

Operators should position their smart home solution as an extension to existing services

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The smart home market is developing rapidly, and competition is intensifying as technology firms enter the market. Operators have been developing smart home services for some years, but have largely failed to gain market traction and several services have now been terminated. This article examines some of the reasons for this failure, and outlines the most viable approach for operators entering the market today. This article is based on our recent report, *The smart home opportunity for operators: case studies on key approaches*.

Commercial and operational issues have led to failure

Almost all early initiatives by operators in the smart home market have been unsuccessful; some operators have announced that they are terminating their services, while others have clearly stopped marketing their initiatives.

Figure 1: Smart home services that have ceased to operate or are no longer marketed

Operator	Service	Status
AT&T	Digital Life	Possibly for sale. It is not clear if this service is still actively marketed.
Belgacom	Home Control Home View	It is not clear if these are still marketed.
BT	Home Monitor	Terminated
Orange	HomeLive	No longer marketed.
O2 UK	O2 Smart Home	Terminated
Verizon	Home Monitoring and Control	Terminated

Source: Analysys Mason, 2018

Operator-provided smart home services have failed to gain popularity for several reasons. Operators have many existing assets that they can make use of when developing smart home products including their existing large customer bases, channels to market, their brand and customer services and support, but they have often failed to exploit these assets. To maximise their chances of success in the smart home market operators need to evaluate and make better use of the following resources.

- Positioning.** Operators should carefully consider how they position their smart home services. Operators have not always positioned their smart home initiatives as an extension to their existing broadband services, but instead they have tried to launch smart home services as a separate, unrelated business. This puts operators in direct competition with established security players. Providing smart home services as an extension of the broadband service creates a value-added offering and makes use of the existing customer base. In doing this, operators can avoid having to target a new customer base, which has greater associated risks.

- **Pricing.** Operators may have more scope to reduce the price of their smart home offering if they bundle it with their broadband services. By offering bundles, operators only need to defend the margin of one single proposition, rather than considering the pricing for two separate entities.
- **Retail and online channels.** Operators historically did not strongly promote their smart home services in their retail stores or online. Operators need to fully exploit their retail and online channels to market the service, raise awareness, provide technical support to new customers and help customers to understand the value. Shops can also provide customers with the opportunity to see and experience smart home products as well as receive support. Many competitors will not have a retail space.
- **Customer support.** Operators have significant customer support resources in place for their broadband services. They will need to invest sufficiently in training support staff to address smart home products. Smart home devices and services are not always easy to install despite attempts to simplify and facilitate self-installation. Not all operators provided sufficient customer support resources for their smart home products.
- **Partnerships.** Operators will also need to invest in building an ecosystem of devices on their platforms. Competitors, such as Amazon, have already been actively forging partnerships in order to position their platforms at the centre of smart home ecosystems. Operators have not always supported the breadth of devices or the brands that customers want to use, nor have they ensured that a robust certification process is in place to create a good user experience. However, this will be critical in building a successful smart home service.
- **Consumer awareness.** Significant investment is required to market the benefits of and to ensure continued customer engagement with smart home products and services.
- **Complexity.** Smart home devices and solutions are often complex. Historically, devices have been too complex for self-installation, and operators have charged significant sums for professional installation. Operators should strive to develop propositions that are simple and easy to use and should use their retail outlets to provide demonstrations and support.

The more successful players have used smart home services to enhance their broadband offerings

Operators are generally taking three approaches to smart home services. They have either built the smart home offering as an extension of their broadband service to reduce churn and defend ARPU, or they have deployed smart home services through a separate business unit as a new growth area, or they have taken the low-risk, low-margin approach of selling smart devices.

The first approach (offering smart home services as an extension to broadband) has been the most successful, especially when operators have paid careful attention to address the factors listed above such as positioning, pricing and retail and online channels. For example, Comcast and Deutsche Telekom both adopted this approach with their Xfinity Home and Magenta smart home services, and have experimented and innovated with pricing, bundling and integrating new features that are complementary to the broadband service. Comcast has over 1 million home security customers and Deutsche Telekom's Magenta service, which is powered by QIVICON, had 256 000 paying customers at the end of 2017.

Not all operators are experiencing the same level of success, but this approach is the most viable because it adds a new dimension to a multi-play strategy and defends the core business. With pay TV under threat, this additional differentiation can have extra importance. It also extends the operator's presence in the value chain

beyond connectivity, and does not force operators to directly compete with powerful Internet players such as Amazon.

To be successful in the smart home market, operators also need to take a long-term view, invest significantly and experiment with complementary services such as insurance or monitored security. This will help to localise and differentiate operators' propositions from those offered by Internet players.