

## BENCHMARKS

### OVERALL SECURITY SPENDING

**Amount.** Naturally, the size of the company determines its total security spend. The median spending on physical security at firms with less than \$10 million in annual revenue is \$337,000, while it tops \$1 million at firms with more than \$1 billion in annual revenue (see Chart 1).

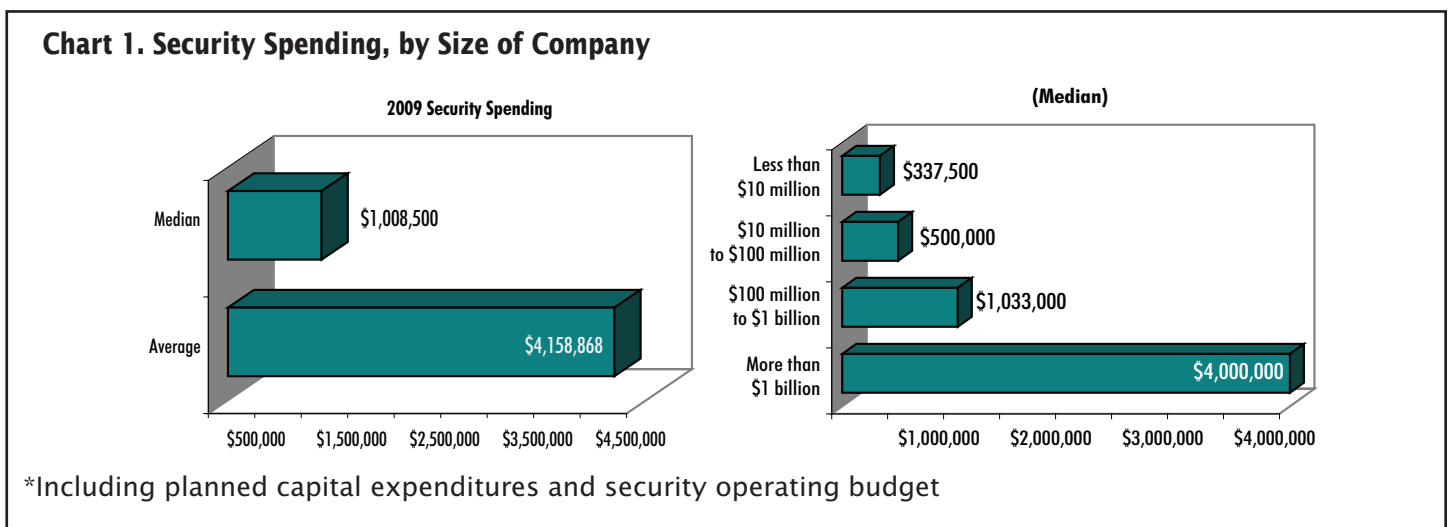
Within each industry there is typically a unique and particularly useful way to benchmark security budgeting. Hospitals, for example, often compare the amount they spend on security per “bed.” General Motors uses spending metrics that include how much security costs per “car” (\$22). One benchmark that all organizations can use is the portion of the organization’s revenue that is spent on security and the cost of security per full-time employee.

The discrepancy between organizations in security spending—as suggested by the substantial differential between the median and average security spending figures—is reflected in organizations’ spending on security as a percentage of total annual revenue. Many companies spend less than 0.25 percent on their annual physical security budget, but just as many said they spend more than 1 percent (see Chart 2).

The variation persists even within similar types of organizations and firms in the same industry. For example, 19 percent of publicly traded firms will spend more than 1 percent of their annual revenue on security in 2009, but 16 percent are at the other extreme, and will spend less than 0.25 percent (see Chart 3).

