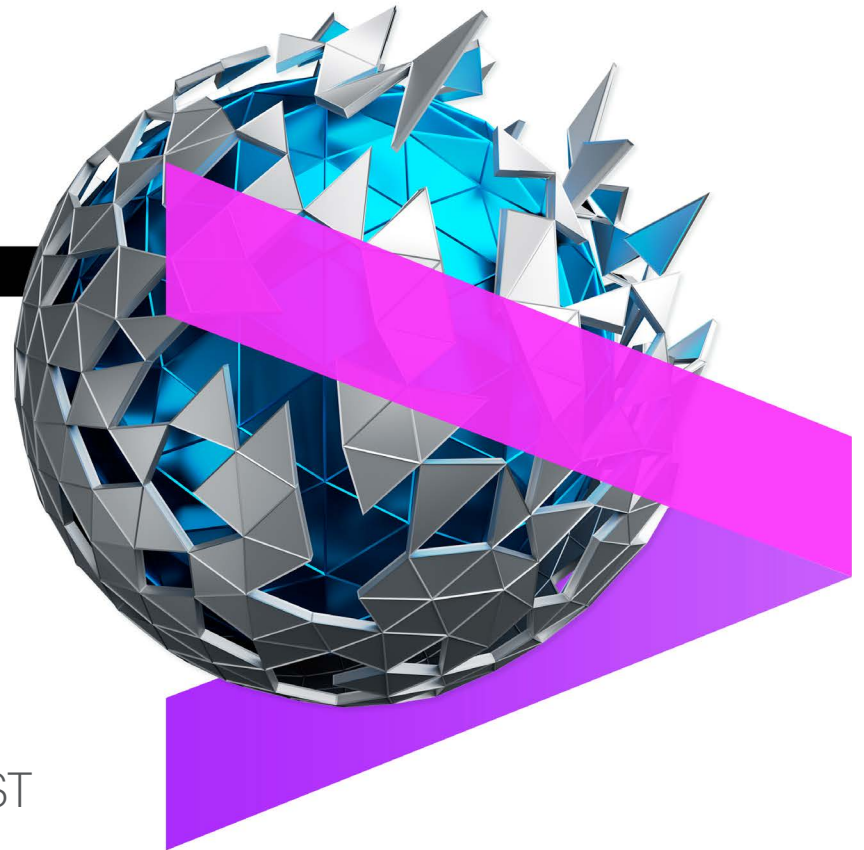


THE RACE TO THE SMART HOME

WHY COMMUNICATIONS SERVICE PROVIDERS MUST
DEFEND AND GROW THIS CRITICAL MARKET



SMART HOME, SMART BUSINESS

THE RACE FOR THE SMART HOME IS ON!

Most consumers just want connectivity, gadgets and services to work, without having to think about purchasing or programming them. The company that provides the most desirable package of converged services, with the highest convenience, wins the customer.

Communications Service Providers (CSPs) have been aware of this for years. While providing the network backbone of the digital age, they've also sought to own more of the customer through converged communications and media services. But success has been limited by the challenges of legacy architectures and traditional business models. Meanwhile, disruptor companies pile into the pursuit.

With the arrival of the smart home, the desire for convenience will create a revolutionary new market. If CSPs are to win the race, they need to respond quickly to serve the smart home customer.

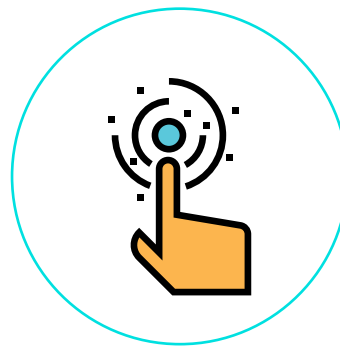
INSIGHTS FROM THE 2017 ACCENTURE DIGITAL CONSUMER SURVEY OF 26,000 CONSUMERS IN 26 COUNTRIES REVEAL KEY FINDINGS ABOUT TODAY'S DYNAMIC DIGITAL CONSUMERS AND THEIR SMART HOME FUTURE.



