

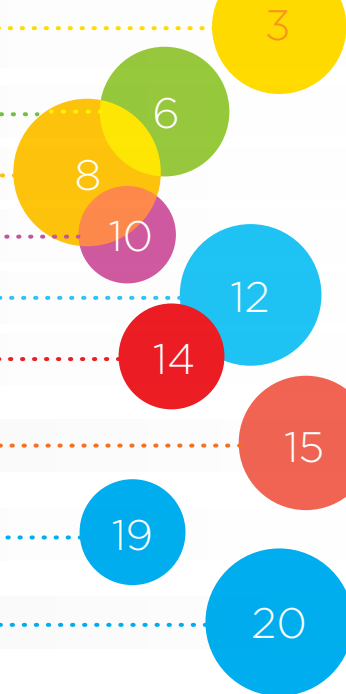
energypulse™
2015 SPECIAL REPORT



Smart Home Strategies for Utilities

- Five Reasons
- You Should Get
- in the Game

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introduction

*There's a ten-ton elephant in the room.
Anybody want to talk about it?*

We'll go first: electricity consumption in the United States has been declining since 2007. And experts say the phenomenon is probably tied to energy efficiency efforts.

Utilities with traditional business models are facing some stark realities as Americans in both residential and commercial environments work to cut their energy use. For example:

- Solar's here to stay. (And Americans *love* it.)
- Storage looks promising.
- Green building techniques and efficient appliances are becoming more popular.
- Finally, smart home technology is the new point of connection for all these improvements, making it easier than ever for consumers to automate and personalize their energy conservation efforts.

Using less energy from one's utility, in other words, is becoming the new normal. And smart homes will be at the center of it all.

Some utilities are already expanding their business models to include products and services that will help offset revenue losses as the country transitions to a low-consumption, high-automation environment. But although technology experts once expected utilities to take the lead on smart homes – they're a natural fit, and they offer unbeatable opportunities for increasing customer revenue and loyalty – the reality is that utilities are mostly waiting in the wings, hesitant to commit.

We regularly consult with utilities about strategies for weathering the coming changes to the energy landscape. **The savvier utilities know that smart homes are their manifest destiny** – they're just paralyzed when it comes to choosing technology partners and getting the effort off the ground in a totally committed way. Many pursuing this path are cautiously trying pilots first; others are waiting to see which horse to back. (We think this is a mistake, and we'll tell you why in this report.)

Other utilities, frankly, are much further behind. They simply don't recognize the risk of allowing telecom, cable, technology and security companies to creep into the home energy market and disrupt their existing customer relationships. If the possibility of losing customers to these companies seems far-fetched, remember that Amazon was just an online marketplace a few short years ago; now they're producing original content for television and disrupting the traditional TV subscription model. Do we really think they – and others – won't try the same thing with energy?

Fact: the smart home market is a sleeping giant, and when it wakes up, utilities will either be positioned to take a big cut of the revenue – or be parked on the sidelines wondering what happened. We can't overstate the opportunity that's available to you if you make your move now. The truth is that no one owns customer loyalty right now for smart home products (not even Nest). And as a potential smart home superpower with some real advantages in your back pocket – namely consumer trust – the technology you choose is less important than simply getting into the game.

*By the end of 2016, almost half of Americans will be controlling some home function with a smartphone or tablet. **Where will you be when that happens?***



*For Energy Pulse™ 2015, we
polled 2,000 American
consumers about smart
homes and found ...*

