

**The U.S. Producer Price Index for  
Security Guards and Patrol Services  
(NAICS 561612)**

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**\* The views expressed are those of the author and do not reflect the policies of the U.S. Bureau of Labor Statistics or the views of other BLS staff members**

## **A. Industry Output**

The U.S. Producer Price Index for Security Guards and Patrol Services (NAICS 561612) has been in publication since July 2005 with historical data back to December 2004. This is a new index that was introduced as part of an ongoing Bureau of Labor Statistics program to expand the Producer Price Index coverage of the service sector of the United States economy.

The Security Guards and Patrol Services (NAICS 561612) industry is defined as companies primarily engaged in providing guard and patrol services, such as bodyguard, guard dog, and parking security services. Examples of services provided by these companies include the prevention of unauthorized activity or entry, traffic regulation, access control, and fire and theft prevention and detection. These services can be broadly described as the protection of personnel and/or assets. Other security services such as roving patrol, bodyguard, and guard dog services are also included, but are a very small portion of the industry.

Excluded from this industry are the services of security guards and patrol personnel that are performed in-house (known as proprietary security) by companies classified into other NAICS industries. An example of an in-house security service that is not in this industry is a college or university that provides its own security and patrol services.

This industry is dependent on a job/site survey. In this survey, the security company will detail the scope of work, equipment needed, benefits of officers, and any other services that the client may desire. Once the details of the service are identified, the security company will determine a bill rate. The bill rate usually includes all aspects of the contract. Price determining characteristics such as the security officers' training and benefits, uniform type, electronic equipment, communication equipment, transportation needs, and whether or not the officers are armed or unarmed are included. Each client has different requirements for their given situation. For security guard/patrol, the service is generally some combination of manning security officer stations, transportation, access controls (e.g. proximity cards, swipe cards), monitoring (e.g. closed circuit TV, internet based real-time), etc. These services can be provided on either an ongoing or short-term (e.g. special events, emergencies) basis.

Roving patrol and bodyguard services are performed more on an event type basis but may be ongoing as well. As previously mentioned, these services make up a very small portion of the revenue generated in this industry.

## **B. Index Methodology**

The Security Guards and Patrol Services index measures changes in the bill rates that are actually received by companies that provide security guards and patrol services. A unique security contract is selected that fixes the services to be provided and these services are held constant through time. However, the contract does not fix the price.

The PPI measures the changes in the actual bill rates that represent the services provided for in the selected contract. Industry contacts suggest that these bill rates typically fluctuate on an annual basis, however, our limited experience suggests that bill rate changes can occur more frequently.

For any given contract, a single composite bill rate may apply or there may be multiple bill rates that apply to various skill levels of security personnel. The bill rate is an hourly rate and is different from cost because it includes overhead and profit. It is the rate that the buyer of the security services actually pays for the service. We do not collect the cost for the security services, but rather we collect the bill rate(s) and the amount of hours. For security contracts that utilize multiple bill rates, we also hold the mix of hours fixed through time in order to isolate changes in the bill rates.

There are three distinct methods of pricing that are encountered. They are as follows:

- All-inclusive single composite bill rate
- All-inclusive multiple bill rates
- Single or multiple bill rates that are not all-inclusive—some items are specifically excluded (this is very rare)

In the first two cases (single and multiple bill rates), the bill rate(s) represent the entire contract. In the third case, additional services (often referred to as extras) are handled as separate line items that are billed outside the bill rates that apply. These additional services are usually items such as vehicles, radios or access controls.

In the first case, a single bill rate applies and it represents the entire contract. This single bill rate is computed using all services within the contract. It includes all details of the contract, such as the level of officer benefits, insurance, overhead, and extras (e.g. vehicles, radio). In this case the bill rate can be collected as the price.

In the second case, multiple bill rates apply and also represent the entire contract. These multiple rates are also computed using all services within the contract, just as in the first case. However, there are bill rates that apply for different officer types or level of experience. For example, there may be two bill rates that apply; one for security officers and one for supervisors. In this case we calculate a composite rate using the multiple bill rates and number of hours for each. For example, there are a total of 1000 hours for security officers and a supervisor. Eighty percent of the total number of hours is for security officers and the remaining 20 percent is for the supervisor. The hourly rates are \$18.50 and \$22.00 respectively. The composite bill rate for this example would be \$19.20.

In the third case, single or multiple bill rate(s) may apply. However, in this case, certain item(s) are billed separately—outside the bill rate(s). The procedure for the two cases detailed above can be followed to obtain the bill rate. However, the items that are specifically excluded from the bill rate must be added as an adjustment to the price. For example, if a patrol car which costs \$250 per week is specifically excluded from the bill

rate but is needed to perform the service, the final price must be adjusted so that it has the same unit of measure as the single or multiple bill rate (usually per hour). Continuing with the example above, the correct adjustment would be to take the \$250 patrol car fee and divide it by the total number of hours per week listed in the contract (in this case, 1000 hours). This leaves an adjustment of \$250 divided by 1000 hours/week, or 0.25, which would then be added to the bill rate (\$19.20 plus \$0.25 equals \$19.45).

