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Residential Security Market Trends

Competition, Attach Rates, and COVID Impacts

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Residential Security Market Trends

The Report, Residential Security Market Trends, is a Parks Associates Research Report commissioned by ESA and sponsored by Resideo to deliver the latest facts and trends to help you make informed decisions on capturing new customers through careful business strategy evolutions.

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RESIDENTIAL SECURITY MARKET TRENDS

Competition, Attach Rates, and COVID Impacts

The entrance of tech giants and MSOs is raising awareness of security solutions; new business models are emerging as a result of changing consumer preferences; and technology advancements such as AI, video analytics, audio analytics and voice control are improving the user experience. Perhaps more than anything, remote access through interactive services, home control support for a growing array of devices, and self-installation options have expanded the value of residential security systems.

As a result, the security industry is finally able to reap the benefits of increased security system adoption. While security system adoption held steady at 26-27% from 2016-2018, in 2019 a 5% increase moved the arrow to 32-33%. Furthermore, the professionally monitored industry experienced significant gains rising from a 24% adoption rate in 2018 to 29% in 2019.

Additional market trends are as follows:

Competition is fierce

Switching and cancellation rates of professional monitoring subscribers reflect competition and the perception of some customers that the price/value equation for professional monitoring is inadequate. 16% of subscribers switched their pro-monitoring provider, while 7% of subscribers canceled their pro-monitoring service.

Smart home device attach rates are strong

Smart home devices are now in over a quarter of all broadband households. By comparison, a whopping 61% of security system households own a smart home device.

The security industry remains one of the leading channels for smart home systems and services, putting security dealers in a unique position to benefit from demand for connected living.

Building on the conversion from legacy to interactive services, security system providers additionally offer smart home controls in their package tiers and individual devices that can be layered on top of those systems. The integration of smart home products including lights, locks, and thermostats provides a significant opportunity for RMR growth.

Purchase intentions indicate the importance of interactive services, DIY, and smart home devices

Though purchase intentions may or may not be realized, they point to the direction of the market. DIY, smart home devices and the ability to remotely control/monitor a system are all highly important to security system purchase intenders. 76% of security system purchase intenders want interactive services, while 63% want a self-installed system.

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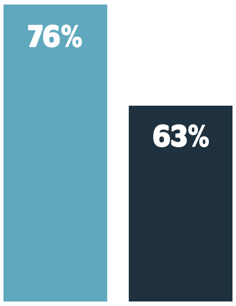

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Though year-end 2019 results indicate a big win for the residential security industry, 2020 faces new challenges. The status of the general economy points to challenging market conditions as businesses temporarily shut their doors, employees are furloughed or lose their jobs, and consumer demand for certain products and services lessens as disposable incomes diminish.

While consumers may seek to cut household expenses as a result of the COVID-19 crisis, security remains top of mind for many individuals. The percentage of US broadband households with professional security monitoring has stayed stable since mid-2019. While new installs have been challenged by the current climate, attrition rates have remained steady through Q2 2020.

Residential security's status as an essential business has helped shore up its value during the pandemic. Time will tell on what impact COVID-19 will have on professional monitoring subscriptions later this year.

