

RESIDEO BETS ON THE “GENUINE” SMART HOME

EXECUTIVE SUMMARY

In 1991, noted technology journalist Walt Mossberg opened his first technology column for the *Wall Street Journal* with these words: "Personal computers are just too hard to use, and it isn't your fault."¹ Personal computer technology has become easier to use in many respects during the past 30 years, but the same cannot be said about the smart home. Still, with the rise of hundreds (if not thousands) of “smart” solutions that can automate, manage or monitor mundane and trivial tasks in the home, consumers have responded with tremendous enthusiasm and opened their wallets. Research firm Strategy Analytics predicts that global spending on smart home technology will reach \$103 billion in annual revenue by the end of 2019, with more than 880 million devices sold.² Half of that revenue will be on smart devices and hardware, with the remaining spent on smart home services, subscriptions and installation fees. Strategy Analytics also forecasts that the smart home market could comprise as much as \$157 billion in global revenue by 2023, using an 11% CAGR.³

While consumer interest is sky-high with significant long-term revenue potential for companies who participate in the smart home, it has come with significant customer frustration and dissatisfaction. The off-the-charts popularity of digital smart assistants like Amazon Alexa and Google Assistant have set off a “Do-It-Yourself” (DIY) frenzy, with consumers flocking to traditional and online retailers to buy the latest smart “gadget” to automate a particular home task, provide property surveillance and secure the home. Because many of these products suffer from critical interoperability problems, the overall customer experience rarely meets customer expectations. The fact that many smart home product vendors are new to the market, and some often go out of business after a year or so exacerbates customer dissatisfaction. While some major brick and mortar retailers have made substantial investments with in-store personnel and merchandising to improve the

¹ <https://blogs.wsj.com/digits/2013/09/19/walt-mossbergs-first-wsj-tech-column/>

² <https://news.strategyanalytics.com/press-release/intelligent-home/strategy-analytics-global-smart-home-market-surpass-100-billion-2019>

³ <https://news.strategyanalytics.com/press-release/intelligent-home/strategy-analytics-global-smart-home-market-surpass-100-billion-2019>

smart home buying experience, many major retailers report smart home product return rates that exceed 20 percent.

Consumers discover, often the hard way, that the “gadget approach” doesn’t make one’s home smart. A more intelligent and pragmatic way to define the genuine essence of a smart home might be one that focuses on monitoring and connectivity of a home’s ‘must-have’ critical home systems and high-confidence protection of those functions versus entertainment and ‘nice-to-have’ capabilities.

Resideo Technologies, spun off from industrial giant Honeywell International in October 2018, is uniquely positioned to address many of the woes and deficiencies that plague the current DIY persona of today’s smart home. Resideo has a broad portfolio with many of its products carrying the Honeywell Home brand under a long-term licensing agreement with Honeywell. Resideo’s value proposition is firmly grounded in the belief that DIY companies are simply not equipped to address the installation and integration challenges due to the vast number of smart home devices on the market, as well as lacking the know-how that local contractors have. In addition, managing critical systems in the home, such as air conditioning, security, heating, water management and energy utilization, requires advanced technical training and professional-grade equipment – two things the average consumer doesn’t possess.

This research brief will provide detail and commentary on Resideo’s overall mission in the smart home. It will explore the company’s assertion that it is well-positioned to offer homeowners protection of what is often their most substantial investment. With a powerful professional contractor and dealer channel that is both a significant differentiator and asset, Resideo’s focus is on simplification, predictive maintenance using appliance analytics, and essential value as critical enablers for maximizing customer satisfaction.

PROBLEM STATEMENT: THE SMART HOME ISN’T SO SMART

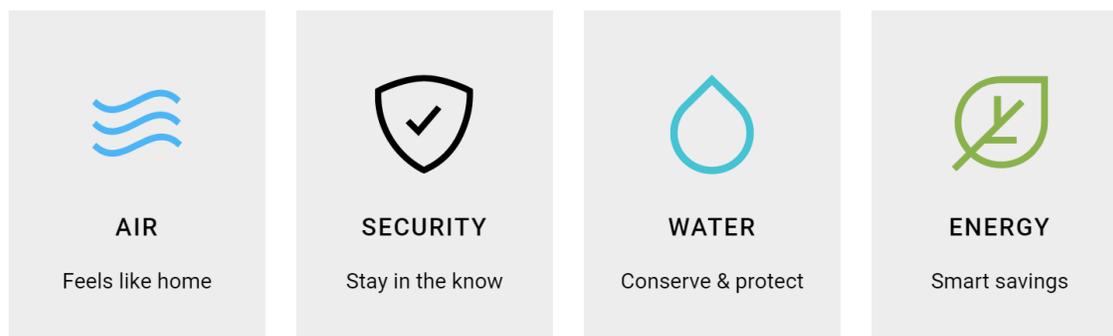
For all the convenience, productivity, and usefulness that a fully realized smart home might offer, its potential is still aspirational for many consumers. Even the definition of what constitutes a “genuine” smart home is subject to debate. Voice assistants are massively popular, with some estimating that there will be 8 billion

