

Industry Report

The Future of Residential Security in Europe

2019



Attribution

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BOTTOM LINE

- ▶ This report uses Parks Associates research, along with available public documents, reports, and executive interviews, to evaluate the future of the European residential security market in the age of the IoT and smart home. The industry is at a crossroads and companies need to consider how they will reposition itself to secure future growth.
- ▶ The problem is simple. With a CAGR of 1.6%, a 5.7% increase in ARPU, and early signs that interactive services are reducing churn, the market seems solid. However, new sales are slowing so the market may be stagnating or worse case, starting to shrink. This suggests that, despite the investment in launching interactive services, the core product is still not seen as attractive enough to drive market penetration much above the current average of just under 4% of European homes.
- ▶ Unfortunately, new technology and competition makes growth increasingly difficult. In the next few years, a flood of DIY smart home solutions from companies like Nest, Ring, Arlo, SimpliSafe and others offering free or low-cost monitoring solutions, will enter the marketplace. Also, technical innovations such as Amazon Alexa and Google Home (using their hub to listen and raise alerts), and Linksys Aware (using the Wi-Fi in the router to identify movement) continue to disrupt and potentially shrink the addressable market. The specter of 5G, AI, ML and Blockchain step up pressure on the industry,
- ▶ It is a mistake to think this threat is nothing new; the IoT and smart home are game changers. Access to data from connected devices is critical to the strategies of giants like Amazon, Google, Microsoft; data encourage major industries to develop and deploy smart home products and services in order to compete for access to the consumer and their home based services using that data.
- ▶ However, the smart home is in the early stages of growth; the security industry can find a defensible position in this emerging market if it is willing to overhaul the traditional business model. The industry must adopt strategies for growth that focus on product development and diversification.
- ▶ Any future business models must consider a mix of DIY and pro-installed products bundled with tiered services. They can allow low-cost entry points that appeal to a broader consumer base than today's set. Such a mix could be the key to enabling the industry to adapt its core resources and capabilities to become the go-to channel for smart home. The mix will also help diversify benefits and support new channel partners and adjacent markets in areas such as telecare, social housing, MDUs, and smart cities.
- ▶ Reinventing the core product and diversifying to become the preferred channel for smart home create an opportunity for growth, but there remain significant challenges. Security industry regulations and dealer skillsets are major barriers to growth; they must change.
- ▶ The stark reality is that the traditional residential security market is not securing material growth and new competition can threaten its very existence. Continuing to defend a business model having high monthly fees and long fixed term contracts will not secure growth. It is likely that the IoT and smart home industry will swamp the residential security market and squeeze the security industry

into an ever-smaller niche. The high monthly fee model remains appealing to very upscale households, but only those households want to pay the fees.

1.0 Report Summary

1.1 Purpose of Report

The aim of this report is to present an in-depth analysis of professional residential security market in the EU and to consider the future of the industry in the age of the IoT and smart home.

The report provides data on the size of the residential security market in key European territories and offers a forecast for future growth given environmental changes, in particular, the growth of DIY and smart home solutions. It analyzes the competitive environment based on current trends to assess how new developments will impact the EU security market; the report then addresses how the industry can adapt to exploit new opportunities for growth.

1.2 Scope of Report

This report focuses on traditional professionally monitored residential security market in Europe and includes the following:

- An assessment of the size of the European residential security market.
- A forecast of future growth based on an analysis of the competitive environment.

The forecast suggests that growth in the traditional residential security sector is likely to stagnate over the next 5 years and could even shrink. This report explores:

- The challenge the industry will face over the next 5 years.
- The competitive forces driving change and future trends.
- This report concludes by analyzing the current market and exploring how the industry could adapt to meet these challenges with new strategies for growth.

The report includes data from all the main European countries but cross references to some data points from the US where the market is more developed, and trends that are likely to be applicable can be demonstrated.

1.3 Research Approach/Sources

The Future of Residential Security in Europe draws information and data primarily from multiple sources:

- Interviews with and research on companies including security providers, smart home providers, insurance companies, retailers, telcos, manufacturers, and other channels.
- Financial reports and related secondary research.
- Parks Associates consumer surveys and forecasts. The reader will notice that some device and system statistics are reported in a range. This reflects margin of error applied from our surveys. So, for example, a device may be reported as at 12-14% adoption. Margin is important to consider for emerging devices in early adopter territory.
- Parks Associates reports and deliverables:
 - *Smart Home and Security in the UK*
 - *Changing Dynamics for the Smart Home: Opportunities for Service Providers. 2019*
 - *360 Deep Dive – Residential Security. Q4 2018*
 - *Competition in Residential Security 2017*
 - *Market Snapshot: Insurance, Consumers and the Smart Home. 2018*
 - *Leveraging the Smart Home for New Insurance Models.*
 - *Telecare in the EU: Smart Home and Independent Living. 2019*
 - *Home Security: Market Sizing and Forecasts (Q4/17)*
 - *Evolution of Smart Home Products and Services (Q4/17)*
 - *IoT Data: Securing the Connected Home (Q2/17)*
 - **Industry Trackers**
 - *Quarterly Smart Home Tracker (Q1/18)*
 - *Quarterly Smart Home Tracker with Biannual Market Sizing of Leading Categories (Q4/17)*

2.0 The EU Residential Security Market

2.1 Market Sectors

The residential security market in the EU has traditionally been easy to define, but new developments in IoT and smart home blur previously clear boundaries. For the purposes of this market analysis, the market splits into 2 key sectors:

- **Traditional.** The primary channels for traditional residential security in the EU have not changed for over 30 years. The majority of players in this sector sell direct to consumer, but some sales occur with affinity partners through other channels such as utilities, telcos, and insurers. The business models for traditional residential security are all similar: trained installers install certified products that link to monitoring centers for response services. These products and services typically tie consumers to long-term service contracts for a fixed monthly fee. The large, national and international security dealers (e.g., ADT, Sector, Prosegur, Verisure) in the EU focus on traditional systems so the sector is an easy sector to define and measure.
- **Non-Traditional.** There has always been a part of the residential security market that could be considered non-traditional. This is a mixed group that includes systems in homes in which consumers have been unwilling to commit to service contracts and have instead opted for bells-only or self-monitored systems. This market is serviced by tens of thousands of small installers across the EU, but a wave of new, non-regulated, DIY systems are flooding this space. Some of these new systems offer monitoring with manned guard response rather than police or self-monitoring by the end user. These non-traditional systems are difficult to categorize and assess because they use new B2B and B2C models to open channels. Many are described as smart home systems, but even so, their primary value proposition is security. The wide mix of new systems (e.g. Arlo, Hikvision, Canary, and SmartThings) and channels make this sector difficult to measure and assess; consequently sizing may be +/- 20% from our current forecasts.

Overall, the EU residential security market is fragmented with the largest players in each territory combining to hold 10-15% market share; remaining sales distribute across a very large number of small, independent dealers. The large EU security companies generally focus on commercial markets for their revenues, but leverage their core resources and capabilities to service residential customers. The larger dealers remain focused on the traditional sector whereas smaller dealers often offer a mix of traditional and non-traditional bells-only/self-monitored systems to consumers. Some cross over to offer other home systems such as home theater and multi-room audio.

2.2 Market Size

The top 5 countries by number of households represent 70% of all homes in Western Europe so for the purpose of this report, the trends in these markets are considered representative of the wider market.

Three point five to 4% of European households have traditional monitored security; at a macro level, the traditional residential security market is experiencing modest but steady growth across the EU

(Figure 1) with most territories averaging almost 2% CAGR. In contrast, ARPU has experienced a significant increase, 5.7%. This is largely due to the introduction of IP video and interactive services; most major dealers now install such systems as standard options in residential properties.

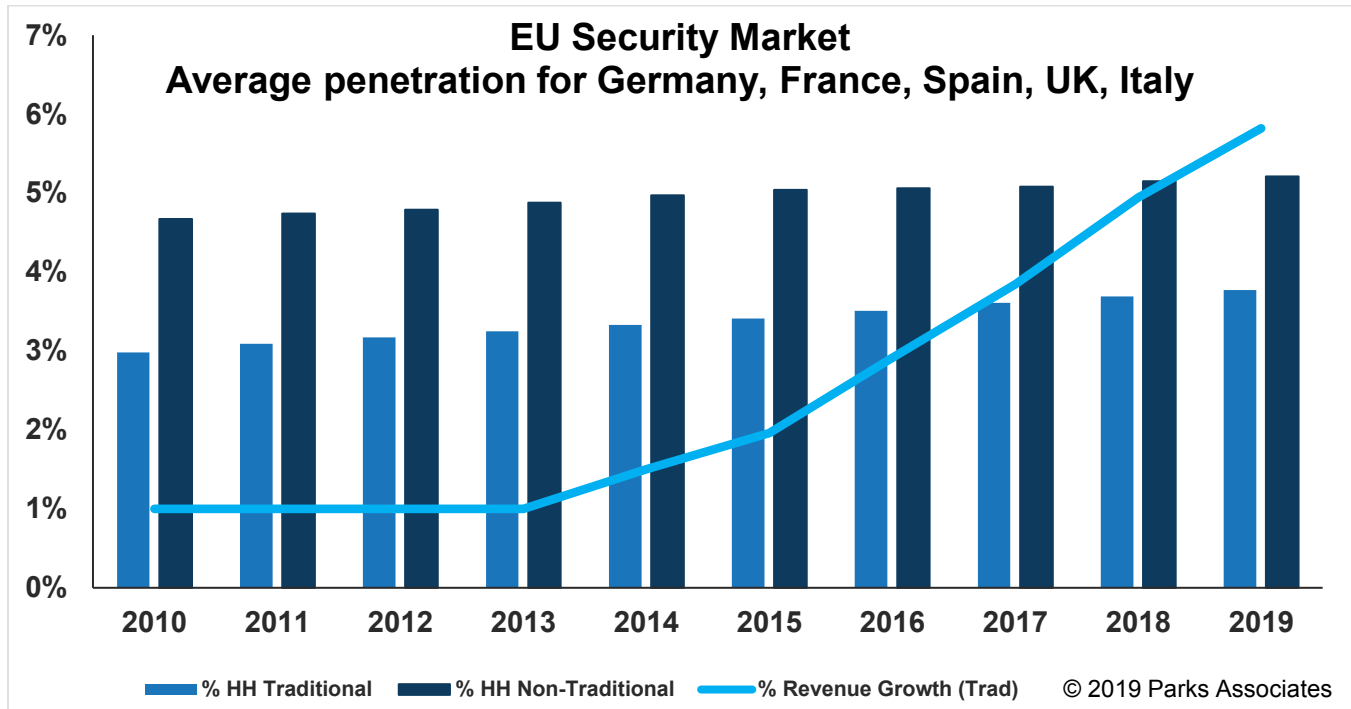


Figure 1: Residential Security - Market Size

Whilst at a macro level, the market appears to be progressing steadily, there are underlying causes for concern. The industry for traditional monitored security is primarily driven by the need to retain existing customers and secure new sales. For the first time in many years, there are signs of material gains in customer retention (reduced churn), but the number of new customers is trending downward, (Figure 2). Consequently, even though the overall number of residential connections is showing growth at 1%-2% depending on territory, reduced losses rather than growth in new sales are the reason the industry is still witnessing top-line growth. Reducing churn and increasing revenues from the customer base are good news, but there are limits on how much you can squeeze churn and revenues from existing customers. The future of the industry depends on generating new connections.

