
**CONNECTING THE HOME:
SIX CUSTOMER
CHALLENGES FOR
PLAYERS IN THE SMART
HOME SPACE**

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Six customer challenges for players in the Smart Home space

The **Smart Home** or **Connected Home**, as it is also frequently called, was once again on prominent display at **CES Las Vegas 2016**. Showcased were home cameras, smart thermostats, air quality monitors, intelligent locks, connected fridges & washing machines and many more. The Smart Home has brought together a large variety of players, collaborators and partners – from established multi-nationals to start-ups – each on their own wanting to capture a share of what still is a very fragmented marketplace.

Everyone seems to be playing in this area: from the big entertainment and technology players like Samsung, Apple, Google and LG to telcos such as O2 and Deutsche Telekom, not to mention energy providers, security companies, appliance manufacturers and more.

But despite having had enormous press and buzz around it for years, the consumer uptake of connected home devices and services has so far failed to keep up with the hype. At least for now, many connected home solutions are still seen as having only marginal value and consumers are only willing to use a small portion of their discretionary spend on them. This has led some to argue that what is still missing is a killer use case.

In our view, the paradigm of the ‘killer use case’ is the wrong one here – because it’s not at all obvious that this killer use case even exists. Individually, the core elements of today’s connected home offers are seen as ‘nice-to-haves’ so long as the price is low enough. Instead, the ‘killer app’ is more likely to be the sum of (say) 10-20 individually minor use cases – each with marginal utility – that come as an integrated, more powerful package. Whilst most customers are currently hesitant to spend more than a few hundred pounds to purchase and install currently available solutions, this is not to say that their willingness to spend more on integrated solutions may not change in the future, for the right bundle of connected services. The challenge will be not only to pick the right bundle, but to build it around a clear enough statement of the overall customer proposition, that can create need in an informed and relatively engaged customer base at large.

From our recent work on the Smart Home, including co-creation workshops with potential buyers, we can identify six key customer insights that any business in or planning to enter this market needs to factor into their thinking:

1. Integration trumps the ‘killer’ use case

Even customers that have very low thresholds for home integration are already frustrated by having too much technology that does not integrate the way they expect. They can think of many different, small tasks that they would like to be able let technology take care of. However, each task, taken in isolation, does not warrant the purchase of a device or service solution in itself. Instead, the customer need is for an integrated offer that brings together many different services in one place that is seamless, easily customisable and extendable.

2. There is substantial need for guidance in an already confusing and crowded market place

Already there is a lot of clutter and conflicting advice in the Smart Home market, and once customers start to engage with connected home products and services, they will quickly turn to trusted authorities to provide guidance. This could be in the form of an independent body such as 'Which?' or an entity that customers are familiar with and that is already present in their homes, such as an energy or internet service provider.

3. The customer's natural inclination is to think in terms of devices or gadgets

In a 'Smart Home' context customers rarely think in terms of services. They mostly expect to own a physical device or gadget dedicated to a certain task which leads to an expectation of an upfront outright purchase, not a regular subscription model. The natural implication being that any player wanting to grab a share of the Smart Home space will be best placed to enter the market through a physical device or gadget, rather than a pure service play.

4. Customers need to experience the product in order to make a purchase decision

Customers expect new technology to provide them with information and advice (e.g. on how to reduce their energy bill) but are hesitant to hand over control to a 'machine' or device, unless they have experienced the benefits first hand. More advanced Smart Home solutions are therefore less likely bought on impulse, but rather the result of a carefully considered consumer choice - a hurdle for more rapid mass market adoption.

5. Fears of installation difficulty and rapid obsolescence need to be addressed

Some Smart Home features (e.g. around security and energy management) are seen as essentials by most customers. In the context of new build homes, fitting them as standard is seen as a 'no brainer' in the same way buyers would expect to have central heating. However, for retrofitting to existing properties, there are substantial concerns around the cost and difficulty of installation. There is also a substantial concern that technology will become quickly out of date and newer systems will not be backwards compatible with older components of a connected home system.

6. The customer proposition needs to move beyond financial benefits

For now, connected Smart Home solutions are still far from being equated to other technology, say an iPad, and consumers' considerations are more along the lines of 'I'll buy it if the amount of money it saves me is less than the cost of buying and installing it'. This is reinforced by propositions in the market, which are largely founded on delivering cost savings. There is a limit to how much the heating bill can be reduced by a smart thermostat, or the home insurance bill can be reduced by installing a smart security system (surprisingly, all the potential buyers we spoke to saw security systems in these terms). Unless consumer propositions can go beyond cost savings, there will be a fairly low upper limit on the viable price point for connected home systems.

In order for the Smart Home vision to gather more widespread adoption, the complex economics behind the value chain of energy providers, insurance providers, home owners and customers needs to be better understood. In the connected home more so than many other areas, it will be necessary to focus very strongly on articulating the customer value proposition in order to start to generate real customer pull. To become successful commercially and more widely adopted, this customer proposition has to evolve from a purely 'cost saving' play towards a more comprehensive offer that addresses cost saving, comfort and control elements in one integrated platform.

With technology and innovation evolving constantly we are also likely to see the Smart Home in a prominent position at **CES 2017**. The question is, whether someone can crack the case of a truly **integrated solution** that works as part of a whole **ecosystem** any time soon. The obvious candidates and solutions to provide such a platform are already lined up (Apple Home Kit, Google Living Room, Samsung Smart Things etc.). There is still space for other players to leverage their position in the home – but perhaps not for much longer.

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