devices with digital assistants in use by 2023 (up from an estimated 2.5 billion at the end of 2018).⁴

However, Niccolo De Masi, Resideo's Chief Innovation Officer and President of its Products & Solutions segment, says the dramatic proliferation of connected devices in the smart home has some consumers suffering from what he calls "app and voice fatigue."⁵ De Masi believes consumers view their homes as places of comfort and peace, and they want smart home technology to be more natural. While voice assistants may be convenient for controlling the television or living room entertainment system, automation should be the preferred tool to control predictable, defined actions around the home, like locking and unlocking doors automatically or closing the garage door after a prescribed time.

Technically inclined consumers can perhaps use applications like If This Then That (IFTTT) to automate a series of tasks, but mainstream users will not likely find appeal in becoming an amateur programmer. The simple truth is that voice assistants may not be the best solution for becoming a central hub for controlling lights, locks, thermostats and security systems. Geofencing, on the other hand, offers convenience and a secure way to turn lights on or off, open and close garage doors, and unlock doors without the consumer having to remember a series of spoken commands. Bluetooth can be an option for disarming your home security system when your arms are full of groceries, or you have kids in tow.

FIGURE 1: RESIDEO'S FOCUS SMART HOME AREAS



Source: Resideo

⁴ <https://www.businesswire.com/news/home/20190212005064/en/Juniper-Research-Digital-Voice-Assistants-Triple-8>

⁵ <https://www.linkedin.com/pulse/future-voice-assistants-smart-home-niccolo-de-masi/>

Beyond these operational challenges with voice assistants, most do not proactively monitor and report on the four main home networks that can save homeowners money, promote safety and facilitate a healthy lifestyle: **air, security, water** and **energy**.

Why have these areas received so little attention compared to smart home gadgets, despite the enormous benefit they could afford homeowners? The chief reason is the daunting installation challenges DIY solutions present for the average homeowner. Using an Amazon Echo voice assistant to control a light, turn on a fan or play some music is an easy task to perform for most consumers. However, more complicated solutions like monitoring a water heater or faucets for leaks (for example) require professional installation assistance. The DIY approach to the smart home is unrealistic for installing and integrating the type of solutions that must be "connected" to existing heating, ventilation and air conditioning systems.

Specific smart home solutions, if properly installed by a seasoned professional, can proactively save consumers thousands of dollars in unnecessary repairs (or premature replacement) of key home HVAC systems. Despite the enormous quality-of-life benefits, few consumers monitor the air or water quality in their homes on a regular and routine basis, which is required to assess long-term environmental conditions so that corrective steps can be made.

RESIDEO'S GO-TO-MARKET APPROACH

Resideo focuses on the following specific categories in the smart home and believes these can unlock the potential of a genuine smart home when delivered as a combination of validated, connected technologies and installed by professionals.

Resideo's strategic focus on these areas avoids the "bright shiny object" syndrome that often characterizes today's smart home. The company's powerful product legacy as a spinoff from Honeywell makes it a credible brand, particularly with families and older consumers.

Resideo has made enormous strides in developing its smart home portfolio over the past five years, announcing an entire range of solutions in the smart thermostat, security systems, whole home air quality products and water detection markets. It has a sizable business that most consumers wouldn't know about--the controls 'behind the wall' that ensure your water heater, boiler or furnace operate safely and efficiently.