5 *Reasons Utilities Should
Get in the Game*

1
reason

*home technology
enthusiasts love
energy efficiency*

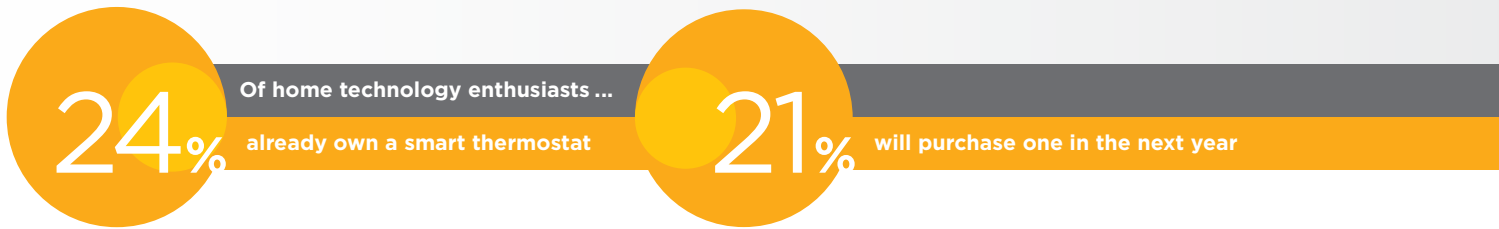
We've identified a "home technology enthusiast" consumer profile that includes respondents who are significantly more likely than average to say they control at least one home function with a smartphone or tablet, or plan to do so in the coming year. They are also more likely to ...

- Own products that can run smart home apps (e.g., computer/laptop, wireless router, tablet, smartphone)
- Spend money to make their homes more automated/technologically advanced
- Want their new homes to have "a home automation platform with an app for controlling the smart thermostat, lighting, blinds and security system from my phone"
- Spend a hypothetical \$10,000 gift on a home automation platform

Turns out, this group is also more likely than average to be enthusiastic about energy efficiency (52% also fall into our "energy efficiency enthusiast" consumer profile, compared to just 27% of the general population).



But only 24% of this group already own a smart thermostat, and an additional 21% say they'll be getting one in the next year. (Smart thermostats, by the way, topped the list of technologies people were most interested in test-driving for free.)

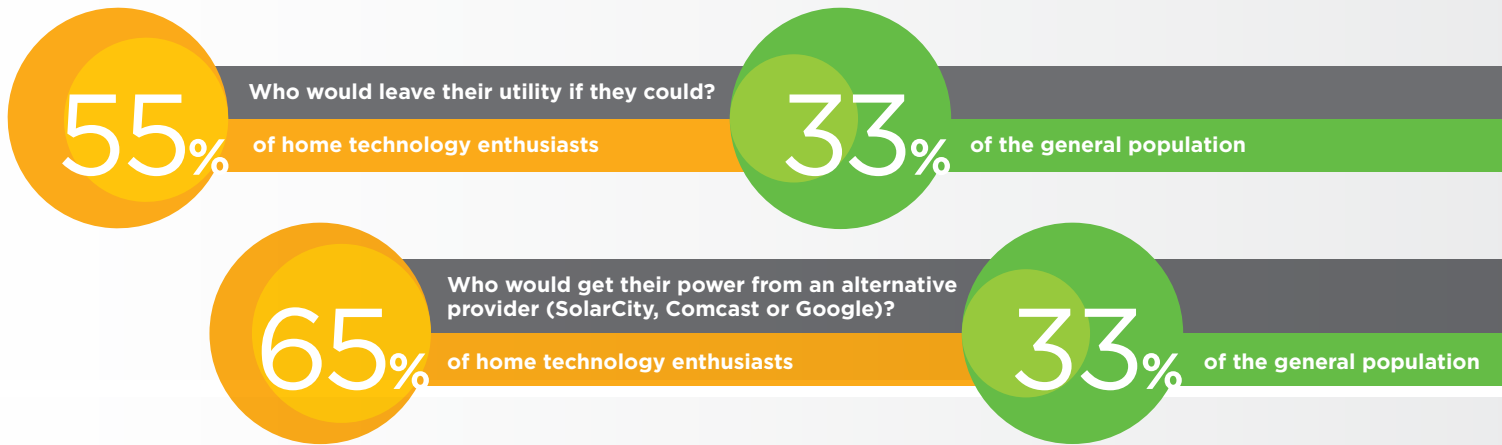


So home tech enthusiasts are primed to buy what utilities are most likely to be selling if they enter the smart home arena.

