



2023 MIDYEAR MARKET HEALTH REPORT



Data by D-Tools 2023 Midyear Market Health Report Reflects Slightly Softer Market

The average number of quotes and projects per integrator stays flat while average project size falls 5.2% in the first six months of 2023

The custom installation market mirrored the overall U.S. economy through the first six months of 2023, feeling the effects of wage inflation and consumer doubt.

Specifically, the smart home market started the year slow, likely due to the effects of high inflation on products and labor, as well as the supply chain woes that were still lingering as the year began. But as those macroeconomic headwinds subsided, the market improved heading into spring. Despite an uptick in project sizes that started in March, overall there was a slight 5.2% decline for the first half of the year in the average revenue per project as budget-conscious consumers looked for value in their smart home solutions.

Demand remains strong compared to the same timeframe last year, with the average number of proposals and project installations per integrator remaining steady. Finally, the consequences of the tight labor pool continue to exacerbate wage inflation, which was reflected in a 9.5% uptick in the percentage of project revenue derived from labor versus from equipment.

2023 Midyear Market Health Report

Fast Facts: (Jan. 2023-June 2023)

Average Number of Proposals: **53**

Average Number of Installations: **21**

Successful Proposal Close Rate: **40%**

Average Proposal Price: **\$33,043**

Average Installation Price: **\$15,234**

Source: D-Tools Cloud

Those are just a few of the key results from the first-ever Data by D-Tools 2023 Midyear Market Health Report compiled using exclusive aggregate actual data from users of D-Tools Cloud, the industry's leading Software as a Service (SaaS) solution. The data is drawn from nearly 100,000 proposals produced by integrators within D-Tools Cloud for the first six months of 2022 and the first six months of 2023 combined.



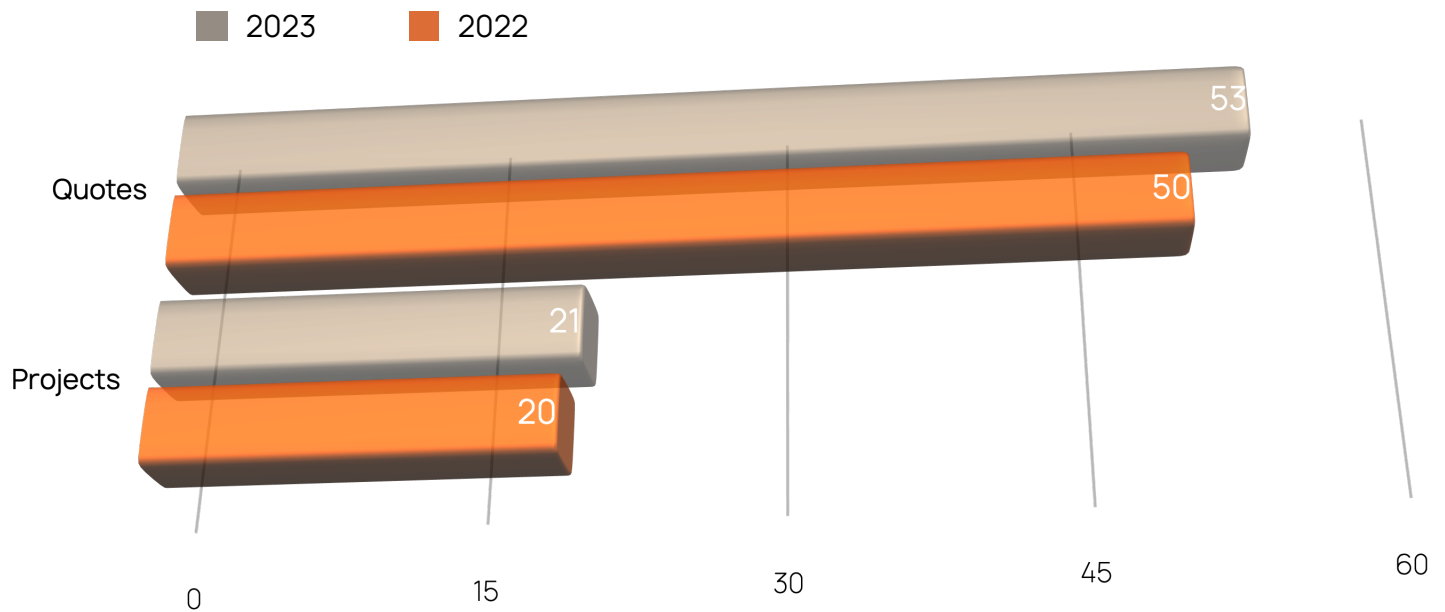
The research shows that for the first six months of 2023, integrators created an average of 53 proposals, up negligibly from 50 for the first half of 2022. Also, from those proposals, integrators performed an average of 21 installations from January 1, 2023, to June 30, 2023, compared to 20 installations in the prior year's same time period. Again, a nominal difference year over year. Comparing quotes vs. installations, it means in the first half of 2023 dealers successfully converted 40% of their proposals into signed contracts.

