2019 Trends to Watch: Smart Home

Greater innovation will start to unlock new market segments
Summary

Catalyst

The take-up of smart devices will continue to grow throughout 2019, but capitalizing on that growth remains a conundrum for service providers. They know that the sector has huge growth potential, but continue to struggle to identify a profitable strategy of their own. Vendors are investing significant amounts of money in smart home, and in 2019 we will see greater levels of technical and commercial innovation aimed at starting to tap into those consumer segments that do not yet see the value from current smart home products. Service providers will be able to take advantage of this increased consumer interest, and Ovum expects to see increased levels of service provider activity around smart devices next year. However, service providers must continue to search out differentiated service opportunities that will create real business benefits.

Ovum view

Demand for smart home remains strong and there remains a good level of consumer interest in the technology. The adoption of smart speakers in particular will continue to grow rapidly in 2019 and become the leading smart home device category in terms of household penetration. Large vendors and technology companies continue to invest, and in some cases are willing to make significant short-term losses, as they believe the future opportunities around consumer data and AI will eventually be worth it. The question is: Can service providers take advantage of this investment for their own benefit? Ovum has identified four key trends that will shape the market in the coming year and perhaps help service providers develop a stronger role in the smart home.

Key messages

- **Smart speakers will push home automation into new households.** Going forward, a greater percentage of households will have smart speakers with no other form of installed smart home technology. In 2019, we will therefore see an increase in more general smart home advertising, focused around the power of voice interaction to entice such consumers to adopt a broader home automation portfolio.

- **Vendors will increase product and pricing innovation.** Interest in smart home solutions remains high, but barriers to greater take-up, especially around form factor and cost, still exist. In 2019, vendors and service providers will increase their innovation to develop broader portfolios that meet a variety of living situations and budgets to appeal to a wider range of consumer segments.

- **Service providers will work with partners to expand outside of their core expertise.** Telco service providers have largely focused their smart home strategies around home security products, but this will not drive enough scale to create a profitable business. Service providers will therefore work with partners to expand their service portfolios, and bring a broader range of devices and services to their customers.

- **Vendors will also look to add more value through services.** Major vendors are investing heavily in smart home now to capture more of the big data prize in the future. They are unable
to fulfill all roles, though, and will be looking for partners to help them develop a complete and more appealing smart home ecosystem.

Recommendations

Recommendations for service providers and platforms

- **Step outside of your comfort zone.** Service providers’ obsession with creating services with a recurring monthly revenue has limited their creativity. Service providers should work with partners to expand their smart home offerings, which will attract a wider customer base and in turn enable future big data opportunities to be developed.

- **Utilize a growing vendor ecosystem.** Offering a wider selection of devices in service provider-branded retail and online stores will enable operators to capitalize on the growing device market as well as position their brand more firmly in the center of this growing tech sector.

- **Understand the objectives of other players.** Vendor partnerships will be important to service providers if they are to succeed in smart home, but it is imperative that operators have a deep understanding of their partners’ own business drivers so that they can develop a future strategy around how their role will evolve. Enabling partners to integrate too deeply could shut off future opportunities.

Recommendations for technology vendors

- **Focus on quality.** To try to increase the value of a certain device to a wider customer base, vendors have often focused (either directly or by working with developers) on creating as wide-ranging use cases as possible. However, often these use cases are of poor quality and/or are complicated for consumers to implement. Vendors would be better off, at least in the short term, using the “80:20” rule and focusing on developing the most likely use cases in a high-quality way.

- **Build on smart speaker success.** Smart speakers are increasingly springing up in traditionally non-smart-home households. Vendors can utilize this fact to market their own devices to such households by demonstrating how their devices plus voice control can create new additional value. Vendors need to be careful to set customer expectations around functionality, however, given that smart speaker development is still a work in progress.

Smart speakers will become the central smart home device

Smart speakers will lead the smart home device category

The growth in smart speaker household penetration – over 450% in China – during the past 12 months has been staggering. In the US, 21% of homes now have at least one smart speaker installed, and in China the figure has increased to 25%. Although it has only been four years since
Amazon's Echo popularized the concept, smart speakers have already reached the same penetration levels as other, more traditional, smart home devices.