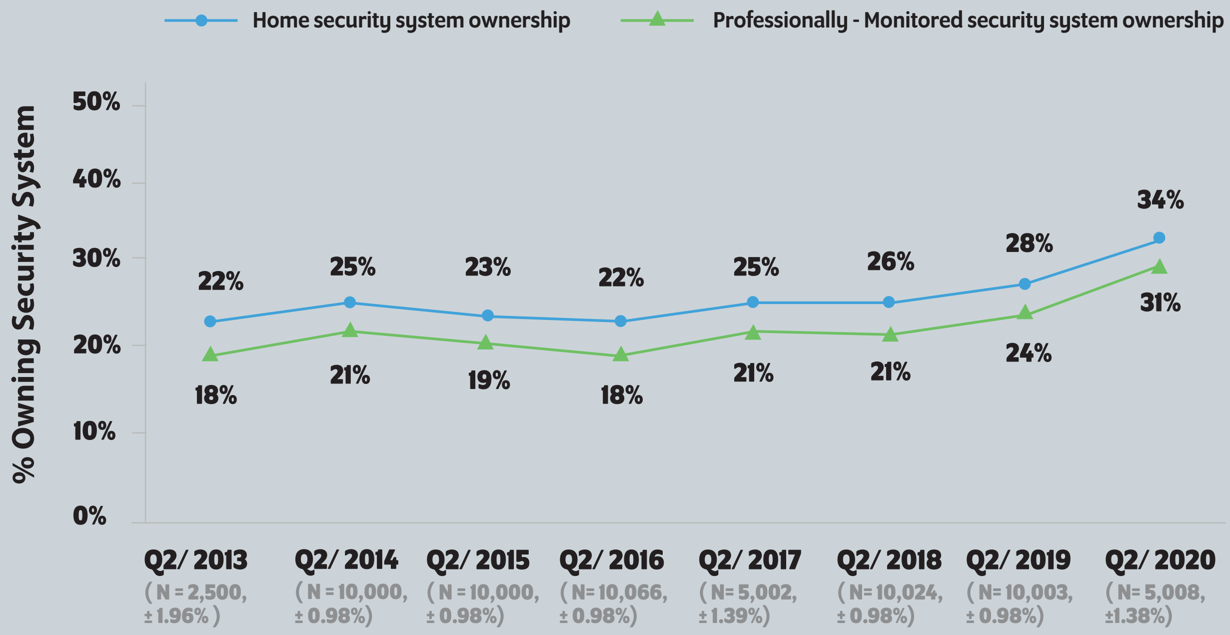
In fact, security subscribers give their monitoring providers high marks for how they have handled the pandemic situation, particularly compared to other home service provider types.

1. 76% of security system purchase intenders want interactive services.
2. Home security system ownership (34%) and professional monitored systems (31%) continues to increase, showing significant strides for the industry in the past 3 years.
3. Consumers report an 8% increased use of home security products and services at the end of March 2020, the beginning of the COVID-19 mandatory lockdown in most of the US.
4. NPS scores remain high for professional security system monitoring services.
5. 35% of broadband households report they are extremely concerned about their household's safety and security. (Q2 2020)
6. The majority of security subscribers are very satisfied with how security providers have handled the COVID crisis.

***Implication for Dealers:** While 2019 was a boom year for the security industry, dealers will need to adjust their business strategies to account for the effects of COVID-19. Switching and cancellation rates illustrate a competitive landscape, with providers poaching consumers once their contract term is over. Dealers must compete effectively through differentiation and providing excellent customer service. Keeping clients throughout the COVID-19 crisis is important. Once a client is lost, they are hard to retrieve. Given today's market and the difficulty with in-home installations, social distancing, and consumers being at home most of the day, dealers can work on retaining existing customers rather than gaining new customers. Furthermore, disposable incomes are diminishing meaning consumers will have to evaluate if they want to keep their contract after it is over due to costs. The number one reason subscribers cancel their subscription is due to high monthly fees. This points to a market ripe for DIY solutions at low costs. Convenience and cost savings are drivers for these systems. This will be even more true during the economic turbulence of COVID-19. Dealers will need to evaluate their installation strategies – initiatives such as the "do-it-with-me" movement is innovative at dealing with the barrier in in-home installation for traditional pro-installers. Though temporary for some dealers, this may further increase appeal of self-installation. By going through the process once with a professional, traditional pro-installer customers may find the confidence to install devices themselves in the future. Dealers will need to plan for the future after COVID-19 clears and evaluate how residential services will change in the long-term.*

Home Security System Ownership (2013 - 2020)