As noted, the biggest change in the first six months of 2023 compared to the previous year occurred in project size. According to the D-Tools Cloud data, average project revenues fell 5.2% in the first half of 2023 compared to the first six months of 2022. Specifically, the average project end-user price charged for a residential installation in first half of 2023 was \$15,234 compared to \$16,068 in 2022.

That downward average project price trend appears to have started in the last half of 2022 and carried into the first half of this year. Indeed, projects installed in the last six months of 2022 were on average 4.4% lower than the first half of last year.

The 5.2% dip in pricing so far in 2023 could be caused by several factors. First, customers are likely being thriftier in general due to the uncertain economic conditions.

2022 Vs. 2023: Average Proposals & Projects (First Six Months Per Integrator)



Source: D-Tools Cloud

That reluctance to spend could mean customers are looking for more value-oriented, consumer-grade smart home solutions, forcing integrators to value-engineer their proposals more than usual. It could also reflect higher interest rates that have slowed the new home construction and retrofit remodeling markets. When that happens, homeowners are reticent to spend as much as before on home amenities.

Finally, the first half of 2022 was just as the world was emerging from the COVID-19 pandemic, so there was still some pent-up demand being fulfilled because consumers were stuck at home and looking for home entertainment upgrades. That pent-up demand was satisfied by the time 2023 rolled around, thus resulting in a softer first half of the year in 2023 when compared to year-over-year data from 2022.



