How will the Connected Home markets develop? Are these markets now in Asia?

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As all analysts are aware, when you want to predict what might happen in the future, it is often better to first look at what has already happened in the past. As Winston Churchill once said: "Study history, study history - in history lie all the secrets of state craft"…

I was recently obliged to carry out this retrospective exercise with my reference point in history being the year 1984. For me, two events marked this year. Firstly, I remember that I reread George Orwell's "1984", enjoying the "errors of prediction" that the author had made 35 years earlier. But 1984 was also the year that I founded my company (was it really 20 years ago?…) and the year I began to analyze, on behalf of my clients, the prospects for what we then called "domotics". Today, when I reread my reports from this period, I must admit that I too made a few mistakes in my predictions and that the vision I then had of technology in the home did not turn out quite as I had imagined.

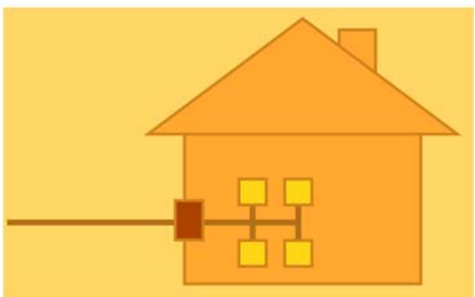
Don't misread the past

Along with many of my counterparts, was I simply too optimistic twenty years ago, simply predicting that the sector would grow more quickly than it has done? In the same way, did George Orwell describe a situation that was not the 1984 one, but may effectively soon come about in our constantly more monitored society? Are the disappointed companies of the "domotics" sector really right to be so and is their assumption that there is no urgent reason to (re)position themselves in the sector really correct?

The false predictions made for the sector are not so simple to explain and the "domotics disappointed" are wrong to be laying down their arms.

In fact, the vision of development that most players shared in the mid-eighties, and that some indeed held onto for a long while, was that of a home characterized by an access network, a single gateway and a single home network (cf. figure "Vision 1"). It was, at the time, quite legitimate to have this vision. Firstly, progress in the field of creating standards for home buses was advancing quickly and secondly, a number of service companies (working alone or in the frame of alliances) said they were ready to install such gateways in order to take advantage of the deregulation occurring in the telecoms, energy and cable markets and to offer value-added services to clients whose access they would control…

Vision 1: a unique gateway & a Home bus



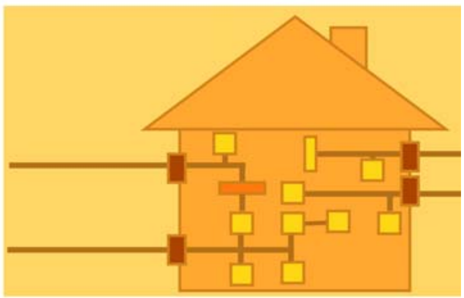
Unfortunately, the integration of products and services into the home did not happened like this after all. There are several reasons why:

- Technology has continued to develop at breathtaking speed, and has been marked by neologisms and phenomena such as "the Internet", "multimedia", "information highways", "digital", "broadband", "wireless", etc. New perspectives are appearing all the time, rendering old ideas obsolete and resulting in a permanent lack of action, with everyone sitting back and waiting for the new technology to mature.

- Business models for service integration have revealed to be far more complex and less attractive than predicted, cooling the passion of the major service providers and leading them to focus on other priorities related to the development of their markets.
- Above all, consumers have purchased a very large number of IT-related products (and subscribed to a large number of IT-related services) for their homes. Remember what appliances you had in your home 20 years ago and compare the situation today - count the number of TVs, audio systems, computers, alarms, remote controlled equipment, telephones, PDAs, energy management systems, modems, decoders, etc. At the same time, in the last few years more reliable and suitable (cheaper, wireless) communication technologies have resulted in the successful marketing of services based on home networks - shared broadband connections, distributed audio and video signals in the home, remote-controlled appliances, etc.

Indeed, for the reasons given above, the reality of the integration of products and services in the home is today better illustrated by figure “Vision 2”. Numerous gateways coexist (ADSL, cable or satellite modems, digital TV decoders, alarm transmission systems, energy utility gateways of varying levels of complexity, etc.) and alongside them various home networks are developing out of these gateways. All this leads to a complex environment, far less simple than the one shown in figure 1. It is an environment that is more difficult to penetrate and that poses problems of interoperability and interworking, but… it is the environment within which the Connected Home markets are developing today!

Vision 2: multiple gateways & networks



Don't misread current strategy

So, how should players in the Connected Home sector affront today's market?

