represent firms primarily providing electronic access control products, systems and software are very bullish over current business conditions: 78 percent rate their firm's condition as much better or a little better as compared to 66 percent in July 2014.



Respondents representing access control providers also showed increases in:

- Marketing spending at 43 percent compared to 40 percent in July 2014;
- Product production at 61 percent as compared to 44 percent in July 2014;
- New production introductions at nearly two-thirds at 64 percent; and
- Product sales at 63 percent.

Comments from access control sector respondents covered many bases from mobile technologies and wireless locks to hosted access control and multi-technology readers. One comment: "We see more default to readers with both proximity and smart card." In addition, another comment was: "My

preconfigured to offer both proximity and smart card technology. This allows integrators and their clients to future-proof, suggests another respondent comment. Many end users opt for the approach, regardless of current needs. Beyond availability of multi-technology readers that are compatible with proximity and smart cards, multi-technology readers are also being offered with a mix of keypads, proximity, smart cards, biometrics and, in some cases, magnetic stripe.

R&D Spending

Increase – Sept 2014	57%
Increase – July 2014	23%
Remain Same – Sept 2014	33%
Remain Same – July 2014	65%

Concerning higher security when it impacts federal government employees and federal government contractors, the latest smart card specification has been released by the National Institute of Standards and Technology -- the revised FIPS 201-2 standard. This helps drive the market for high-assurance readers in the government space. Other government programs such as Global Entry also help drive growth for access control technologies such as biometrics to verify identity and confirm status as a Global Entry participant. Global Entry is a U.S. Customs and Border Protection program that allows expedited clearance for preapproved, low-risk travelers upon arrival in the United States.

Business Conditions Expected in Next Three Months:

	Much Better	A Little Better
Access Control – Sept 2014	44%	34%
Overall – Sept 2014	35%	41%
Access Control – July 2014	34%	33%
Overall – July 2014	31%	42%

When it comes to the next 12 months concerning the aggregate level of capital spending, respondents representing access control sources are among top sectors, with 51 percent expecting that spending will increase.

clients are requesting higher level security as well as more integration with mobile devices and security and building control systems." In expanding on the multi-technology readers comment, more readers come

Among comments:
"Vertical markets have appeal... healthcare, colleges and universities with specialized access gear and needs."

SIA Government Relations: Member Involvement, Member Benefits

Member Participation Opportunities – SIA’s Government Relations department welcomes active participation by SIA members in government relations groups and regular publications. To learn more about these opportunities, contact SIA at (301) 804-4700 or visit www.securityindustry.org. SIA Government Relations working groups focus on biometrics and identity, critical infrastructure protection, procurement policy, PIV, and state and local policy.

IDENTITY

Going Beyond Traditional, Uniquely Blurring Lines Among ID, Access and Cyber

It turns out for the better that, according to SIA members in this sector who were surveyed for the Index, identity management continues its climb upward with government users, corporations as well as schools, healthcare and transportation. Respondents are more confident in September 2014 as compared to the previous Index survey. One example: Seven in ten respondents (70 percent now as compared to 65 percent in July 2014) rate current conditions excellent to good. And 38 percent of identity respondents as compared to 35 percent overall expect much better business conditions in the next three months.

In the next 12 months, concerning aggregate level of capital spending:

	Increase	Remain the Same
Identity – Sept 2014	57%	35%
Overall – Sept 2014	49%	41%
Identity – July 2014	50%	42%
Overall – July 2014	45%	46%

Respondents representing identity management providers also showed increased expectations the next three months in:

- Number of employees or hours worked at 66 percent now as compared to 42 percent in July 2014;
- Product production at 57 percent now compared to 42 percent in July 2014;
- Sixty-one percent say R&D spending will increase in the future; and
- Product sales increase by 65 percent of Index respondents in September 2014.

Among comments:

“We have moved mostly into software-based solutions.”

“Will nongovernment embrace identity technologies as government facilities and networks have?”