FIGURE 2: CUSTOMER BENEFITS OF RESIDEO’S FOCUS AREAS

Focus Area	Benefits
Air⁶ 	<ul style="list-style-type: none"> ▪ Solutions that help control temperature, humidity, indoor quality and ventilate your home
Security⁷ 	<ul style="list-style-type: none"> ▪ Solutions that range from carbon monoxide detection, home surveillance, security services for proactive intrusion protection
Water⁸ 	<ul style="list-style-type: none"> ▪ Solutions that monitor water systems, filter/clean/soften water, help prevent catastrophic leaks, assist with budget control and help conserve natural resources
Energy⁹ 	<ul style="list-style-type: none"> ▪ Solutions that provide the ability to monitor and manage energy consumption throughout the home from appliances (e.g. furnace or water heater), saving money and extending equipment life

Source: Resideo

Through its global product portfolio, Resideo holds approximately 3,000 worldwide active and pending patents, explicit evidence of their product know-how and breadth. The unobtrusive industrial design of their solutions is particularly well-executed--one of the core reasons why Resideo solutions have specific appeal in new home/condominium construction. Approximately one-half of Resideo’s revenues come from ADI Global Distribution, the leading wholesale distributor of security and low-voltage products [worldwide](#).

While consumers can select from over 20,000 Resideo-designed and tested smart home solutions, the company knows homeowners will want to integrate those with the most popular third-party smart products. Resideo solutions are broadly compatible with Amazon Alexa, Google Assistant, IFTTT, Apple HomeKit and

⁶ <https://www.resideo.com/us/en/solutions/air/>

⁷ <https://www.resideo.com/us/en/solutions/security/>

⁸ <https://www.resideo.com/us/en/solutions/water/>

⁹ <https://www.resideo.com/us/en/solutions/energy/>

Microsoft Cortana, ensuring that homeowners do not have to start all over again if they have already invested in popular connected devices.¹⁰

FIGURE 3: EXAMPLES OF RESIDEO HARDWARE SOLUTIONS



Source: Resideo

The crown jewel of Resideo's smart home go-to-market strategy, the company's vast professional dealer network, provides deep technical expertise, local installation and support. Resideo claims that its technologies are installed in more than 150 million homes with more than 6.5 million connected customers, the vast majority of those installed by professional contractors.¹¹ Resideo's partner network includes over 110,000 professional contractors and 3,000 distributors.¹² One must not minimize the competitive advantage that Resideo's deep relationships with their professional installers afford, especially given the DIY installation challenges many homeowners face. As Resideo's Scott Harkins, Vice President and General Manager of Connected Home, points out, "Resideo's professional contractors are trusted local professionals who are in the best position to maintain and protect the critical systems for the homeowner."¹³

Resideo has also taken an impressive industry leadership position with sorting out the "multi-app" phenomenon that plagues any homeowner trying to monitor and manage multiple "smart" functions in the home. The company recently announced the converging all of its apps currently supporting more than 7 million connected devices into a single, unified app throughout 2020, with all Resideo devices

¹⁰ <https://www.resideo.com/us/en/who-we-are/>

¹¹ <https://corporate.resideo.com/about/overview>

¹² <https://corporate.resideo.com/about/overview>

¹³ Interview with Resideo Executive Team (11-8-19)

consolidating on the new app by 2021. Professional contractors should be especially pleased with this announcement since it will simplify the overall installation effort in a home, saving both time and money. Homeowners benefit by being able to use a single app to manage and control the various smart functions in their homes. As Mike Nefkens, Resideo’s President and CEO, emphasizes, “Today, the average homeowner has nearly a dozen different apps on their phones to manage many of these networks. We don’t think that’s right and believe there is a better way. The new Resideo app is designed to help homeowners better manage their homes and help pros monitor the status of these networks remotely and dispatch help when it’s needed. It will give homeowners unparalleled insight and control over their home’s critical networks.”¹⁴

FIGURE 4: SMART HOME BRANDS SUPPORTED BY RESIDEO



Source: Resideo

This new Resideo app will also make it easier for professional contractors to connect to their existing client base. Enhanced connectivity with Resideo’s

¹⁴ Interview with Resideo Executive Team (11-8-19)

contractor network makes it substantially easier for their professional contractors to help homeowners monitor and protect their homes.

Resideo's support of their professional network doesn't stop there. The Resideo app also provides new opportunities for professional installers to offer "whole home monitoring" and subscription services to its customers. The importance of this announcement should not be minimized. It demonstrates Resideo's ongoing desire to promote the business interests of its professional network in which members may not have the technical and business expertise to pursue subscription services and other home-related monitoring offers by themselves.

