

# Applying Theory to Action: *Capturing New Revenues from IP Services*

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## Changes to the residential security ecosystem seem swift, at least in retrospect.

Despite its reputation for a steady business environment, the security industry has featured a host of meaningful activities in its recent past. These disruptions will push more change; more change will result in new opportunities and risks for dealers. Not only are there new players, the business structures of some major players have changed.

In terms of evolving offerings, major players in residential monitored security are adding or have added a menu of connected home services that enhance security, add new categories using IP offering new benefits, or both.

### DISRUPTIONS to Traditional Residential Security

- Blackstone announced the acquisition of Vivint for \$2B, includes 2Gig
- ADT Security spins off from Tyco
- Comcast enters the residential security market
- Time Warner enters the residential security market
- Verizon enters the connected home marketplace
- Stanley Convergent Security Solutions acquires significant players and becomes a force
- The rush to add connected home IP features
- Fewer security dealers due to recession, a poor housing environment, and tight credit lines

Recent Changes

**PARKS ASSOCIATES ESTIMATES**



~3,000 DEALERS HAVE LEFT THE MARKET

DUE TO



**BANKRUPTCY, DECISIONS TO LEAVE RESIDENTIAL MARKETS, AND ROLL-UPS AND ACQUISITIONS.**

## Many questions remain for all players in connected home services

### MANUFACTURERS & PROVIDERS

- How big a threat are giants such as AT&T, Comcast, and others to the traditional providers?
- What effects will the rapid rise of Vivint & the pending Blackstone acquisition have on competitors?
- What will be the impact, if any, of Tyco's spinoff of ADT?

### DEALER CHANNELS

- With nearly all large providers adding connected home features, must independents do the same?
- Should today's independent dealer offer connected home features without professional monitoring?

### CONSUMERS

- Do consumers value the connected home features that are now being offered as adjacencies to professionally monitored security?
- Will those consumers pay monthly fees over and above current monthly fees already paid for monitored security?
- Will the monthly fees now paid for monthly security remain at their current average rate of near \$40? Or will competitive pressure cause a decline in monthly fees?
- Is there a market for connected home bundles without monitored security? How big is it? Will some percentage of current subscribers cancel monitoring contracts (when they can) to obtain lower-rate connected home services?
- Will consumers switch to a communications provider that can offer a fully integrated home entertainment, security monitoring, and control solution? Can entertainment options be used to 'push' home management, energy, and security?

**Security dealers have significant decisions to make now or over the next 18 months that will have significant long-term implications for their future business success and survival.**

And, as ever, decisions for new directions are risky, even while they offer significant opportunity. But so is no decision.

## Reasons for Major Players to Deploy Connected Home Features and Services

At the consumer level, connected home features present new reasons to consider monitored security by those previously disinterested. Most consumers understand what a monitored security system offers. Over the years, providers have offered all sorts of deals to spur acquisition, including loss-leader offers on equipment, deals on installation, inclusion at small cost in new starts, and even, in some cases, no-money-down systems...with providers assuming these offerings will eventually be profitable through recurring monthly revenues.

Today monitoring fees average nearly \$40 per month. However, some monitoring providers outside of the major players have reduced monthly fee offers to as low as \$15 per month. Manufacturers have greatly improved system reliability so false alarms, while still an issue, are infrequently the fault of system errors. Nevertheless, despite all the system technology advances, reliability improvement, affordability by most measures, and consumers' genuine concern for the security of their homes, monitored security is present in fewer than 20% of U.S. households.

**In short, market growth STALLED.** The recession and the slow economic recovery exacerbate a problem already apparent but somewhat camouflaged by earlier high volumes of new starts.

## Providers believe IP features and benefits will reinvigorate the market.

### THE PROBLEM

**VERY FEW HOUSEHOLDERS** without monitored security seriously consider its adoption.

In addition to offsetting or reversing traditional market growth slowdown, **IP services are expansive.**



*Once in the home, providers can change, adapt, and increase offerings over time.*

### Why does monitored security have such low adoption and penetration rates?

It is not simply affordability: a majority of consumers pay much more in monthly fees for essential and nonessential entertainment and communications services. Further, spending on these services occurs across demographics and, to a significant extent, across income groups.