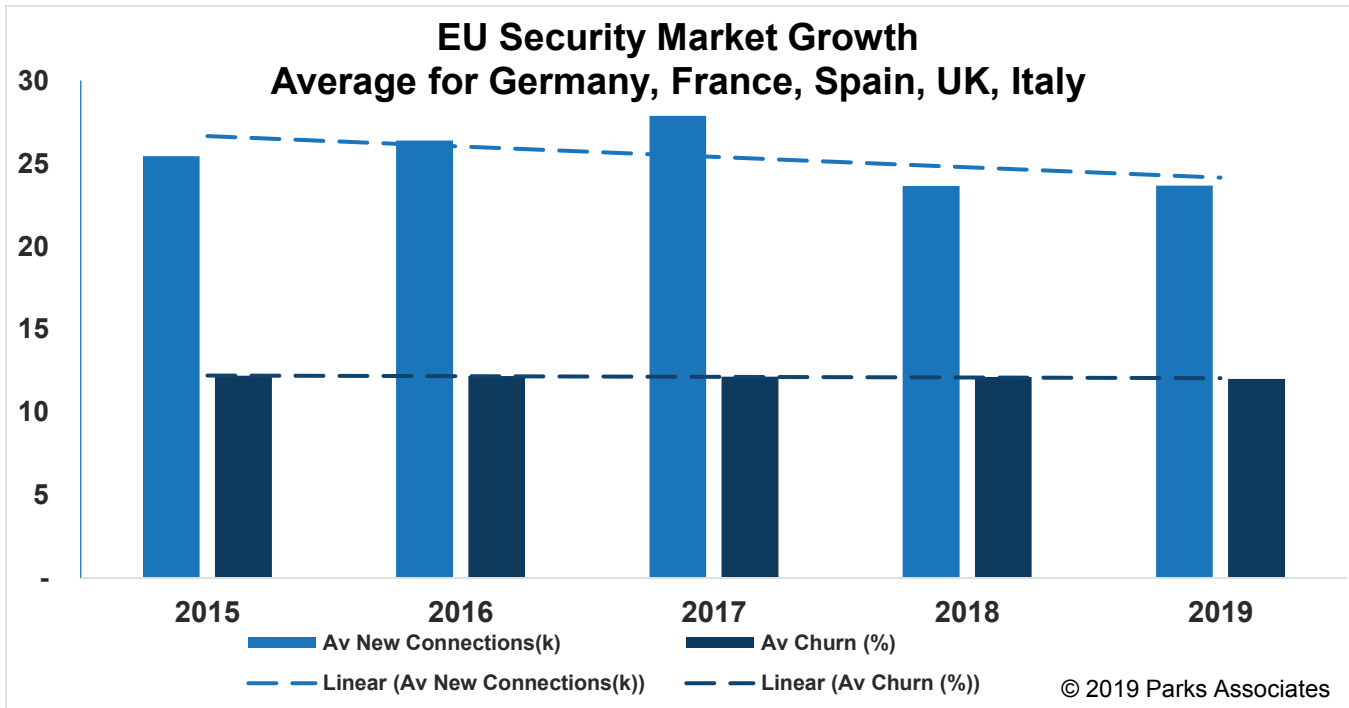


Figure 2: Past EU Security Market Growth

3.0 The Challenge

The traditional residential security industry faces unprecedented change, largely driven by new technology and competition.

The industry is aware of the threat posed by the IoT and smart home and has made significant investments to develop interactive services that can add more value to the traditional products and services to compete effectively going forward. The problem is that the industry has focused on bundling interactive services to try and add value to the core security proposition; that is, to protect the industries cash cow, the monitoring services. The emerging smart home market focuses on a much broader range of propositions and services. For smart home players, security monitoring is a service they use to market their products because it is an addressable market readily understood by consumers which can be monetised.

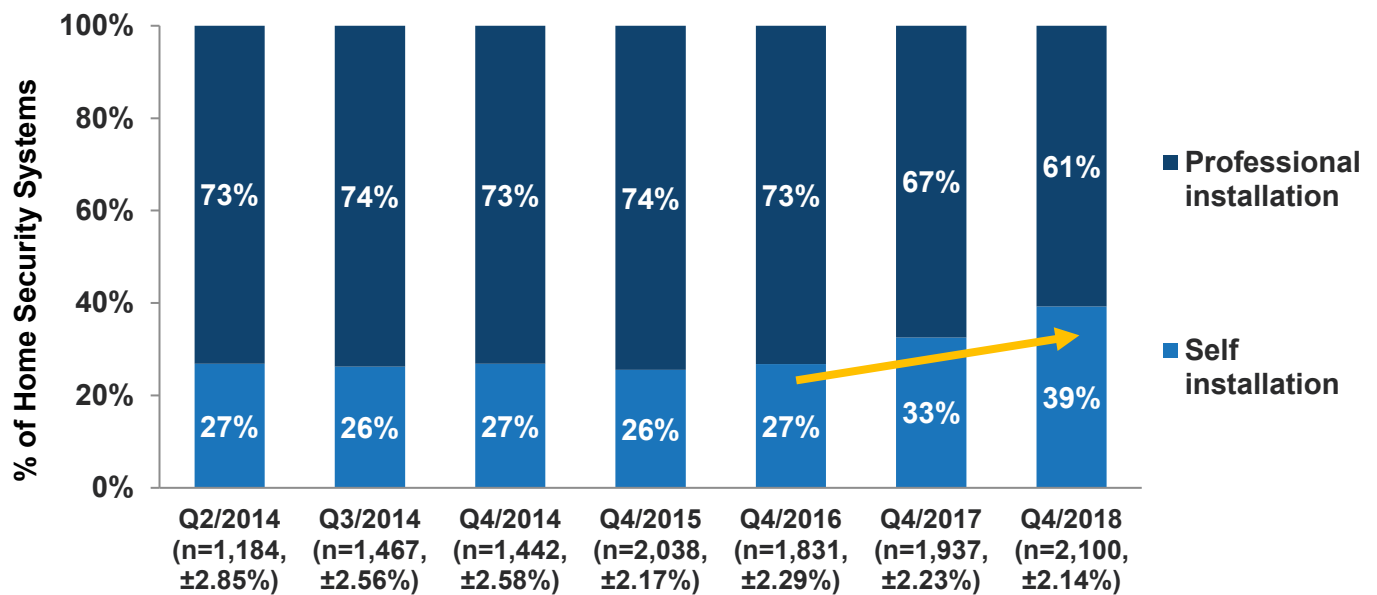
The entry of tech giants such as Amazon, Google, and Apple will redefine the market over the next five years and this challenges the traditional security industry. To respond to the challenge, it is important to understand why tech giants are entering the market. Their strategic driver is the desire to gain access to data from connected devices in order to secure new insights on consumer behaviour, increase

engagement, and develop and deploy new products and services. Good examples of the type of disruption the European industry faces follow:

- **DIY.** Ring, Nest, Ezviz, Arlo and others have both expanded their core offerings to include DIY security and launched in Europe to compete against incumbents such as Essence, Yale, Smart Things and others already in the market. DIY is also gaining traction even in the US where the traditional security market is exceptionally strong, (Figure 3). The European market has always been more accepting of DIY than the US so these new products are likely to be welcome and thus impact the traditional industry.

Installation Method for Recently Acquired Systems* (2014 - 2018)

Among Those Recently Acquired Home System Within the 6 years Aware of Installation Method



Note: * Recently Acquired Home Security Systems refers to systems acquired within the 6 years prior to the survey. Systems older than 6 years old are not included in this analysis "S7055. Who installed your home security system?"
Source: Multiple Surveys: American Broadband Households and Their Technologies | © 2019 Parks Associates

Figure 3: US DIY Growth

- **Audio.** Voice is increasingly significant. Amazon recently launched Alexa Guard which enables customers to ask Alexa to notify them of activity after they leave the home. Alexa then listens for movement or other alarms and notifies the homeowner. This function can be coupled with a wide range of other plug-and-play sensors for security. Google will follow Amazon. The development of DECT Ultra Low Energy by DSPG allows manufacturers to go further and add audio to their individual products so even battery powered devices become capable of listening and responding to instructions. Haier, the world’s largest appliance manufacturer is integrating voice into their appliances. It is easy to dismiss these systems as poor security solutions, but in just three years, voice control has grown 10-fold and controllers are now used in 36% of US homes. As new alliances and standards’ bodies address voice interoperability issues, the value of this feature will increase; it will become increasingly difficult to persuade consumers they need something more specialised from traditional security dealers when everything in the home has ears.

- **Wi-Fi.** Linksys has developed a range of new meshed gateways that use the WiFi signal to detect movement in a property *without any sensors*. Startups like Aerial Technologies are offering similar technology to other manufacturers. If this technology realizes its potential, the consumers' home network may be able to precisely locate and monitor movement. Perhaps the network will even be able to detect if a person falls.
- **AI.** The ability to use AI to draw insights from data will bring new levels of intelligence to systems. Creating and securing digital experiences with intelligence at the edge will add value to things like video cameras and increase the ability to identify activities and trigger appropriate responses. These will be compelling consumer propositions.

At a macro-level, it is not hard to imagine that these new products, services, and business models from insurgents can undermine or, worst case, subsume the traditional residential security industry over time. Consumer technology companies are developing new channels and promoting what they define as residential security systems that are simpler, more affordable, and more scalable than a traditional intruder alarm. More significantly, in many of these cases, companies offer residential security as a by-product of a much broader service offering as they bundle comprehensive connected home solutions.

Failing to understand and adapt to the nature of the challenge facing the industry may be catastrophic for some companies. There are plenty of examples where major companies and entire industries were wiped out because they failed to understand their competitive environments and adapt to change; think Kodak, Xerox, and Blockbuster.

An example that may be even more relevant is car security. Twenty years ago, there was a strong independent market for auto security systems. Customers buying new cars could opt to have a factory fitted security system or save money by taking the car to a local car security dealer. As cars became smarter, things that once were expensive options become part of a standard package. Today, new cars have security, central locking, electric windows, automatic lighting control, and wipers that sense rain - all as standard. In short, car security is a standard part of a much wider package of benefits and the stand-alone industry died.

The advent of the smart home presents a similar, albeit not a mirror, challenge to residential security companies. Whilst the adoption of interactive services does deliver benefits, the market is changing fast and research suggests that it will be hard to keep up with new entrants.

To identify the best way to meet these challenges, this report looks at the competitive environment before discussing what this means for the future of the industry and the opportunities for growth.

4.0 The Competitive Environment

To analyze the competitive environment, Parks Associates reviews 4 key areas; the industry, the market, future trends, and macro-economic influences (**Figure 4**). Each of these areas influences the balance of forces that shape the market; understanding how they are affected by new innovations in the market is necessary to identifying options for growth.



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Figure 4: Competitive Environment for Residential Security

4.1 Industry Forces

For reasons explained in 2.0, the residential security market is more competitive than in the past.

