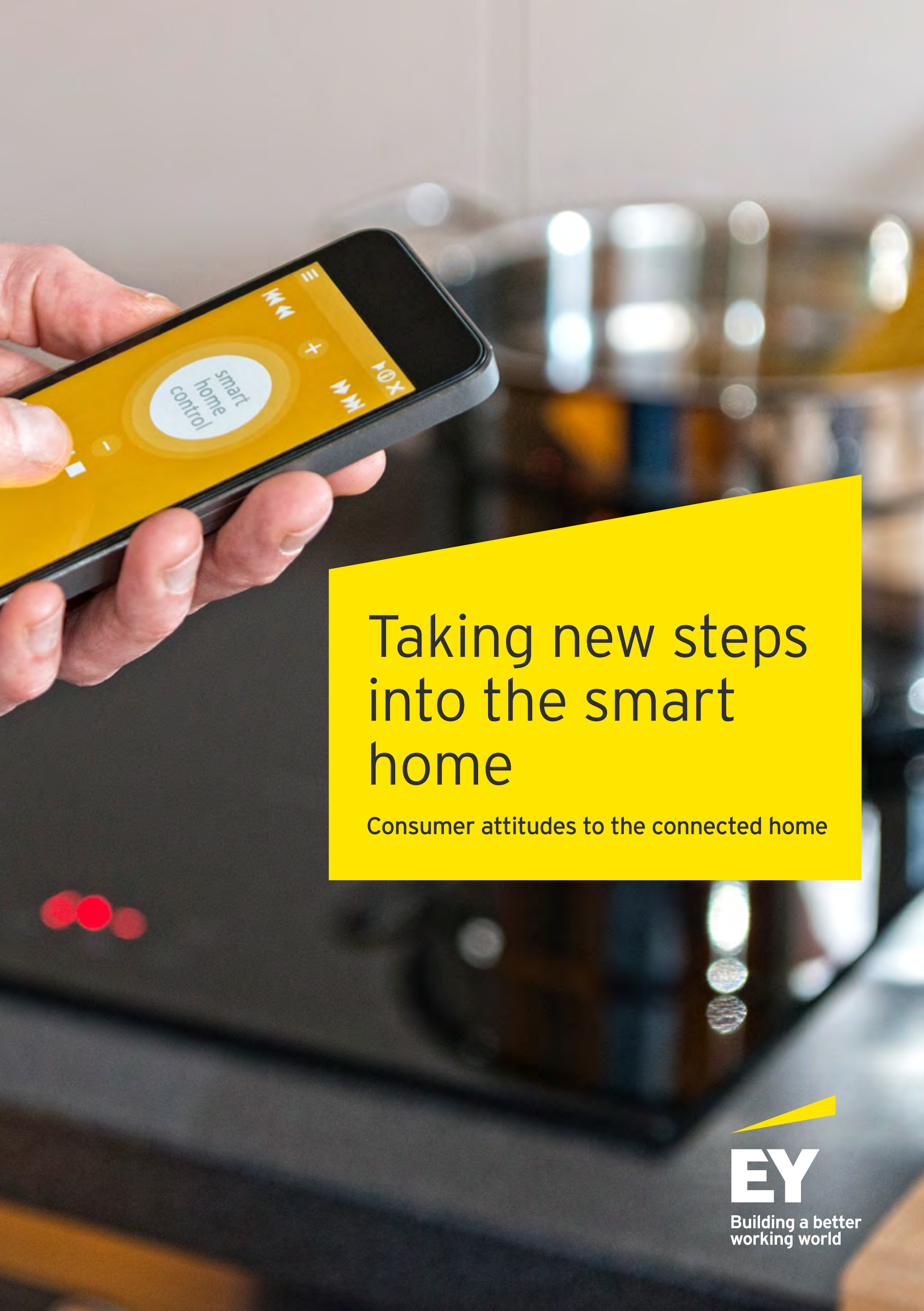

Taking new steps into the smart home

Consumer attitudes to the connected home

EY

Building a better working world

Strengthening customer demand for the smart home

Taking new steps into the smart home is the next in a series of findings from EY annual research into household attitudes toward technology, media and telecommunications (TMT) products and services within the home. Insights drawn from the online survey of 2,500 UK households, conducted in September 2018, open the door into the nuances of today's digital household.

Households are becoming increasingly receptive to smart home technology, as lower price points make new products more accessible. Yet there are pain points on the road to adoption, with data privacy and security top of mind for the majority of households. Meanwhile, views of preferred suppliers are in flux, with consumers split on whether their homes require centralized smart home systems.