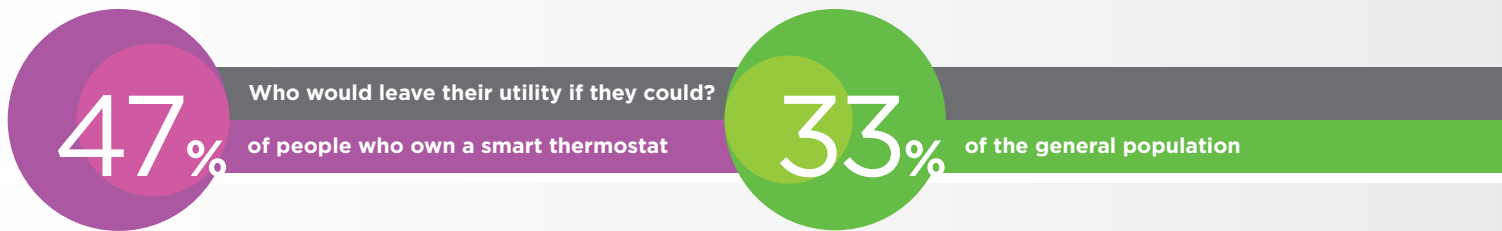
*home tech enthusiasts would
love to cut out the energy
middleman (you)*

reason

Home tech enthusiasts, unfortunately, are open to shopping around for their power. More than half of them (55%) say they'd leave their utility if they could (compared to just 33% of the general population), and 65% would get energy from an alternative provider such as SolarCity, Comcast or Google (vs. 33%). This presents a pressing problem because of their propensity to add smart technology sooner rather than later, and many of the companies they'd buy from are ones gearing up to enter the energy space. **In other words, give those companies a foothold in your customers' homes, and you may have lost the battle before it even begins.**



We also took a closer look at people who said they already own a smart thermostat, which is a group that - perhaps surprisingly - overlaps very little with home tech enthusiasts. (They're older and less likely to be technophiles, often installing their thermostats as secondary features of the home security systems that spurred them to purchase.) But they're similar in this regard: 47% vs. 33% would leave their utility if they could.



Why should you care? Because this trend has long-term implications. People who are more engaged on home technology - who are interested in or have purchased smart tech for the home - tend to be more aware of and intrigued by alternatives to their utility. And while these folks are currently a fairly small percentage of the overall market (home tech enthusiasts and smart thermostat owners together, accounting for overlap, are 20% of the population), they're likely to grow as the technology becomes more affordable and available.

As they grow, more of your competitors will have a presence in their homes, adding energy efficiency options to mainstream security and entertainment offerings and making it much more likely that you'll lose your position as trusted energy advisor, lose line of sight to load, and lose the ability to lead and engage customers in DSM and peak demand programs. **We think it won't be long before momentum is out of your control.**