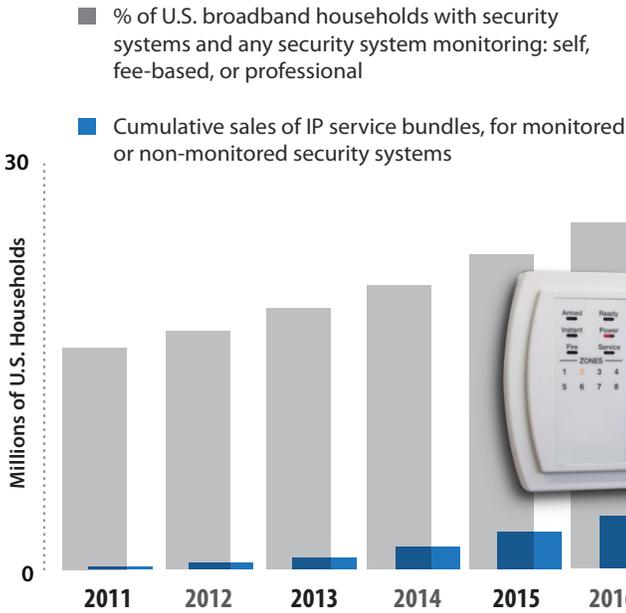
### THE ANSWER

**LIES IN CONSUMERS' ASSESSMENT OF VALUE** for the price. Most consumers have not valued the benefits of traditional monitored security enough to adopt it at the going rates.

## Connected home features being offered today increase the number of benefits to be assessed by the consumer.

### Forecast for IP Security Bundles 2011 - 2016

Attached to or Independent of Monitored Security Systems



Not only do IP-based features enhance the capabilities of the security system itself, new categories of benefits including energy and home management are available. Those benefits add cost savings (energy), convenience (access and status through smartphones, tablets, and computers), control, and a highly desirable consumer interface—the smartphone—to the benefit mix.

By 2016—

**16%** of all installed security systems will have some IP FEATURE ENHANCEMENTS.



Overall—of U.S. households—NEARLY **27%** will have a **SECURITY SYSTEM** with *professional or fee-based self monitoring*.

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Dealers need to **add connected home features to their portfolios—carefully.**

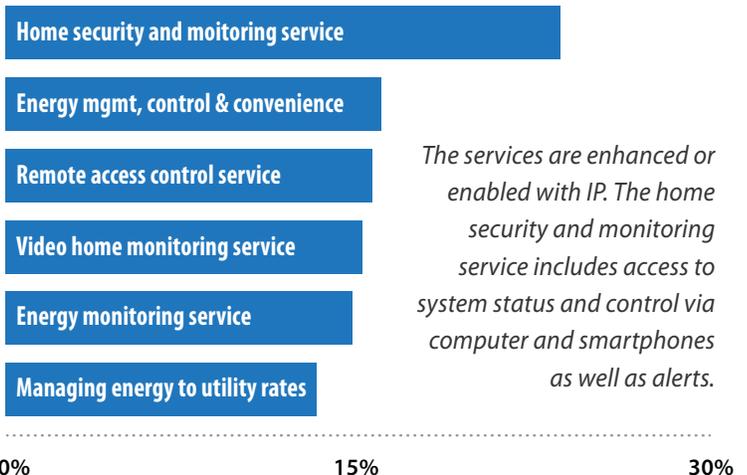
The following features rank high in appeal by consumers:

- IP cameras allowing status and alerts
- The use of smartphones and computers as user interfaces
- The capability to control the security system

*Other IP services receive lower appeal rankings overall but still have a good-sized set of consumers providing high rankings.*

### Home Security and Energy Service Rankings

% Finding Service “Most Appealing”



*The services are enhanced or enabled with IP. The home security and monitoring service includes access to system status and control via computer and smartphones as well as alerts.*

0% 15% 30%

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These new services present more challenges to dealers than traditional security because they are new to consumers. New concepts are often confusing, and sometimes frightening, to consumers.



They ask themselves, "Will I know how to use it? Who will I call for help?" In this economy, many consumers will also ask, "Can I afford it? Is the benefit worth another bill?"

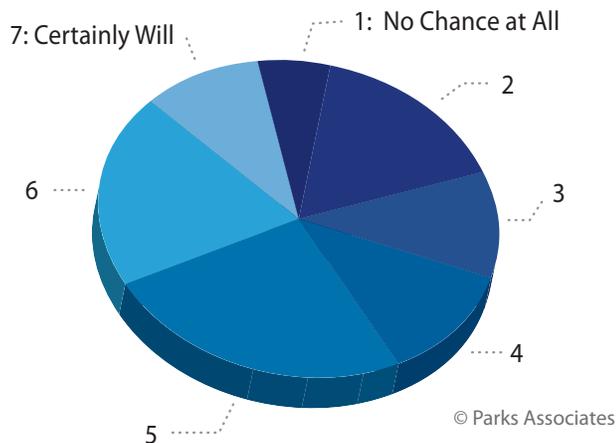
BUT FIRST  
Consumers **MUST BE** familiar ENOUGH with the services **TO ENGAGE** in assessment

While familiarity is important for non-customers, it is just as important to see how current security customers react to the possibility and availability of IP services.