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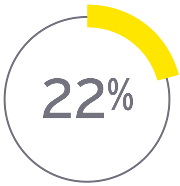
1 The connected home is coming of age

Households are increasingly receptive to a smart home experience

A new wave of smart home products is making their presence felt in UK homes. Greater levels of control, convenience and efficiency are resonating with consumers, and this year's survey results show increasing receptivity to a number of use cases. Take-up of digital home assistants has doubled year-on-year, while a growing proportion of households would welcome smart energy services.



of households **currently own a voice-controlled digital home assistant** compared with 11% in 2017.

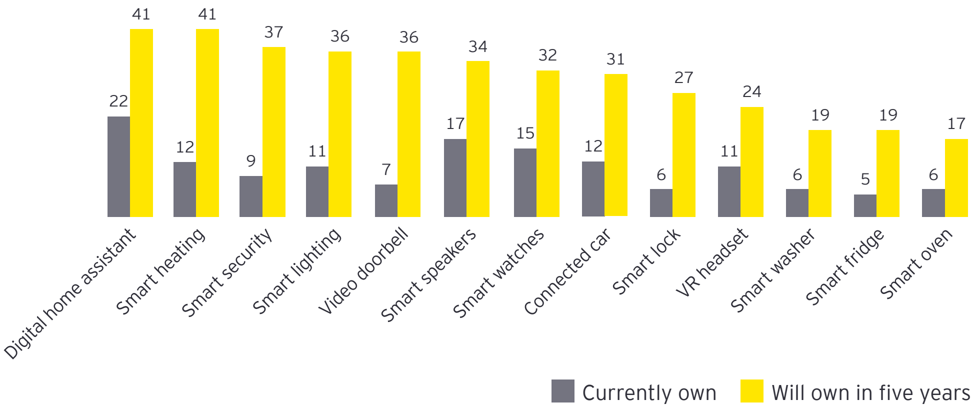
Virtual assistants, smart utilities and smart security boast the best adoption outlook

The rise of the digital home assistant is set to continue, with 41% of households planning to own one in five years' time. While smart speakers and wearables have made the early running in terms of take-up to date, they are seen to be slipping down the pecking order of ownership in five years' time.

Instead, utility-based products will come to the forefront, with smart heating, smart lighting, video doorbells and smart security all set to enter more than a third of homes. Connected household appliances rank further down the list of consumer priorities, both now and in five years' time.

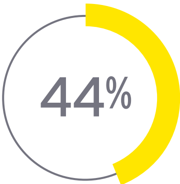
Current and future take-up of smart home products by category

% households



Higher prices are less of a barrier than before, particularly for younger consumers

Entry-level products have come down in price over the last year and our survey findings bear this out. Twenty-three percent of consumers believe that the prices of smart home products are reasonable, up from 19% in 2017. Younger users have the most positive attitudes to price: 44% of 18–24 year olds believe prices are reasonable, up substantially on the preceding year.

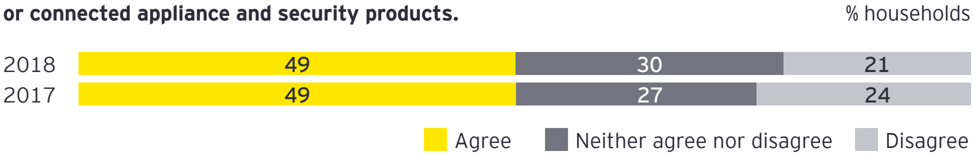


of 18-24 year olds **believe the price of smart home products is reasonable** compared with 34% in 2017.

