Smart home strategies that pay off:
Takeaways from examples of early success for telcos and service providers

Published by

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Smart home: Now or never?

While consumer adoption of smart home products and services has been growing steadily across the globe, we have yet to see true mass market adoption. However, factors such as advances in Internet of Things (IoT) technology, greater affordability, growing awareness of connected home use cases and benefits, and concerns about energy consumption, safety and ageing populations mean we are getting closer to the tipping point.

The time for companies to launch smart home services is now. Those who understand and offer the right value proposition for their customers, stand to create additional revenue opportunities and drive customer retention over a sustained period.
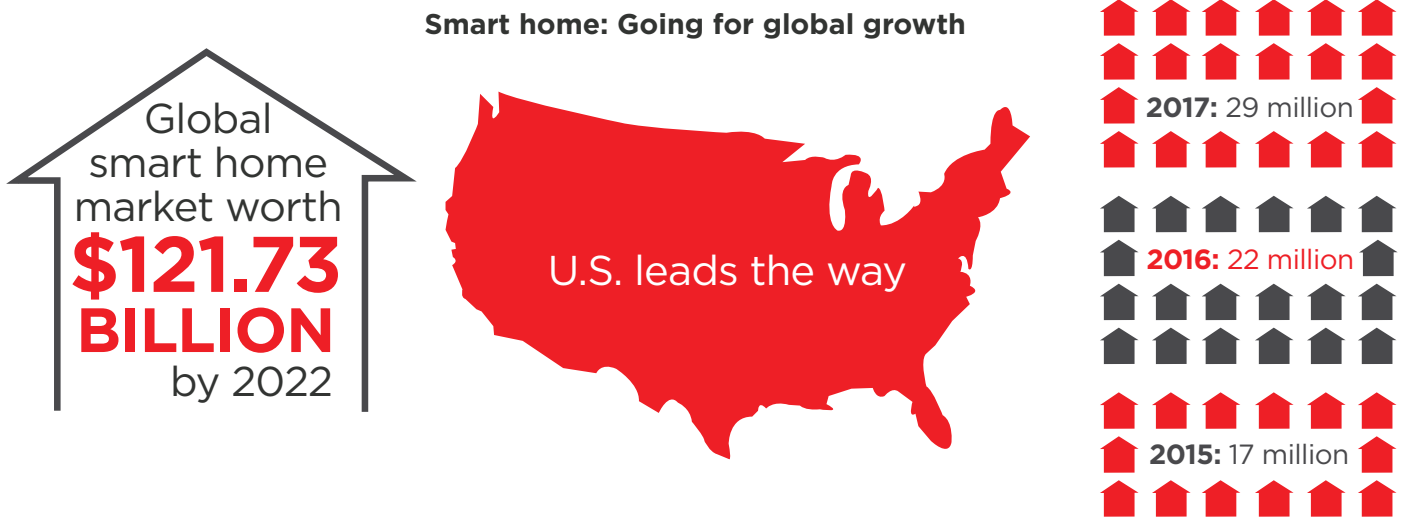
Early leaders have demonstrated that with the right approach, smart home products and services are a way to attract new customers and strengthen the relationship with existing ones. Industries such as telecommunications, cable, ISPs and utilities are facing long-term declining or flat revenues – launching a smart home offering could play a key role in changing this.

The Opportunity Awaits

Estimates suggest that revenue from the global smart home market could be worth as much as $121.73 billion by 2022.

North America holds the largest share of the smart home market, and there is still huge room for further growth. The U.S. has seen substantial year-on-year growth in the number of connected homes, and this is expected to continue.

Europe is following North America's lead and the Asia Pacific (APAC) region is also projected to see significant growth in the coming years

Smart home: Going for global growth

Global smart home market worth
$121.73 BILLION
by 2022

U.S. leads the way

2017: 29 million

2016: 22 million

2015: 17 million

Connected homes in the US
This represents a 31% CAGR, according to McKinsey.

APAC and Europe growing fast

European smart home market to reach **$15.28 billion** by 2020 – 16.5% CAGR
APAC smart home market to be worth **$9.28 billion** by 2020

Source: McKinsey, Parks Associates, Markets & Markets

Who can play?