In a 2011 survey by Parks Associates, after having multiple IP concepts explained, 16% of respondents with monitored security report they would certainly switch to a provider offering IP services if their current provider does NOT offer those services. A fulsome 36% of current security customers report they are likely to switch providers to obtain one or more of these services. In following surveys testing those same concepts, no less that 15% of broadband households report they would switch, if necessary, to obtain these services while approximately one-third report that they are likely to switch.

## Intention to Switch to a Different Home Service Provider to Receive Home Security and Monitoring Services

Among U.S. Broadband Households



## Using Theory to Map Market Tactics

Parks Associates' Theory of Relevancy was developed through years of research and analysis of how entire product categories rise and fall in the market as well as projections on how an individual will behave. Applying this theory can help dealers determine which tactics to use when adding or introducing connected home features to their markets.

### Relevancy in this theory is binary:

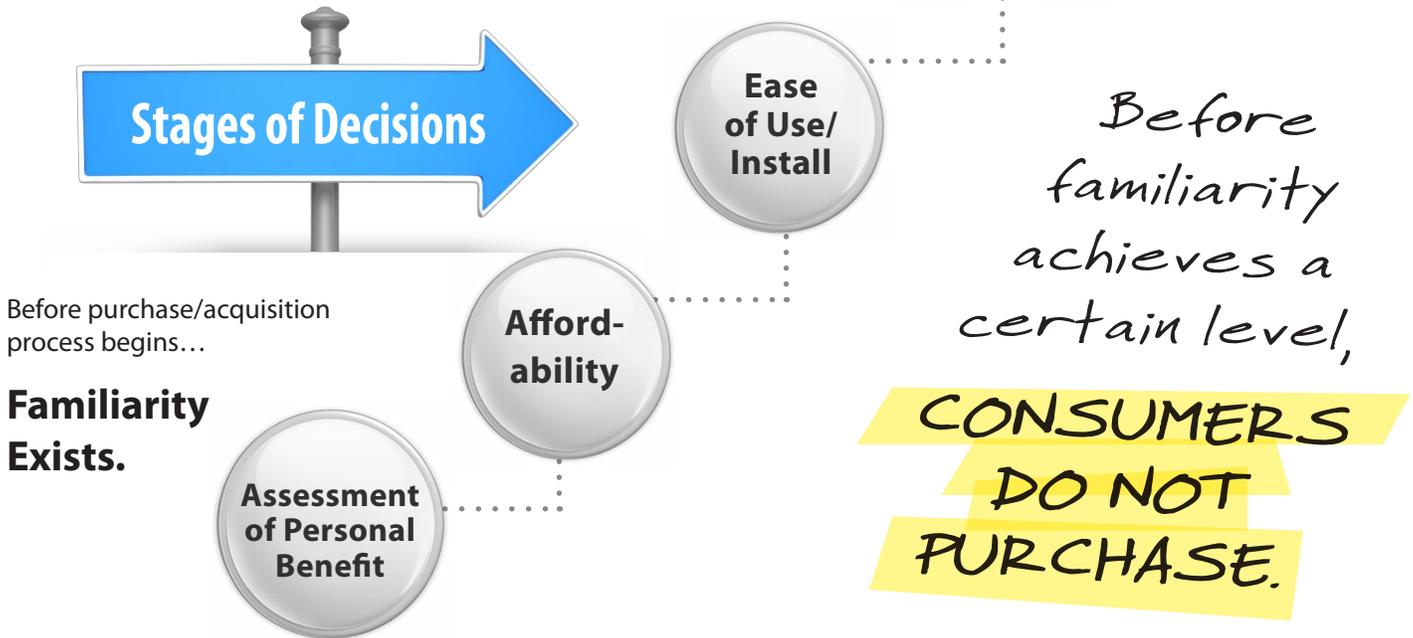
If a consumer acquires a product/service, it is relevant.

If a consumer does not acquire a product/service, that product is irrelevant, at least at the point in time being addressed.

30%

# REACHING RELEVANCY

RELEVANCY = ACQUISITION



**FAMILIARITY:** Consumers only acquire products or services with which they are familiar. But how familiar must a consumer be? In testing for familiarity of a product or service, some diffused and others new, Parks Associates discovered that understanding a product's or service's familiarity levels is most easily understood by segmenting consumers into three categories: OWNERS, INTENDERS, and NON-INTENDERS. Across multiple products and services, the degree of difference within familiarity scores stays nearly constant. OWNERS always report the highest familiarity; INTENDERS, the next highest level, and NON-INTENDERS, the lowest level of familiarity. Further, the difference in scores between the three levels remains about the same. However, the scores vary by a product's diffusion level.

Products already present in a high percentage of homes have higher familiarity scores whether or not an individual consumer has the product or service. In reverse, familiarity scores are lower for new products—even among owners of that product.