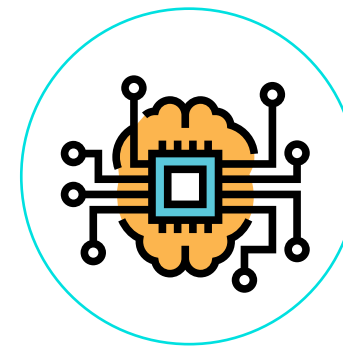
IoT AND eSIMs WILL ACCELERATE THE MARKET



CSP ADVANTAGES: CUSTOMER LISTS, TRUST, DATA



DISRUPTORS CHALLENGE WITH INNOVATION, SPEED



CSPs MUST TRANSFORM STRUCTURE & SERVICES TO WIN THE RACE

THE INTERNET OF THINGS (IoT)

THE OPPORTUNITY FOR CSPs TO CAPTURE THE DIGITAL HOME



The Internet of Things (IoT) and the embedded SIM (eSIM) are creating an exciting new phase of the connected world. Laptops, phones, fitness wristbands, televisions, security sensors, appliances, utilities and more will converge into an easy-to-control, totally interconnected environment. The arrival of the eSIM—embedded in devices, able to be network agnostic as they automatically seek the best connectivity and tariffs—significantly speeds the arrival of the IoT. This could further the commoditization of connectivity services, or help CSPs build lucrative markets, depending on their ability to embrace the new.

CSPs enter the contest with strong advantages: huge existing customer bases, high levels of trust and ownership of the network infrastructure.

WE BELIEVE THEY CAN USE THESE STRENGTHS TO BECOME THE SINGLE, PREFERRED DIGITAL PROVIDER TO THE SMART HOME.

But it won't be easy. Disruptors such as Amazon and Apple are nipping hard at their heels as they try to position their artificial intelligence (AI) hubs as the single gateway to all smart home services.

NOW IS THE TIME FOR CSPs TO DO WHAT THEY MUST TO CAPTURE THIS EMERGING MARKET.

While their core businesses are crucial to generate cash, CSPs need to grow a whole new business before the window of opportunity closes. This requires a pivot to new platform business models and internal structures. They need to embrace the potential of hyper-personalization and hyper-connectivity to deliver new revenue streams.

A major challenge lies ahead—to accelerate moves to become the platformed, data driven companies we believe CSPs must be if they are to prevent the disruptors from locking them out of the smart home.

UNDERSTAND THE OPPORTUNITY. AND THREAT.

THE SAME INNOVATION THAT CREATES THIS
MARKET COULD RELEGATE CSPs TO A
SUPPORT ROLE



THE SMART HOME IS THE GATEWAY TO VAST OPPORTUNITIES

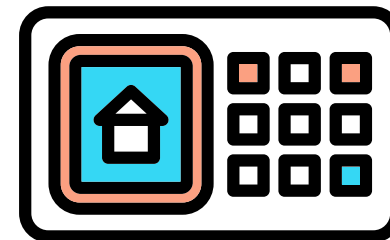
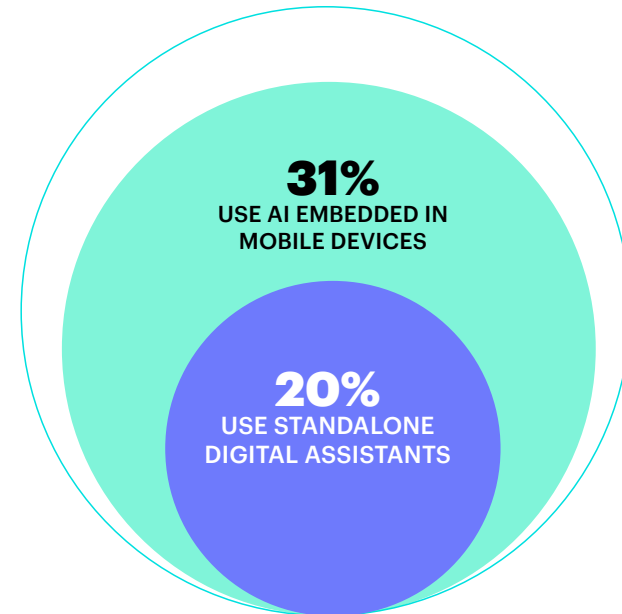
BUT IF CSPs DON'T MOVE FAST, OTHERS WILL BE FIRST TO GRAB THE PRIZE.

