Smart Homes and Home Automation

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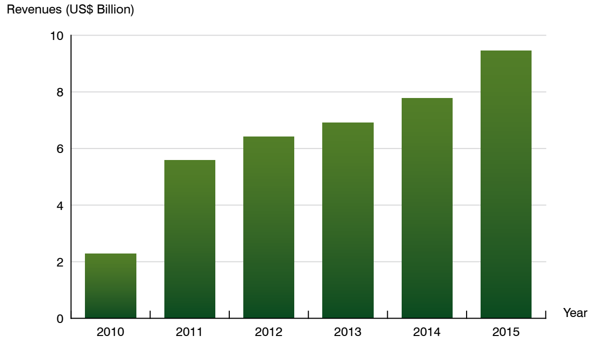
Where is the global smart home market headed?

Smart homes and home automation (HA) technologies have been around for two or three decades. These technologies have been a niche segment either for the very affluent, or extreme technophiles who wanted to do a few things like control their lights or window shades remotely, or stream audio-video content between rooms, or do some basic home monitoring. Initial HA systems focused on security and utility management, but newer all-in-one systems give users real-time control over almost all the systems in the house while at home or away, resulting in a smarter and more energy efficient home tailored to the homeowner's lifestyle.

Berg Insight sees a new day dawning for this industry due to a perfect confluence of key market, regulatory, strategic and technology trends. First is the pull from consumers who desire to use products such as iPhones and iPads to control and enhance their lifestyles with the touch of a button on user-friendly and intuitive interfaces. The regulatory drivers come from governmental directives, whereby countries and utilities are mandated to better control the generation, distribution and consumption of power in residences. The strategic push comes from new powerful entrants into this space such as broadband providers who are already inside consumers' homes and are looking for the next growth opportunities to increase ARPU, reduce churn and become solutions providers rather than just "dumb-pipes". In the US, broadband companies such as AT&T, Comcast and Verizon have shown their hand as they have made recent strong advances into this space. Finally, the technology is coming together with increasing focus on standardization and interoperability, even as the cost of modules, chipsets and software is trending down.

It is important to understand the different possible gateways and business models into the smart home from broadband and wireless providers, utility companies, consumer electronics manufacturers, retail outlets, to traditional security and home automation suppliers, distributors and dealers. It is also important to differentiate the different dynamics between the luxury homes segment versus the mainstream, as well as the complexities involved in retrofit of existing housing stock, versus new home construction. Companies also have to strategize whether they wish to offer standalone smart homes technologies, or move towards multifunction whole-home systems.

For the last couple of years, many home automation companies have struggled. Part of the reason is that the convenience and comfort functions offered by HA systems are not critical or essential and thus suffer when the financial and economic picture is gloomy. A second reason is that the best time to install a HA system is during new home construction, but new construction has been at a virtual standstill in many regions. Usually the large homes segment is immune to economic fluctuations, but this time the malaise has been so widespread that even the high-end segments have been affected. There will continue to be short-term challenges for the HA industry. The economic and housing gloom could stretch out much longer than currently envisaged. Other challenges include lack of awareness of HA offerings and the fact that consumers in many segments do not see a strong reason for HA systems. The costs involved in terms of equipment, installation and ongoing maintenance and service, are all perceived as deterrents. However, there are signs of economic growth and increased residential construction in many parts of the world. In addition, new initiatives such as Google's Android@Home can bring increased consumer awareness of HA systems and facilitate interoperability between equipment from multiple vendors.



Total annual home automation installation revenues (World 2010–2015)

Berg Insight forecasts that worldwide revenues from shipments of home automation systems will grow at a compound annual growth rate (CAGR) of 33 percent from US$ 2.3 billion in 2010 to nearly US$ 9.5 billion in 2015. These numbers include all 3 categories of home automation: professionally installed, Do-It-Yourself (DIY) and the more recent category systems installed by broadband and utility service providers. Significant revenue contributions will come from retrofit of existing homes, both luxury and mainstream. The home automation industry is also opening up a new potential market for cellular M2M devices and services. Berg Insight forecasts that the number of cellular connections used by home automation systems worldwide will grow at a compound annual growth rate of 85.6 percent from 0.25 million in 2010 to 5.5 million connections in 2015. The vast majority of these are security and access control systems. Shipments of cellular M2M communication units for home automation systems are forecasted to grow from 0.2 million units in 2010 to 1.8 million units in 2015.

This report answers the following questions:

- What is the mix of smart home technologies in new homes versus existing homes?
- How are regulatory initiatives shaping the market?
- What are the main drivers behind growth in the Americas, Europe and Asia-Pacific?
- What are the main challenges and roadblocks towards widespread adoption?
- Which are the main verticals within smart homes and home automation?
- What are the business models and channels-to-market of smart home vendors?
- What is the relevance of wireless technologies in home automation?
- How will the global smart home market evolve in the next decade?

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About the Author Alan Varghese has more than 20 years of experience in the wireless, semiconductor and broadband industries and serves as a strategic advisor to companies in these segments. He holds a Masters degree in Electrical Engineering from Rensselaer Polytechnic Institute, New York. Alan is an experienced analyst and author of numerous reports and articles about various telecom topics for leading analyst firms.

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