

Market Snapshot: DIY and Home Security

A Parks Associates Snapshot



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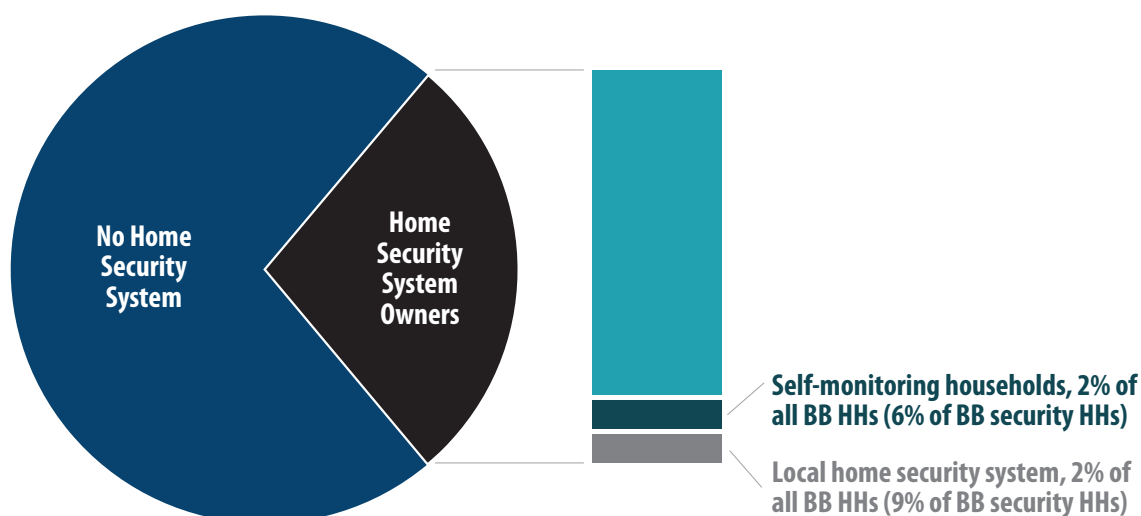
DIY and Home Security Market Snapshot

Self-installed security solutions will significantly lower the cost of security, create new monitoring use cases, and, in doing so, expand the market beyond the traditional 20-25% of US households that have professionally monitored security.

About 75% of US broadband households have no security system.

Home Security System Ownership: Professional vs. Self Monitored Services

Among US Broadband Households



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Parks Associates estimates, conservatively, that DIY security systems and no-contract, hybrid monitoring solutions enabled by DIY security will expand professional monitoring services to an additional **5%** of US households.

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The shift toward DIY installation methods over the past two years is significant.