The opportunities presented by the IoT, which consumers will access primarily through their smart homes, are vast. A new report from the World Economic Forum and Accenture says the IoT will add \$14 trillion of economic value to the global economy by 2030. It estimates that increasing bandwidth and data usage could generate an additional \$65 billion in operating profits for CSPs. That's a healthy increase, but only a small percentage of what's at stake. The largest opportunities lie in providing the suite of consumer and enterprise applications and services that enable IoT to become a reality, potentially bringing in an additional \$100 billion in operating profits across the industry by 2025.

PLAYERS SUCH AS APPLE, GOOGLE AND AMAZON ARE ALREADY CHASING THE SMART HOME CUSTOMER THROUGH THEIR AI ASSISTANTS.

- Google and Amazon have voice assistants that can be used to control the smart home. The ones embedded in smartphones and PCs are already used by 31% of online consumers; 20% use standalone digital assistants.
- Apple has introduced the Home Kit and has more than 50 smart home brands in their ecosystem.¹ Apple TV can serve as the home "hub."

OUR SURVEY SHOWED THAT CONSUMERS ARE ALREADY COMFORTABLE WITH AI



THE CUSTOMER OWNERSHIP CHALLENGE

If device manufacturers take control of the user interface (voice), the device ecosystem (hub), and potentially the choice of connectivity provider (controlling embedded eSIMs), CSPs may struggle to retain their direct customer relationships.

Customer ties weaken further when people are unhappy.

Our survey found that among broadband users who experience poor Internet connection, 55% are planning to change their provider in the next 12 months. With eSIMs, the switching gets easier. One third of consumers are already aware of eSIMs and 68% would be interested in using them. Half of the latter group would do so to get a cheaper call or data plan.

WHILE CSPs STILL HAVE A STRONG POSITION AS PREFERRED PROVIDERS, IT IS A FRAGILE ONE.

WE ASKED CONSUMERS:

“If an alternative mobile provider—for example, a global brand such as Amazon, Samsung, Apple or Google—started offering services (e.g., voice quality, connection speed and price) comparable with your current operator for your mobile services—including calling, texting, mobile Internet—what would likely be your reaction?”

A WORRYING 44% WOULD LEAVE. OUT OF THOSE STAYING:

ONLY **29%** STAY BECAUSE THEY ARE SATISFIED

6% CONSIDER BEING WITH AN ESTABLISHED MOBILE BRAND IMPORTANT

21% STAY BECAUSE THEY ARE BOUND BY A CONTRACT OR INDIFFERENT TO SWITCH



CUSTOMER TIES WEAKEN WHEN THEY ARE UNHAPPY WITH A SERVICE



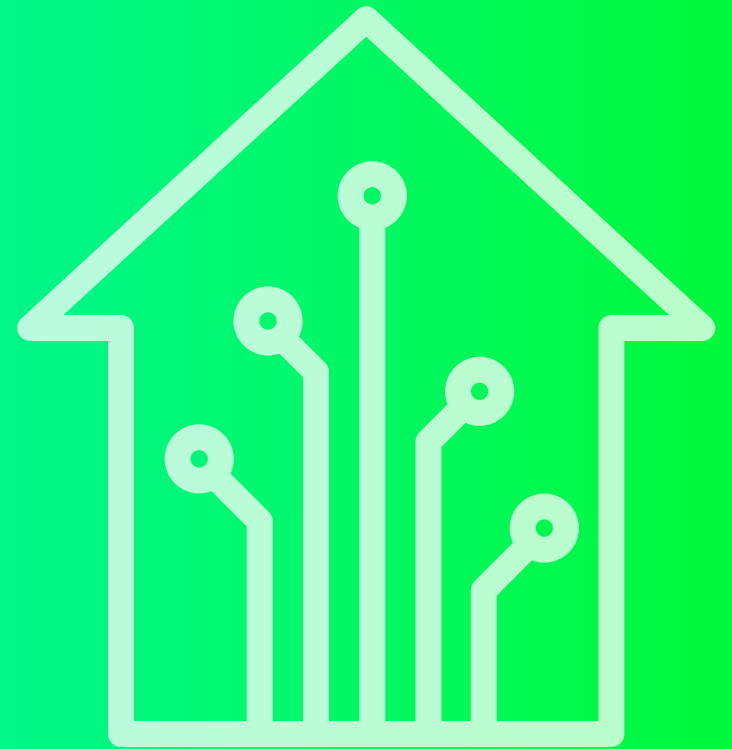
IN A WORLD WITH LITTLE BRAND LOYALTY, eSIMs BRING A NEW THREAT