It is an attractive market because consumers often identify security and safety as a primary need; nonetheless, adoption is low, particularly when compared to the adoption of systems such as home theater, thermostats, and the like. As a result, it is natural to assume there is an opportunity for growth. Like all industries, there are key forces that affect the market dynamics:

4.1.1 Suppliers

Suppliers to the traditional security industry have always faced pressure on pricing, but mergers and acquisitions have consolidated the market and limited options for dealers. Companies buying volume have power, but the fragmented nature of the industry, loyalty to brands, and high switching costs

means dealers are reluctant to change suppliers. Different regulatory requirements across the EU make it difficult for suppliers to scale, but they also tend to protect their markets from imports.

It could be argued that the balance of power is shifting. Traditional alarm suppliers were slow to adapt to the advent of broadband and the IoT; this opened the path for start-ups to enter the market with more innovative products—for example 2Gig, Qolsys, and others. Industry manufacturers have traditionally acquired newcomers, so Nortek, Honeywell (now Resideo), and Tyco acquired these newcomers. They may find this pattern more difficult to sustain when competing against large CE manufacturers offering a constant stream of innovative, networked products in high volume to new channels. It is likely that industry regulations may protect suppliers, but they are also often a barrier to innovation and do little to defend market share in the non-traditional sectors and wider smart home market.

4.1.2 Stakeholders

There are the usual range of high-level stakeholders that impact the strategy and growth of any business; namely, investors, customers, suppliers, influencers, and those exercising governance.

However, the way the security industry is structured has created a uniquely powerful and influential group with its dealers. Dealers and installers have some cost advantages by building what, in many cases, are very effective franchise networks. The dependency upon dealers for sales, installation, and maintenance has a big impact on the operational costs in the current business model. The dealer model also makes it difficult to make material changes to business models because anything that negatively impacts their business meets stiff resistance.

The culture of traditional security dealers also has a significant impact on the shape of the balance of forces in the industry and is important to note because it makes change difficult. They do not like change and have traditionally worked to create a model that is 'fit and forget' and actively avoid interaction with the customers. They push the message that a security system is a 'life safety' system and can promote the fear aspects to achieve sales. They also have a narrow skillset and were slow to adopt wireless sensors and broadband because they saw them as unreliable when part of the problem was inadequate training and understanding of the technology. Although interactive services have now gained strong traction in the industry, the product designs and business models have been heavily influenced by the dealers' traditional view of the consumers and the market.

These issues are largely confined to the traditional residential security market and explains why new entrants favor non-traditional channels where they can be more disruptive.

4.1.3 Competitors

Competitors divide into two key categories: incumbents competing in the current market and new entrants or insurgents:

- **Incumbents.** The fragmented nature of the industry means that there does not tend to be strong competition between incumbents. Consumers are aware of the bigger national brands (e.g., ADT, Verisure, Prosegur, Sector, Stanley and a few others), but often are price sensitive and simply shop locally for quotes. The critical success factor for incumbents in the industry is retention of existing customers. While the volume of new connections on an annual basis remains essential, it is an uphill battle if attrition runs high, particularly to subscription services for monitoring and maintenance. The basic products and services are broadly the same for most players, but some of the bigger national brands have the financial muscle to fund equipment packages and create bundles that help differentiate them from smaller, local dealers. Nonetheless, ultimately, competition between incumbents in residential security is limited.
- **Insurgents.** The main competition for the industry is from insurgents. Access to data from sensors in the home can deliver new consumer insights, improve engagement, and support the deployment of new, value-added services that complement core capabilities. New entrants are not attacking residential security because they think it is a new growth opportunity per se; they are entering because they want access to data from sensors in the home to complement and expand their core service offerings. This is the key strategic driver for many new entrants such as telcos, cable companies, utilities, and insurance companies. Targeting the security industry is common because the sensors that have traditionally been part of an intruder system generate data and, more importantly, home security is a good lead proposition, with hubs acting as a Trojan horse into the home. Most insurgents do not aim to go through the security industry; instead, they are going around them through channels partners (B2B2C) or with direct-to-consumer plays (B2B). This approach is not restricted to the bigger players as there are examples of much smaller companies gaining strong traction in different territories. For example, Eguardia has gained traction in the Netherlands and Germany.

4.1.4 Substitute Products and Services.

The main competitive threat to the traditional security industry is substitution by a single or a few products for the traditional security system.

Traditional security providers have had a narrow focus on a single service – home security. Insurgents focus on the wider value of data and the insights derived from sensors. They are open to more radical business models and leverage new channels to bypass dealers with DIY offerings. For these new players, that sensors can detect an intruder is a by-product of a broader value proposition and a more expansive business model. Take Amazon and Ring working together, for example: Amazon Alexa can link back to a vast array of entertainment and retail experiences whilst integrating with Ring to offer security, energy management, and home automation.

4.2 Market Forces

The various industry forces help shape the industry from within, but external market forces influence how the industry operates. Five main areas merit consideration.

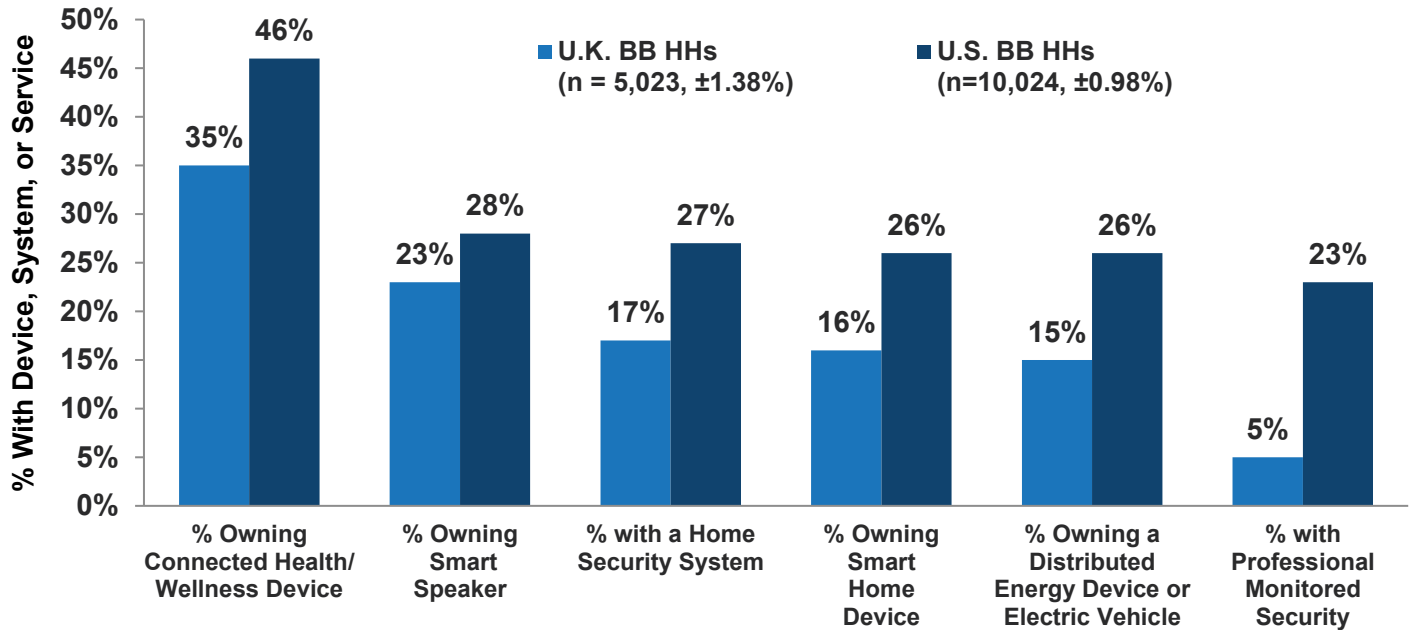
4.2.1 Market Sectors

The previously simple task of identifying the boundaries of the residential security market in order to analyze growth patterns is increasingly problematic. What was once a simple demarcation between professionally monitored and non-monitored alarms now blurs. For the purposes of this analysis, it remains relatively straight-forward to define and discuss the traditional security market, but what is now termed the non-traditional segment is broadening with the advent of smart home systems that purport to offer home security features. Growth in the traditional sector is likely to be affected by the arrival of new entrants and alternative options entering the non-traditional markets. Indeed, it is the non-traditional sector that is likely to be quickly subsumed by the smart home market.

4.2.2 Consumer Needs and Demands

Consumer expectations are changing following the advent of broadband and the smart phone opening the market to innovations. Whilst smart home devices have started to gain traction with consumers, residential security still has a solid position (**Figure 5**) in consumer perceptions. However, successive efforts to grow the EU market in an effort to mimic the US model have failed; the EU market remains stubbornly small by comparison. One interpretation of the market research suggests that the new entrants to the non-traditional market are gaining traction because they are better suited to meet the emerging needs and demands of EU homeowners. The growth in smart home device ownership is an indicator of the change in consumer attitudes. Although countries like the UK currently lag US adoption rates, future growth rates are likely to be similar and the gap will ultimately close. For example, the UK market for ownership of speakers has increased to 23% in just 2 years and penetration and growth rates are likely to be the same of most of Europe. By contrast, professionally monitored security penetration is close to the level it has been for the last 5 years in both the UK and US. In some instances, its penetration has been exceeded by new products and services.

Product, System, Service Adoption: U.K. vs. U.S. (2018)
Among BB HHs Surveyed in Specified Countries



Source: IoT in the UK: Consumers and Technology Adoption Q3 2018 | N = 5,023, ±1.38% | © 2019 Parks Associates
Source: American Broadband Households and Their Technologies Q2 2018 | N=10,024, ±0.98% | © 2019 Parks Associates

Figure 5: Product, System, Service Adoption

4.2.3 Switching Costs

The cost of switching suppliers has traditionally influenced residential security switching decisions; often those costs inhibit switching. Dealers tend also to remain loyal to suppliers because they like their particular products and do not want the cost of retraining their installers. Moreover, the lack of interoperability between hardware suppliers means they would need to switch out all stock if they change. Similarly, the proprietary nature of hardware limits the field for consumers when they consider switching between dealers. This has been a benefit to dealers because it discourages consumers from cancelling contracts; however, consumer awareness of this issue is being raised by smart home companies marketing not only their specific product, but also their flexibility and the option to relocate their systems at no cost.

4.2.4 Revenue Attractiveness

The most significant force in the traditional residential security is the strong monthly recurring revenue stream. These revenues are a cash cow for the industry and there is an understandable determination to sustain this business model. Many of the larger brands (e.g. ADT, Prosegur, Sector, Stanley and

others) focus on the traditional security sector and only supply and fit systems if customers commit to professional monitoring and the monthly fees attached to a fixed-term contracts. The industry needs these revenues to support the current business model and channels. For example, the costs associated with the hardware, sales, installation, monitoring and maintenance mean major dealers rarely profit from a new customer until late into a 3-year contract. The main benefit is realized in the ongoing years which is why reducing churn is so important. Ironically, it is the success of this revenue model that has attracted many insurgents to compete in this space.