According to Ovum's smart living survey data (see Figure 1), smart speakers are now as popular as devices such as security webcams and already much more popular than smart thermostats and smart light bulbs. In 2019, with the continuous launch of new models as well as more advanced functionality, Ovum expects this growth to continue, making this device segment the most popular dedicated home smart device.

**Figure 1: Smart speakers will become the leading dedicated smart home device**

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<th>% of respondents who own the following smart devices*</th>
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<tr>
<td><strong>Respondents</strong></td>
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*5,000 respondents in China, France, Germany, UK, and US

Source: Ovum's Digital Consumer Insights 2018: Smart Living

**Smart speakers increasingly will not mean smart home**

Ovum's data shows that households that already have some form of smart home capability, especially smart home security, have been early adopters of smart speakers. However, there is now a growing number of households where the smart speaker is the first dedicated smart home device to be purchased. In Ovum's June 2018 smart living survey, 33% of smart speaker households did not own any other type of smart home device. As smart speaker adoption continues to accelerate, Ovum expects this percentage to grow – at least in the short to medium term, after which other smart device segments will start to catch up.

Non-smart home households that purchase a smart speaker are therefore being introduced to home automation capabilities for the first time, albeit all they can control are applications available directly via the speaker. As these households get to experience such applications, they will naturally become good marketing channels for vendors and service providers to push other forms of smart home technology down to as a way of increasing the speaker's capability. In 2019, we will therefore see an increase in wider smart home advertising, as well as co-branding initiatives, all focusing around the smart speaker as the central smart device.
Smart speakers will focus on becoming more useful

Using the smart speaker as the central device to market additional smart home solutions around only works if the smart speaker itself is providing a great experience. Consumers will be hesitant to experiment and make further investments if their initial experience of the speaker is a poor one. Unfortunately, according to Ovum's survey data, this is increasingly the case (see 2019 Trends to Watch: AI Home Assistants). To stimulate greater take-up and use of these important devices, smart speakers need to improve in key areas such as their natural voice capabilities, creating more useful use cases, and consumer trust and confidence. In 2019 Ovum expects vendors to focus heavily on developing these three areas, which will gradually benefit the whole smart home market.

Vendors will increase levels of innovation

Unmet demand for smart home remains high

When asked if they would be interested in certain smart home devices and applications, typically between 40% and 60% of respondents to Ovum’s Digital Consumer Insights 2018: Smart Living survey indicated that yes, they would (Figure 2). Overall, this result is in line with the 2017 survey data, although there is potentially a slight decline in interest around smart energy devices, possibly due to some press reports questioning their true value.

However, the overall level of interest remains good, and certainly higher than the actual current take-up for devices and services, suggesting the potential opportunity for smart home tech remains good, if only vendors and service providers could find a way to unlock it.
Greater innovation in design and pricing is required

There are numerous reasons why consumers may not have purchased smart home technology, even though they state they are interested in the technology, many of which will be related to lack of awareness. The reason why consumers do not buy more smart home technology largely comes to one of four barriers (which in many cases are not mutually inclusive):

- The solution does not exactly meet their needs, or they do not see how that particular device would benefit them.
- The solution is not suitable for their living arrangements, perhaps because they rent an apartment or live in shared accommodation.
- The solution meets their needs but the cost is higher than they are willing to pay.
- They do not trust the solution to work properly or maintain their privacy.

To try to resolve the first three barriers, not only do vendors and service providers need to increase their marketing, but they also need to be more creative in developing a variety of solutions, in terms of both design and price, to meet different consumer requirements. All too often, specific smart home devices, such as smart home security systems, will have a similar functionality, design, and price point. In 2019 we will see more vendors and service providers starting to think outside of the box and developing innovative solutions and pricing schemes that will start to unlock greater segments of the smart home market.
Service providers will expand their smart home portfolio

Telcos will start to step outside of their comfort zone

Telcos are keen to take advantage of the predicted growth in smart home technology and services to stimulate new consumer revenue growth. Although smart home will not be the biggest sector when compared to other consumer TMT markets in terms of overall revenue, it is the fastest growing one, and therefore is stimulating a lot of interest from all consumer-focused players (see "Plotting the size of the smart home opportunity within the wider TMT market").