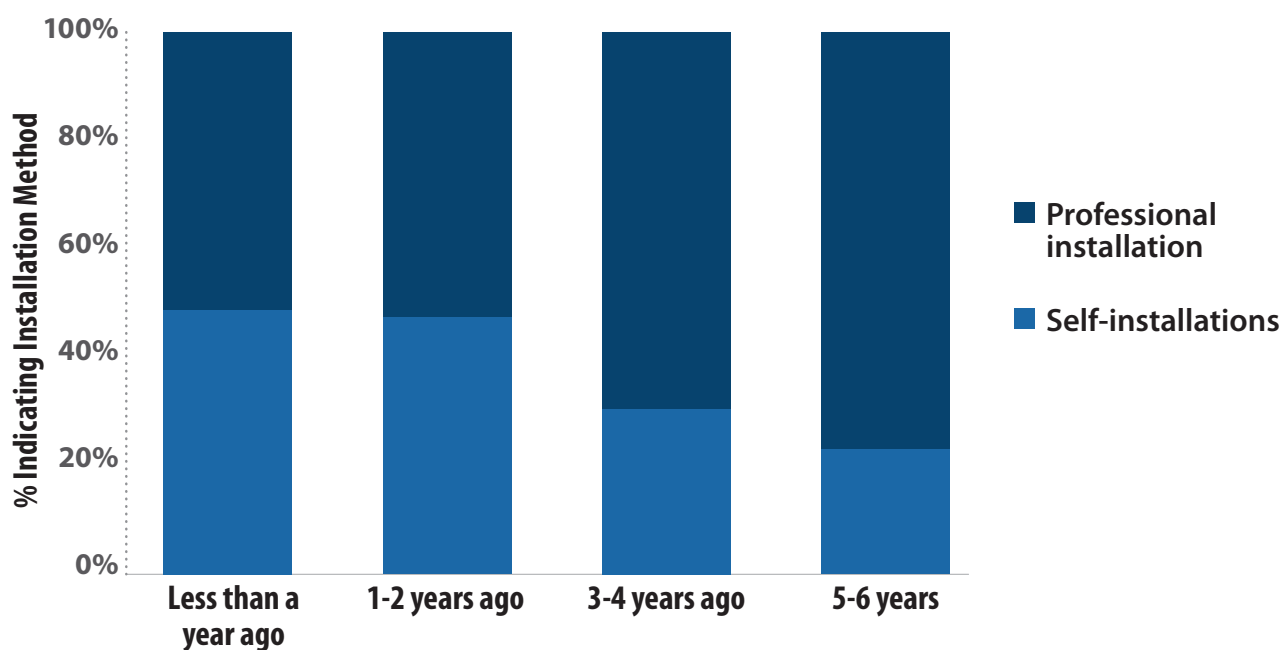
DIY security systems are on the rise; however, Parks Associates views this trend as somewhat overstated by consumers due to multiple factors. New entrants for security and added options for smart home devices are two of those factors. In addition, self-monitoring via smartphone seems adequate for a portion of potential security system adopters.

The strong increase in professionally monitored systems that are self-installed is fairly recent, and professional installation still dominates.

DIY and smart home products are adding volatility to the market for professionally monitored security and driving changes in the home security business. These solutions do have advantages with lower-cost, contract-free monitoring options that will attract new consumers, but adopting these new offerings without eroding the base of traditional customers requires careful navigation of the current business ecosystem.

Installation Method for Recently Acquired Systems*, by Age of System

Among Households Recently Acquiring Home Security System*
and Knowing Their Installation Method



*Note: Recently Acquired Home Security System includes systems acquired within the 6 years prior to this survey. Systems older than 6 years are not included in this analysis.

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Smart Home Device Adoption

The smart home market is an important area of convergence with security, where security providers can find new revenues to combat margins tightened by DIY. Similarly, the market can promote complementary use cases in safety and security to attract smart home device owners into home security ownership.

Parks Associates published the firm's first research study on smart home tech and adoption in 2013 and has tracked adoption of smart home devices consistently since then. In early 2019, the firm expanded the list of smart home devices surveyed to include smart appliances, and overall connected device ownership and smart home device ownership increased by 4%.