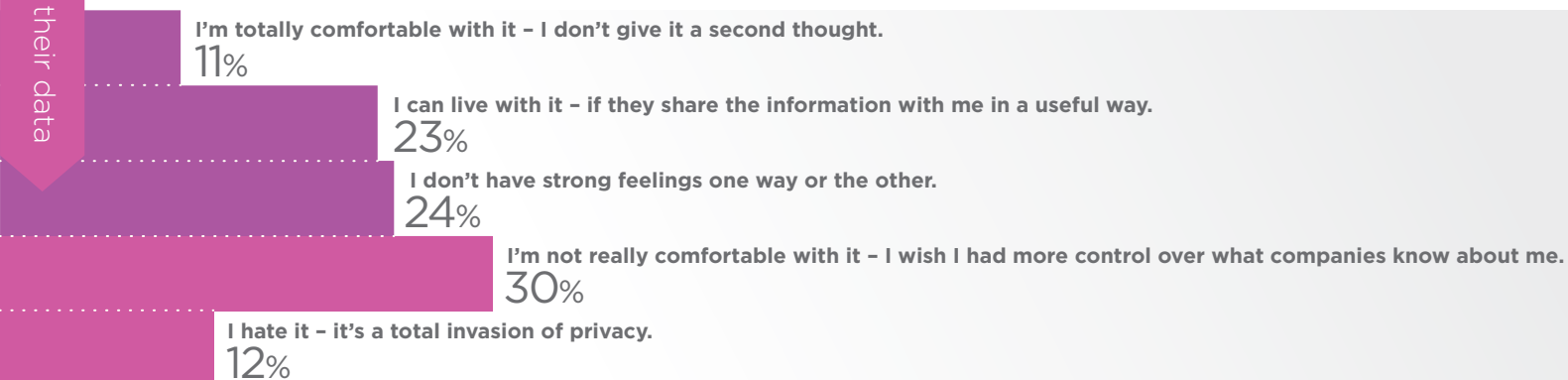
reason

*Americans
trust you with
their data*

Americans trust you with their data – and that’s no small thing. Although expense is the primary reason Americans say they haven’t yet invested in smart home technology – and security concerns tend to fall far down the list – a hint of doubt emerges when you bring up the data issue directly and ask consumers to gauge how they feel about it.

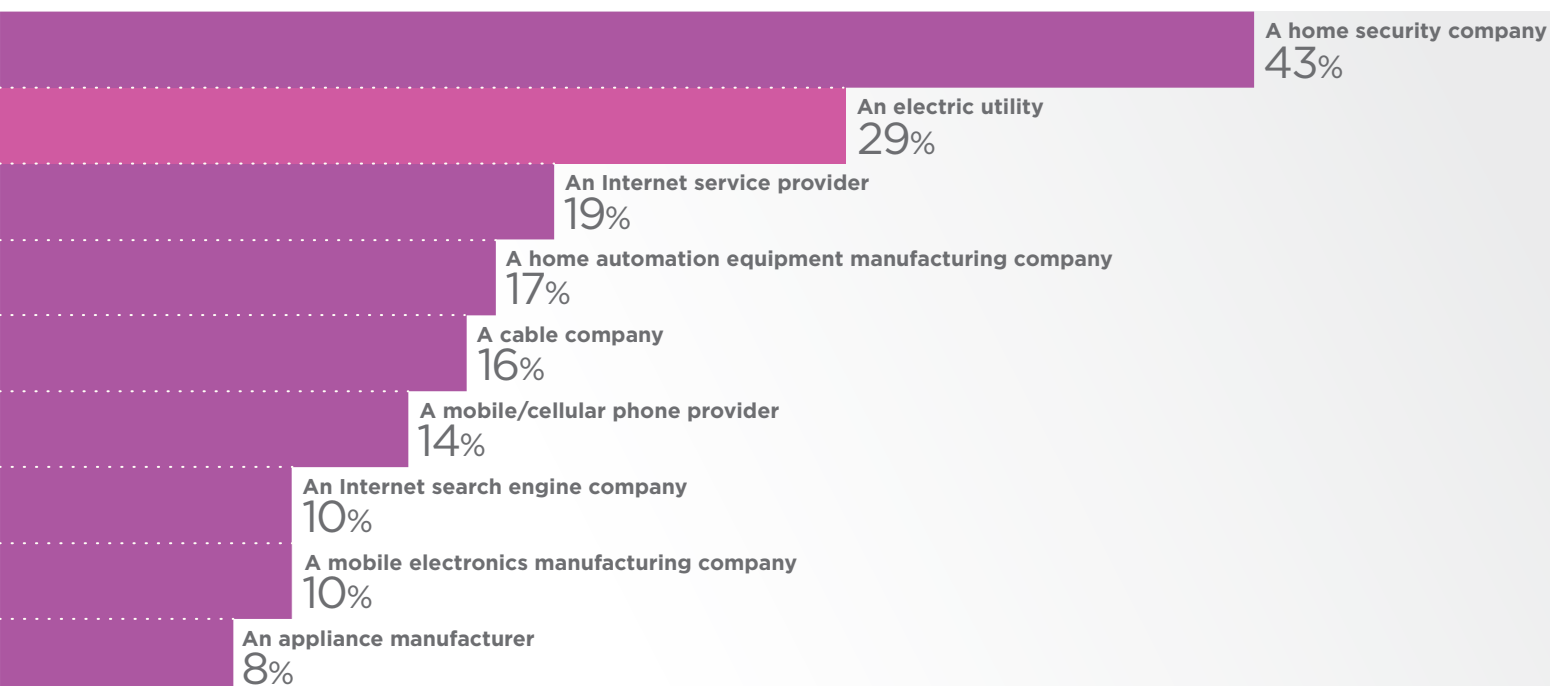
Turns out, 42% express some discomfort with the fact that smart home providers collect data about their usage. And a significant number don’t have strong feelings at all, possibly because they’re unaware of the problem.