Sample: 25,996 respondents

STAY THE COURSE.

CSPs ARE HIGHLY TRUSTED, AND ALREADY IN MOST HOMES. THEY MUST EXPLOIT THAT ADVANTAGE WHILE THEY STILL HAVE IT.



WHILE CSPs ARE UNDER SIGNIFICANT THREAT, THEY STILL HOLD SOME COMPELLING ADVANTAGES

They consistently top consumer trust charts regarding personal data, beating even banks. That's a benefit when data privacy is a worry: 90% of online consumers are concerned about the security of their online financial transactions and 89% about identity theft.

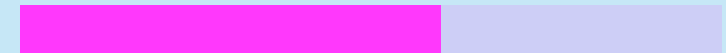
New devices may be smart, but they can be challenging for consumers to set up and use. CSPs, long-standing providers who have introduced other innovations to their homes, are natural partners to help them navigate this next wave of technology.

Consider smart thermostats. Amazon shoppers will find more than 200 possibilities.² Once consumers navigate the complexities of choosing the right product, 54% experience challenges: It may be too complicated to use (14%), cannot connect to the Internet (13%), the setup does not work (12%) or does not work as advertised (11%). Other issues include lack of personalization, privacy concerns and lack of customer support. Thus, despite potential financial and environmental benefits, it is not surprising that only 7% of online consumers currently own smart thermostats.

Trust and familiarity lead to an inherent preference. Accenture research shows that consumers naturally lean towards their CSPs. Of those, globally, who own or plan to purchase connected home services, 71% would choose a telecom operator if the operator offered those services. For connected health services, 49% would choose a CSP.

Though happy to switch, our research shows that around 80% of consumers prefer a single provider for all their digital needs. With one foot already in the door, and with their large service and distribution network, CSPs could offer convenient support across all digital needs and assure that users only access devices and services that are safe and easy to use.

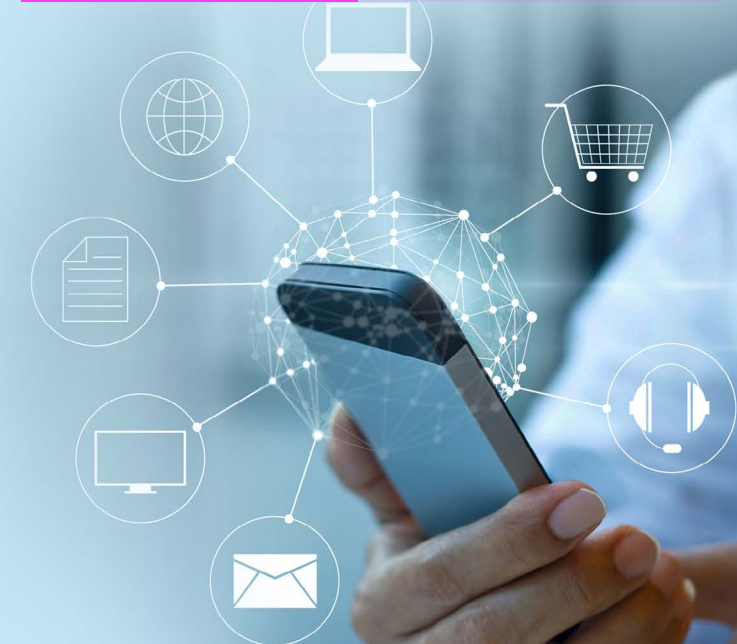
80% WANT A SINGLE PROVIDER FOR ALL DIGITAL NEEDS



71% WOULD CHOOSE CSPs FOR CONNECTED HOME



49% WOULD CHOOSE CSPs FOR HOME HEALTH CARE



BARRIERS COULD MAKE MARKETS

Though consumers are intrigued by the smart home, they report many barriers to adoption. Trusted CSPs, already in the home, could help overcome the barriers to win the business.