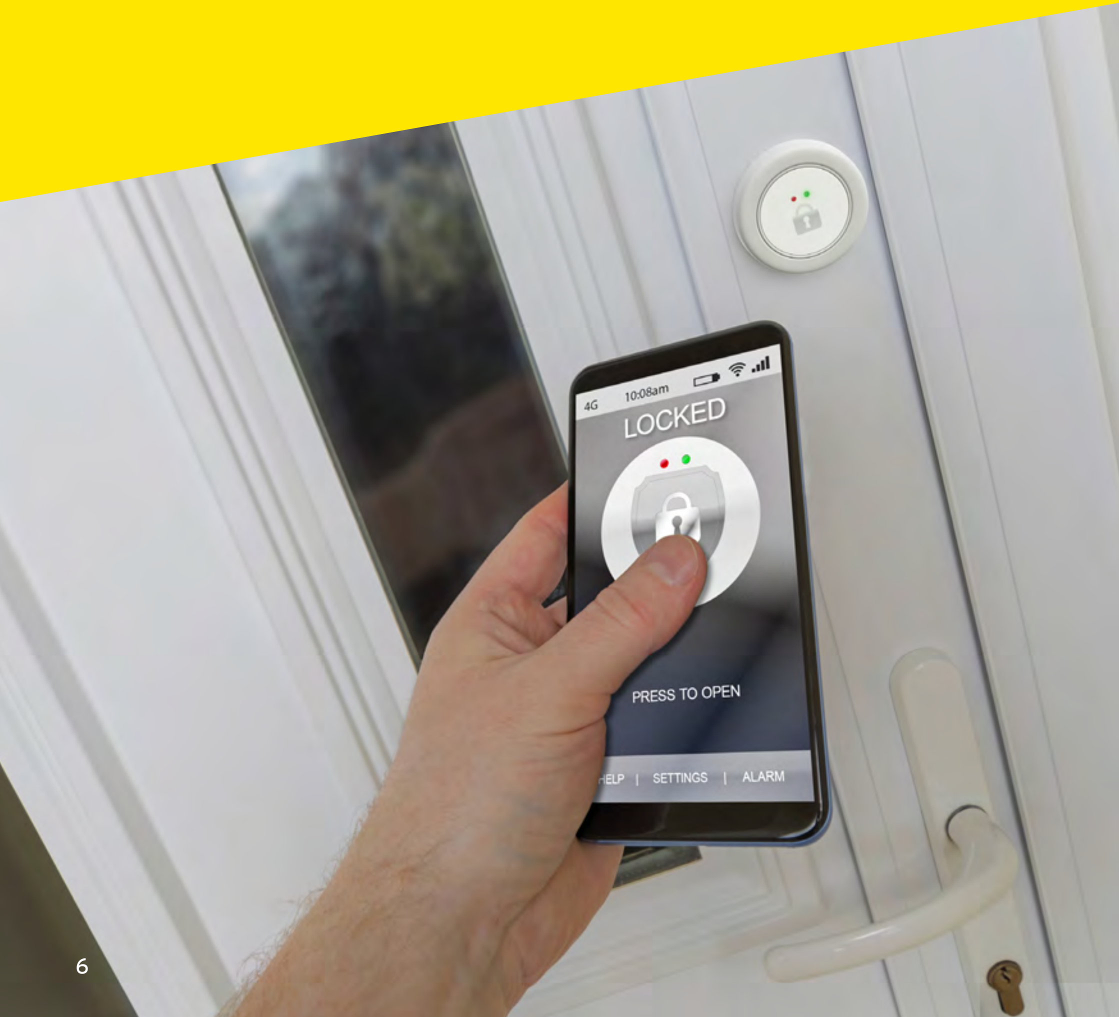
Smart home awareness levels have room to grow

Despite the encouraging adoption outlook, overall awareness levels are not growing in tandem. Familiarity with smart home features and benefits stands at 49%, the same level as 2017. Likewise, the proportion of consumers who understand the term "internet of things" remains static, standing at 38%.

Statement: I am familiar with the features and benefits of "smart home" or connected appliance and security products.



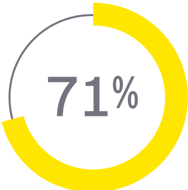
2 Reassurance: the key consumer requirement



Levels of trust are lacking on a number of fronts

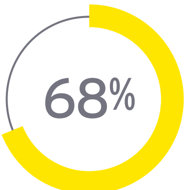
This year's research reveals that smart home services stand exposed to a number of consumer anxieties. Negative news regarding security flaws in connected devices, allied to ongoing instances of customer data loss mean consumers are more alert than ever before to the security implications of technology.

The potential for data compromise is apparent to many. The majority of households are concerned that hackers could access their connected appliances or security products in the home. All age groups share this concern, ranging from 64% of 18–24 year olds to 77% of over-65s.



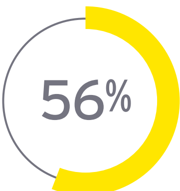
of households are **concerned about the ability for "hackers" to access internet connected appliances of security products.**

Simultaneously, more than two-thirds of households are concerned about what personal data is captured and shared by smart home devices. At a time when voice-activated virtual assistants and speakers are driving smart home adoption rates, households are clearly uncomfortable with how their personal data may be stored, shared or repurposed.



of households are **concerned as to what personal data is captured and shared by smart home devices.**

In fact, more than half of households simply do not believe that smart home technology can ever be fully secure. While older age groups are typically more sensitive to security issues, 56% of 18–24 year olds subscribe to this vision of the insecure smart home, outscoring their older peers.

