

Labor Rates Study

Reveals \$96/Hour Average



Integrators boost rates across all labor categories, according to the 2017 *CE Pro* research, with installation labor hourly rates rising a healthy 13% over 2 years.

BY JASON KNOTT

virtually disappear. In some cases even if there is slight margin left for the dealer, it is not enough to carry the warranty risk as a reseller. Many integrators have altered their business model to allow the consumer to buy the product, and charge them for installation labor with an ironclad contract absolving them of product liability in the case of those particular products.

Of course, it is yet to be seen how these newly launched free advisory services from Amazon Home Services, Best Buy, Enjoy and others will affect labor rates in the future. One New York integrator who spoke with *CE Pro* expressed frustration in being able to convince Millennial clients about the importance of service quality when comparing his custom integration firm to mass-market alternatives. “They don’t care about service. They see everything from equipment to installation assistance as expendable,” he quipped.

WHAT IS ‘BREAKEVEN’ LABOR?

Some CE pros struggle to determine their hourly rates as they are buffeted with competition from less-skilled installation options. Unfortunately, the industry is fighting an ongoing battle (and some would say losing the battle) to explain to

SINCE THE END of the Great Recession, labor rates in the custom installation industry have increased by an average of 11 percent, across five types of labor categories, and 13 percent for installation labor. According to the 2017 *CE Pro* Labor Rates Study, integrators have boosted the rates they charge clients across five labor categories — Design, Installation, Programming, Project Management and Service — in the past two years.

The data from the study is yet another strong signal of the vibrancy of the residential integration industry. In all five of the labor categories studied, rates increased by

at least 7 percent. The highest jump was in the Installation labor, which dealers have been able to increase by a strong 13 percent since 2015 to \$95.98 per hour nationally.

Labor rates are much more vital for CE pros’ profitability than in years past. Before, when dealers could earn healthy margin on nearly every piece of equipment they sold, labor rates could be pinched down to help close a deal. But in today’s custom electronics landscape, dealers install daily a multitude of products that carry no room for markup.

From televisions to thermostats to touchpanels, so many of the product categories have seen the equipment margin

Average Labor Rates by Region



Middle Atlantic and West Coast region integration companies are able to charge the highest hourly wages for their services.

	OVERALL AVERAGE	PACIFIC COAST	ROCKY MOUNTAIN	WEST NORTH CENTRAL	EAST NORTH CENTRAL	WEST SOUTH CENTRAL	EAST SOUTH CENTRAL	SOUTH ATLANTIC	MIDDLE ATLANTIC	NEW ENGLAND
Design	\$105.60	\$109.23	\$89.84	\$95.00	\$98.08	\$129.24	\$95.00	\$94.13	\$114.33	\$110.71
Installation/Integration	\$95.98	\$103.56	\$78.11	\$82.13	\$85.45	\$109.28	\$78.93	\$88.29	\$116.20	\$100.82
Programming	\$111.60	\$122.55	\$98.39	\$94.83	\$98.43	\$121.82	\$93.33	\$104.57	\$129.25	\$115.91
Project Management	\$100.09	\$99.22	\$90.40	\$94.93	\$85.04	\$120.04	\$102.50	\$87.50	\$109.71	\$112.71
Service/Repair	\$98.78	\$105.28	\$91.53	\$84.69	\$86.47	\$104.50	\$78.21	\$95.00	\$116.63	\$96.80

Labor Rates by Years in Business

	OVERALL AVERAGE	<1	1-3	3-5	5-10	10-20	>20
Design	\$105.60	\$81.67	\$102.22	\$129.42	\$109.41	\$102.32	\$104.96
Installation/Integration	\$95.98	\$70.63	\$75.82	\$104.30	\$93.62	\$93.77	\$97.90
Programming	\$111.60	\$96.25	\$109.91	\$120.90	\$116.99	\$113.99	\$108.21
Project Management	\$100.09	\$86.25	\$101.00	\$106.80	\$105.21	\$101.66	\$96.46
Service/Repair	\$98.78	\$70.63	\$83.64	\$102.40	\$94.41	\$98.49	\$98.78

Companies that are between 3 and 5 years old tend to charge the highest labor rates.

consumers the value a certified installer brings to the table versus the “technicians” being offered up by online competitors.

There is also the matter of simply knowing what your breakeven rate is when a technician is sent out into the field.