4.2.5 Regulation

The regulatory environment has a significant impact on the security industry. Regulations are a means of ensuring reliability and maintaining standards, but there have been some unintended consequences:

- **Dealers.** The need for properly trained and qualified installers is obvious, but regulations relating to trade boundaries introduce significant operational costs. For example, regulations in most countries demand that security panels are hardwired into an electrical spur rather than simply plugged into a wall socket. This is not ideal for the homeowner and simply adds cost, often requiring a certified electrician to support the security dealer on installation.
- **Monitoring Services.** Increased regulation of dealers, products, and monitoring centers has been a response to frustrations caused by false alarms and the pressure they place on police services. False alarms remain a problem despite these regulations and this, combined with pressure on public funding, means most police forces are refusing to respond to domestic security alarms so a key industry benefit is lost. The UK alone has experienced a 75% drop in the sales of police response systems so although 3.8% of homes have professional monitoring, only 1% of invest in installing additional equipment necessary to qualify for the option for police response.
- **Product.** Products are more expensive than previously because of the need for back-up power, secondary signaling, tamper protection, and things like multi-sensor coverage to minimize false alarms. The focus on the dealer (the customer for a manufacturer) has made systems complex and less consumer friendly. New product designs from companies such as 2Gig and Qolsys address these limitations to a degree by balancing the needs of the installer with those of the customer, but their systems remain relatively expensive.

Improving standards through regulation is a worthy and necessary goal, but some of the changes introduced actually only create barriers to entry for new competition. The problem for the traditional industry is that these regulations may now also become a barrier to growth and limit how incumbents can respond to competition from insurgents.

5.0 Macro-Economic Forces

From analysis of both the industry and market forces, it is clear that the traditional security industry faces challenges, but there are external macro-economic forces that also shape the competitive environment in residential security:

5.1 Wider Market Conditions

The competitive nature of consumer market has changed in the last 10 years. Traditionally, industries tended to focus on a narrow vertical sector, but many now look for growth through adjacencies so there are more horizontal engagements, (**Figure 6**). This changes many security industry dynamics; for example, the industry faces increased competition from channels outside its normal competitive environment.

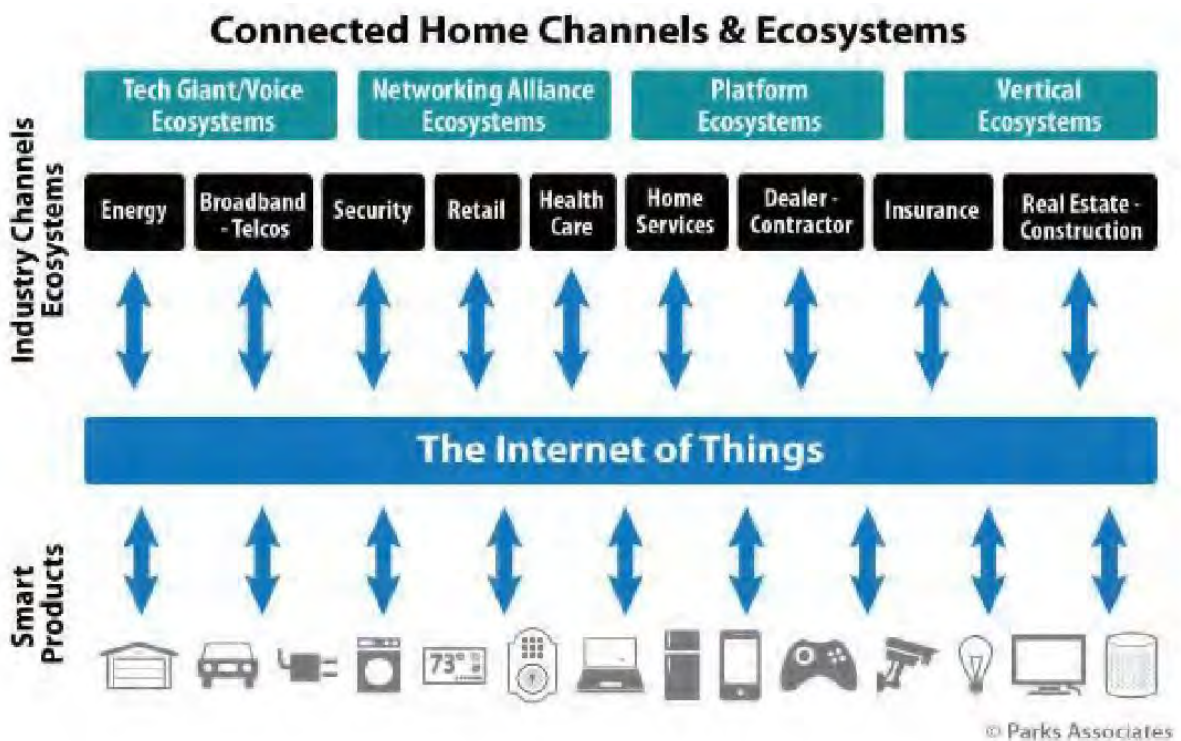


Figure 6: Connected Home Channels and Ecosystems

- **Retailers.** Retailers sell a broad range of CE devices through their stores and online offering home security benefits. Most of these are DIY and include devices such as cameras, video doorbells, lighting, and smart plugs. Some retailers are working to create and bundle products to their customers either as security systems or smart home systems with intruder monitoring. Examples include Hornbach in Germany, LeGrand in France, and John Lewis in the UK.

- **Service Providers.** Telcos started with the phone line to the home delivering a voice service, with growth driven by volume of connections. Those same companies continue to strive for growth through volume, but increasingly they seek to bundle more OTT services to their base in order to grow revenues. Their excursion into security and the smart home is an extension of their strategy and brings them into competition with traditional residential security companies. To date, their success in security has been limited, but they remain committed. Recent news that Telus (a major Canadian Telco) acquired ADT Canada; within the EU, Telefonica acquired a 50% stake in Prosegur, a sign of their continued commitment as well as evidence of a change in tactics. In each case, these companies have adopted the traditional professional security model, but they are likely to be more innovative and less constrained than a traditional security company. As competition heats up, telcos partnering with companies like Alarm.com to secure growth can create interesting hybrid models that challenge the traditional security model.
- **Insurance.** Investment in Insuretech is at an all-time high as insurers develop strategies for growth in their own increasingly competitive markets. They recognize that IoT and connectivity can improve consumer engagement, mitigate insured risk, and offer opportunities for revenue growth. Insurers have played an important role in the growth of the traditional security industry by encouraging adoption and offering policy discounts. That is starting to change as they step up to offer their own solutions. For example, Allianz offers homeowners a range of new home services including DIY security through a partnership with Panasonic and Zurich is working with Cocoon, a smart home startup in the UK. Aviva has taken a different approach by investing in Neos in the UK. Insurers are also questioning the value of discounts; the UK's largest home insurance company, Aviva, has discontinued some of its discounts and, in some cases, considered a homeowner finding it necessary to invest in traditional security a sign of increased risk. That perspective can lead to higher fees.
- **Utilities.** Utilities are also working to secure growth by offering more services to consumers. In the UK, British Gas created Hive and introduced new energy management services with connected thermostats and boiler management. They now have over 1 million customers and have extended their offerings to include security, home automation, and video. Europe's largest utility, EDF has launched a broad range of smart home products and services to customers in Europe.

5.2 Capital Markets.

The high level of investment in the smart home inevitably impacts the traditional residential security market. The UK, Sweden, and Spain are the most active investment countries in Europe, but the main influence is from the US where VCs investing in the space have been rewarded by strong exits and the ensuing recycling of funds into companies with global ambitions. They back strong US brands to steal market share in Europe; for example, SimpliSafe, Ring, Roost, SmartThings, and others. Spin-off companies like Honeywell's Resideo and Arlo from Netgear are also making a strong push towards smart home elements. These new investments make it still more difficult for the traditional industry to defend its market position. That, in turn, make traditional investors in residential security companies nervous about competing and further investments.

5.3 Commodities and Other Resources.

Currently, European companies cannot compete with China and other parts of the world for high volume commodities. However, the nature of security systems and the need to meet regulatory requirements for specific territories means that the systems are relatively specialized, so manufacturers like Pyronix and Texecom continue their solid footholds in the traditional European industry. However, security companies and manufacturers tend to favor proprietary wireless motion sensors (usually 43/868Mhz or similar) while most new systems favor new open standards (Zigbee/Zwave/DECT). In the future, proprietary standards may struggle to compete on cost against devices mass produced to open standards offering better economies of scales.

5.4 Economic Infrastructure

The economic infrastructure in the EU means it is relatively simple to trade across all territories, but it remains challenging for brands to scale; this is particularly true for the traditional security industry where regulations are a challenge. Some traditional security companies view this as a positive because it provides natural barriers to entry for outsiders, but it has the disadvantage of limiting their own ability to scale across territories. Expansion also has risks given the low market penetration. As explained earlier, the current business model has inherently high acquisition costs and is not attractive in many European markets.

In summary, there are significant market force changes affecting residential security in the EU. The competition between rivals is largely unaffected because incumbents are generally playing by the same rules and largely, have similar business models. The problem for the industry is the external forces. New industries are entering the smart home and IoT space to satisfy key strategic drivers and they see home security as a good point of entry. These industries are characterized as having deep pockets and are not constrained by any of the traditional rules and regulations of the market.

6.0 Future Trends

The competitive environment and market forces are being disrupted by the devices for smart home. The competition between rivals is largely unaffected because incumbents are generally playing by the same rules and largely have similar business models. The strong challenges to the industry are from external sources. New industries enter the smart home and IoT space to satisfy key strategic drivers; they perceive home security as a good point of entry. These industries are characterized as having deep pockets and are not constrained by any of the traditional rules and regulations of the market. Moreover, they are willing and able to exploit key future trends to win market share by taking advantage of technology, environmental, societal, and regulatory factors.

6.1 Technology

The advent of the internet and the growth of device connectivity as part of the IoT has been a game changer for many industries. Usually, new technology facilitates incremental improvements to products; the IoT is different. It enables innovators to reinvent the way products are designed and operated. The best-known early examples of this are companies like Ecobee and Nest which completely changed the way thermostats perform and function. Major manufacturers like Honeywell and Johnson Controls did not realize what was happening; by the time they responded, they had lost market share to start-ups. Everything from weighing scales to pet doors are now being reinvented in this same way. In residential security, there are two significant technology trends:

- **Redesign.** Traditional security systems are being redesigned to embrace the benefits of connectivity, usually by overlaying interactive services, whilst working to remain compliant with industry regulations and supportive of traditional industry business models. ADT Pulse, Stanley, and Resideo are good examples of these systems.
- **Reinvention.** Startups like SmartThings, SimpliSafe, Arlo and others use connectivity to completely reinvent the traditional security systems. They have changed basic designs to be simpler, more capable, and cheaper, allowing them to exploit new DIY channels.

Although the industry has sought to embrace technology and layer interactive services over the top of security, simply rewrapping the old business model is not enough to protect the traditional industry. The IoT is a major part of what is considered to be the 4th Industrial Revolution and it will continue to cause disruption and upend the residential security industry. For example, machine learning, AI, 5G, Wi-Fi 6, cloud, edge computing, and blockchain will continue to drive major change. The rate of change is accelerating, and we do not know what new innovation is currently in the laboratory. This is a worrying issue for a very traditional industry.

6.2 Environmental

Increasing concerns about the environment may impact the market, pushing up the importance of climate control and energy management features in smart home and interactive services far more than today. Concerns for the environment may even trump security concerns in terms of available interactive services. Utilities have focused on generating energy, managing distribution, and delivering it as a commodity to the consumer. The role of home automation in energy management and the impact of climate change now pushes utilities to move beyond the meter into the home. As pressure for action increases, governments are likely to introduce regulations that mandate the use of automation for services like demand response to reduce carbon emissions. This can drive broader adoption of smarter systems that may also be configurable as substitutes for traditional security alarms.