FIRE/LIFE SAFETY

Solid Business But Hinging on New Construction, Upgrades

It's the code. So most present end users have met the codes with technology. Still, technology advances and emerging



applications – mass notification and personal devices, to name two – are encouraging more growth. But 61 percent (as compared to 63 percent in July 2014) of respondents to the SIA Security

Business Conditions Expected in Next Three Months:

	Much Better	A Little Better
Fire/Life Safety – Sept 2014	28%	34%
Overall – Sept 2014	35%	41%
Fire/Life Safety – July 2014	29%	36%
Overall – July 2014	31%	42%

Concerning their expectations over the next three months, respondents representing fire and life safety providers showed varied expectations in:

- New orders with 42 percent now as compared to 41 percent in July 2014;
- But less marketing spending in September 2014 with 33 percent expecting an increase as compared to 36 percent in July 2014; and
- Product sales with a dip to 41 percent as compared to 49 percent in July 2014 saying they expect an increase in sales in the next three months.

Among comments:

“It's time to improve the quality, reliability and value of fire and life safety systems.”

CYBERSECURITY

With Increased Risks, More Attention to Data Protection

There continues to be a blending of physical and information/network/computer security, especially with the increasing use, storage and retrieval of big data. Respondents to the SIA Security Market Index survey who identify their company as providing cybersecurity products, systems and software persist in expecting very strong growth and a blending among traditional and emerging security schemes.

For instance, when asked to rate their current business conditions, 79 percent (as compared to 69 percent in July 2014) of these respondents have an excellent to good rating, one of the highest ratings in September. These respondents believe the near-term future is even more growth oriented.

Business Conditions Expected in Next Three Months:

	Much Better	A Little Better
Cybersecurity – Sept 2014	38%	40%
Overall – Sept 2014	35%	41%
Cybersecurity – July 2014	22%	45%
Overall – July 2014	31%	42%

Respondents representing cybersecurity providers also showed increased expectations in:

- New orders at 77 percent as compared to 55 percent in July 2014;
- Capital equipment spending at 57 percent as compared to 35 percent in July 2014;
- Increased expectation for new product introductions at 61 percent; and
- Product sales expected to increase at 77 percent as compared to July's 54 percent.

Recently the SIA Business Confidence Index survey asked all respondents: With increasing cybersecurity threats faced by end user enterprises and government agencies, what do you feel will be the impact on physical security? Most sectors split between “slow” and “fast” convergence, but – not surprisingly – cybersecurity respondents all chose “fast” convergence.

RESIDENTIAL

With Home Market Improving, Existing and Emerging Security, Automation Solutions Gain Traction

Professionally installed and monitored home security has always been a cornerstone of the industry. More



recently, with new home construction and existing home sales on the rise, the residential sector continues to grow and expand beyond alarms. When asked about current business conditions, 72 percent – about the overall expectation – rate conditions as excellent to good as compared to 66 percent in July 2014.

And more than four in ten (41 percent now compared to 28 percent in July 2014) expect business conditions to be much better in the next three months while another 42 percent expect things a little better.

Concerning the aggregate level of capital spending during the course of the next 12 months:

	Increase	Decrease	Remain the Same
Residential – Sept 2014	49%	13%	38%
Overall – Sept 2014	49%	10%	41%
Residential – July 2014	41%	10%	49%
Overall – July 2014	45%	9%	46%

Respondents representing residential security product, system, service and software providers also showed increased expectations in:

- Marketing spending at 49 percent now as compared to 43 percent in July 2014;
- Product production with 59 percent now compared to July's 41 percent; and
- R&D spending at 53 percent now compared to July's 37 percent.

DISTRIBUTION

Certifications, Product Evaluations, Choice of Product Lines Extend Attraction by Dealers, Integrators

As consolidations continue, DIY bounces along and the lines blur among security, home automation and IT/networking, SIA Security Market Index survey respondents who are in firms that distribute still expect somewhat consistent current business conditions, with 67 percent rating those conditions as excellent to good as compared to 63 percent in July 2014.



In the near future, about one-third of these respondents (32 percent as compared to July's 27 percent) expect much better business conditions in the next three months while 42 percent (as compared to July's 39 percent) expect an increase in their aggregate level of capital spending in the next 12 months.

Business Conditions Expected in Next Three Months:

	Much Better	A Little Better
Distribution – Sept 2014	32%	38%
Overall – Sept 2014	35%	41%
Distribution – July 2014	27%	45%
Overall – July 2014	31%	42%

Distribution respondents also showed increased expectations in:

- Marketing spending at 28 percent;
- Product inventories with 46 percent now as compared to July's 27 percent;
- New product introductions at 64 percent as compared to 54 percent in July 2014; and
- New orders at 55 percent.