PRICE OF THESE PRODUCTS. I THINK THEY ARE TOO EXPENSIVE

82%



PRIVACY CONCERNS

73%



UNSURE OF ANY DEVICES THAT WOULD BE VALUABLE TO ME

67%



THIS TYPE OF TECHNOLOGY IS NOT RELIABLE YET

63%



MY SMARTPHONE/TABLET IS NOT COMPATIBLE

58%



THEY ARE TOO CONFUSING TO USE

50%



UNAWARE THAT THESE ITEMS WERE AVAILABLE FOR PURCHASE

46%



EVOLUTION & TRANSFORMATION.

THE PATH TO
TRANSFORMATION
REQUIRES A WISE PIVOT



MOST OF THE WORLD'S CSPs ARE ALREADY ENGAGED IN SIGNIFICANT TRANSFORMATION PROGRAMS.

THE TIPPING POINT CREATED BY THE SMART HOME MEANS THEY MUST CHANGE NOW.

The path to transformation depends on making a wise pivot. CSPs must renew and take cost out of the core business, without diminishing it, while making the right investments in the new.

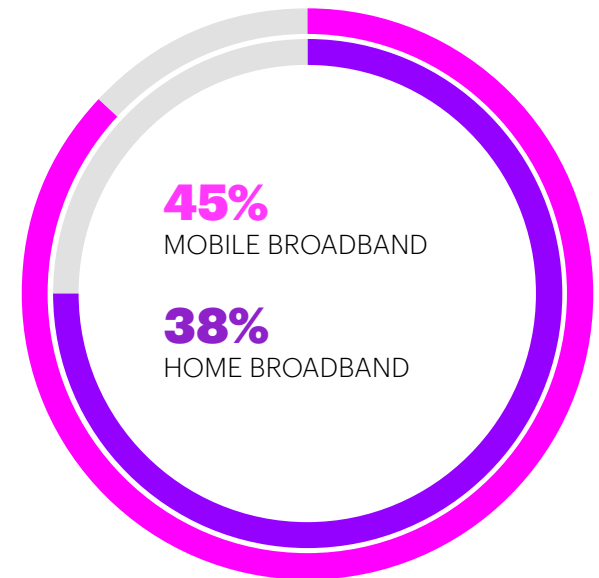
Before they turn the digital opportunity into real cash, CSPs need to fix customer experience in their base. Poor Internet connection with home broadband plagues 38% of online consumers daily or weekly, while 45% report the same with their mobile broadband.

This is a significant roadblock to cross-selling additional digital services. The network quality and customer service needed to fix this experience must be prioritized.

Meanwhile, CSPs must find savings in their legacy operations that can fuel investment where it's needed. They can transform their core businesses with strategic divestments from unproductive assets, infrastructure transformation, zero-based budgeting and intelligent automation. Attention in these areas will help them redesign operating models.

CSPs can then turn their attention to the activities that will grow their core business:

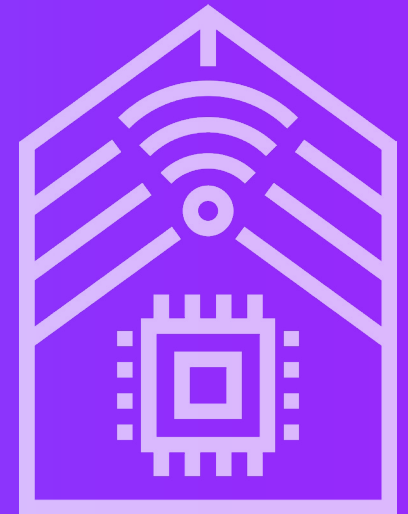
- Consolidation across segments
- Analytics-driven customer acquisition (Omnichannel)
- Monetizing underutilized assets (Data and Security)
- Redefining B2B scope (Intelligent pipe)



RESPONDENTS
EXPERIENCING POOR
INTERNET CONNECTION
DAILY OR WEEKLY

ACCELERATING INNOVATION. SCALING THE NEW.