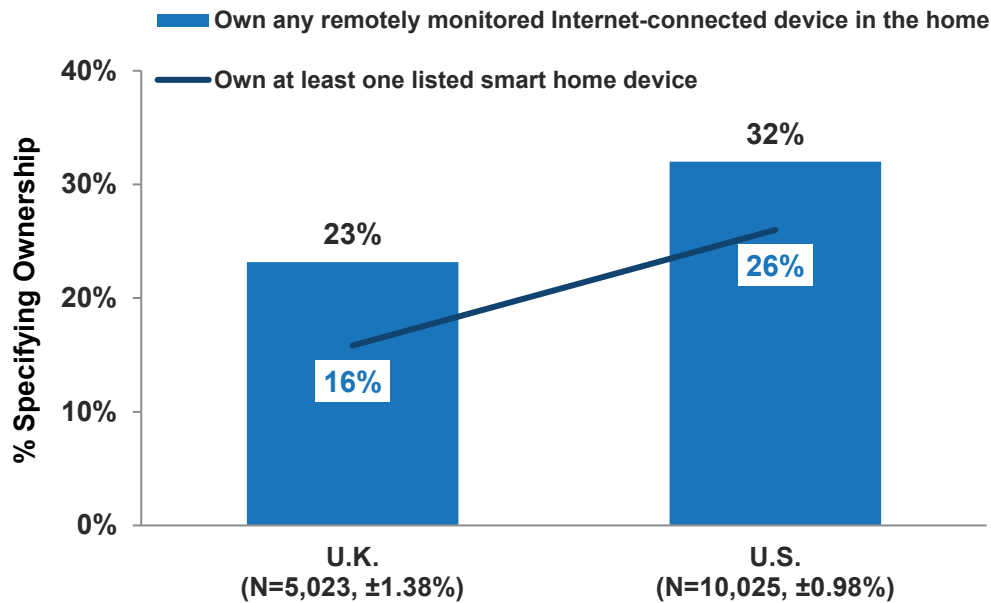
6.3 Societal

IoT is driving a wider societal change by creating an increased expectation that everything will be connected and work together. Society is a long way from achieving that goal, but there is recognition that industries need to become more horizontally integrated to meet emerging consumer needs. Evidence of these changes is strong across a number of areas:

- **Consumer Expectations.** Consumer expectations and how consumers interact with their environment is changing. This is evident from the rate of market penetration for smart devices and the type of devices being adopted (**Figure 7**). The internet and the advent of the smartphone put power into the consumers' hand and, increasingly, they expect everything to connect and work seamlessly together. This is driving a fundamental shift from focusing on product features towards services. For example, as smart appliances roll out, consumers will pay less attention to the physical control options on an appliance and depend more on voice and app interfaces that deliver more value and better services. From the security industry's perspective, the learning must be that the products should be invisible in the home with the focus on the service bundle and experience.

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Smart Home Device Ownership by Country (2018) Among All BB HHs in Specified Countries



Smart Home Devices Surveyed

- Thermostat
- Door lock
- Video door bell
- IP camera
- Light bulb
- Lighting control system
- Outdoor light fixture with camera
- Outlet/switcher/dimmer
- Plug/adaptor module
- Sprinkler system
- Garage door opener
- Smoke/CO detector
- Water leak detectors
- Water shut off valve
- All-in-one security system

"Q2600. Can anything in your home... ?" | ST2601. How many of the following smart home products do you own?" | Source: IoT in the UK: Consumers Technology Adoption Q3 2018 | Source: Multiple Surveys: American Broadband Households and Their Technologies | © 2019 Parks Associates

Figure 7: Smart Home Device Ownership

- **Attitudes towards Risk.** The traditional security industry in the EU is significantly smaller than the US and this has led many to identify this as a growth opportunity. There are several reasons, but attitude to risk is probably a key factor. In the US, there are multiple reasons that traditional security has gained its more than 20% penetration. While no longer used extensively, fear was used in advertising early in the security industry's market development. Beyond that, the housing structure in the US along with insurance discounts, consumer mobility, migration patterns from the North and Midwest to the West and South, and the inclusion of security systems in new starts have all spurred adoption. There is less mass marketing in Europe and a resistance to using fear to sell, partially because advertising regulations are probably a barrier in most territories. Moreover, in reality, the risk of a break-ins in most EU countries is declining. These factors, combined with no police response to domestic alarms, create inhibitors to the growth of traditional security.
- **Demographics.** Parks Associates research on independent living for seniors explores the consequences of an aging population in the EU.¹ There is a growing recognition that the IoT and smart home technologies will play a major role in managing what can easily become a crisis for social healthcare systems. Smart home systems deployed to address this challenge may displace the need for security systems in both traditional and non-traditional markets.

¹ Parks Associates – Telecare in Europe 2019

6.4 Regulatory

Regulations for data security and privacy are chasing technology, but examples such as GDPR in EU show how they can and will impact on business. The particular problem the security industry has is that independent industry bodies in each territory have created regulations that restrict their ability to compete in the emerging smart home market and there is a need for this to change. As explained earlier, an example is the need for professionally monitored security systems to be connected to a mains spur so it cannot be unplugged. These regulations add cost and complexity to a residential security system. If the industry is to compete effectively against insurgents, the regulatory environment has to change.

7.0 Market Analysis

This report explores the balance of forces at play in the competitive environment; the residential security market is in a difficult position.

Consumer demand for the current propositions is waning in Europe. Even in the US, where the market for professionally installed and monitored security has traditionally been strong, growth has stalled. The current business model is not working well across key parts of the marketing mix:

- Product.** In the EU residential sector, security has failed to achieve significant traction, so it is reasonable to conclude that consumers do not perceive the product delivers enough value to justify the cost. Insurgents are stealing market share by exploiting the IoT and technology to develop and deliver more expansive, consumer-focused propositions that better meet householder needs. The provider focus is on the delivery of simple, affordable and scalable bundles. The traditional industry's competitive response has been to develop interactive services and while this is a step in the right direction, it is unlikely to be enough. Even in the US where sales of professionally installed and monitored systems have been robust, there are clear signs that there is a shift towards DIY systems and that this hurts professional sales, **Figure 8**.

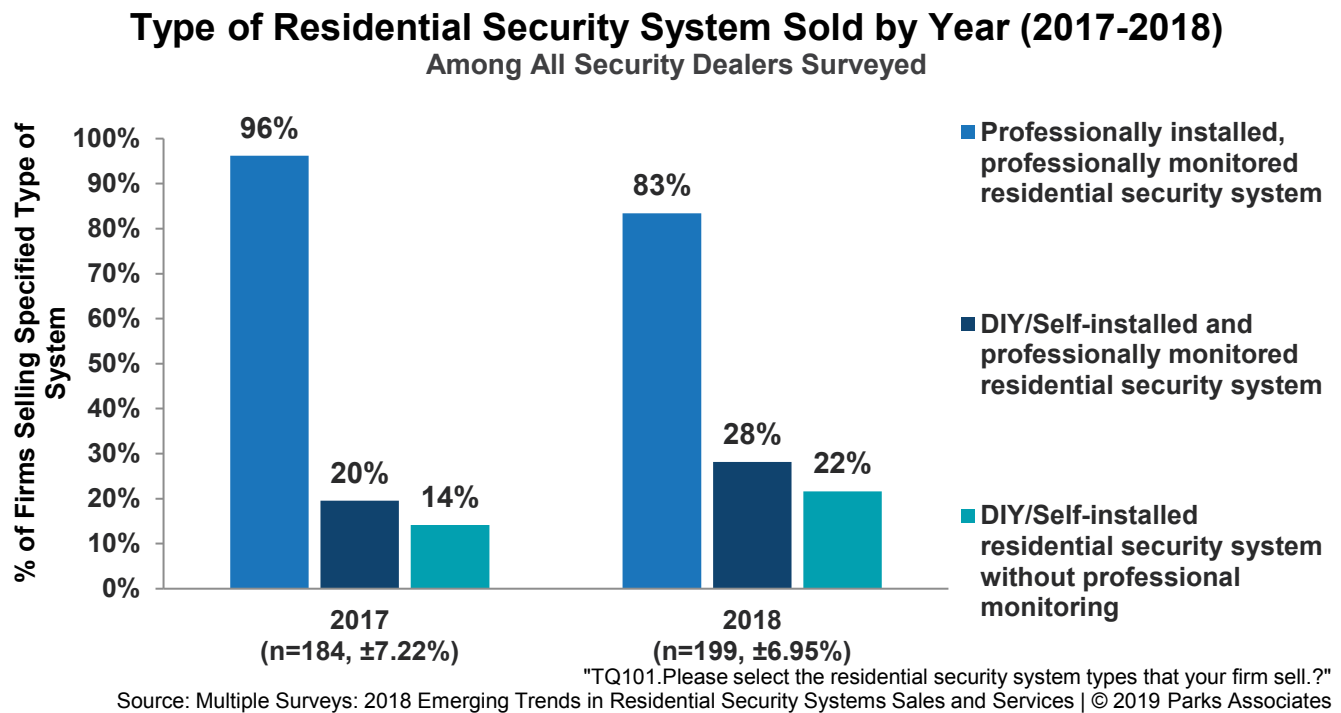


Figure 8: Residential Security Sales US

- Price.** Traditional pricing is not appealing to the mass market. The structure of the residential security industry with its need for dealer networks and regulated systems, drives up operational costs. Insurgents offer DIY solutions for what they argue are equivalent services having low/no monitoring fees because their business models are more innovative.

- **Place.** The fragmented nature of residential security means that sales are largely driven by the marketing efforts of thousands of local dealers per country as well as by local crime levels. Today, insurgents are opening new B2B and B2C channels to reach consumers, channels to which most security dealers do not have the resources and capabilities to support. For example, telcos, utilities, and retail outlets are developing as available channels. In addition, the innovators are much better at leveraging digital channels.
- **Promotion.** Small, local, promotions for traditional security solutions are swamped by national campaigns from new insurgents backed by big brands. Nest and Ring have focused on obtaining traction by selling a single effective nearly universal device (thermostat and doorbell respectively). They have funded national campaigns direct to consumers and through partners. They then upsell and cross-sell other products and services to their customer base. British Gas takes a similar approach with a focus on the home boiler market; it now has over 1 million customers using a wide range of smart products. In Germany, Allianz is promoting its own security solution, developed in partnership with Panasonic, and promoting this direct to their large residential insurance base.

In addition to addressing issues relating to the marketing mix, there are major external factors that influence the industry and impact the residential security market:

- **Technology.** Technology is the game changer driving the disruption through the IoT and smart home. Although the security industry is working to adapt and defend market position by developing interactive services, over time, this will not be enough to protect the traditional business models that have driven the industry to date.
- **Data.** Access to data from connected devices is encouraging new channels to invest heavily in the IoT and smart home. Data enable companies to develop new service offerings for consumers. Those new services draw companies to the home security market because it provides an access point into the home. For most of the new players, using security is simply part of a strategy to develop a wider bundle of OTT services for more expansive consumer engagement.

If the security industry is to remain relevant in the residential sector, it must determine how it can respond to changes in the competitive environment, then respond, and reinvent the traditional business model to exploit technology and data.