SYSTEMS INTEGRATION

Tech Knowledge and Specialties Separate Integrators in End User Eyes

As products and systems get more complex behind the scenes while end users demand simpler solutions, the role of systems integration firms has become more crucial and, for the most part, pays off for this sector of the security industry.

The SIA Security Market Index has profited: When rating their firm's current business conditions, a hefty 89 percent (as compared to 71 percent in July 2014) rate conditions excellent to good, among the most impressive of all the sectors. In the next three months, 39 percent expect much better business conditions while 41 percent expect things a little better.

In the next 12 months, concerning aggregate level of capital spending, expectations will:

	Increase	Remain the Same
Systems Integration – Sept 2014	57%	38%
Overall – Sept 2014	49%	41%
Systems Integration – July 2014	44%	47%
Overall – July 2014	45%	46%

Systems integration respondents also showed increased expectations in:

- Number of employees or hours worked at 54 percent now as compared to July's 35 percent;
- Marketing spending with 44 percent in both September and July 2014;
- Product inventories at 41 percent above 35 percent in July 2014; and
- New product introductions with 74 percent now compared with July's 58 percent.

Among comments:

"It's a matter of translating among people at the project table. The better you can translate technology to business solutions, the better."

OFFICER SERVICES

Tight Labor Margins Lead to Diversified Services

It's not your parent's contract security officer service anymore. Some firms have transformed themselves into full-service business solution companies, providing everything from remote guard tours to technology-based integration efforts and beyond.



Just look at the challenging numbers: Below overall expectations, 61 percent (down from 65 percent in July 2014) Index respondents identified as providing officer services rate their current business conditions as excellent to good. In addition, 39 percent (compared to July's 41 percent) expect their firm's aggregate level of capital spending to increase over the course of the next 12 months.

Business Conditions Expected in Next Three Months:

	Much Better	A Little Better
Officer Services – Sept 2014	24%	25%
Overall – Sept 2014	35%	41%
Officer Services – July 2014	32%	38%
Overall – July 2014	31%	42%

Officer services respondents also showed increased or no change expectations in:

- Number of employees or hours worked at 35 percent, up from July's 28 percent;
- R&D spending at 32 percent, about the same as July's 31 percent;
- New product/service introductions down to 41 percent from July's 52 percent; and
- New orders at 45 percent.

CONSULTING

Cutting Through Myriad Issues While Risks Evolve, Clients Expect

Security consultants and specifying engineers continue to play a crucial role while being challenged as end users receive advice and direction from numerous other sources.



But, when asked to rate their current business conditions, 68 percent of the consultant respondents to the survey (as compared to July's 65 percent) say things are excellent to good. They are as positive (69 percent) when expecting much better or a little better business conditions in the next three months.

In the next 12 months, concerning aggregate level of capital spending, expectations will:

	Increase	Remain the Same
Consulting – Sept 2014	42%	50%
Overall – Sept 2014	49%	41%
Consulting – July 2014	38%	51%
Overall – July 2014	45%	46%

Respondents who provide security consulting services also showed increased expectations in:

- New product and service introductions at 42 percent now as compared to 35 percent in July 2014;
- Sales up at 57 percent as compared to July's 38 percent; and
- New orders at 42 percent now when compared to 31 percent in July 2014.

Among comments:

"There needs to be more new commercial, corporate and industrial construction."

BONUS:

It's a Scary World Out There

For the September 2014 SIA Security Market Index survey, respondents were asked "When thinking about the future of your business, what keeps you awake at night?" Multiple answers were accepted. The question was first asked to select SIA members in October 2012.

What Keeps You Awake at Night? Percent of Total Responses

	Sept 2014	Oct 2012
Challenges of Globalization	7%	5%
Finding the Right Marketing Approach	18%	19%
Government Mandates and Regulations	10%	12%
Keeping Up with Technological Change	42%	16%
Maintaining a Quality Workforce	14%	22%
Weak Economy	6%	22%
Other	2%	3%

"Keeping up with tech is today's headache."