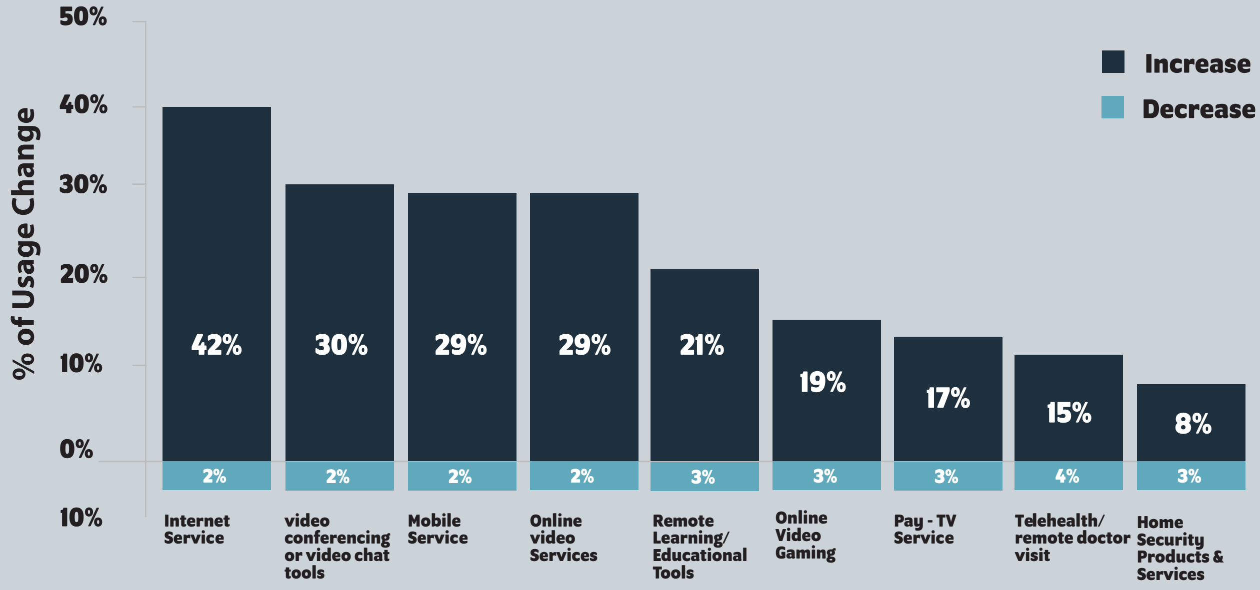
Among US BB HHs or All US HHs



"Q1045. Which of the following does your household currently use?"
Source:Multiple Surveys: American Broadband Households and Their Technologies and Core NUMBERS Global Forecasts | © 2020 Parks Associates

Impact of COVID-19 on Service Usage (Q1/20)

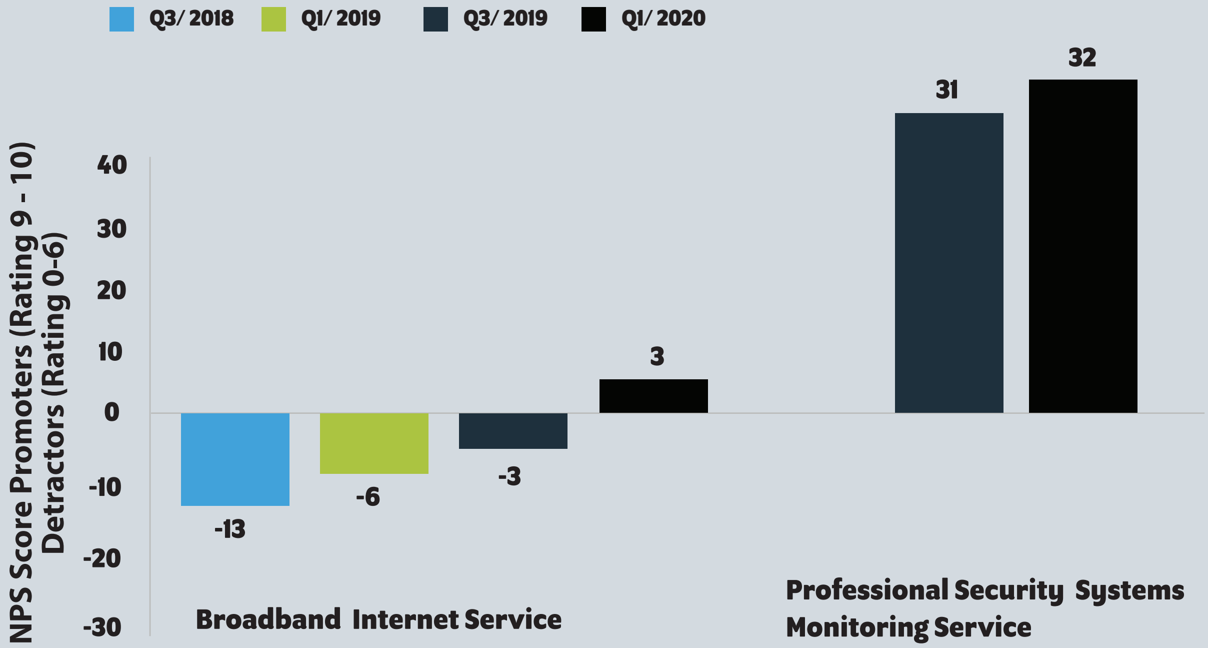
Among All US BB HHs Surveyed n=3, 123, ± 1.75%