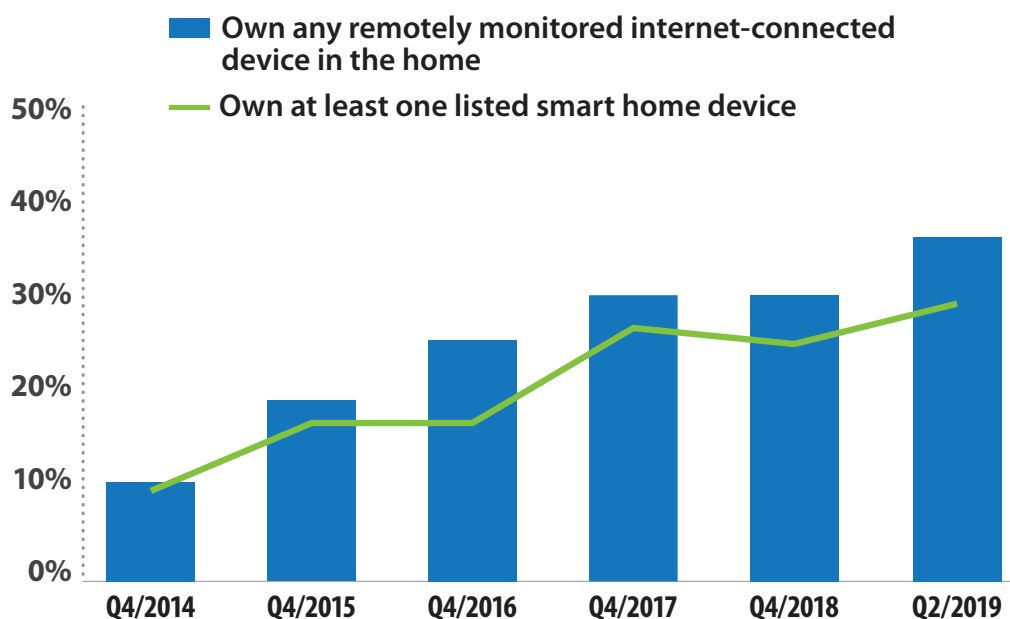


24% of US broadband households with at least one smart home device, excluding smart appliances, own an average of six smart home devices, an 18% increase year-over-year.

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Roughly one-fourth of heads of US broadband households ages 18-24 own at least one major smart appliance.

Smart Home Device Ownership (2014-2019) Among All US Broadband Households



Smart Home Devices Surveyed (Q2 2019)*

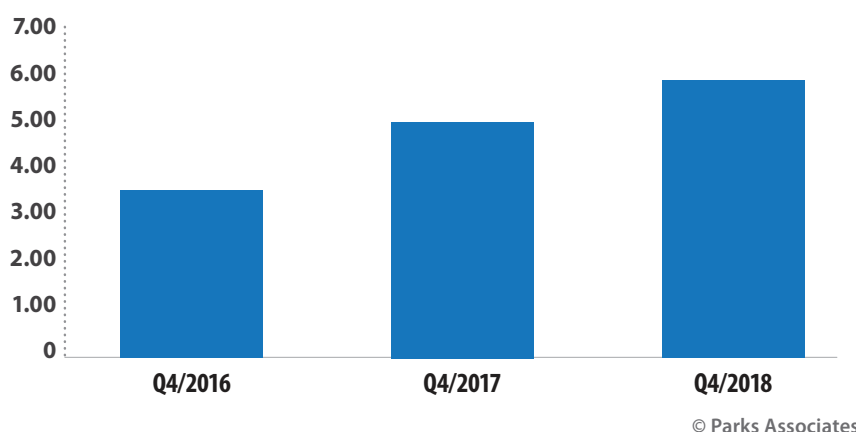
Thermostats
Door Locks
Video Door Bells
IP Cameras
Light Bulbs
Lighting Control Systems
Outdoor Light Fixtures
with Video Cameras
Outlets/Switches/Dimmers
Smart Plugs/Adapters
Sprinkler Systems
Garage Door Openers
Smoke/CO Detectors
Water Leak Detectors
Water Shut off Valve
Smart Appliances

*This list of devices has changed slightly over the years to include new products.

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Monitoring, storage, and voice capabilities are popular, and while many devices might be bought via a retail channel and self-installed, providers can promote and monetize services and support related to these products. Video cameras and video doorbells are the most highly adopted adjacencies for security system owners. About one-third of owners adopted the camera or video doorbell in an aftermarket purchase. Furthermore, the appeal of DIY for these devices is apparent - **among networked camera owners, 68% self-installed their device.**

**Average Smart Home Devices Owned
Per Owning Households (2016-2018)**
Among All US Broadband Households, Outliers Excluded



Video alerts, video doorbells with two-way voice, and video records of anyone accessing the home are the leading access control capabilities.

Impact on the Value Chain Revenue Split

Traditionally, RMR is split among various players in the value chain. For professionally installed security systems with interactive services, the dealer amortizes the subscriber acquisition cost, less any upfront fees paid by the consumer. The dealer also has to pay the cellular communication vendor, the interactive service provider, and the wholesale monitoring station.