However, the majority of that growth will come from the sale of devices. Indeed, by 2019 device sales will equal approximately 70% of total smart home revenues. Service revenues make up the remaining third, and of this, home security forms the biggest portion, with 20% of total revenues by 2019 (see Figure 3). As it is the largest overall service opportunity, with a CAGR of 22%, it is clear why the majority of telecommunication service providers, whose business model is largely centered around being able to generate a recurring monthly fee, have mainly focused on smart home security services.

![Figure 3: Smart home security continues to form the biggest service opportunity](image)

Source: Ovum's Smart Home Devices and Services Forecast: 2017–22

However, on a country-by-country basis the home security market can be relatively small (in some cases only single-digit household penetration) and is already highly competitive. The telcos' ability to generate an overall consumer ARPU lift, which is required to create a real business benefit, from home security services alone is therefore limited. Telcos therefore must become more creative and explore strategies that will increase their activity in the smart home space with a wider range of consumers and households. In 2018, V by Vodafone was one of the few examples of a telco looking beyond security, but Ovum expects to see many more explore a greater variety of new and existing smart home business models.
A greater focus on smart home devices

Although telcos are really focused around services, they are not averse to generating revenues from selling retail devices. Indeed, typically 3–8% of their annual consumer revenues today come from device sales. Telcos, therefore, will be keen to take advantage of the predicted rapid growth in smart home device sales. Additionally, the inclusion of smart home tech in both their retail and online stores will help strengthen consumer perception of the telcos' role within this new important area. In 2019 Ovum expects therefore to see more dedicated smart home sections not only in telcos' online portals but also in their physical retail stores, selling a wider range of devices from an expanding vendor ecosystem.

However, as well as stocking a greater range of devices, it is vital that telcos increase in-store expertise to help customers understand the benefits of smart home technology and push their own service agenda.

Vendors will move beyond just selling devices

Vendors will increase their service offerings

The potential of big data and AI in the home is huge. Heavyweight players such as Google and Amazon are therefore willing to invest big to capture as big a stake in smart home as possible. However, such players recognize both the need to create an interconnected smart home ecosystem to maximize consumer value and that there is no need to create this all on their own as long as their devices and brand are in key positions within that ecosystem.

As shown in Figure 4, major vendors have already established a number of partnerships with both vendors and service providers, but Ovum expects this to accelerate in 2019, in terms of both the number of partnerships done and the sophistication of those partnerships. Utilizing partnerships, vendors could extend the range of services offered through their own channels. Such services can be directly connected to the devices they are offering (e.g., cloud storage for a video doorbell), or could be more of an additional value-add option (e.g., a professional home security option for a security webcam, or perhaps technical/installation support for more complex devices). In both cases, the purpose of the service is to increase the overall usefulness and value of the vendor's device ecosystem, as well as to generate service revenues, either directly or via revenue share agreements.
A potential opportunity for service providers, but be aware

This trend offers a good opportunity for service providers of all types – at least in the short to medium term. Service providers have existing cloud-based and local service assets that will be useful to smart home vendors. Working with key vendors rather than competing against them could provide service providers with a new valuable B2B revenue source as well as consumer brand kudos. However, service providers need to be fully aware when entering such partnerships of the vendors’ own long-term goals, as friendly partnerships today could turn less friendly as such players look to further monetize their own position in the smart home.

Appendix

Methodology

The Trends to Watch report is based on Ovum's continuous research into the smart home with both tech vendors and leading service providers. The report also utilizes data from Ovum's digital consumer insight surveys, smart home device and services forecasts, and smart home trackers.

Further reading

AI Assistant Tracker: 1H18, CES006-000029 (August 2018)
Smart Home Service Provider Tracker: 2018, CES006-000030 (August 2018)
We hope that this analysis will help you make informed and imaginative business decisions. If you have further requirements, Ovum’s consulting team may be able to help you. For more information about Ovum’s consulting capabilities, please contact us directly at consulting@ovum.com.

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