CSPs NEED TO EMBRACE
THE PLATFORM ECONOMY



WITH A HEALTHY CORE, CSPs CAN THEN ROTATE TO EMBRACE NEW DIGITAL MARKETS SUCH AS THE SMART HOME. THEY SHOULD CONCENTRATE ON BUILDING PLATFORM ECOSYSTEMS.

To successfully scale new businesses, CSPs need to rely on open platforms that connect consumers and suppliers and deliver “as a service.” Platforms are different from traditional models in two key ways:

- They can acquire scale at unprecedented rates, mainly driven by the low cost of customer acquisition and network effects.
- They allow enterprises to accelerate innovation and develop features at a pace that is not possible when they operate alone.

An ecosystem such as the smart home will need to add new devices and services seamlessly, growing with customer needs and the rapid evolution of technology. A CSP running the platform could assure that devices are tested for security and ease of use. By combining their consumer data analytics and a digital hub, then leveraging an ecosystem of providers for commerce, CSPs can offer a personalized service marketplace.

WHO SHOULD CSPs TARGET FOR THEIR ECOSYSTEMS? THE BUYING INTENTIONS OF SMART DEVICE OWNERS FOR THE NEXT 12 MONTHS OFFER A CLUE.

25%
SMART THERMOSTATS

29%
SURVEILLANCE &
SECURITY SYSTEMS

39%
REMOTE CONTROL
APPLIANCES & LIGHTING

MONETIZING AND OPTIMIZING: SCALING THE NEW.

MAKING THE MOST OF
HYPER-PERSONALIZATION,
HYPER-CONNECTIVITY,
BIG DATA AND OPERATING MODELS



HYPER-PERSONALIZATION WILL BE AT THE HEART OF THE NEW SMART HOME

Consumers now expect their experience to adapt whenever they engage physically, digitally and emotionally. Now, advanced computing techniques can harness expanding volumes of personal data (e.g., search, social, geo-tagged sensors, payments, shopping carts and speech) to create the magic behind new hyper-personalized experiences.

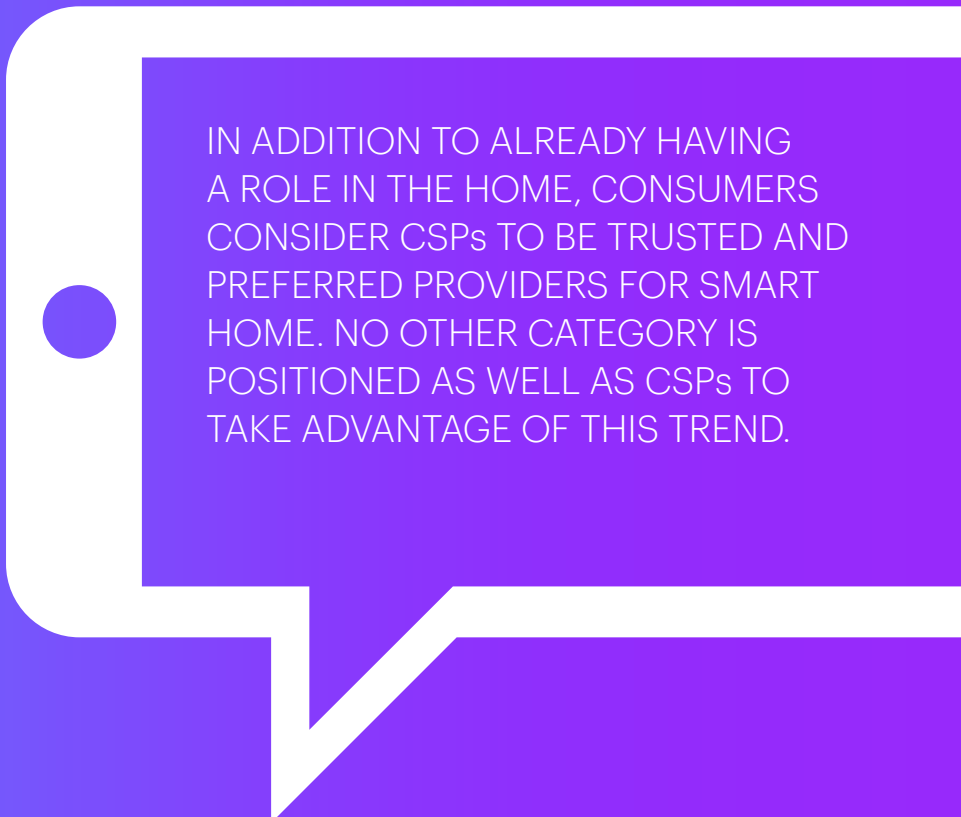
It is no longer age, income, education or place that drive purchasing decisions. It's the degree to which customers are connected—fixed, mobile and whether they own digital devices. It's the frequency of use of digital services and social apps and how much personal data they generate. It's the level of trust to share and to control personal data. It's the overall attitude to personalization and to the use of artificial intelligence. Altogether we call that readiness for hyper-personalization services.