Companies who make smart/connected home products and platforms collect data about your usage. Which of these statements best describes your comfort level with this practice?



But if they have to trust someone, you're high on the list. **Utilities were second only to home security firms in terms of companies consumers trust with their data, and you beat cable companies nearly two to one.**

Which kind of company do you trust most with your home data/usage information?



The collection and sharing of smart home data presents a very real privacy concern – why not make that clear to your customers and leverage your position as a trusted provider?

*consumers should think
of you when they
think about smart
home technology -
but they don't*

reason

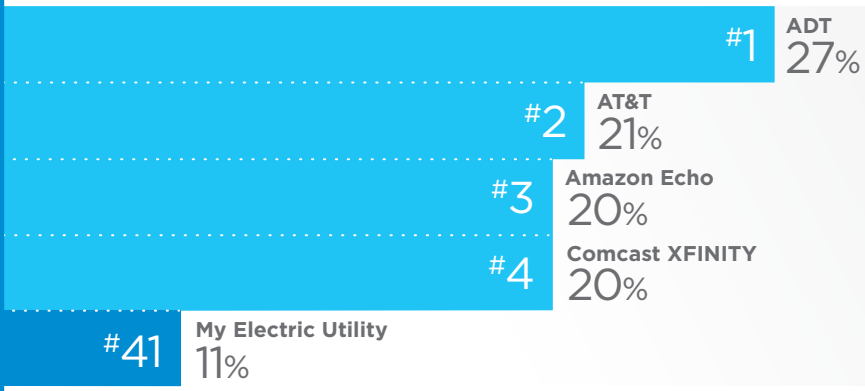
The numbers aren't surprising, given utilities' slow entry into the marketplace, but they are stark – you've already ceded ground to cable, Internet and home security companies. We asked respondents which providers they would likely choose for their next smart home purchase. Of 44 total provider options offered, "my utility" clocked in at #41 in this survey (chosen by just 54 out of 503 respondents for this question).



Who would likely purchase from their utility next?

54 out of 503 respondents

Please check any provider, management hub or apps you would likely purchase/use next.



The bright spot, though, is that statistically speaking, there was actually a 40-way tie for fifth place in this race; after the big guns (ADT, AT&T, Amazon and Comcast), distinction among poorer performers was meaningless. Which leads to our final compelling reason for you to take action ...

reason

*the smart home market
is still wide open*

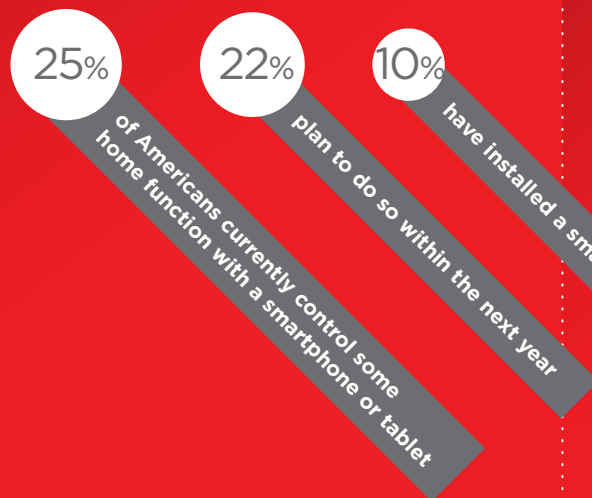
Our research suggests that loyalty has not yet been established among smart home brands; current users of smart home technology in our study were not particularly likely to say they'd buy from the same provider the next time they purchase a smart component (although sample sizes were small given the overall size of that group). We think that the time is ripe for utilities to jump in and build positive brand perception.