8.0 Future Forecast

Given the pace of change in the competitive environment as well as the issues with the current business models, the future forecast does not appear robust. At the least, it appears murky.

Growth in total customer connections suggest the industry has performing solidly in terms of CAGR. However, as explained earlier, churn has a significant influence on business performance, and although this has reduced, there does not appear to be a significant benefit in terms of the overall number of connections. For example, the UK has seen a 0.5% improvement in attrition over the last 5 years which equates to about 4,100 accounts retained in 2019. However, the total number of monitored alarms in the UK, after allowing for churn, is estimated to be marginally more than last year with almost 21,000 Net new connections. If churn had reduced by over 4,000 and new sales were the same as previous years, the Net new connection should be closer to 25,000. As this is not the case, it is reasonable to assume that benefits from reduced churn are being offset by a drop in the total number of new sales. The difficulty securing reliable sales data is a challenge, but assuming that the margin for error this year is no different to previous periods, it suggests that overall growth is at best stagnant, but could potentially be falling. As shown earlier (**Figure 9**), this is starting to show in the US market where sales have traditionally been robust, so it's logical to assume we will see the same trend in Europe.

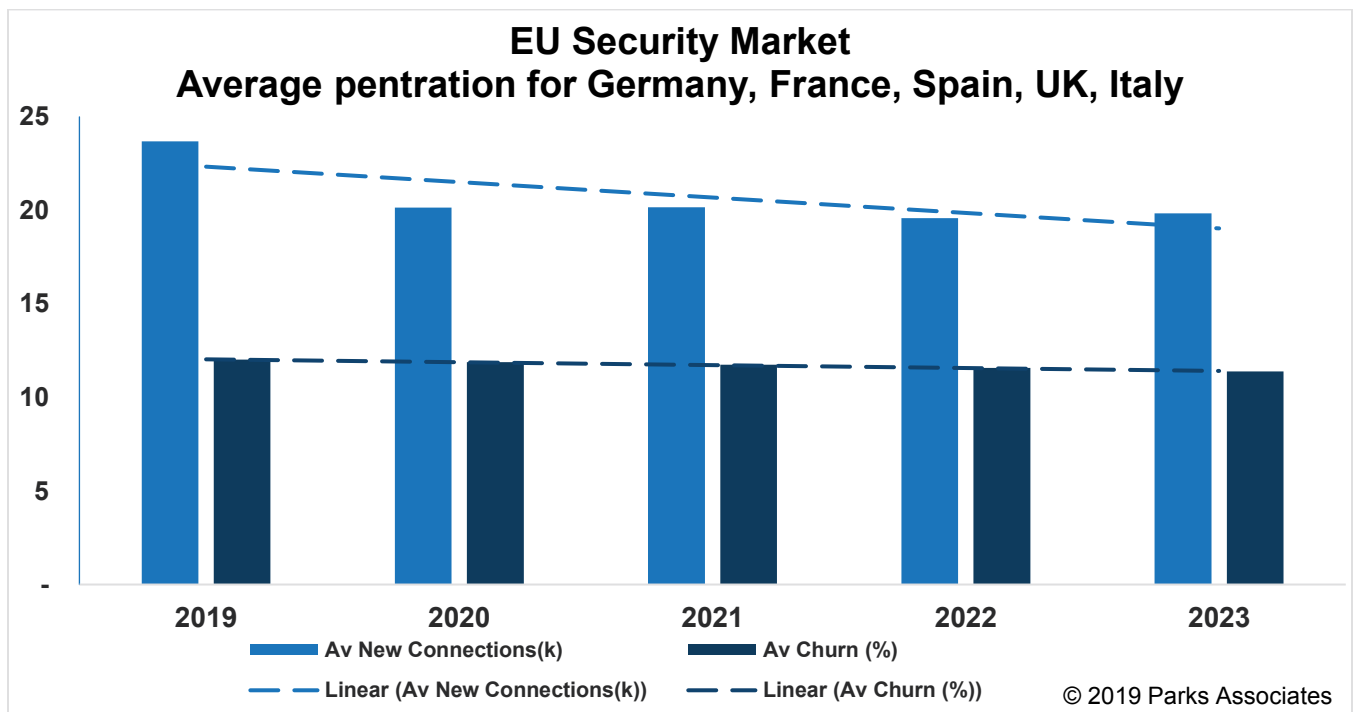


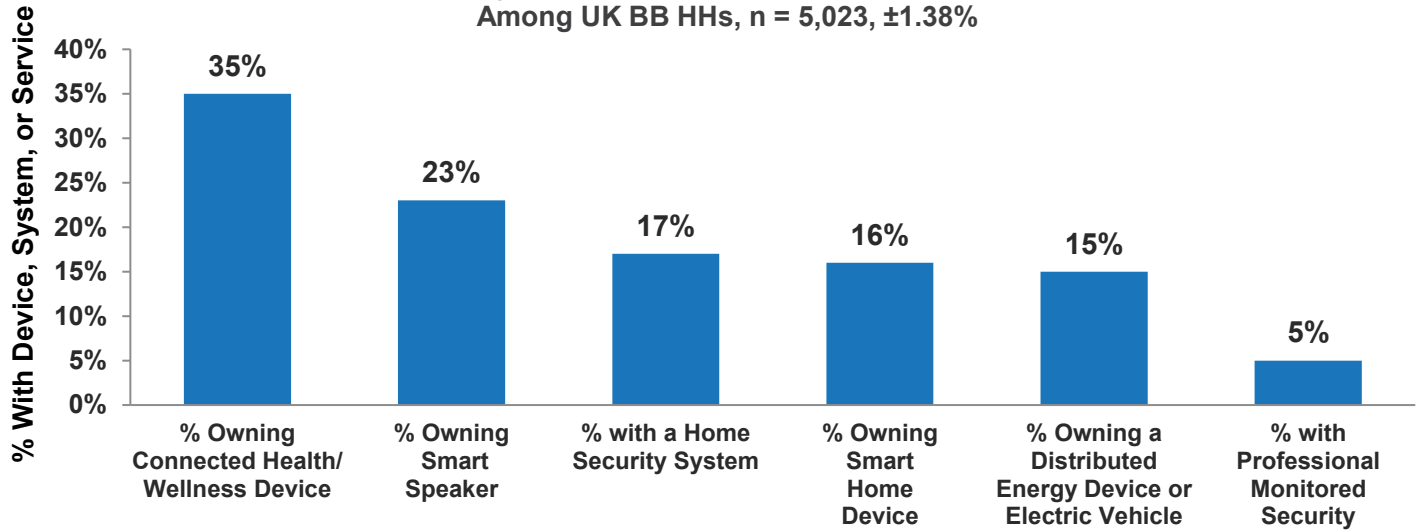
Figure 9: EU Security Future Market Growth

The trends seen in the UK are not yet evident across all European territories, but the future forecast in **Figure 10** above assumes the different territories will generally behave in a similar way. There are a number of factors that support this assessment:

- **The Competitive Environment.** The European security market has struggled to grow in the past and, as explained earlier, the competitive environment is changing dramatically with the entry of new insurgents. This is also true in the US market where the growth in the security sector is in non-traditional and DIY rather professional systems. The industry may not categorise systems like the Nest door cam or Amazon Alexa as security systems, but security is being promoted as a feature and benefit as part of Amazon and Google's strategy to get into the home. This will inevitably have an impact on consumers' attitudes and influence their buying decisions. Although it is reasonable to argue that many people will still have a need for a professional security system, it is logical to assume that there will be downward pressure on this sector of the industry.
- **The Industry Business Model.** The introduction of interactive services may have increased revenues for the traditional security, but it also means that fewer European customers will be able to justify the additional expense. Although consumers will have the option adopt the basic security systems, it is likely that many will be attracted by the wider benefits of interactive services and will shop around for cheaper alternatives. In addition, insurance and police response will be increasingly difficult to deliver so key pillars of the sales pitch for professional installers are being eroded. Innovation in the security sector from companies like Rspndr who offer an Uber like service for manned guard response will help traditional dealers bundle more value to consumers, but they will also offer the same benefits to DIY and non-traditional systems so they may do more to spur growth in low-cost DIY solutions.
- **Consumer Awareness.** Consumer awareness of security systems and the value proposition is high across Europe and the main brands in all territories are well recognised after years of campaigning to build the market. Despite this, professional security remains a small, very fragmented market. In most territories, there are 2 or 3 well recognised national brands, hundreds of mid-sized businesses, and thousands of smaller local alarm dealers. Their messaging to consumers is mixed and marketing is limited. However, despite the entry of the big brands like Google, Amazon, and others consumer awareness of smart home products and services remains low, but it is growing steadily because they have big marketing budgets and pan-European ambitions. Recent consumer research shows that 36% of UK consumers intend to purchase a smart device in the next 12 months. **Figure 10** below offers an interesting narrative of the UK market over the last 5 years where the percentage of homes with traditional monitored security systems has not materially changed at just 4%. In the same period, penetration of connected health devices, voice controllers, and smart products has grown from almost zero to the point where almost 1 in 4 homes. With 36% of homeowners with broadband showing intent to purchase more in the next 12 months consumer awareness of smart home is likely to continue to rise significantly over the next 5 years whereas the traditional security industry is likely to continue to remain virtually static and probably shrink under the weight of alternatives.

Product, System, Service Adoption: U.K. (2018)

Among UK BB HHs, n = 5,023, ±1.38%



Source: IoT in the UK: Consumers and Technology Adoption Q3 2018 | N = 5,023, ±1.38% | © 2019 Parks Associates

Figure 10: Adoption Rates

- Technology and Innovation.** The biggest unknown when forecasting future growth for the industry is the impact of technology and new innovations. The smart home and IoT are in the early stages of growth and have already created significant disruption; if anything, this is likely to accelerate over the next 5 years. To remain competitive, the industry must harness technology to innovate and lead in the market, but that has been a challenge in the past. Players like ADT in the US witnessed large service providers move into smart home and responded by developing interactive services. Now, almost 100% of all new sales have this as an optional extra. However, this change has taken nearly 10 years. It is hard to see how the industry is going to be able to react at speed to changes in the next 5 years given the culture and regulatory framework in which it operates. The speed of change across industries is likely to increase given the advent of 5G and developments in AI, voice and ML; these are technologies that will be particularly disruptive. The idea that Alexa listening or the Wi-Fi network detecting motion to trigger rapid manned guard responses has to make the traditional industry nervous about future growth.

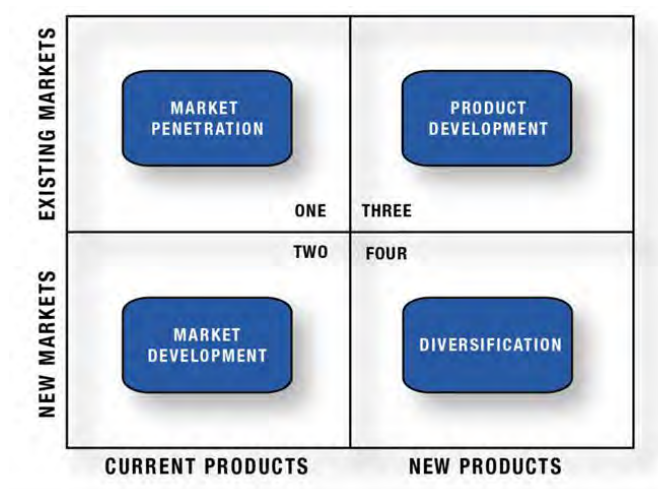
On balance, there are no major macro-economic factors likely to help or hinder the industry over the next 5 years. The key pressures are summarised above and they are most likely to have a negative impact on growth. The forecast reflects this. Against this background, it is easy to argue that this future forecast is conservative; this itself is cause for concern. If anything, the future forecast could get worse. As explained earlier, many of the recent product developments from companies like Resideo, Ring, Arlo, Nest, and SimpliSafe are just starting to enter the EU markets; it's not clear what impact they will have. Moreover, new innovations such as Linksys Aware and the use of Wi-Fi signalling in the home, may add to the industry challenges.