According to the study, 64 percent of integrators have calculated their breakeven labor rate. That’s good, except that means an alarming 36 percent of custom integrators admit they do not know what their breakeven labor rate is!

Among the factors that affect a dealer’s breakeven labor rate are:

- ▶ A vehicle (adds between \$3 and \$5 per hour for the employee)
- ▶ Health insurance (adds \$2.50 per hour)
- ▶ Vacation (adds \$3.13 per hour —



Labor Rates by Service Area Population

	OVERALL AVERAGE	UNDER 250,000 PEOPLE	250,000 — 999,999	1 MILLION — 4,999,999	5 MILLION OR MORE PEOPLE
Design	\$105.60	\$93.30	\$89.03	\$112.13	\$117.76
Installation/Integration	\$95.98	\$78.44	\$83.27	\$101.05	\$106.50
Programming	\$111.60	\$96.65	\$92.33	\$121.17	\$125.77
Project Management	\$100.09	\$96.46	\$80.41	\$106.93	\$106.83
Service/Repair	\$98.78	\$78.54	\$79.60	\$106.22	\$116.55

In general integrators who serve larger population areas are able to charge more for their services than dealers in smaller communities.

even unpaid vacation adds costs because you are still paying for insurance during the employee's vacation)

- ▶ Liability insurance (adds \$1.75 per hour)
- ▶ FICA (Social Security and Medicare adds \$1.90 per hour)
- ▶ Worker's compensation insurance (adds another \$0.87 per hour)
- ▶ State Unemployment Tax adds \$0.37 to \$1.55 per hour
- ▶ Employment Training Tax equals \$0.25 per hour
- ▶ State Disability Insurance is another \$0.22 per hour
- ▶ Lost tools (yes, lost tools, will cost about \$0.50 per hour during the year, etc.)

When all those benefits and tax lia-

bilities and other costs are combined, it adds up to \$50.61 per hour as the true cost for a \$25/hour employee — more than double!

Moreover, most employees' time is not fully billed, even though they are still being paid for an eight-hour day. Indeed, a custom integration company is lucky if it has an Employee Utilization Rate of 55 percent to 60 percent. That includes paying a person for all that unbillable time loading and unloading the vehicle, travel time, training time, paid vacation and sick days, etc.

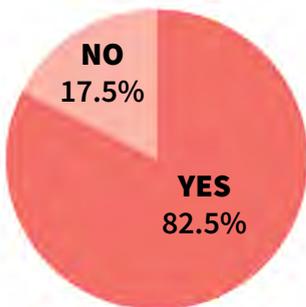
On average only between four hours and five hours per day of an employee's time is actually billed to a project. So that means when it is all finally tallied, the true cost burden of a \$25-an-hour employee is over \$90 per hour.

According to the 2017 *CE Pro* Labor Rates Study, integrators indicate they aim to earn 46-percent profit margin on their labor. If they stick to that profit margin, it means they need to charge over \$125 per hour to break even on a \$25-per-hour employee.

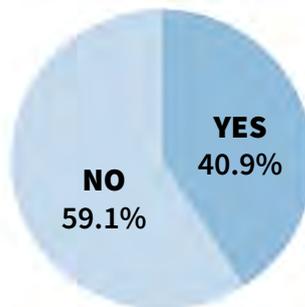
LABOR RATE INCREASES BY REGION, SIZE

The labor rate increases revealed in the study were pretty much unanimous across the country also. In all nine regions of the country, the average rates being charged increased on par with the national average. The region in which labor rates are the highest is the Pacific Coast, where dealers on average charge \$103.56 per hour for installation. That is up a whopping \$19.45 per hour from 2015 (23 percent

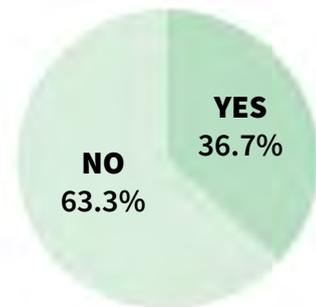
Do you assess a trip charge for service labor outside your normal service area?



Do you charge a lower combined hourly installation rate for a multi-person job vs. a one-person job?



Do you charge a reduced labor rate to customers that sign Service Agreements with you?



increase), and clearly shows the high demand on the West Coast. The region where rates are the lowest is the East South Central states of Kentucky, Tennessee, Alabama and Mississippi, where integrators are charging an average of \$78.93 per hour for installation technicians.