"DT9030. How has the coronavirus/COVID-19 Pandemic impacted your use of the following products and services: "Asked of a Subgroup of US BB HHs n = 3,123 |
Source: American Broadband Househoulds and Their Technologies Q1 2020 | N=10,026, ± 0.98% | © 2020 Parks Associates

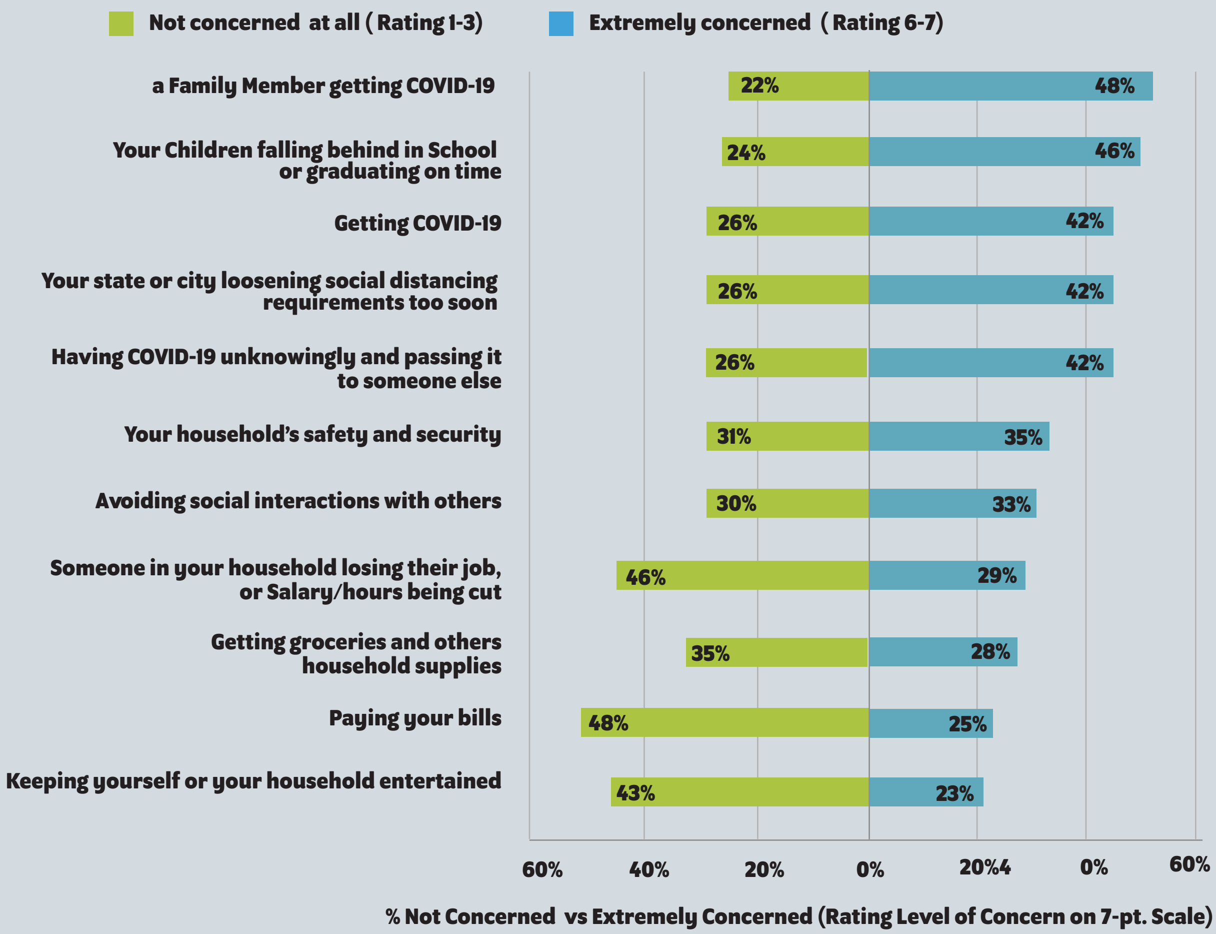
Service Provider Net Promoter Score (2018-2020)