We believe that along with cable and security companies, **utilities could be the third superpower of the smart home market**, thanks to your existing presence in customers' homes – which allows you to leverage your position as a trusted energy partner – and the alignment of smart home technology with your energy efficiency goals.

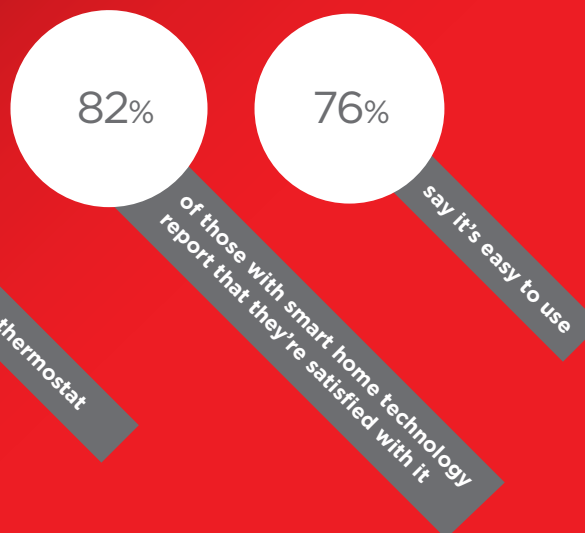
But if you wait to see which brands win the space, you risk being left behind when this market takes off. We propose that it isn't the brand you choose that matters – it's choosing a technology partner that complements your objectives and getting on with the show. It's time to think about linking with companies that offer other smart features people love, such as automated lighting and security, so that you're offering strong perceived value beyond just selling units of power. **That will position you to keep your customer relationships as the energy landscape changes.**

fast facts about the smart home market

The market's potential is clear.



Smart home customers are happy customers.



Consumers prefer the term “smart home” to “connected home,” giving it higher ratings for desirability, understanding, and “cool” factor.

Americans associate smart homes with energy efficiency.

Top 3 things Americans think smart homes should include:

An energy management system that provides detailed consumption information and can be controlled via smartphone or tablet

44%

A thermostat that automatically learns/adjusts to your temperature preferences and occupation patterns

42%

Appliances that are Wi-Fi enabled and can be controlled through an app

41%

Also, from a list of options, respondents who aren't currently using smart home technology chose smart thermostats as the #1 smart home item they'd like to try on for size:

If you had the opportunity to test-drive the following items for free, what would be the order in which you would try them?

A thermostat that programs itself based on your normal household routine

39%

An app that adjusts your house lighting based on who's home and how much daylight there is

23%

An electronic door lock controlled by a smartphone that lets you manage access for guests or kids while you're away

21%

None of these

12%

A slow cooker that you can turn on with your smartphone while you're still at work