The smart home space offers opportunities for a range of service providers who share a number of crucial characteristics, including an established relationship with a large customer base and the long-standing brand reputation and earned consumer confidence which play a critical role in adoption.

These companies play such a central role because they provide device manufacturers with a route to market and offer customers an integrated end-to-end smart home solution via a brand they know and trust.

- **Security companies:** Security companies have been the smart home leader in many parts of the world and by their nature have a large amount of trust from consumers.

- **Telcos/cable companies:** Since they already deliver connectivity and are trusted with a wealth of consumer data, telcos are well-positioned to lead in smart home.

- **Utility companies:** Although it is not typically the primary motivator, many people are interested in smart home because of the opportunity to better manage their energy usage. In a survey by PwC, 30% of respondents said that reduced energy bills would be the primary motivator for purchasing smart home technologies or adding to their existing ones. Therefore it makes sense that they may turn to their utility company to provide and manage the service.

- **Insurance companies:** Major underwriters are already offering discounts and personalized services for consumers that use smart home products such as smart locks, lighting control and activity cameras to provide security and prevent loss, and water and flood solutions to prevent damages.

- **Global consumer brands:** Samsung has undertaken several initiatives in the IoT space, including acquiring startup SmartThings, and developing a powerful smart home ecosystem. Apple has already partnered with numerous household-name brands for its HomeKit initiative, and is also leveraging its existing products as well as new partners to drive awareness.

- **Major retailers and DIY:** The popularity of Amazon's voice-activated Echo smart home product, with both consumers and developers, makes Amazon a major contender for a central, and perhaps long-term, position in the smart home space.

On your marks, get set...

In the U.S. market we have seen an evolution over time, with security providers driving the most adoption with connected home security platforms, followed quickly by telcos and cable companies. Recently, retail giants are getting into the game and insurance companies are making moves too.

In Europe, a number of companies across the board are trialling services and planning major launches, or have already rolled services out. In the telco space, for example, O2 UK, KPN, TIM and Slovak Telekom are among those which have launched smart home services recently. British Gas and Eneco have been early movers in the utilities segment, and Neos and Allianz are examples of insurers with a smart home offering. It is set to quickly become a hotly contested space.

A survey by Ericsson found that of those interested in an integrated connected home solution, security companies, electronics manufacturers, wireless/mobile telecom providers, utility companies and internet service providers are the top five preferences for who should provide the connected services.

The opportunity is currently wide open for the taking, even in the most advanced markets.

Go! Early mover advantage

When it comes to seizing the smart home opportunity, a 'wait and see' strategy is unlikely to pay off. The very reason service providers are so excited by smart home is because the services are among some of the stickiest around – research by the Z-Wave Alliance found that of those who own smart devices, 84% said they are interested in making another smart purchase in the next two years. Once consumers have their smart home set up the way they want it, they are unlikely to switch services for a long time, given the potential disruption and cost this would incur.

Consumers are also looking for products with longevity and interoperability – they want to be assured that the products they buy will work with other devices they may want to add in in the future. Choosing platforms and standards that embrace these principles will dramatically increase the chances of customer buy-in and 'stickyness'.

The bottom line is, if you don't move in on the smart home space very soon, your competitors will – and it may be difficult to catch up later.

In the next sections we'll look at examples of companies that are leading the way in smart home and what can be learned from their success.

Smart home pays off: Case studies

These case studies highlight examples of how two service providers are taking a leading role in smart homes and reaping rewards such as increased revenues, reduced customer attrition and new business models.

At the heart of both companies' smart home offerings is Z-Wave, an interoperable wireless radio frequency technology that lets smart devices talk to and connect with one another.

