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**UPDATE #2**  
**COVID-19 and its Financial Effect on  
Contract Security Companies**



*Owners of contract security companies should be doing these things  
NOW to survive the troubling financial effects of COVID-19*

In a span of just about six weeks our world has been turned upside down. Retail sales have plummeted almost 20%. Unemployment is approaching the Great Depression levels. For the most part - air travel, public events, hotel stays, cruises, and in-store shopping have come to a screeching halt.

Some of the contract security companies that had a substantial amount of billable hours coming from these sectors have been able to replace the lost profits with special COVID-19 high margin services to existing and new customers. A May 15, 2020 article in the [Security InfoWatch](#) magazine reported that Allied Universal and G4S were looking to hire 45,000 additional security officers to handle the demand for additional security services resulting from the pandemic. A May 03, 2020 article in the [Canadian Press](#) reported that Garda's billable hours are up 25% over the past 8 weeks. While the executives of these companies can't predict exactly how long the ramped up demand will last, they were in agreement on the probability that much of the increase will last well past the end of our worries over the pandemic and some of the new or increased services may actually be permanent.

The vast majority of owners I interviewed, having an insignificant amount of their revenues coming from the aforementioned depressed sectors, reported little or no effect on their company's revenues due to the pandemic; at least for now. Which underscores the long standing theory that the contract security industry is recession resistant (but not recession proof). Unfortunately, there are also many contract security companies that have already lost, or will lose, revenue. They don't have the type customers requiring the additional high margin COVID-19 services to replace this lost revenue and, if they did, they don't have the technology or the financial resources to provide it.

These owners, whose companies are losing revenue, think their company will return to pre COVID-19 normal in just a few months - in effect, they are in denial and not in touch with reality. Most experts are predicting a recurrence of the pandemic during the winter months - to be more damaging than the current outbreak. All the experts have predicted permanent changes in the way we will do things and conduct our lives post COVID-19, having a lot to do with many brick and mortar stores; and small businesses closing their doors forever.

The owners of the contract security companies experiencing diminishing margins, with no clear path to improving, can survive the downturn; and remain profitable, if they take immediate action.

## ***Here are some of the things the owners should be doing NOW:***

### ***Embrace the Customers***

Many customers will be experiencing tough economic times and, although will still be needing security, they may have a hard time paying for it. The security provider should stay very close to these customers; through personal contact and by closely monitoring the payment history. As the uncollected days outstanding start to rise, the provider should talk with the customer and make sure the customer understands that although the provider may not be getting paid as fast as it used to, the security officers are still getting paid on their regular schedule. Thus, their slow (or no) payments are creating a large

financial hardship for the provider. Rather than terminate the customer, the provider might ask for a note to cover the outstanding amount. This would put the provider in a preferred creditor position should the customer have to file for bankruptcy. Also, the provider should stay closer than ever to its customers as the competition to gain new business gets intense. There will be many competitors knocking on the customer's doors trying to replace the business the competitor lost to the pandemic. The company should not only defend itself against the competitors, but should suggest other services the company might offer related to the battle against the pandemic such as: conducting temperature checks, providing crowd control for "social distancing" requirements, adding additional hours where the customer may be subject to higher possibilities of crime, especially at certain essential retail locations. **[IMPORTANT NOTE: owners should check with their legal advisors about the possibility of additional liability these extra services may bring; which may require not performing the service or a modification to the insurance coverage and/or modifications to the service contract with the customer].**

### ***Fix unprofitable branch offices***

Contract security companies usually have branches that drag down the profitability of the company as a whole. The branch has more overhead cost than is justified by the revenue the office generates; and there's no improvement in sight, especially given the hit brought about by the pandemic. NOW is the time to re-evaluate whether or not the company should keep these unprofitable branches. The company may need to shut the branch down and service the customers from a regional office; or sell the customers being serviced from that office to one of its competitors. The company should certainly hold off from renewing leases until the impact of the pandemic looks more favorable. Landlords understand this. They had rather have a month to month tenant now that an empty space producing no income.