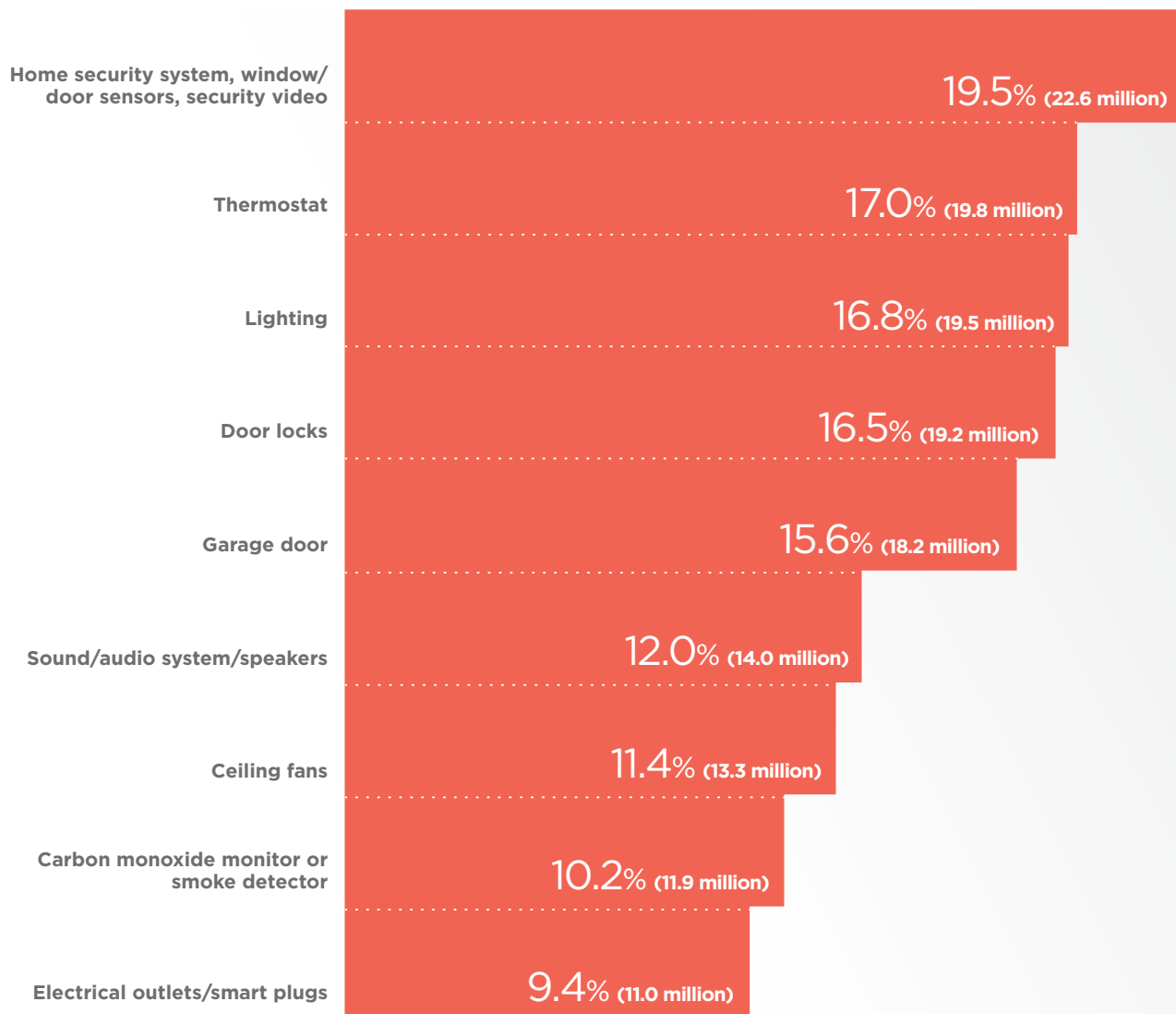
5%

Interesting point: the respondents who chose smart thermostats did not fall into our "technophile" or "home technology enthusiast" consumer profiles – in other words, they weren't typical early adopters (or Millennials, for that matter). Instead, they were more likely than average to be interested in energy efficiency and to be educated, older, high-income respondents.

The untapped market for smart home technology is enormous.