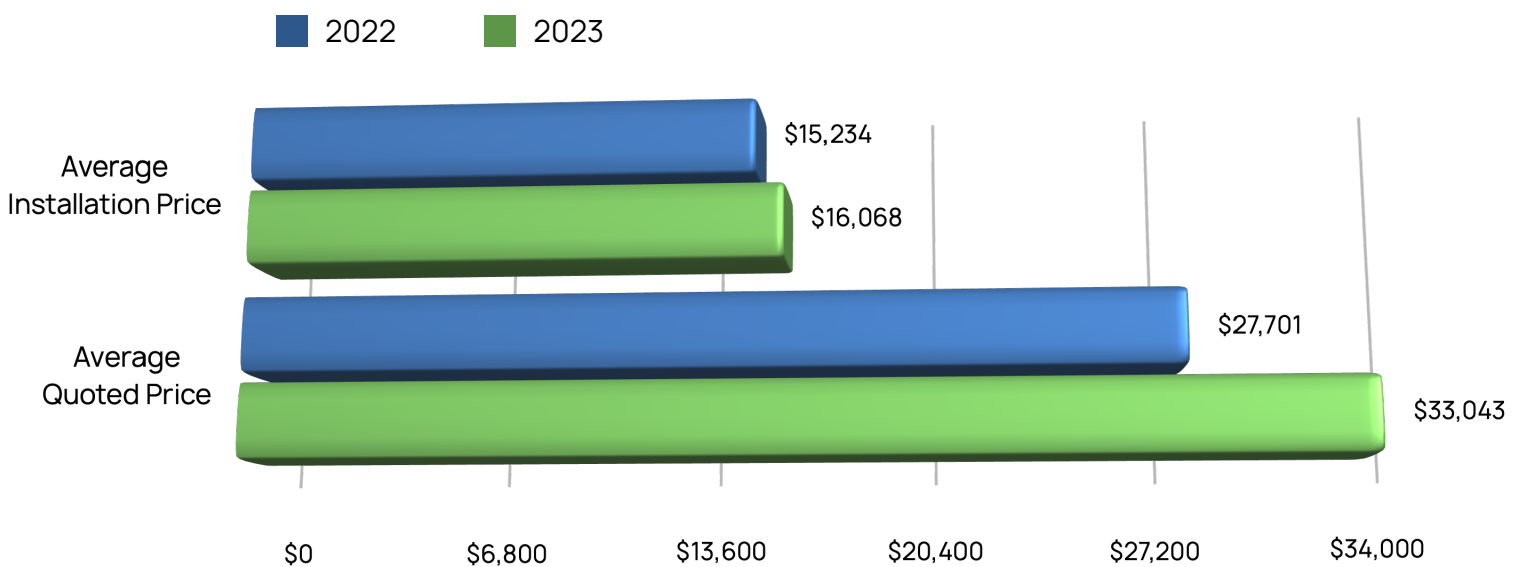
Comparing Quotes vs. Final Sale Prices

The drop in average project prices in the first half of the year is certainly not due to a lack of effort by integrators. In fact, it is quite the opposite. According to the data, the average proposal price submitted by integrators was up... way up... by 19%. Specifically, the average project price quoted to prospective customers in first half of 2023 was \$33,043. That is compared to an average quoted price of \$27,701 in the first half of 2022. So clearly, integrators were proposing broader smart home solutions.

So, when we compare the final average installation price in 2023 (\$15,234) against the average proposal price (\$33,043), it reveals that only 47% of the dollars that were originally proposed made it into the final sale. That is measurably down from 2022, when dealers were able to retain 58% of their proposal price in the final installation price.

The positive takeaways from the higher average proposal price are that it reveals demand is still high, and dealers are not being shy about offering more expensive solutions. There could be several reasons why the gap is larger between the higher average proposal price and the lower final project revenue. It could simply be a sign that due to lower consumer confidence in the economy has them holding off on certain "nice-to-have" amenities in favor of focusing on their primary home entertainment needs.

2023 Vs 2022 Quoted Price Vs. Installation Price



Source: D-Tools Cloud

Moreover, it could be that more consumer-grade equipment is being opted for by clients as part of good/better/best solutions that integrators often offer in their proposals. That value-engineering is commonplace as integrators have a wide array of product choices at their disposal to help fit clients' budgets. D-Tools Cloud's built-in Alternates feature allows integrators to showcase recommended products alongside other options for clients during the quoting process, which can help reduce the time between the initial issuance of the proposal and signing of the contract.