Z-Wave's Sub-GHz **MESH NETWORK** coverage avoids interference with Wi-Fi, Bluetooth and other systems that operate on the crowded 2.4 GHz band.
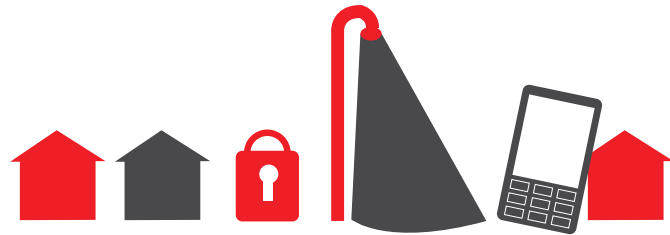
LARGEST ECOSYSTEM: The Z-Wave Alliance is a growing ecosystem of 600 companies and over 2,100 interoperable devices, encompassing smart products for every application, including security, remote monitoring, energy management, senior activity monitoring, lighting control, and more.

INTEROPERABLE: Z-Wave products are guaranteed to be interoperable with each other.

Z-Wave offers the **LONGEST BATTERY LIFE** of any smart home enabling technology.

9/10

SMART HOME LEADER: 9 out of 10 leading home security companies use Z-Wave.

SECURE: Z-Wave's latest S2 Security framework makes the smart home virtually hack-proof with end-to-end encryption protecting individual devices and communications in the cloud. All certified Z-Wave devices must adopt this security protocol. S2 devices are also backwards compatible with existing devices on the market

Bezeq unlocks new revenue and strengthens customer relationships

Israeli telco Bezeq saw the opportunities that smart home could offer and set out to bring a smart home solution to the mass market – to "consumerize" the IoT offering.

This meant that the smart home product must fit into the apartments of ordinary people on regular incomes (even those renting) and provide value for those customers.

The company took a three-step, agile approach, learning lessons along the way and driving them into the next phase.

Phase one – Bezeq Smart Home 1.0, July 2015

Bezeq launched a basic smart home offering, using Z-Wave enabled Piper-branded products (an all-in-one smart hub camera and a door/window sensor) with an app, which was also Piper-branded. The smart home team, led by the Chief Marketing & Innovation Officer, wanted to show the company's management that a new smart home market was emerging and that Bezeq was well-placed to take a leading role in it.

Phase two – BHome 2.0 launch, July 2016

Based on customer feedback, the company decided to rebrand the app to reflect the Bezeq name, and everything was delivered via one simplified interface and in the native language of Hebrew. Additional sensors were added and the company created an attractive subscription-based pricing scheme.

Bezeq added an interface into an off-the-shelf product for its support team to help them with customer installation queries. This improved the customer experience, shortened calls and improved call quality.

"That [experience] is exactly the differentiator that customers are looking for," said Bezeq's Chief Marketing & Innovation Officer, Gil Rosen.

In addition, Bezeq created a platform to support an innovation ecosystem, enabling local suppliers and startups to introduce their products and services.

Phase three – BHome 3.0 launch (December 2016)

By this point, the team had learned that "having a good product is not enough". They realized they had a lot of work to do around educating the market and did this through a multi-channel, highly targeted and personalized marketing campaign, giving specific use cases for individual segments. For example, one campaign, based on non-branded content, encouraged pet-lovers to consider whether they know what their pets are up to when they, the owners, are out at work. Follow-up content then drew these individuals further down the BHome sales funnel.

Another crucial aspect for Bezeq was adequately educating staff and incentivizing them in the right ways to get the smart home solution off the ground. This was particularly important with sales and customer support staff.

Results

Bezeq reports that:

- BHome has given the company more positive touchpoints with its customers
- 46% of its customers are now familiar with smart home services
- Of those, 70% associate smart home services with Bezeq, compared to 2% in 2015
- 10% of Bezeq customers use smart home services

"For me it's absolutely intuitive and logical that telco service providers are the ones who need to lead this [smart home] category," says Gil Rosen, Bezeq.

Source: Winning the European Smart Home Customer webinar

ADT: Smart services reboot revenue for a 140-year-old company

ADT is a 140-year-old security provider in the US. For a long time, security was a stable but not especially dynamic or growing industry. ADT's market penetration rates were fairly stalled. Further, the business model was mainly centred around 'negative touchpoints' with customers – e.g. billing, intrusion/fire detection etc.

Ray North, Director, Service Platforms, ADT, says, "ADT recognized the value of the information we had about the customer's premises and the technology was ripe for us to be able to implement a solution to give that back to the customer in a meaningful way, coupled with home automation and control."

ADT launched its Pulse smart home service in 2010.