As part of its December 2019 Resideo Live event in Austin, Texas, for its professionals, the company will announce new tools to help professional contractors and dealers modernize their go-to-market capability and designed to simplify operations, retain existing customers and market to new prospects. These tools include a Pro Portal that provides dealers with authenticated and convenient access for business tools and customer dashboards. The company also announced a new loyalty program, dubbed Resideo Pro PERKS, that provides professionals with new ways to find and earn business. One tool of special interest is a digital marketing platform. It enables the pros to quickly and efficiently create digital advertising and email campaigns, a capability that should be embraced by contractors and dealers who understand the impact of digital advertising in their coverage territories but don't necessarily have the marketing expertise to conduct digital campaigns. Resideo conducted detailed analyses of its professionals' sales territories and built predictive models to identify consumers with a high purchase intent. This enables the local installer to optimize sales and marketing efforts to expand their business and help homeowners stay comfortable, safe and secure.

CLOSING THOUGHTS

The smart home segment makes up one of the fastest growing and, potentially, most lucrative markets in the technology space. As promising as this space is from a business revenue standpoint, it's also fraught with risk and landmines.

While homeowners have been attracted to the "sizzle" of automating simple functions like turning lights on and off, home camera awareness, and monitoring their heat or air conditioning more conveniently, the promise and potential of the smart home remain largely unrealized. Most consumers are still growing in their understanding that a genuine smart home, with the right embedded solutions, can

save them catastrophic repair or replacement expenses with routine proactive monitoring of critical home functions like HVAC and water management. Enormous health benefits also come with a “genuine” smart home that monitors air quality to protect the long-term health of occupants.

Resideo is wise to focus its efforts on delivering the “genuine” elements of the smart home in a manner that allows it to leverage its competitive advantages. First, few companies in the smart home area can tout the strength of such a vast professional network. This element gives the company an enormous advantage versus the DIY players who lack the whole-home expertise and approach the smart home in a piecemeal manner with the attendant integration and interoperability problems. Customer satisfaction in the DIY space has not been good, and Resideo knows that. Resideo’s De Masi put it this way: “The homeowner wants to know the professional who installs these critical systems has the experience and knowledge to do that efficiently the first time and will stand behind their work. When a homeowner selects a Resideo professional, they know both the hardware, the installation and service is top-notch. That’s our commitment to the consumer.”¹⁵

Resideo also makes a wise bet by creating tools and investing in programs designed to support the ongoing efforts of their professional network. Not only do professional installers have know-how in this space that makes them especially valuable for complex home installations, they often serve in a homeowner consultant capacity to solve unique problems that traditional electronics retailers can't provide (especially from a device interoperability standpoint).

Given the richness of their solutions portfolio, the proven expertise of their professional network, their overall strategy to consolidate multiple apps into a single solution and the impressive set of tools they have developed to augment their dealer network, Resideo seems well-positioned to address the growing smart home opportunity in a fundamentally more comprehensive manner than DIY manufacturers.

Resideo has also demonstrated strategic, forward-looking thinking that helps differentiate itself from DIY brands. Earlier in the year, Resideo announced it had acquired LifeWhere, a company with specialized expertise in the machine learning

¹⁵Interview with Resideo Executive Team (11-8-19)

and analytics space.¹⁶ With this acquisition, Resideo continues to invest in its long-term belief that consumers will value the capability to proactively predict potential failure on critical home appliances such as water heaters, furnaces and air conditioners. Moreover, this acquisition also represents yet another layer of commitment (and potential after-sale subscription opportunity) to its network of professionals. It gives them access to detailed analytics with which to dispatch technicians with the appropriate skills to quickly repair an appliance before it results in a catastrophic failure.

Resideo's most prominent marketing challenge may be extracting the impressive product portfolio messaging advantages provided by its Honeywell association while countering some of the adverse brand aspects of Honeywell itself. Some consumers may view Honeywell as a somewhat "stodgy" brand. Can the brand stretch to deliver the overall "we will be there for you" story desired by homeowners interested in building their smart home? We will see, but what they previewed to their professionals at their December event was very well received. Resideo's vast professional network could be a significant force in messaging the company's value proposition and mission-critical "persona" in the smart home in a compelling, credible and impactful manner. They are the ultimate "brand ambassador" for Resideo at the homeowner level.

Long term, the winners in the smart home will be those companies that approach the smart home in a holistic and investment-oriented manner, just as most homeowners do with their domiciles. The home represents the single largest investment for a majority of people and focusing on core smart home functions that protect that investment will resonate with consumers. In that regard, Resideo is a company to be reckoned with, and they are uniquely situated to capitalize on the accelerating growth in the smart home for the foreseeable future.

¹⁶ <https://www.prnewswire.com/news-releases/resideo-acquires-lifewhere-expanding-remote-monitoring-and-predictive-maintenance-capabilities-300877547.html>

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