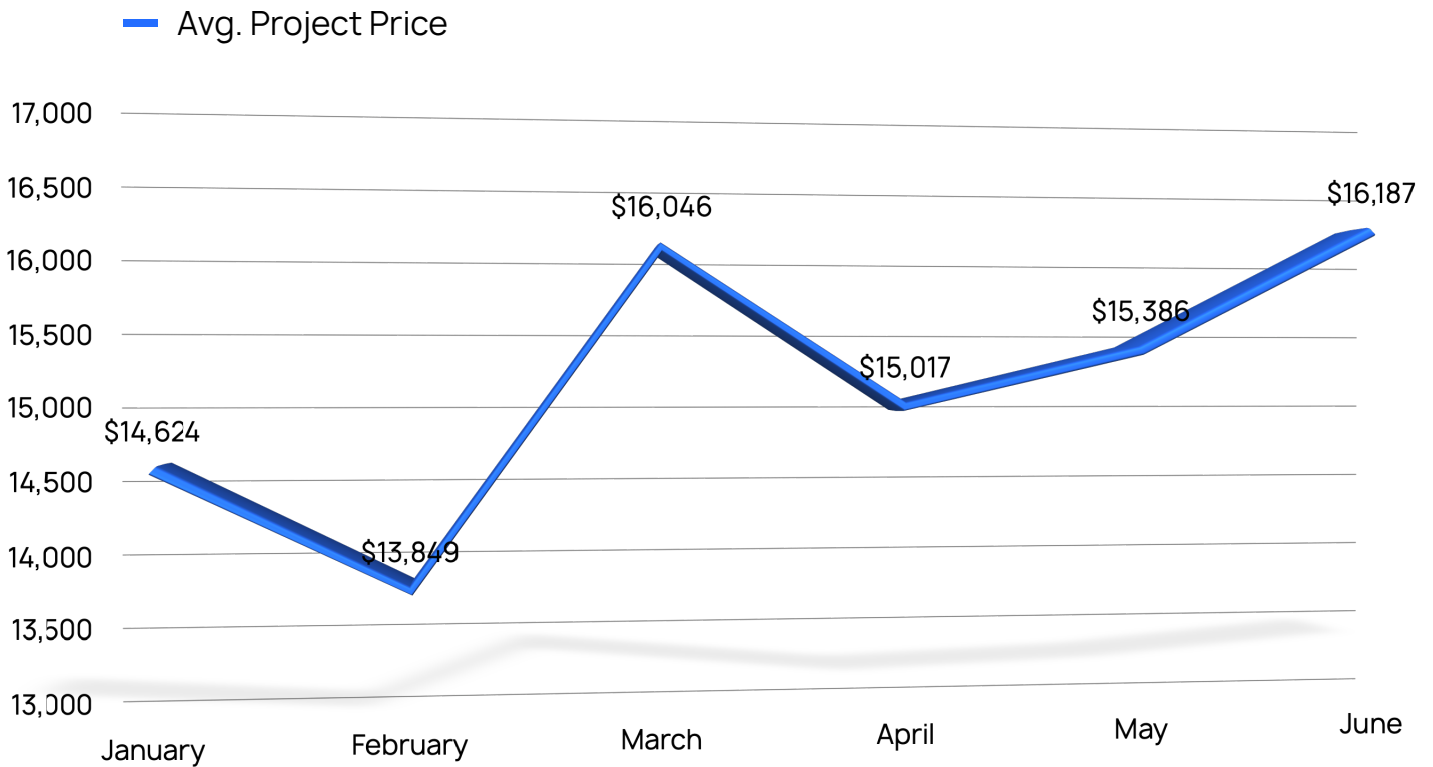
Month by Month Analysis

When the weather warmed up in 2023, so did custom installation. The data shows that the year started slowly before picking up traction starting in March and then continuing into Q2. In January and February, the average installation prices were respectively 4% (\$14,624) and 9% (\$13,849) smaller than the norm for the full six months (\$15,234). In March, the average project price shot up to \$16,046, more than 5% above the norm. April and May projects were near the average size, and in June the average installation price shot up again to \$16,187, a full 6% higher than the typically priced job.

The general takeaway from the monthly data is that the first quarter of 2023 was clearly much more volatile than Q2. There are several factors that can explain why that was the case. First, in general, spending slows in the first few months of the year as consumers are still paying the bills for their holiday gift shopping at the end of the previous year. Even for wealthy clients, the first few months of the year tend to be slower as they prepare their income taxes during this time, and they often don't want to have any new major expenditures until they determine what they owe. Also, it's cold outside for most of the U.S., so customers don't want to start projects that may experience weather delays.

On a positive note, the upward trend in average project size bodes well for the second half of the year, should the same trend continue.