9.0 The Opportunity

Some industry stalwarts believe that new insurgents will ultimately fail to understand the nuances of the security market and consumer mindset. Indeed, some contributors to this research considered these developments as nothing new and cite past examples of large brands such as BT, Deutsche Telekom, Belgacom, Vodafone, Orange, and others launching propositions but failing to compete effectively against the current market incumbents. Parks Associates believes the current challenges are different; to wit, past experiences are inadequate indicators of future performance. Timely adoption of interactive services have helped revenues and avoided a fall in sales to date, but they do not appear to be delivering meaningful growth in terms of new connections. That growth is essential to the future health of the security industry. In sum, there is every reason to at least consider new options.

10.0 Options

There are four different strategies that the traditional security industry might consider adopting to secure growth (**Figure 11**).



© Parks Associates

Figure 11: Ansoff Matrix

10.1.1 Market Penetration

The simplest way for the traditional security industry to approach the challenge is to double down on the current business models and products with the goal of increased penetration. A number of research projects over the years have looked at US penetration for monitored security and concluded that the EU has significant potential (**Figure 12**). This vision has not been achieved despite years of investment because there are fundamental differences between the US and EU markets. Differences include

different housing styles, length of time in homes, general mobility, cultures, and costs. Even in the US, predictions made for rapid growth from penetration rates achieved over 40 years in the US market failed to materialize. As with the European market, sales appear to be slowing; at best there appears modest growth. Clearly, introducing interactive services to defend the traditional business model has experienced some success, but this appears to help maintain the status quo in the face of new competition rather than fueling growth. In short, more investment in the same product and business model does not seem a solid long term strategic choice.

**EU Security Market
Average penetration for Germany, France, Spain, UK, Italy**

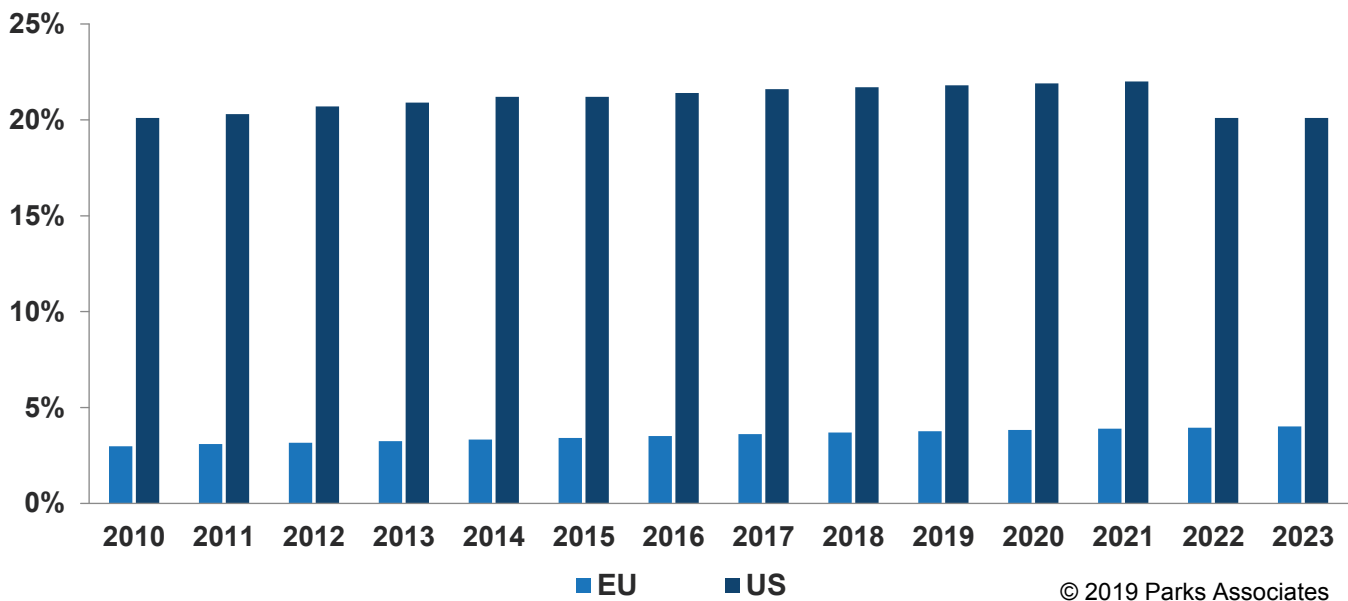


Figure 12: EU vs US Market Penetration

10.1.2 Market Development

The value of data from systems in the home is driving additional industries to consider serving the market and, instead of viewing these players as competition, the security industry can develop partnership strategies to support them. This partnership approach often benefits all parties. Many significant types like service providers, insurance companies, and retailers do not have the necessary resources and capabilities to deploy solutions to their customer bases. Partnering to support their deployments helps both the partner and security company leverage their respective brands to grow the market. In Spain, ADT and Alarm.com have partnered with Orange to offer a professionally monitored system with interactive services to consumers. Resideo is also trying to drive growth by creating turnkey solutions for partner channels as part of a strategy that focuses on market development.

There are limitations to this strategy. These channels require security brands with a large national footprint for installation and support so it will not help smaller regional dealer networks. Also, the current systems are struggling to grow in their own market. The strategy will self-limit when competing against brands like Vodafone which has partnered with Samsung and Smart Things to offer lower-cost DIY self-monitored solutions.

10.1.3 Product Development

Interactive services are increasingly important in the residential market and could be considered table stakes for future participation. However, a more radical approach to product development can help defend market position and stimulate growth. Verisure has taken a bold step by developing DIY systems for distribution through different channels than its traditional offerings and substitute options for manned guard services for the lack of police response. This allows them to leverage their brand to compete effectively against insurgents. In a way, they segment their markets based on socioeconomic characteristics.

There is a growing need for the security industry's traditional products and business models to be completely redesigned from the bottom up, but this is where industry regulations become a barrier to change. As covered earlier, regulators demand standards that restrict or at least inhibit change, increase cost, and add complexity. Areas where the industry can achieve growth include the bundling of services such as manned guard response and embracing 3rd party services such as home network security, home warranty services, or even insurance.

For product development, the industry needs to look beyond traditional manufacturers for partners to help them execute their strategies for growth. New products developed by companies such as Sercomm, Climax, and D-Link are significantly different than traditional security panels and offer good value. In addition, companies like Alarm.com offer dealers a platform that supports expansive service models. Alternatively, some companies are offering dealers complete white label solutions with both product and services. Examples include Universal Electronics Inc, Fibaro, Miotta, Devolo, HomeLink, Leedarson, Essence and others.

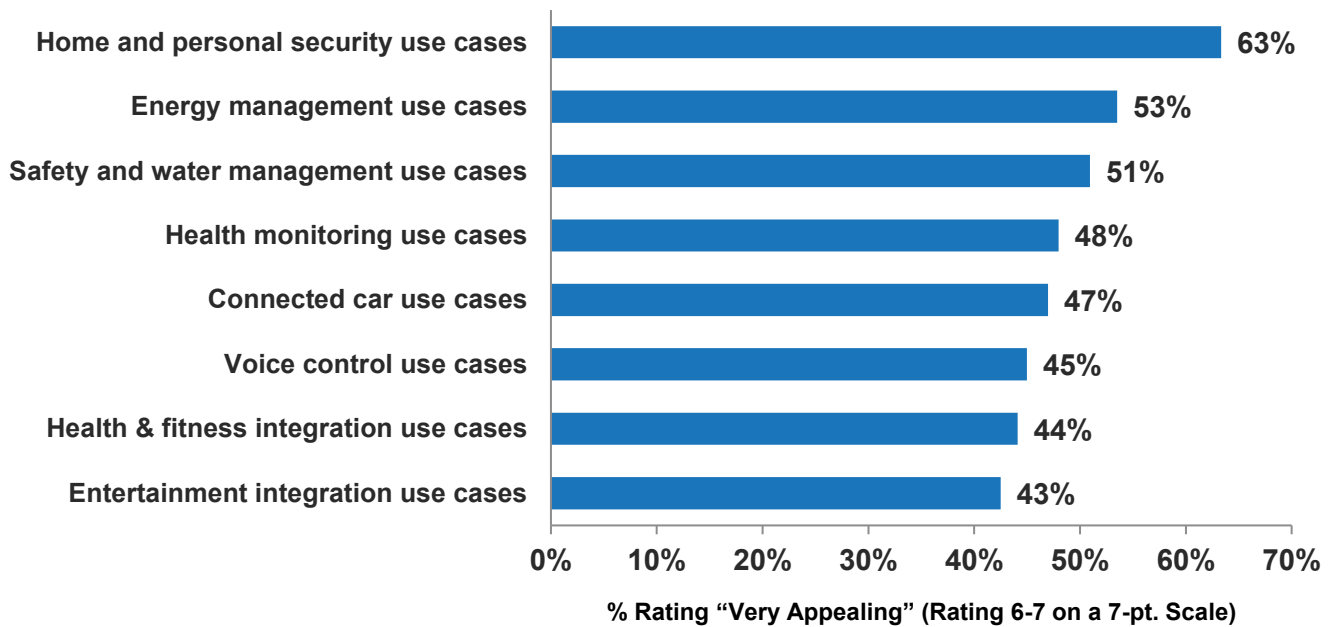
Ultimately, the traditional security industry may need to accept and even embrace DIY. In the US, companies like Frontpoint, Protect America, and SimpliSafe have secured strong growth with DIY propositions and, as previously highlighted, Verisure is now testing this in the EU. Serving both the DIY and professional install marketplaces is a tricky proposition, but some companies will succeed in doing so if they can keep integrity amongst their channels.

10.1.4 Diversification

Diversification is perhaps the most interesting strategic option for the security industry and, as shown in (Figure 13), Parks Associates’ US research suggests there are some interesting opportunities in adjacent markets. Although this is US research, it is reasonable to assume it is at least somewhat applicable to the European market. A number of options for diversification exist:

High Appeal of Smart Home Adjacency Use Cases (Q2/17)

Among US BB HHs Surveyed, n = 2,501, ±1.96%



"Q7405 to Q7460. How appealing would it be to check in on your home and receive alerts when...?" An alert when...?" | Asked of a 2,501 Subgroup of U.S. BB HHs | Source: American Broadband Households and Their Technologies May 2017 | N=5,002, ±1.39% | © 2019 Parks Associates

Figure 13: Adjacent Markets

10.1.5 Smart Home

The smart home market is growing rapidly and whilst the DIY sector is earning traction, there is an emerging market for what are termed Do-It-For-Me (DIFM). Many devices such as smart door locks, smart thermostats, and water monitoring with shut-off, need professional installers. The industry can morph from selling security with interactive services to become smart home companies. Traditional security is well positioned because home and personal security use cases are the major drivers for smart home adoption and the security industry is structured to deliver just that. However, evolving to be smart home companies is only possible with a more expansive mix of products and services and the integration of 3rd party products such as Alexa, Phillips Hue, and Yale door locks.