North comments: "We try to make Pulse part of every sales conversation and it's become an integral part of what we do."

Pulse is offered as a tiered service. At the entry level, customers simply get security panel integration, which doesn't include device control. At the next level they also get the ability to remotely control their security as well as tying in all their other compatible smart home devices. The third tier includes video cameras.

Results:

- Over 2 million of ADT's 8 million customers overall have a Pulse package.

- 20% increase in annual revenue per user (ARPU)

- Increased customer engagement and 40% reduction in subscriber attrition

North says: "The more that the customer embraces home automations, the longer they stay an ADT customer, and for us, the longer a customer stays an ADT customer, the more profitable they are."

He adds: "We chose Z-Wave because we liked the mesh network design – meaning the devices are able to talk through other devices to get good coverage throughout the home or business. We liked the standardized approach. If devices are complying to the Z-wave class of operation, they'll work together, and you don't have to do a lot of work at the back end."

An interoperable, scalable smart home ecosystem
Z-Wave supports a growing ecosystem of 600 companies and 2100 interoperable devices, including:

Strategies for smart home success

Leading service providers choose Z-Wave

These are some of the key lessons learned from telco and service provider success so far:

- **Make it simple:** Complexity, whether perceived or real, has been one of the key barriers to smart home adoption. Companies that offer consumers an easy-to-install and use system will be the winners. Begin with a smart home starter kit and offer a modular, interoperable way for customers to add more over time.

- **Grab your partners:** There is no need (or time!) to go it alone or to create things from scratch. Leverage product and partner ecosystems that already exist in order to scale fast.

- **Prioritize security:** Stories about IoT hacks are rarely out of the headlines and nowhere is the idea scarier than in the home. IoT security is only as strong as the weakest link in the chain. Choose only encrypted, secure technologies and tested, certified partners. Z-Wave's S2 framework is the most advanced security available for smart home devices, controllers, gateways and hubs. All certified Z-Wave devices must adopt this security protocol, giving you and your customer peace of mind.

66%
OF CONSUMERS ARE WORRIED ABOUT CYBERSECURITY OF CONNECTED DEVICES.

47%
SAY SECURITY MAY KEEP THEM FROM ADOPTING IOT DEVICES FOR THEIR HOME.

Choose only encrypted, secure technologies, such as Z-Wave's S2 Security framework, and tested, certified partners:

- End-to-end encryption protecting individual devices and communications in the cloud
- Secure key exchange using Elliptic Curve Diffie-Hellman (ECDH)
- QR code /PIN for unique authentication to the network
- Mandatory for all certified Z-Wave devices from April 2017 and backwards compatible with existing devices on the market
- Developed with cybersecurity hacking experts

- **Must be anchored at the top:** The smart home drive must be mandated or supported by senior executives within the organization – ideally the CEO. It won't be an easy journey and will require significant organizational transformation but the rewards could be huge.

- **Know your market:** Market research will help you profile your customers and understand which products and services to prioritize – for example, through localized research Bezeq identified an opportunity to launch an air conditioning sensor. In a cooler climate this would be less important.

- **Not business as usual:** It is not the same as launching a new smartphone or router, for example, but represents bold change. Be prepared to try new things, fail and learn fast.

- **There is no killer app:** Launch with clear core services but understand that the 'killer app' is whatever your customers decide it is. Therefore, it's essential to give your customers maximum choice. Cultivate an ecosystem so the broadest range of companies and devices can join and innovate.

- **Choose the right battle:** Don't launch a freemium service – the battle is for the customer experience and this is where your company can truly compete by offering a stress-free integrated service.

Formed in January 2005, the Z-Wave Alliance is a consortium of leading companies in the home technology space dedicated to solidifying Z-Wave as the standard for wireless home control products. The principal members include: ADT, Alarm.com, FIBARO, Huawei, Ingersoll Rand Nexia Intelligence, Jasco Products, Leedarson, LG Uplus, Nortek Security & Control, SmartThings and Sigma Designs. Alliance members lead the home controls market, providing leading edge products and systems that deliver increased comfort, convenience, energy conservation, safety and security.

For more information, visit www.z-wavealliance.org

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