Size of company is also a variable in determining what labor rates are charged. A one-man shop charges 17 percent less per hour for its installation services (\$90.16/hour) than a company with more than 26 employees (\$108.16/hour).

Likewise, the number of years in business is a big factor in determining rates. Custom integration companies that have been in business less than one year charge \$70.63 per hour for installation. That is a whopping 27 percent lower than the national average of \$95.98. Clearly, newbie CE pros have much less overhead to carry and are able to charge much lower hourly rates. Unfortunately, another possible reason their rates are so low is that they have

yet to realize their breakeven rate and could be losing money on labor.

Other key results from the study are:

- ▶ Nearly eight out of 10 integrators (79 percent) report they have increased their hourly labor rates since the official end of the recession in 2013. However, one in 10 CE pros say they have not changed their hourly labor rates since before 2009. That means they either have a handle on their expenses or are in such a highly competitive environment it is too difficult to muster an increase.

- ▶ Just over one-third of dealers (34.5 percent) report their clients “never” complain about their hourly rates. Conversely, only 2.7 percent of CE pros say customers “consistently complain” about their rates. By far, dealers say clients “sometimes complain” about rates, with 62.8 percent of dealers reporting that is the case.

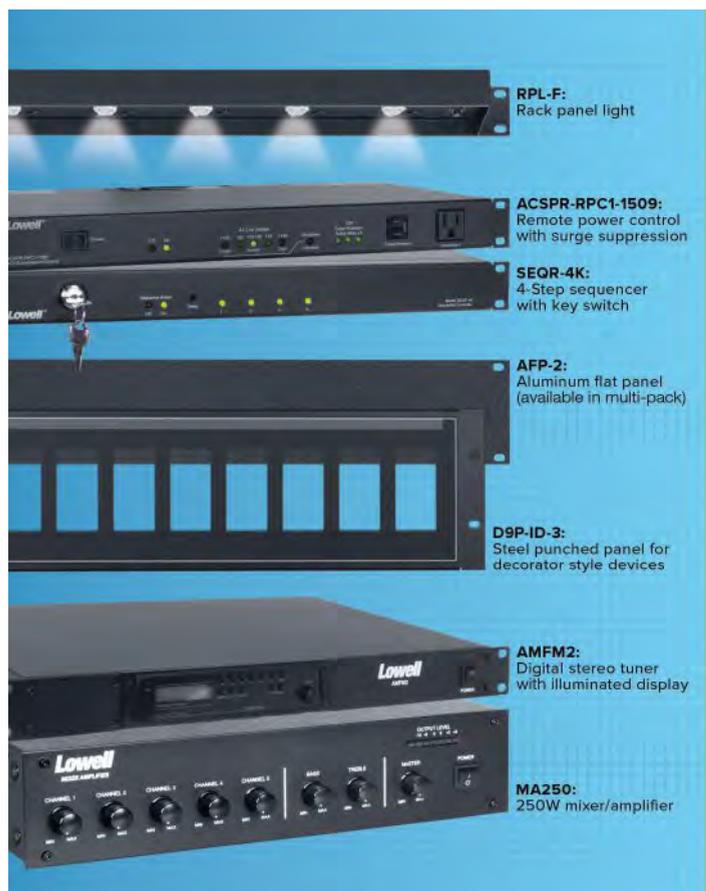
- ▶ Trip charges are becoming nearly ubiquitous. In all, 82.5 percent of integrators now assess customers some sort of trip

fee for a service call outside of their normal service area. That is up almost 10 percent from two years ago when 73 percent of dealers said they charge a trip fee.

- ▶ More integrators are altering their rates based on how many technicians are sent to the job. Some dealers have gotten in the habit of charging a lower hourly rate per person if two technicians are needed for a task, such as mounting a flat-panel TV. In all, 41 percent of dealers change their hourly rate if they send two men versus charging the full rate for both individuals. That is up 8 percent from 2015.

- ▶ Dealers report earning an average of 46 percent profit on their installation labor.

- ▶ The biggest factors affecting labor rates are: General overhead/cost of doing business; market conditions/competition; competitiveness in hiring skill labor driving up wages; lower consumer expectations for service driven by DIY market/Internet; and training costs. **CE Pro**



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