Items that are billed separately from the bill rate are not prevalent. In most cases, all-inclusive single or multiple bill rates will apply.

Discounts and surcharges are not common for this industry. Any considerations are normally written into the bill rate.

This industry relies heavily on labor. The security officers themselves are a major component of this industry and as such, labor makes up a large part of the input costs. Some industry contacts estimate that labor takes up as much as 70 percent of the total costs. Therefore, changes in local labor conditions are a major factor in the price movement for this index.

### **C. Sampling and Weights**

The companies for NAICS 561612 were selected using probability proportionate to size sampling. The measure of size for this industry was employment. This industry was not clustered before sampling took place. Each individual location of a company was given a chance of selection. For example, a large security guard company that has many locations across the country was not combined into one unit. Each location of this company had its own chance of selection. This decision was made because pricing is negotiated at the local or branch office in most cases and the records are kept there as well.

For each sample unit selected, the field economist performed the normal PPI item sampling procedures to identify unique services. This was done based on the turnover or revenue percentage breakout for each sample unit's range of security services. For example, if a particular sample unit's turnover was evenly split between industrial and residential security, then we would capture half of the repriceable items in industrial and half in residential.

In general, each item selected is a unique security contract. The security contract stipulates all the legally binding contract terms such as payment instructions, indemnification, and other protective clauses. It also includes the service details (e.g. security officer benefits, security officer training requirements, and post orders). When large security companies or large clients are involved, a contract will almost always be utilized. Most contracts are usually for one year or more, but they usually include a section that allows either party to terminate the contract with 30 to 90 days notice. Small security companies may also involve contracts as well; however they tend to be less

formalized. These contracts are usually very short and allow for a great deal of flexibility (e.g. to change the service without amending the contract), but still offer either party the choice to terminate the contract with notice.

Some larger companies that are correctly classified into NAICS 561612 may also perform non-primary services such as investigative, armored car, consulting, locksmith or other similar services. These services may contribute significant revenue to the company. Each of these services would have a chance of selection depending on its revenue percentage and if selected would be priced as an other receipt.

The publication structure for NAICS 561612 Security Guards and Patrol Services is listed below. It consists of only one cell below Primary services.

NAICS Code	Title
561612	Security guards and patrol services
561612P	Primary services
5616121	Security guards and patrol services
561612SM	Other receipts

The publication structure for NAICS 561612 (shown above) was selected by using U.S. Census Bureau data and by consulting with industry contacts. The U.S. Census Bureau does not have any revenue turnover data below this level.

An alternative structure was considered which included two indices, one for Security Guards and Patrol Services and one for Other Security Services. This Other Security Services index would have included bodyguard services, roving patrol services and guard dog services. This alternative publication structure was ultimately rejected because, according to an industry expert, bodyguard services account for only 1 to 3 percent of the industry. Even with roving patrol and guard dog services, Other Security Services would have only accounted for an estimated 3 to 5 percent.

#### **D. Issues in Maintaining Constant Quality**

As discussed in a previous section, the services provided by the original contract selected are held fixed as well as the characteristics, such as uniform type, officer benefits, and training. The comparison of the bill rate through time is valid as long as these services and characteristics remain unchanged. When the services or characteristics of the contract change then any subsequent change in the bill rate may or may not reflect the true price change for the contract selected. Maintaining this constant quality through time represents a significant ongoing challenge for accurately pricing this industry. This is addressed by closely monitoring any changes that a respondent makes to the contract details. When a change is noted on the repricing form, the respondent is contacted in order to determine the effect of the change. A decision is then made as to whether the current price is directly comparable to the previous. Ideally the contract will be comparable through time.

Another issue that arises is due to the highly competitive nature of this industry. Companies often lose contracts to their competitors and this presents a problem in that the PPI can no longer reprice the contract selected. This situation requires the PPI to utilize an item substitution procedure. The process involves asking the respondent to choose another contract that is similar to the lost contract. If analysis shows that the substitute contract is substantially similar, then a comparison of the contracts is made and the resultant change is shown. If the contracts are not similar, then no change is shown. The more that dissimilar item substitution occurs, the harder it is to represent the actual price change for the industry.

### E. Results and Price Measurement Challenges

Below is a graph for the NAICS 561612 industry price movement since December 2004. This index has been in calculation less than a year and there has been very little movement over the first six months. It is expected that price movement will be more pronounced on a year over year basis since long term contracts are usually updated on an annual basis.