ACCORDING TO ACCENTURE RESEARCH ESTIMATES:

821 MILLION GLOBAL CONSUMERS ARE READY FOR HYPER-PERSONALIZED SERVICES

291 MILLION PREFER CSPs TO MEET THEIR DIGITAL NEEDS

314 MILLION PREFER A DEVICE MANUFACTURER FOR THEIR DIGITAL NEEDS



IN ADDITION TO ALREADY HAVING A ROLE IN THE HOME, CONSUMERS CONSIDER CSPs TO BE TRUSTED AND PREFERRED PROVIDERS FOR SMART HOME. NO OTHER CATEGORY IS POSITIONED AS WELL AS CSPs TO TAKE ADVANTAGE OF THIS TREND.

BY FOCUSING ON THE CONSUMER SEGMENT READY FOR HYPER-PERSONALIZATION, CSPs COULD TRANSFORM THEIR ENTIRE CUSTOMER LIFECYCLE:

ANALYZING, COMMUNICATING, SELLING AND SERVING.

THAT IS LIKELY TO MEAN:



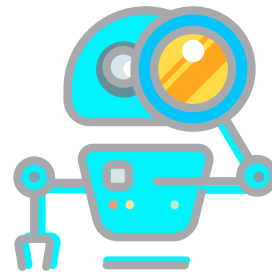
**MOVE FROM A
DEMOGRAPHIC VIEW
OF CUSTOMERS TO
LEARNING THEIR
ONLINE BEHAVIOR**



**MOVE FROM
TRADITIONAL
ADVERTISING MEDIA TO
SOCIAL AND DIGITAL**



**INCREASE FLEXIBILITY,
SIMPLICITY OF OFFERS
(E.G., ZERO BARRIERS,
FREEMIUMS)**



**LEVERAGE ARTIFICIAL
INTELLIGENCE
AND CHAT-BOTS IN
CUSTOMER SERVICE**

DATA DRIVES OPPORTUNITY

Because they control the delivery platform end-to-end (back-office to devices) and top-to-bottom (application to network), CSPs can access much bigger, richer levels of data. Analysis of usage and performance details can reveal a broader, sharply-targeted range of innovative new monetization opportunities. This further optimizes the total customer experience.

In addition to hyper-personalization, CSPs can look to hyper-connectivity. This is where real time analytics of every aspect of network delivery allows the constant tuning of the network from core through to the in-home Wi-Fi network to maximize the customer service and experience. Another example would be applying analytics to the customer support and field service support data to create insightful, but anonymized, data sets of value to anyone marketing to these customer groups. CSPs can create additional revenue streams by selling these insights to the upstream businesses, who could quickly come to rely on them to operate this expensive but data-rich customer insight infrastructure.