New DIY solutions have business models that monetize acquisition costs through upfront fees; therefore, as with hardware costs, these solutions do not need to charge higher monthly fees to recoup acquisition costs. These DIY systems also use broadband services rather than cellular services, or use broadband as the primary communications method, which lowers communication costs and reduces or eliminates cellular-related fees. They also eliminate communication and interactive service providers from the value chain, further solidifying their cost advantages.



Impact of DIY on Recurring Monthly Revenue (RMR)

Security services are sold in tiers, with basic security monitoring as the baseline service at less than \$40 per month. Basic monitoring connects the central monitoring center directly to the security control panel through either telephone, cellular, or broadband communication, and from that foundation, dealers can market and sell interactive services, home controls, and video monitoring services to increase monthly revenues.

DIY security systems do not command higher monthly fees—since the customer pays upfront for the hardware, dealers do not need to amortize the hardware cost. Generally, dealers pass along the savings from lower acquisition costs in the form of lower monitoring fees. Monthly fees are \$20 below those of the professional monitoring market, on average, while the upfront hardware fees are higher.

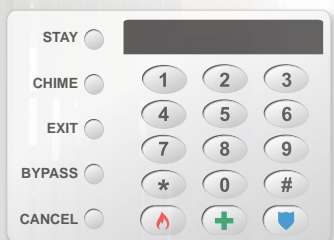
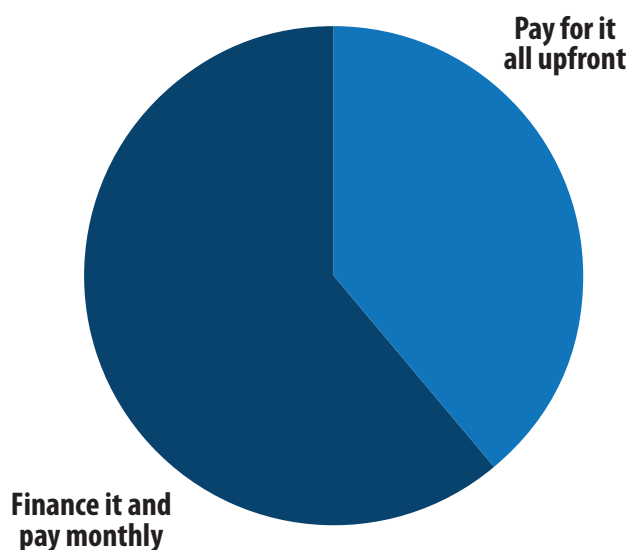
61% of US broadband households intending to purchase security prefer to finance the hardware rather than to pay cash up front.



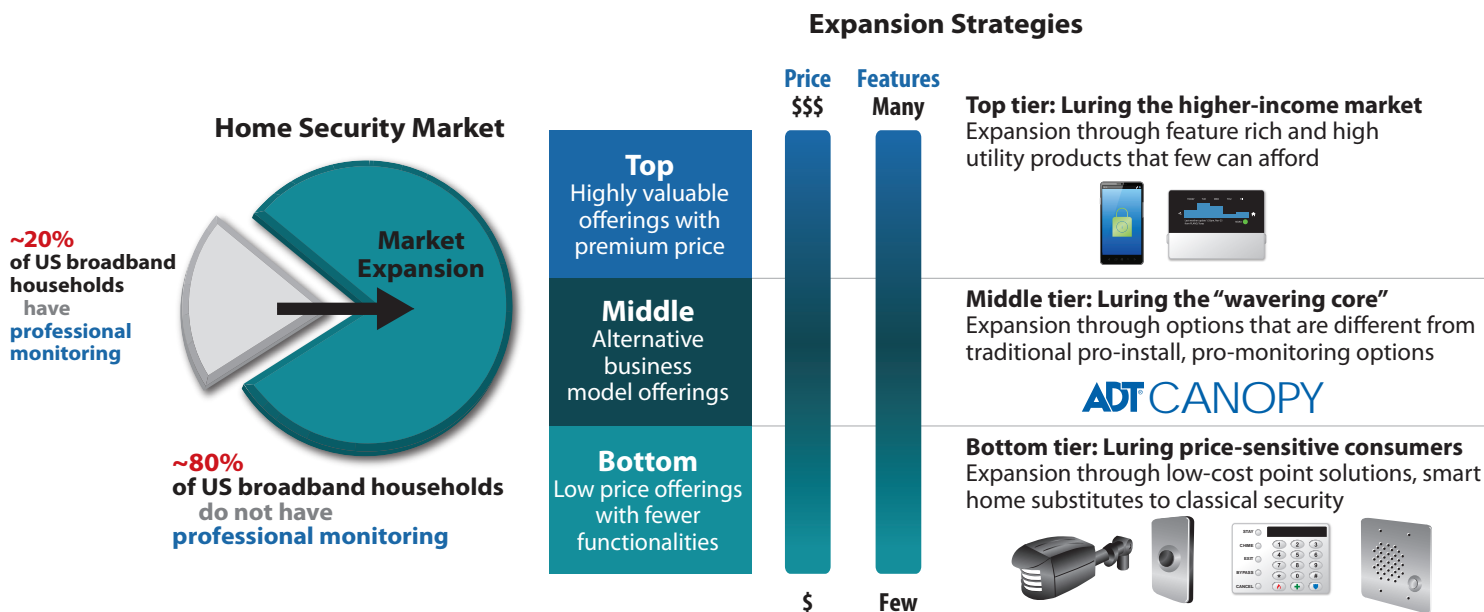
While consumers are generally more price sensitive to upfront cost than recurring fees, different models appeal to different segments of consumers. Purchasing multiple smart products and cameras can quickly add up to more than \$1,000.