Among US Broadband Households Having Specified Services



Consumer Concerns Due to CO VID-19 (Q2/20)

Among All US BB HHs, N = " 5,008, ±1.38%

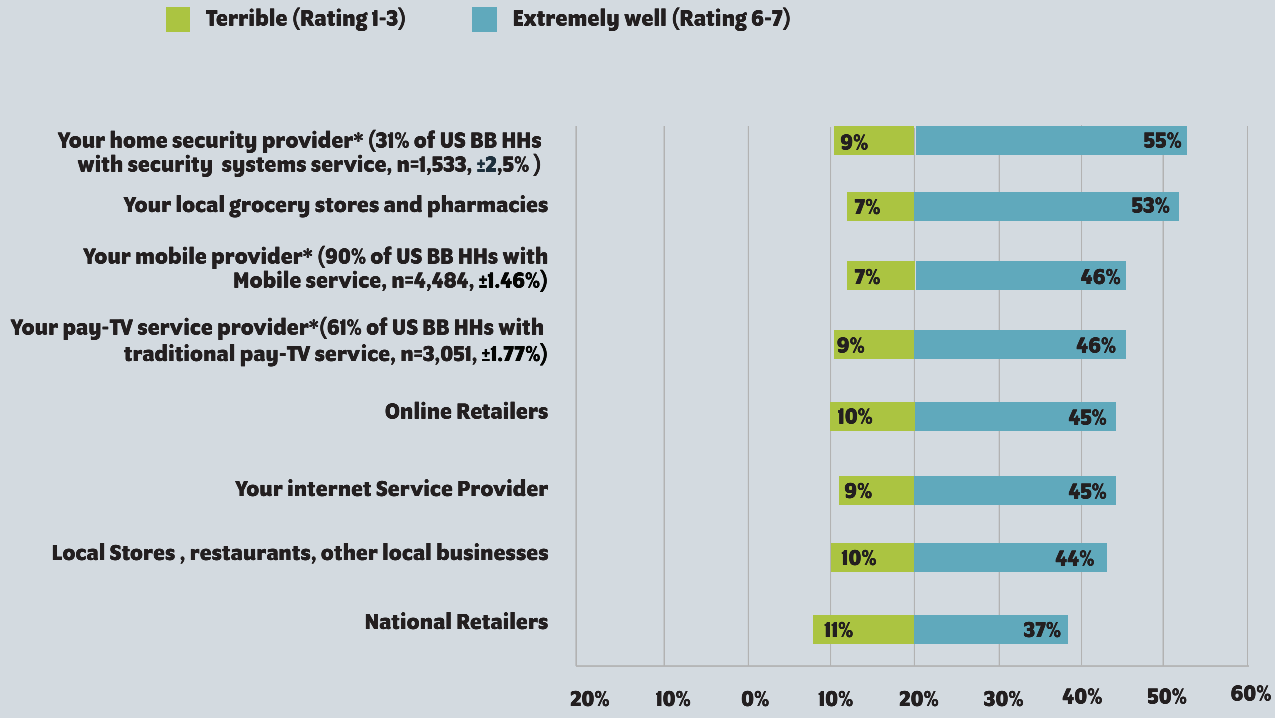


Note: Among HHs with Kids, n="1,462, ±2.56% | "CV2510. How concerned are you about the following?"