Within industries, a similar discrepancy was notable among:

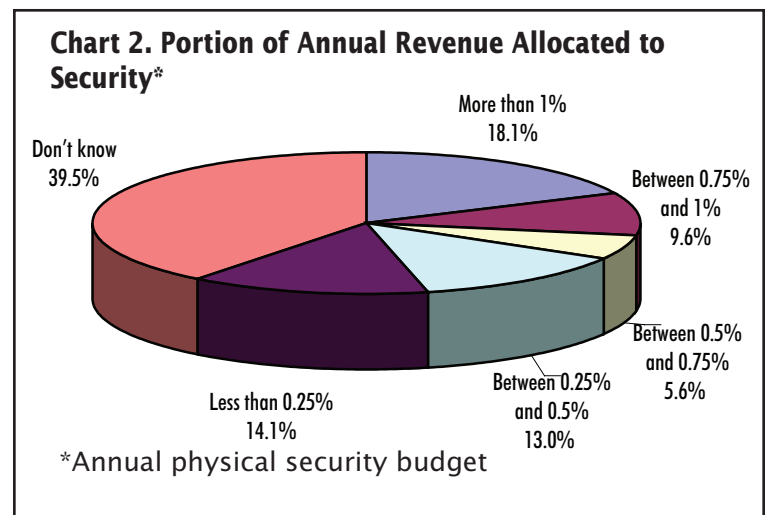
- Firms involved in manufacturing and production. Of these firms, 13.8 percent will spend more than 1 percent of revenue in 2009 on the security budget; 10 percent will spend less than 0.25 percent.



- Biotechnology and pharmaceutical companies. The same percentage—12.5 percent of respondents—plan to spend more than 1 percent as will spend less than 0.25 percent.

Not all industries showed this level of variation, however. Other industry findings:

- Only 7.4 percent of financial firms spend more than 1 percent of annual revenue on security; most spend less than 0.5 percent.
- Leisure and hospitality firms spend the most on security as a percentage of revenue—38 percent of firms in this industry spend more than 1 percent.
- Not a single hospital or health care facility reported spending more than 0.75 percent of annual revenue on the security department budget.
- A majority of business and professional services firms allocate less than 0.5 percent of revenue to security.
- 40 percent of retail companies spend less than 0.25 percent of revenue on asset protection.



Because security spending must account for threat and exposure, it is reasonable that the industry, size, and type of organization all influence how much money companies allocate to security. It is less clear why an organization's reporting structure should determine how much it needs to spend on security—but it does. The correlation between the amount that companies spend on security and to whom the top security executive in the organization reports is significant (see Chart 4).

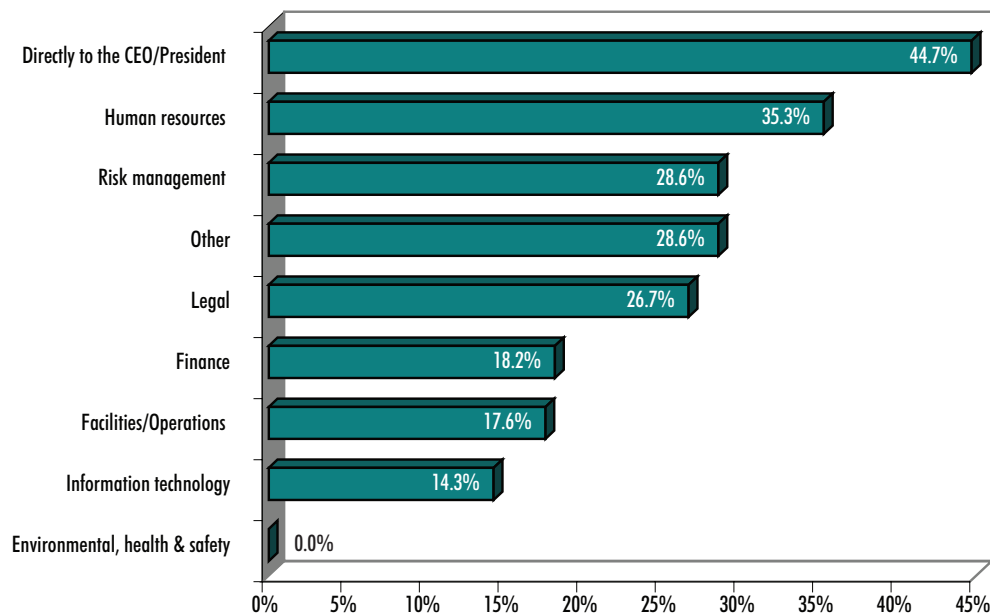
When its top security executive reports directly to the CEO or president, 36 percent of firms spend more than 1 percent on security, while only 4 percent spend less than 0.25 percent. By comparison, if the top security executive reports to an executive in facilities or operations, an allocation of less than 0.25 percent is more common than spending more than 1 percent (17.6 percent versus 11.8 percent).