Financing the hardware over a three-year period allows consumers to lighten their financial burden. Vivint's Flex Pay was the first financing solution that not only provides this value to consumers but also reduces the capital needed to acquire new accounts. In June 2019, Vivint announced property owners and managers can add smart home technology to their multifamily developments with no upfront cost.

Hardware Payment Preference Among Security System Intenders



Expand the Residential Security Market



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DIY devices and systems will expand the security market among non-owners and are likely to cannibalize a portion of value-driven traditional subscribers.

Staving off erosion will require aggressive differentiation strategies to prove the value of professional monitoring over self-monitoring, including aggressive marketing of more fully integrated interactive services, home controls, and video monitoring services enhanced by these new smart home solutions.

Video analytics and context-based monitoring are the types of new services emerging in the monitoring business that can help maintain and even expand professional monitoring in the face of challenges from DIY and self-monitored offerings.

The vast majority of future security buyers want advanced access and safety monitoring services with the system they are planning to buy, but often these intentions to buy additional control devices go unfulfilled. Parks Associates research indicates price sensitivity to high upfront costs is an obstacle to these purchase intentions. New business models that are able to distribute upfront costs and tie in new, popular smart home features will be successful. Delivering desired products/services at the point of sale will also help dealers attract new customers.

About The Author



Dina Abdelrazik, Senior Analyst, Parks Associates

Dina leads Parks Associates residential security research and is a member of the connected home team. She has authored numerous reports covering topics such as home security market trends and competitive landscape, voice assistant technologies, smart home strategies, and technology solutions for seniors. She leads custom research projects on connected home topics and is a certified focus group moderator, with training from the Burke Institute.

Dina earned her MS in Marketing, with a concentration in Marketing Analytics, from the University of Texas at Dallas and a BA in Advertising from Southern Methodist University.

INDUSTRY EXPERTISE: Residential Security, Smart Home Products and Services, Smart Home Strategies, Voice Technology Devices and Platforms



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Founded in 1986, Parks Associates creates research capital for companies ranging from Fortune 500 to small start-ups through market reports, primary studies, consumer research, custom research, workshops, executive conferences, and annual service subscriptions.

The company's expertise includes the Internet of Things (IoT), digital media and platforms, entertainment and gaming, home networks, Internet and television services, digital health, mobile applications and services, support services, consumer apps, advanced advertising, consumer electronics, energy management, and home control systems and security.

For more information, visit parksassociates.com or contact us at 972.490.1113 / info@parksassociates.com.

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