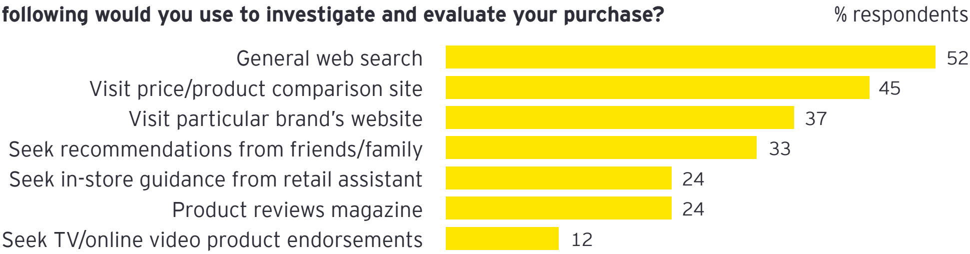


of 18-24 year olds **believe it will not be possible for companies to make smart home devices fully secure,** compared with 53% of other age groups.

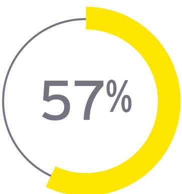
Reassurance is critical to the customer journey

Discovery is an important feature of the customer journey into the smart home, particularly given that many offerings are still new for most households. Consumers are evaluating purchases in a number of ways. While general web searches are the most popular way to find out more, guidance and recommendations – whether from online sources, friends or in-store assistants – also feature prominently. Consumers are also **harnessing many of these options simultaneously** as part of their product enquiries.

If you were to purchase smart home or internet connected devices, which of the following would you use to investigate and evaluate your purchase?



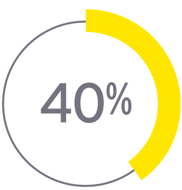
As they take advantage of these different sources of information and evaluation on the path to purchase, security credentials are top of mind. Fifty-seven percent of respondents agree that an assessment of security features would inform their decision to buy. This mindset is shared by prospective customers of all ages, with no age cohort scoring lower than 55%.



of households agree **an assessment of security features** would form part of their decision-making process when purchasing smart home devices.

Practical anxieties are also a problem

Many users lack the confidence to install smart home devices in their homes, with the youngest and oldest respondents in our survey both over-indexing. While much is made of the merits of self-install products, many smart home users would welcome additional support.



of households **would not be confident in setting up or installing an internet connected household appliance or device.**

3 Preferred suppliers and service environments are in flux

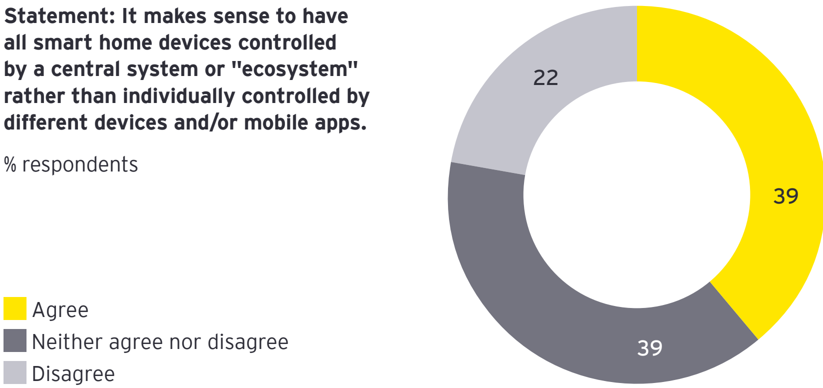
Undecided on the need for a centralized ecosystem

As households warm to an ever-broader range of smart home capabilities, the field of service providers aiming to meet these needs is also widening. Whether start-ups majoring in a single capability or industry leaders focused on up-selling opportunities, smart home products are in focus for many.

Some smart home providers are also extending their product families, creating an ecosystem of devices that they centrally control. Yet it is unclear whether consumers ultimately favor an ecosystem controlled by a single provider. While 39% show interest, 22% do not, with the remainder undecided.

Statement: It makes sense to have all smart home devices controlled by a central system or "ecosystem" rather than individually controlled by different devices and/or mobile apps.