**Chart 3. Portion of Annual Revenue Allocated to Security, by Type of Organization**

	More than 1%	Between 0.75% and 1%	Between 0.5% and 0.75%	Between 0.25% and 0.5%	Less than 0.25%	Don't know
Non-governmental, not-for-profit	6.1	3.0	6.1	6.1	21.2	57.6
For profit, privately owned	20.0	10.0	8.6	15.7	11.4	34.3
Publicly traded	19.6	12.5	1.8	16.1	16.1	33.9
Government/public service	25.0	12.5	6.3	6.3	6.3	43.8

**Chart 4. Revenue Allocation to Security, by Reporting Structure**

At least 0.75% of annual revenue is spent on security

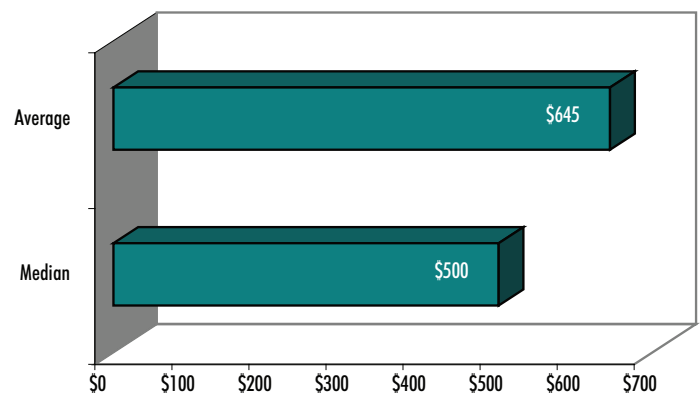


Another way to examine security spending levels is to examine annual security spending on a per-employee basis, excluding visitors and clients but including temporary workers and other regular building occupants for whom security services and protection are provided.

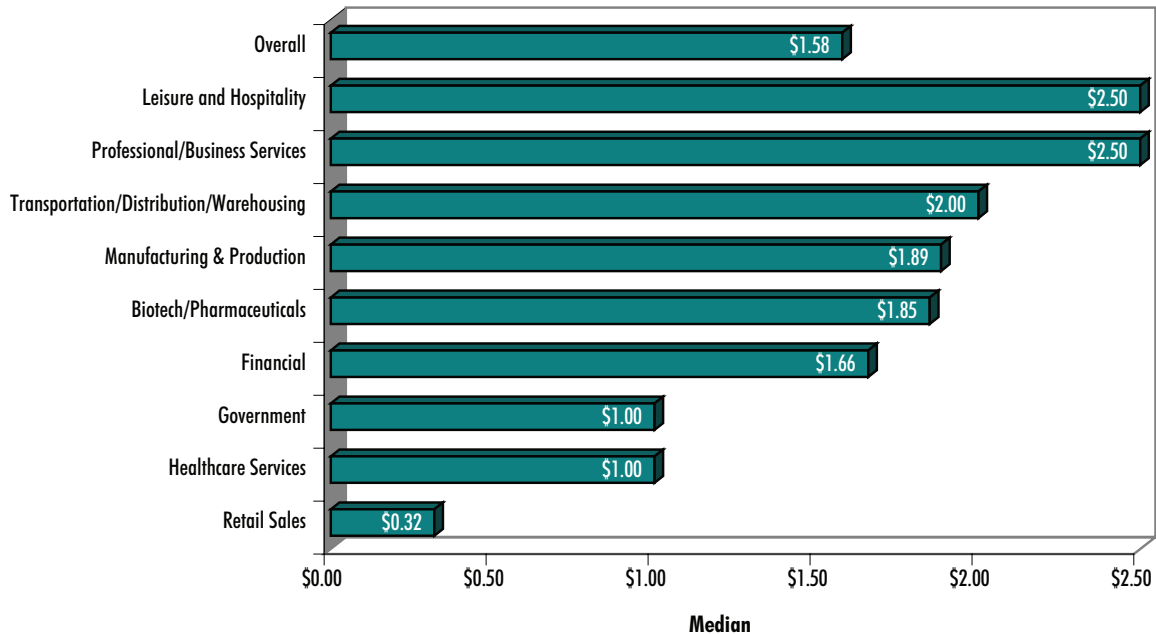
Overall, the average annual security cost is \$645 per employee. Half of organizations spend less than \$500 per employee and half spend more (the median) (see Chart 5). The median cost for security on a per-employee basis is up 23 percent since September 2005.