ORGANIZATION DRIVES AGILITY

CSPs will also need to take a long, hard look at their operating model for delivering new services. One of the single biggest challenges they discuss with Accenture is the way they are currently organized internally. Old-fashioned silos by product type or operating function will repress, rather than encourage, the possibilities of hyper-personalization and hyper-connectivity.

Flatter, more agile structures will allow CSPs to move with the speed and adaptability required to bring innovative new products and services to the smart home market at speed. Fully enabling all of the capabilities of the smart home will require changes throughout their businesses: back-office, front-office, networks to and within the home itself.



CONCLUSION

The smart home, with the myriad of IoT services likely to be connected through it, creates a compelling “burning platform” for CSPs.

They are already a credible and trusted potential provider of such services, but disruptors with other business models and technology that make network choice less important could eliminate CSPs’ traditional place in the home.

Becoming the preferred provider in the smart home demands a pivot to the new. Only by maintaining a healthy core business, finding fuel for growth, then investing in innovative business models and the internal structures to support them will CSPs be able to see off the threat of the disruptors nipping at their heels. Those who build platform-based ecosystems, and exploit hyper-personalization and hyper-connectivity - while keeping existing customers satisfied with current offerings, will be the winners in the race to the smart home customer.

AUTHORS:

FRANCESCO VENTURINI

GLOBAL INDUSTRY MANAGING DIRECTOR,
COMMUNICATIONS & MEDIA

MICHAL NOVÁK

RESEARCH MANAGER, COMMUNICATIONS & MEDIA RESEARCH

KEY CONTRIBUTORS FROM ACCENTURE RESEARCH:

PHILIPPE ROUSSIERE

RESEARCH DIRECTOR, COMMUNICATIONS, MEDIA & TECHNOLOGY

KATARZYNA MACZKOWSKA

ECONOMIC VALUE MODELLING MANAGER

DR. VEDRANA SAVIC

DIRECTOR OF THOUGHT LEADERSHIP
ACCENTURE RESEARCH

ABOUT THE ACCENTURE DIGITAL CONSUMER THOUGHT LEADERSHIP PROGRAM

The Accenture Digital Consumer Thought Leadership program for communications, media and technology companies is based on a survey which was conducted online between October and November 2016, with 26,000 consumers in 26 countries, including Australia, Brazil, Canada, China, Czech Republic, France, Germany, Hungary, India, Ireland, Italy, Japan, Mexico, the Netherlands, Poland, Romania, Saudi Arabia, Singapore, Slovakia, South Africa, Spain, Sweden, Turkey, the United Arab Emirates, the United Kingdom and the United States. The sample in each country is representative of the online population, with respondents ranging in age from 14 to 55 plus.

The survey and related data modeling quantifies consumer perceptions of digital devices, content and hyper-personalized services, purchasing patterns, preference and trust in service providers, the future of their connected lifestyle and appetite in new technologies such as artificial intelligence or virtual reality.

JOIN THE CONVERSATION

@AccentureComms

**VISIT US AT [accenture.com/
digitalconsumers](https://www.accenture.com/digitalconsumers)**

FOOTNOTES

1 Apple HomeKit: <http://www.apple.com/ios/home/>

2 Amazon.com, Thermostats section: <http://amzn.to/2kRJzsr>,
Accenture Research estimate

Copyright © 2017 Accenture.

All rights reserved.

Accenture, its logo, and High Performance Delivered
are trademarks of Accenture.

This document makes descriptive reference to trademarks that may be owned by others. The use of such trademarks herein is not an assertion of ownership of such trademarks by Accenture and is not intended to represent or imply the existence of an association between Accenture and the lawful owners of such trademarks.

ABOUT ACCENTURE

Accenture is a leading global professional services company, providing a broad range of services and solutions in strategy, consulting, digital, technology and operations. Combining unmatched experience and specialized skills across more than 40 industries and all business functions—underpinned by the world’s largest delivery network—Accenture works at the intersection of business and technology to help clients improve their performance and create sustainable value for their stakeholders. With approximately 394,000 people serving clients in more than 120 countries, Accenture drives innovation to improve the way the world works and lives. Visit us at www.accenture.com.