### ***Vigorously challenge unemployment claims***

The Federal government through its \$600 per week subsidy has, in most cases, made drawing unemployment more profitable than working. As a result of the unprecedented unemployment claims being filed, the state funds will be depleted quickly resulting in an increase in the unemployment tax rate for the companies operating in that state. This happened during the recession of 2008 and it took several years for the state funds to be replenished. Some contract security companies experienced upwards of a 500% increase in the rate they had to pay and it lasted for several years. This could, and probably will, have a significant impact on the margins. The company should be vigilant in challenging any unmerited unemployment claims, but unfortunately the company's ultimate rate will be affected by the unemployment claims of all the companies operating in that state. The good news is that this increase in the unemployment tax rate may be offset somewhat by the reduction in non-billable overtime premium pay due to a larger pool of new hires resulting from the high unemployment figures.

### ***Review the insurance coverage***

Some insurance policies cover the insurer for business interruption and there are strong discussions going on among legal advisors as to whether or not the economic damages brought about by the

pandemic would be covered by this provision. The owners of contract security companies should certainly consider this possibility and check with the insurance carrier or agent to find out if they are covered and, if so, what has to be done to file a claim for any damages.

### ***Consider the Federal government's stimulus payments***

The information below explains the help our Federal government is giving struggling businesses and individuals to help them get through the COVID-19 crisis while our country is basically in shutdown mode. Unfortunately, the **present** programs being offered expire and cannot be relied upon to help in the case of a long term effect of the pandemic.

The Federal government enacted several programs providing for approximately \$4.5 trillion - to include \$659 billion primarily for the benefit of small to medium sized businesses. This article is not intended to present an exhaustive list of all the programs and the qualifications to receive the monies (the CARES ACT alone covers 880 pages), but is a summary of just **some of the most popular** and important programs available to businesses in need of help. Each has requirements to qualify and the rules keep changing. **Therefore, owners wanting to apply for any of the benefits should seek assistance from an expert who is qualified to give such advice.**

### **Basically, two Acts have been passed; each offering assistance to businesses and individuals:**

- The first Act, called the Families First Coronavirus Response Act (FFCRA) was passed on March 18, 2020 which was an expansion of the medical leave provisions and provided for employers, who meet the stringent qualifications, to claim fully refundable payroll tax credits equal to the amounts required to be paid to their employees who have to take time off for COVID-19 related reasons.
- The second ACT, called the Coronavirus Aid, Relief and Economic Security Act (CARES Act), was originally passed on March 27, 2020 and provided for \$2.1 trillion of funding - \$310 billion going to the businesses qualifying for the Payroll Protection Program (explained below). Another round of funding for \$2.4 trillion, with \$310 billion going to the PPP was passed on April 24, 2020.

The Payroll Protection Program (PPP) gave businesses with fewer than 500 employees a forgivable loan equal to 2.5 times the average payroll; and forgave the loan if the company maintained a certain number of employees for the 8 weeks after receiving the loan. For example: a qualifying contract security company having \$10 million in revenue and 70% labor to bill ratio would be eligible to receive almost \$1.5 million to be used for payroll and no more than 25% of the amount received going to rent and utilities. A little know provision in the PPP also

allowed certain qualifying companies with more than 500 employees to receive the funds up to \$10 million. As of May 20, 2020, there are several provisions in the ACT that are unclear as to which companies qualify, how the loan ultimately gets forgiven, and whether or not the expenses paid from the loan, after it's forgiven, are tax deductible. Because of these uncertainties, many companies that probably qualify for the forgivable loan have decided not to take the monies leaving over \$100 billion of the funding still available.

Another provision of the CARES Act, allows employers to defer their share of social security taxes (6.2%) that they would otherwise be required to deposit during the period beginning on March 27, 2020 through December 31, 2020.

***We send our sincere thanks to all the more than 800,000 contract security officers that are on the front lines of fighting this devastating virus. We hope they eventually get the recognition they deserve.***

Please know that we are ready to help in any way we can. If you need to talk about anything in this article, please don't hesitate to reach out. Since all the members of our firm are working from their respective homes during this shut down period; you can reach me faster if you call my mobile phone at 01.336.339.4849.

Please stay safe, my friend. We will pull out of this, although our way of life as we knew it before the pandemic will have changed - in many ways.

Robert H. Perry

For over 25 years we have successfully completed over 250 sell-side engagements for security companies located in 8 countries and having revenues between \$2M - \$200M.

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