- Biotechnology and pharmaceutical companies (\$650) and those in the leisure and hospitality industry (\$675) report higher-than-average security costs on a per-employee basis (median figures).
- Health care, professional and business services, utility and telecom, and financial firms all have security costs at or near the overall median (between \$480 and \$500 per employee).
- Manufacturing and production companies report slightly lower annual security costs—\$425 per employee/building occupant.

**Chart 5. Annual Security Cost Per Employee/Occupant\***



**Chart 6. Annual Security Cost Per Square Foot of Facility Space, by Industry**



- Retail companies report substantially lower spending on security per employee—\$160 per year.

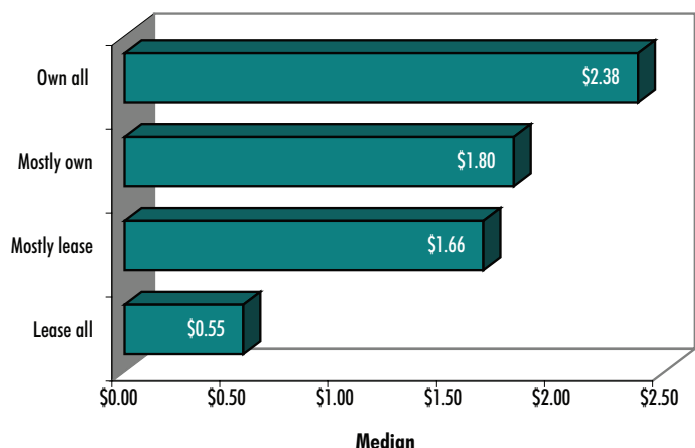
Another alternative for scrutinizing security spending is an organization's annual security cost per square foot of facility space. Overall, companies spend \$1.58 per square foot. Leisure and hospitality and business services report the highest cost, and retail companies report the lowest (see Chart 6).

Similar to annual spending on security per employee, the cost of security per square foot is notably higher today than in 2005, by 37 percent.

The direct annual cost of security is influenced substantially depending on whether a company leases or owns its facilities. The cost for security ranged from \$2.38 per square foot for companies that own all their space to \$0.55 per square foot for companies that lease all their property (see Chart 7).