2023 Monthly Average Installation Price



Source: D-Tools Cloud

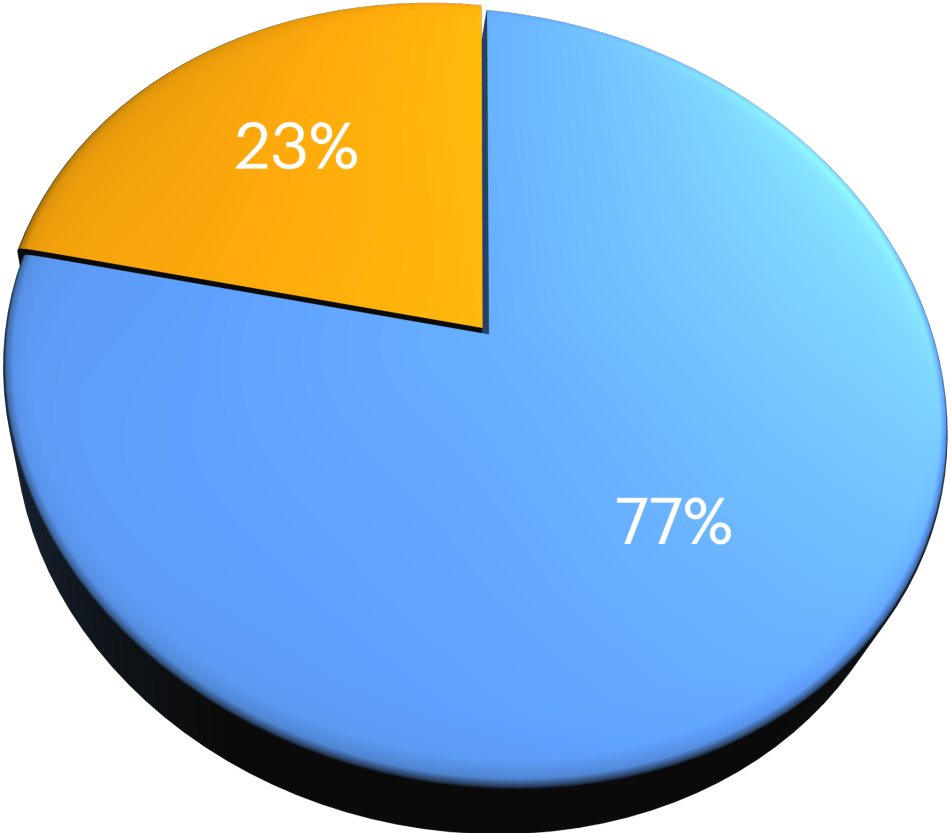
Product vs. Labor Blend

The ratio between products and labor is another important key performance indicator (KPI), and the research reveals the higher cost of labor is being reflected in projects. In 2022, the average project had 79% of the total project devoted to products and 21% devoted to labor. But in the first half of 2023, the average project had 77% of the end-user cost attributed to products and 23% to labor. That 2-point boost attributed to labor reflects a 9.5% increase year over year.

In terms of dollars, those percentages equate to \$3,508 devoted to labor and \$11,726 attributed to products out of the average total project cost of \$15,234. When you consider that the average overall installation price fell, but the percentage of labor rose, it reveals that any discounting that may have occurred in the first half of the year happened on the product side, not the labor side. That makes sense given the market was hit by wage inflation pressures that forced most integrators to raise the hourly labor rates they charge customers.

However, the 23% of revenues derived from labor is nothing to cheer about when compared to other construction trades. According to anecdotal data presented at Lightapalooza 2023, electricians routinely earn 70% of their project revenues from labor and only 30% from products. Likewise, according to the website Construction Mavericks, the ideal range for the percentage of revenues from labor is between 40% and 60% for a construction company, including plumbers, carpenters, electricians, and welders.