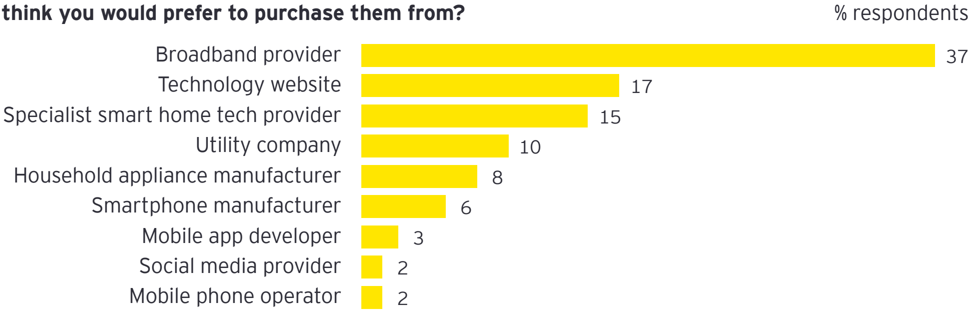
% respondents



Broadband providers lead the list of preferred smart home providers

With this ambivalence about centralized ecosystems in mind, our survey also sheds light on consumer preferences regarding their ideal smart home supplier. The results here are instructive. Broadband providers lead the way, favored by 37% of households. Utilities only score 10% and household appliance manufacturers also have a "legacy foothold" in the home, but score just 8%. To date, broadband providers have yet to build substantial smart home propositions – our survey suggests consumers are very receptive to purchasing smart home services from them.

If you were to purchase smart home products, what type of provider do you think you would prefer to purchase them from?

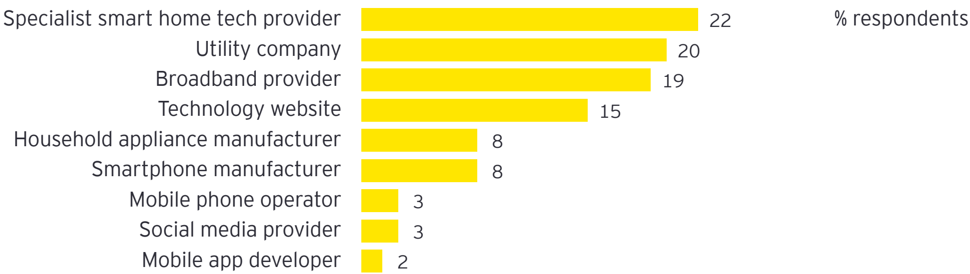


Mixed sentiments toward ideal ecosystem providers

However, when asked about potential providers of a centralized smart home ecosystem, consumer responses are more equally split. Specialist technology providers rank first – cited by 22% of respondents – followed by utility companies (20%) and broadband providers (19%).

This reflects the headway made by a number of new smart home brands that already offer extensive product families. Nevertheless, ecosystem provider preferences vary by age. Large technology brands (technology websites) are the top choice for those under 35 years of age, for example.

If you were to purchase an ecosystem to control a range of connected home products and services, what type of provider would you prefer to get them from?



4 Next steps for smart home providers

1

Strengthen awareness and affinity with the smart home

Current and predicted levels of smart home adoption are encouraging. Yet awareness of smart home benefits is still limited to half of UK households. This could constrain the addressable market in the long-term, unless service providers take care to articulate the upside of the connected home. Clear communications and simple value propositions cannot be overlooked, particularly for the long tail of households yet to purchase their first smart home device.

2

Ensure that trust lies at the heart of the customer journey

The number of households concerned about potential security and privacy drawbacks of smart home services outweighs the number that are engaged with their features and benefits. These anxieties must be tackled head-on. From product discovery to purchase and after-sales support, service providers should take care to assuage these fears. While early adopters may tolerate question marks about security, the mass market will not.

3

Revitalize your role in an evolving supplier landscape

Consumer demand for a single supplier of multiple smart home services is mixed while the competitive landscape continues to widen. With this in mind, smart home providers should strike a balance between in-house product development and partnerships with other value chain entities. A deep understanding of the supplier landscape is essential, and smart home providers should carefully assess their point of differentiation and their attributes as a partner.

4

Adopt a customer centric mindset

Consumers want practical solutions to everyday needs in the home. Sophisticated household gadgets can generate excitement but long-term success for smart home providers hinges on their ability to provide new levels of convenience, confidence and control for their customers. This in turn requires a new type of customer relationship, one which hinges on delivering positive real-world outcomes.

We hope you have found this useful – and there is more to come.

Overall report

Visit ey.com/uk/tmtdigitalhome2019 to open the door into the nuances of today's digital home.

1

51% of households mainly watch TV programs on the five traditional TV channels, up from 46% in 2017.

2 Taking new steps into the smart home

The following upcoming reports on the digital home will focus in-depth on specific areas to draw out fresh insights from the research. Take a look at what you can expect to come and an extra sample of the findings.

3 Putting trust at the heart of the digital home

43%

agree that GDPR will significantly improve the security of their personal data.

4 Dispelling the myth of the digital native

53%

of 18–24 year olds like to have the most up-to-date smartphones compared with 23% of everyone else.

5 Exceeding customer expectations

32%

of households would pay more for their broadband in return for good customer service.

For more insight into the digital home and how to serve it, please contact:

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