Source: American Broadband Households and Their Technologies April 2020 | N=5,008, ±1.38% | © 2020 Parks Associates

Satisfaction with Handling of the COVID-19 Crisis by Service Providers/Businesses (Q2/20)

Among ALL US BB HHs, N = 5,008, ± 1.38%



% Terrible vs. Extremely Well (Rating Level of Satisfaction on 7-pt. Scale)

Note: Among HHs in Specified Groups "CV2530. Again, how well have the following groups handled the COVID-19 crisis?" | Source: American Broadband Households and Their Technologies April 2020 | N=5,008, ± 1.38% | © 2020 Parks Associates

Consumers are very satisfied with how security providers have handled the COVID crisis.

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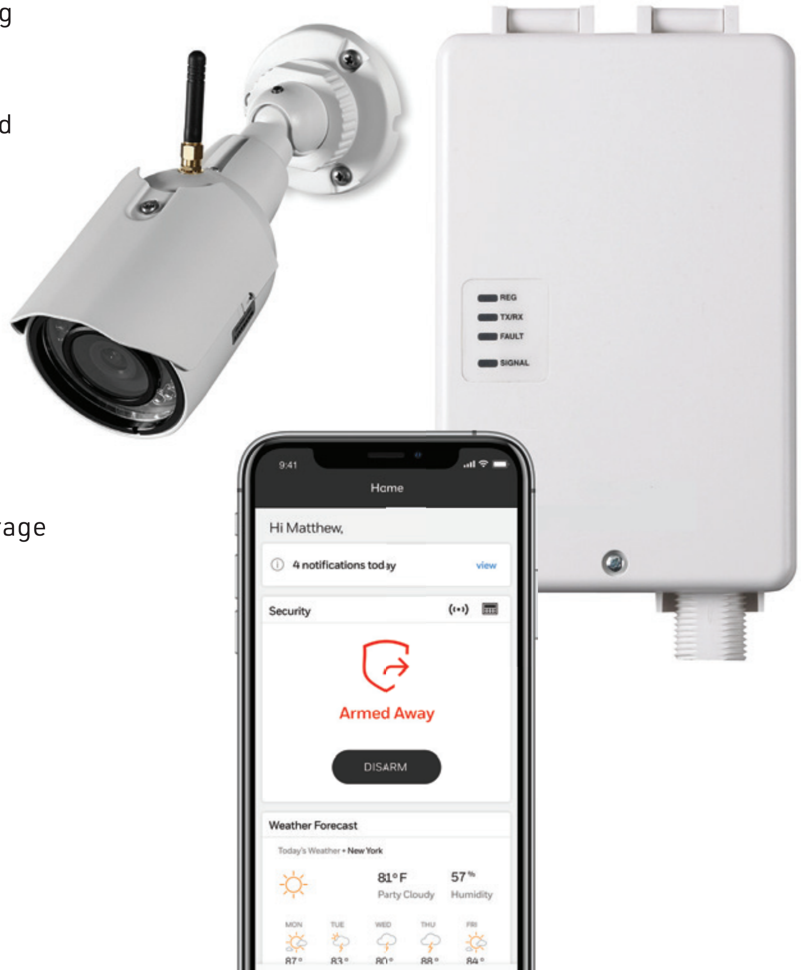
- Receive $20 for adding the Smart Security or Smart Home Package
- Receive $15 for adding 7-Day or 30-Day Video Storage

Visit resideo.com/lteupgrade to learn more about our easy to use rebate program.



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