**Perception.** When asked whether the amount of money their organization spends on physical security is enough, 57 percent of security directors said it is, while the

**Chart 7. Annual Security Cost Per Square Foot of Facility Space, by Property Ownership\***

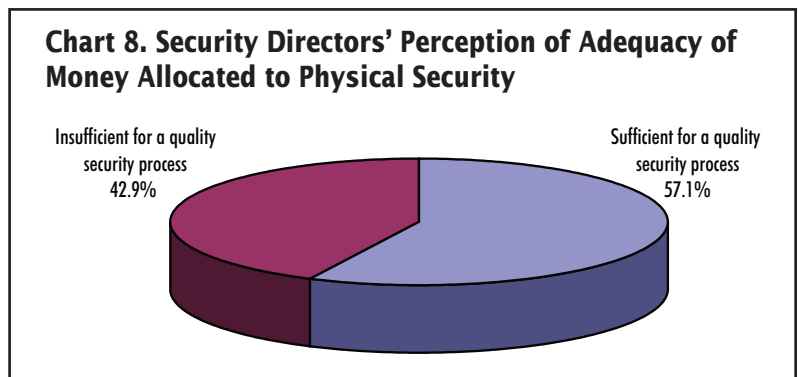


\*Ratio between amount of property space that respondent owns vs. leases

remaining 43 percent said it is not (see Chart 8).

The figure is lower today than in 2005. Then, 59 percent of security executives thought the amount of money allocated to security was sufficient to administer a quality security process.

Security executives at publicly traded companies are most likely to say that their function receives adequate funding (see Chart 9). This is encouraging, since these are the security executives whose budgets have been cut most drastically in recent years.



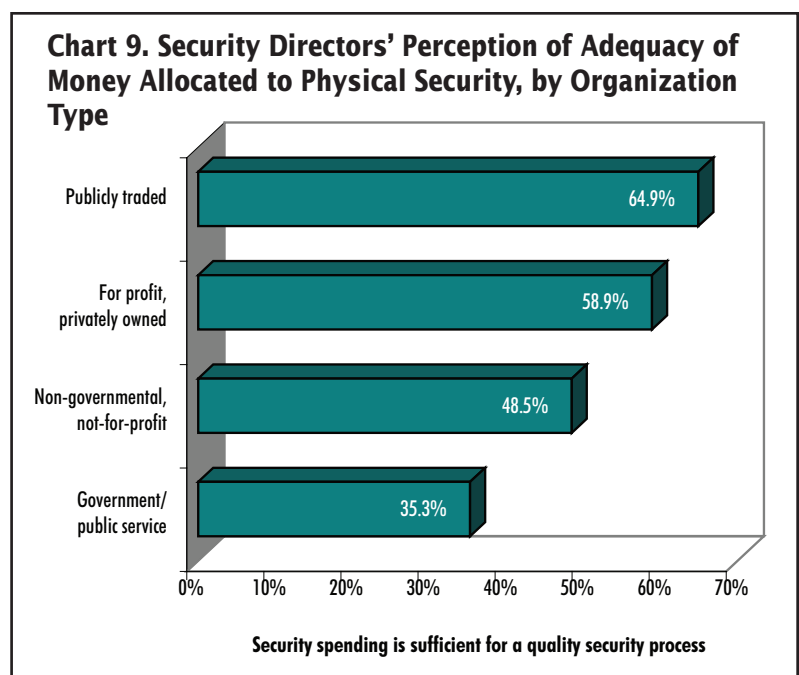
The highest degree of contentment with their level of security spending was reported by executives working in transportation, distribution, and warehousing (70 percent); finance (68 percent); and manufacturing and production (63 percent).

At the other end of the spectrum, a majority of security executives working in health care facilities, government, and retail feel the amount that is spent on physical security is insufficient to deliver quality asset protection.

Again, the reporting structure of an organization seems to make a difference. Overall, 57 percent of security directors think they work with an adequate budget, but when the top security executive reports directly to the CEO, the number grows to 62.5 percent. Perception of budget adequacy is even higher when security reports to an individual in the risk-management function (see Chart 10).

So, what amount should be enough? It is clearly impossible to identify the exact level of security spending that should be enough for a quality security process, as there are myriad variables unique to an organization that influence what amount of spending on security is required. Some of these have been noted, including whether a company owns or leases its facilities. However, analyzing the survey results does yield benchmark figures that are worth thinking about.