2023 Product Vs. Labor Blend
(Percentage of Dollars)



● Products ● Labor

Source: D-Tools Cloud

Product Categories Remain Steady

The categories of equipment integrators proposed and installed in the first half of 2023 remained largely unchanged compared to the previous year. Not surprisingly, electrical products, which includes cabling, power supplies, connectors, enclosures, junction boxes, surge protectors, conduit and much more, were the most-often-installed products every month this year.

The Lighting category, which includes keypads, faceplates, lighting panels, dimmers, controllers and more, was the second-most-commonly offered solution in January, February, March, May, and June, with only the month of April showing a lull in lighting offerings. Loudspeakers, Networking, Control Systems, Access Control and Video Surveillance solutions were the other frequently installed equipment categories.

Who would have thought a few years ago that lighting fixtures would become so important to custom integrators? With the LED revolution, dealers are now able to “own the ceiling” by installing IP-controllable fixtures to match with their control solutions.

2023 Top 5 Product Categories Installed

1. Electrical
2. Lighting
3. Loudspeakers
4. Access Control
5. Networking

Source: D-Tools Cloud

What Lies Ahead? Actions to Take

There are mixed signals for the market heading into the second half of the year. On the positive side, if the upward trend in terms of average project size in Q2 continues and the overall U.S. economy continues to improve, integrators can expect to experience larger projects in the second half of the year. However, if the business environment for the last half of 2023 mimics the final six months of 2022, the market could face a slight dip in average project size. Last year, the second half of the year for the custom integration market was less busy than the first half. In the final six months of 2022, there was an overall decline of 4% in terms of average project size compared to the first half of the year.

Of course, that slowdown in the last half of 2022 could have been due to several external economic factors that are still present today, but somewhat diminished in their effect. Namely, last fall's economy was burdened by the skyrocketing inflation of over 9% that Americans faced. The high inflation rate forced the Fed to aggressively hike interest rates, which has the effect of tightening the availability of money for investment and slowed both the new housing market and the retrofit market. Heading into the back half of 2023, inflation concerns have waned, and the Fed has slowed down on its rate hikes. Also, last fall the custom installation market was still burdened by widespread supply chain problems. That meant that projects were often delayed. Fortunately, the supply chain crisis appears to be mostly in the rearview mirror. These conditions could set up the custom electronics market for a better second half of the year in 2023 than occurred in 2022.

3 Actions to Take from This Data

- 1. Maintain Your Proposal & Project Sizes:** The number of proposals was flat compared to 2022, but the average price per proposal was up by 27%. Average project sizes also increased throughout Q2. If those trends continue, concentrate on keeping positive momentum in your proposals and project sizes as the economy strengthens.
- 2. Find Your Sweet Spot:** With 40% of proposals are being converted into sales, look at your own closing rate to determine which types of projects have higher closing rates and focus on that niche.
- 3. Check Your Product/Labor Blend:** The percentage of dollars derived from labor is 23% and growing. Is there leeway to add more labor costs to your proposals?

About Data

by D-Tools

Data by D-Tools is aggregated anonymized data drawn from more than 1,000 active integration companies using the award-winning D-Tools Cloud software. D-Tools Cloud tracks real project data in aggregate across multiple phases, including quoted, proposed, sold, ordered, and installed. Data by D-Tools aims to be the preeminent provider of objective, actionable industry information and insight for the electronic systems industry to foster critical decision-making that fuels market growth.

The goal of the Data by D-Tools 2023 Midyear Market Health Report is for integrators to be able to compare the performance of their own companies against these benchmarks drawn from D-Tools Cloud, then can use the information to gauge their strengths and weaknesses.



HEADQUARTERS

1850 Gateway Boulevard,
Suite 1060, Concord,
CA 94520

Phone: 925-681-2326

Fax: 925-681-2900

EASTERN US OFFICE

2300 Lake Park Dr, SE,
Suite 400, Smyrna GA 30080

Phone: 925-681-2326

Fax: 925-681-2900

INDIA OFFICE

306 Fountain Plaza, 4th Floor
Panthenon Road, Egmore
Chennai 600008

Phone: 91-44-42146859