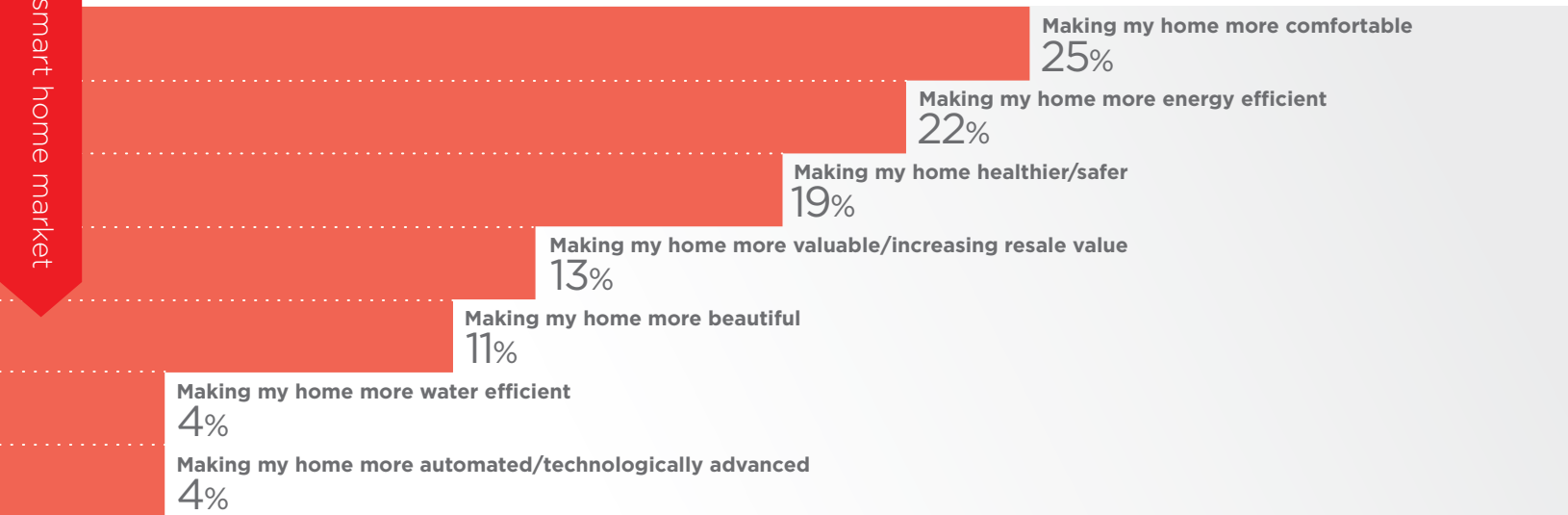
Market potential = those who currently control some home functions with a smartphone or tablet + half of those very likely to do so within the next year

Market potential percentage/households



Americans want what smart homes provide.

Please rank the following based on how you prioritize spending money on your home.



Only 4% of Americans say home automation tops their list of household spending priorities. But 25% put comfort first, 22% put energy efficiency first, 19% put health and safety first, and 13% put increasing resale value first – all of which are potential benefits of smart home technology. Those numbers reflect the desires of almost four out of five consumers.

What might happen if you could connect the dots between smart homes and their benefits for 80% of Americans?

Ready to get started?

If you're looking to establish your position in this critical emerging market, call on us at Shelton Group to guide you from marketing strategy through execution. We've got more insights on where the smart home market is headed, robust target consumer profiles, and years of experience marketing to utility customers and driving them to action.

For more information, reach out to CEO Suzanne Shelton at sshelton@sheltongrp.com or 865.524.8385.

Methodology

The Energy Pulse™ questionnaire was designed by Shelton Group and contained fixed-response alternative questions, semantic differential questions, Likert scale questions and a few open-response questions. The study was fielded in August 2015. We surveyed a total of 2,029 respondents, using members of Survey Sampling International's online panel of more than 3.5 million U.S. Internet users. The survey sample was stratified to mirror the U.S. population, using quotas for geography, age, gender, education and race; data were weighted slightly to match U.S. population distributions. Margin of error is +/- 2.2%.



about

Shelton^{Grp}

Shelton Group is the nation's leading marketing communications agency focused exclusively on energy and the environment. If you're a utility or energy company trying to build brand loyalty and increase customer engagement, we understand your marketing challenges like no one else. We can help you reposition your offerings to appeal to the customers of the future.

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