Examined broadly, a majority of security executives believe security spending is sufficient when the organization allocates more than 0.75 percent of its annual revenue to security. When companies allocate less, a



majority of security executives feel that security resources are inadequate.

Examining security spending by industry—in light of whether the amount is seen as sufficient—is also illuminating. By calculating the average security spending per employee—at those companies where the security department believes the amount is sufficient—it is possible to identify the amount of security spending that is typically found to be sufficient within each industry (see Chart 11). (Because data analysis is limited to companies that know their spending level and also perceive their spending level is sufficient, a reliable figure is not available for every industry.)

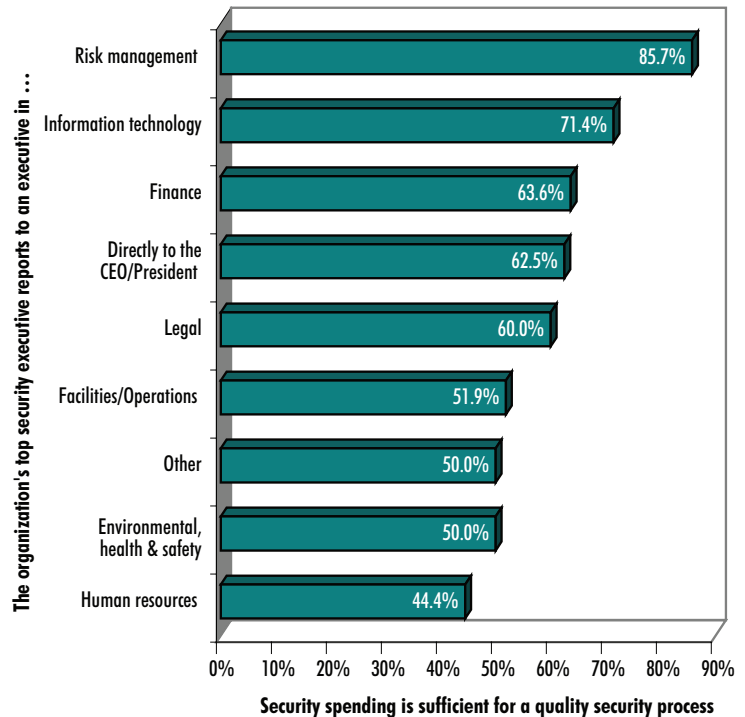
The most significant discrepancy between average security spending and spending at firms where funding is thought to be adequate by the security executive in charge is among production and manufacturing facilities. The annual median security spending per employee at these companies is \$425, but the average spending among those in this industry who believe their spending is sufficient for a quality process is \$789 per employee.

Financial firms also appear to be underfunding security—spending \$480 per employee on security, while the average “sufficient” security spend is \$584 per employee. Biotechnology and pharmaceutical companies had a similar level of discrepancy—spending \$650 per employee on security annually but \$800 per employee at firms where the security department says the security funding level permits a quality program.

**Drivers.** The threat environment is the primary driver of an organization’s security spending, followed by the financial performance of the company (see Chart 12).

The perceived threat level is the most important driver of security spending among all types of organizations: non-governmental/not-for-profit; for profit, privately

**Chart 10. Security Directors’ Perception of Adequacy of Money Allocated to Physical Security, by Reporting Structure**



**Chart 11. Average Spending on Security Per Employee at Organizations Where Level Is Perceived as Adequate by Security Executive, by Industry**

Industry	Avg. spending per occupant
Manufacturing & Production	\$789
Financial	584
Healthcare Services	463
Leisure and Hospitality	738
Professional/Business Services	500
Utility/Telecom	482
Biotech/Pharmaceuticals	800
Retail Sales	163

owned; publicly owned; and government/public service. However, among for profit, privately owned companies, the company's financial fortune rates nearly on par with the perceived level of risk (2.10 versus 2.22). The gap is greatest among nonprofits. Of these organizations, risk rated 2.48 as a driver for security spending, while the score for financial performance was 2.03.