**OWNERS** of a new-to-market product or service report themselves less familiar with that owned product than do NON-INTENDERS/NON OWNERS of broadly diffused products. Thus, for example, a U.S. consumer who does not own a microwave oven reports his or her familiarity at a higher level than does an owner of a tablet.



## THE MESSAGE IS CLEAR:

**Familiarity is increased by either of two factors**—ownership of a product or service OR mid-to-higher levels of diffusion for a product/service.

In the example of microwave ovens, now in over 90% of U.S. homes, the low percentage of people without a microwave made a ‘no need’ decision related to a later stage Relevancy factor, typically “the importance of the benefit to me personally.” They are familiar with the product and understand it. Many non-owner/non-intenders of tablets, on the other hand, have not yet addressed the value of benefits. They are not familiar enough to make that assessment. Even owners of tablets do not perceive themselves as highly familiar with this relatively new product.

With that message in mind, and very low levels of familiarity for connected home devices and benefits today, **security dealers must use different tactics now to acquire customers than they will need once these services diffuse.** The first imperative is developing familiarity.

**Once consumers are familiar with a new product or concept, they can assess its personal value.**

At that point, security dealers can move from explaining IP services to promoting benefits in detail. This is true for selling to an individual consumer or to spreading a broader message across a set of target consumers. Explaining benefits in detail BEFORE familiarity with the product category idea is present puts the cart before the horse.

## How to DEVELOP Familiarity

When major providers in your territory are advertising or messaging, use that opportunity to contact existing clients or available prospects. The big players are aware of the need to explain connected home features and benefits; they will spend marketing dollars to do that. It is to small dealers’ benefit to keep a keen watch on that activity and then use it to their advantage.

Consider mailings, calls, promotions, and local press that begin with an explanatory focus and then follow with benefits. Parks Associates is observing stronger attention by local press to some connected home features than in the past. If you have clients willing to showcase their home to demonstrate these devices and services, your local press may well provide ink on it. Explain, explain, explain.

Use demonstrations or video to enhance explanations. Seeing is believing...or at least the beginning of understanding.

Do not START with benefit detail. Start with helping to explain the concept of what you are offering. Only after your prospects are familiar with the concept can they assess the personal benefits of the features.

Do not lead with energy management as a primary driver at this time. Obtaining savings in energy can offset the costs of equipment or monthly fees. Based on that alone, consumers have another rationale for adopting monitored security if they have been on the fence.

Pay attention to which features major players are offering and consider the special circumstances of your territory. For example, flood detection may resonate in some areas and not at all in others. Managing automatic sprinklers with the help of zip code level weather information will resonate in the West but perhaps not in areas such as New York.

Reach out to current customers.

Developing familiarity by piggybacking on the marketing efforts (and dollars spent) of giants is not security dealers' only challenge. Security dealers must determine how they will position IP services within their portfolios. Will new services be only ancillary upsells, or will they be thrown into the monitored security sale nearly "free" for competitive parity? Can IP services provide profit if sold by themselves? Different security dealers will adopt varying business strategies as they adopt IP services. But all must develop their targets' familiarity levels. If that does not occur, even good business models will not grow the market.

While timing is never certain, it is certain that IP services will diffuse in multiple ways into U.S. households. The market for IP services will produce billions of dollars over time and help sustain growth in monitored security. Dealers who seize the opportunities early and gain expertise have much to gain.

## ABOUT PARKS ASSOCIATES



Parks Associates is an internationally recognized market research and consulting company specializing in emerging consumer technology products and services. Founded in 1986, Parks Associates creates research capital for companies ranging from Fortune 500 to small start-ups through market reports, primary studies, consumer research, custom research, workshops, executive conferences, and annual service subscriptions.

### PARKS ASSOCIATES EXPERTISE

The company's expertise includes new media, digital entertainment and gaming, home networks, Internet and television services, digital health, mobile applications and services, consumer electronics, energy management, and home control systems and security.

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## ABOUT THE AUTHOR



### TRICIA PARKS, *Founder and CEO*

Tricia Parks is the founder and CEO of Parks Associates, a market analyst and research company dedicated to providing meaningful information and counsel to companies offering technology-based products aimed at improving people's lives. She presents worldwide on consumer trends, market requirements, and industry structure, with an eye to meshing visionary and progressive ideas to consumer needs and wants.

Tricia Parks also developed the Relevancy Theory, a forecasting model for sales across a broad range of digital electronic products and services.

Tricia has served on a variety of industry boards including CEA's Home Networking and Information Technology division, the National Research Council's Committee for a Partnership to Assess Technology for Housing (PATH), the AMD Board of Global Consumer Advocacy, and CABA. Tricia Parks has a BA from Sweet Briar College and graduate studies from the University of Texas.



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