10.1.6 Multi-Dwelling Units and Social Housing

Property managers in both the private and public sector across the EU seek ways to exploit technology in order to monitor and protect their MDU portfolios. Networked devices such as water and fire sensors significantly reduce insured risk while connected door locks and thermostats are good selling propositions as they are popular in rented properties. The IoT and smart home technology allow this market to be served in a cost-effective way. The ROI from what is largely a B2B opportunity would be strong.

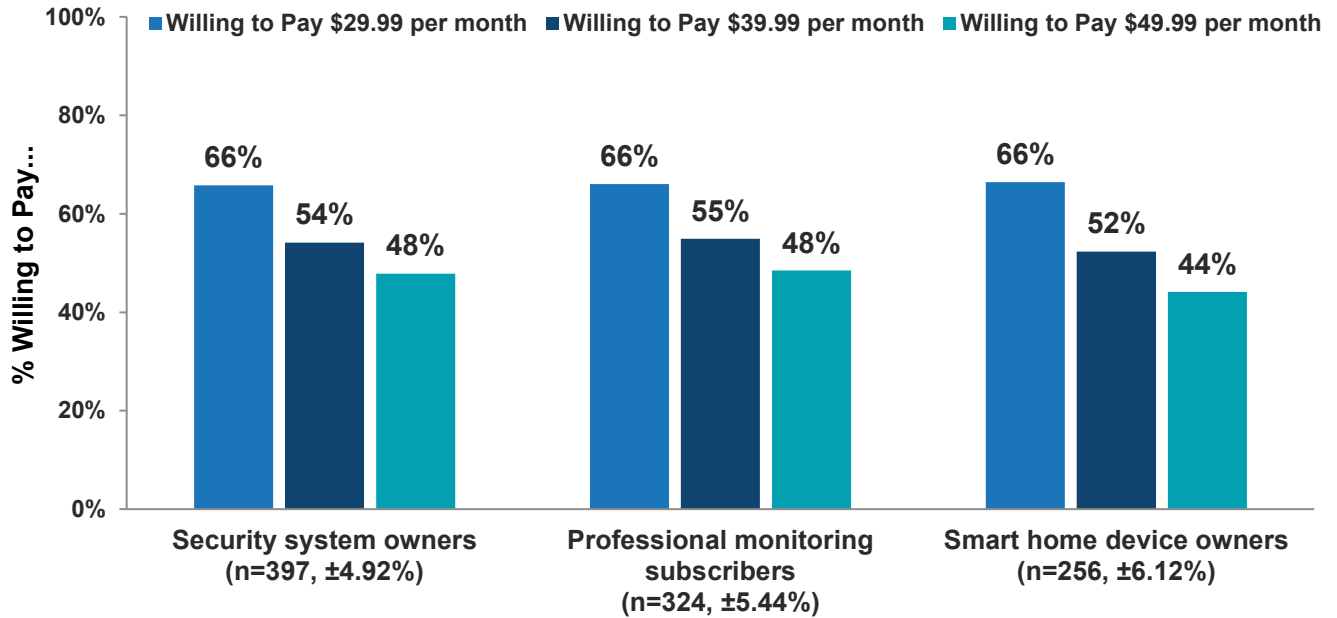
10.1.7 Independent Living

The EU population is increasing, and improvements in health and welfare mean that the average age of the population is rising. In the UK, 11.8 million (18%) of its 65.6 million population are now over 65; this is expected to rise to 13.9 million (20.2%) of a forecast population of 69 million by 2025. Traditionally, the elderly and those at risk in the home moved into care, but the increase in the aging population places huge pressure on welfare systems across the EU. Latest figures suggest one in four hospital beds in the UK are occupied by people with dementia – and 20% of these admissions are due to largely preventable causes such as falls. There is an imperative to find better ways to deliver telecare to support aging in place. Smart home technology can reinvent the way we care for those at risk in the community. The current security industry has the incentive, structure, and resources to meet these emerging needs. Moreover, data from the US suggest the service could support the types of business models currently in place within the professional security industry (**Figure 14**).

Remaining in the home
is the most important
aspect of retired life for
most seniors
Parks Associates

Willingness to Purchase Independent Living System for Themselves by Security and Smart Home Ownership (Q2/18)

Among Respondents Age 50+ Considering At Least One Must Have Feature in Specified Groups



"ST2601. How many of the following does your home currently have?" | "DT1047. Does your primary residence have a functioning HOME SECURITY SYSTEM?" | "DT1048. Is your home security system professionally monitored?" | "H4334a/b/c. Would you purchase a system that would help you live independently as you age, for \$49.99 /\$39.99/\$29.99 per month, if it included all of your must have features:" | Asked of Subgroup of 5,026 U.S. BB HHs | Source: American Broadband Households and Their Technologies Q2 2018 | N=10,024, ±0.98% | © 2019 Parks Associates

Figure 14: Willingness to pay for Independent Living Systems by Mature Adults

11.0 The Future of Residential Security

It is becoming increasingly difficult for traditional security companies to achieve growth by focusing on intruder alarms. Adding more value to the core product by bundling interactive services has increased revenues and helped reduce churn, but it does not appear to be securing material growth in terms of new sales or market penetration. Arguably, strategies that focus on home security as the lead proposition and bundling interactive services ignore a fundamental problem. The industry's business model, with high operation costs, limited flexibility, fixed-term contracts, and high monthly fees, has failed to scale in Europe. The flood of new smart home solutions will make even current rates of growth a real challenge.

This analysis suggests that traditional residential security industry is at a crossroads; to compete effectively in the future, there is a need to conduct a complete overhaul of the marketing mix and adopt strategies for growth that focus on diversification.

When reviewing the marketing mix, the current business models must consider a mix of DIY and pro-installed products as well as a broader range of tiered services that allow low-cost entry. This is the only approach that will successfully appeal to the mass consumer. Such a mix can allow the industry to diversify and become the go-to channel for smart home solutions offering installation, management, and monitoring bundled as options incorporating innovative services such as home network security, home warranties, insurance, and even preventive maintenance notifications.

Such a move creates more opportunities to develop new channels. For example, smart home technology is the key to supporting assisted living as we work to manage the requirements of an aging population. The security industry is uniquely placed to meet this emerging need because it needs a trusted and reliable entity to deliver and support products and services. A better mix also positions the industry to be the partner of choice for insurers, utilities, retailers, and other channels that want to realize opportunities in the IoT. There are also new B2B opportunities for growth emerging in areas such as social housing, multi-dwelling units, and smart cities.

Changing the marketing mix and diversifying to become the preferred channel for smart home provides the industry a strong and defensible position going forward. The security industry fills a gap between the high-end home automation marketplace and low-cost, DIY solutions.

Repositioning the traditional security industry by redesigning the base propositions and seeking to diversify presents some significant challenges. It requires moving well beyond the traditional industry boundaries to embrace products and services that require new competencies; for example, the

capability to support WiFi and the home network. It is essential to review and adjust industry regulations that restrict innovation and build new partner networks to help execute innovations. As explained earlier when discussing the power dealers have as stakeholders in the market, the mindset and skillset of the traditional dealer will need to change. While difficult, effecting these changes will create the key differentiator that protects the industry against insurgents.

In summary, the future for the traditional residential security lies in securing a defensible position in the emerging smart home market and this requires a complete revision of the traditional marketing mix and strategies for growth that focus on diversification. The benefits can be significant, including an opportunity to fill a gap in the market and attack a wider consumer base supporting both B2B and B2C opportunities. In particular, revision offers opportunities to expand into adjacent markets such as assisted living, social housing, and larger residential projects including smart cities.

12.0 Implications and Recommendations

The traditional security industry within the EU faces a serious threat to its very existence. The market is showing signs of stagnation with the very real possibility that competitive developments will cause it to shrink over the next five years. To survive, the industry must develop a different product set and diversify its position:

- **Product Development:** The security landscape is changing quickly; security dealers must embrace the change or risk falling behind the competition. Embracing interactive services has served to address some of the challenges, but consumer attitudes and the new competitive landscape continue to develop so the industry needs to be proactive and do more to protect its market position. The core proposition of monitoring and messaging key customers will no longer justify the high monthly fees and long fixed-term contracts that have been the lifeblood of the industry to date. Further enhancements to interactive services with adjustments to the existing business model alone, will not be enough to rebalance the price/value equation. Also, the industry needs to work with regulators to adjust current regulations that stifle innovation. New propositions need further research to define and develop the minimal viable product. Inevitably, embracing a mix of DIY and DIFM solutions to drive customer connections is necessary. Improvements to both products and services are critical to differentiate the industry and help dealers gain a solid position in the emerging smart home market.
- **Diversification:** With better product and service offerings, dealers can become the customers' partner of choice for the smart home. Taking a better product to a wider market allows the industry to fill a gap in the market and open new B2B or B2B2C models with diverse channel partners. In particular, diversification offers opportunities to expand into adjacent markets such as assisted living, social housing, and support larger residential projects including smart cities.

The stark reality is that despite its best efforts, the traditional residential security market is not securing material growth and new competition threatens its very existence. Continuing to try and defend a business model with high monthly fees and long fixed term contracts will not secure growth nor expand the marketplace. Without strategic change by the traditional security industry in Europe, the IoT and smart home industry will swamp the residential security market and squeeze the security industry into an ever-smaller niche.

13.0 Appendix

13.1 Glossary

Attrition: The loss of subscribers a security provider experiences in a given time period.

Average Revenue per User (ARPU): ‘Average Revenue per User’ is a measure that service providers use to track revenue on a ‘per subscriber’ or ‘revenue generating unit’ basis. While there is no industry defined standard for ARPU calculation, operators track ARPU on a quarterly basis as a ratio of the total revenue for a given segment to the average number of subscribers.

Do-it-yourself (DIY)/Self-Installed System: A security system or smart home device or system that is installed by its acquirer or by another person or group that is not part of a professional security monitoring company

Do-it-for-Me (DIFM): A product or system installed by a 3rd party.

Multi-Dwelling Unit (MDU): A group or flats or apartments in the same building or complex.

Multiple-service Operator (MSO): An operator that typically offers more than one type of service such as cable, Internet, or broadband service.

Monitoring. Professional Monitoring for a Home Security System: 24x7 monitoring by a central station with professional staff that receives alerts from a security provider when that system is armed and a change in status occurs.

Professionally Installed: A security system that is installed by a crew of professional installers typically serving the provider of the system itself.

RMR: Recurring monthly revenue.

Security System: A system that has a control panel, one or more user interfaces, and sensors that provide alerts when armed and a change of status occurs.

Smart Home Device: A device/product that can work independently or be part of a smart home system. Examples of components are lighting control devices, smart thermostats, IP cameras, pet doors, etc.

Smart Home System: The control component for a smart home system. It may be independent or within a hub.

Smart Home Device: A device that is used for home management of some type and allows status, control, and monitoring from a smartphone, tablet, or computer.

Self-Monitored (No Fee): Monitoring that goes directly from an armed system to a user or his designated agent's smartphone, computer, or tablet.

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