First of all, let's keep figure 2 in mind and forget the vision of the eighties shown in figure 1. Let's also remember that the environment shown in figure 1 varies according to the customer. Not all customers are equipped in the same way or have the same needs as regards the services emanating from their gateways.

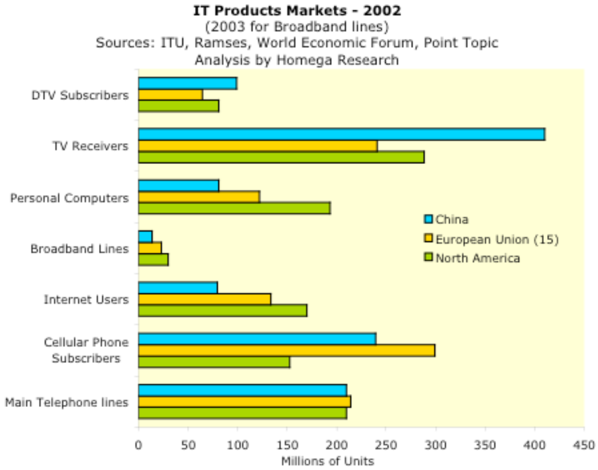
Then, given what has gone before, we cannot but recommend that they remain pragmatic, consumer (not technology!) oriented, never losing sight of the importance of the cost factor for the customer and that they aim for (extreme) simplicity of installation and use. We would then suggest they focus on one particular area of the schema, the one that most corresponds to their know-how and to a proven connectivity need: numerous pieces of quantitative and qualitative data exist to identify the “proven connectivity needs” for the various pieces of the puzzle shown in figure 2). Finally, we would advise them to choose their market segments, partners, distribution channels, etc. very carefully.

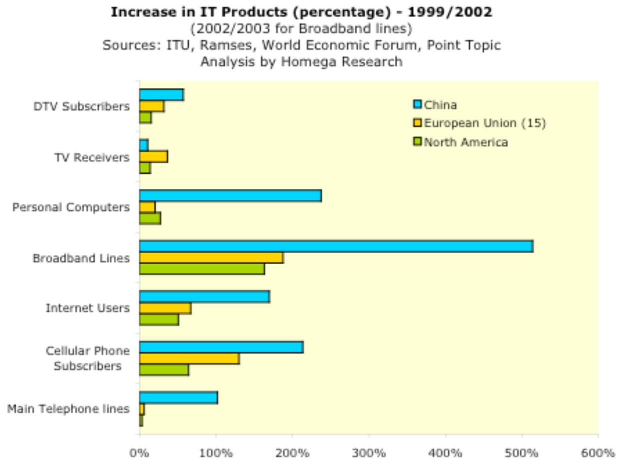
Several Connected Home market segments are starting to become substantial in different parts of the world and the "domotics disappointed" are therefore wrong not to move on from the vision shown in figure 1.

These emerging markets are now global and over the last few years several analysts, of whom I am one, have drawn the attention of European and North-American players to the fast development of Connected Home markets in Asia, even to the extent of asking the question (and it was the title of one of the sessions at the Net-atHome™2003 conference), "Is Asia the next top priority?".

On behalf of several clients, I have had the opportunity these last few months to study the Asian markets in detail and to talk with numerous market players from Japan, Korea, China, India and Singapore, etc... Last April we even organized a workshop in Beijing that brought together European and Chinese companies in the Connected Home domain.

Figures related to IT Asian markets are impressive, as can be seen in the tables below. These show indicators that can be seen as factors conditioning the development of the Connected Home markets. We have limited these to a comparison of North America, the 15 member States of the European Union (pre May 1st 2004) and China (numerous other tables could also be produced to highlight the phenomena described for other Asian countries or using other indicators, etc.).





The tables speak for themselves: not only are the volumes often quite comparable in the three regions but the growth rate is typically greater in China. Major Connected Home market segments are therefore expected to develop, in the short term, in Asia.

Is it therefore right to see Asia as the next "top priority"? We have some reservations.

Naturally, some North-American and European companies will certainly know how to tackle and take advantage of these markets, in the same way as the major companies in these countries are called on to become (not just on their domestic market but also internationally) major players in the Connected Home sector. The large Japanese and Korean companies are already household names, we will soon be equally familiar with Chinese companies such as Lenovo or Haier...

Having said that, these markets may turn out to be a red herring for numerous players who underestimate the difficulties of positioning themselves on these markets (numerous examples could already be given...). Also, the North-American and European Connected Home markets are today relatively dynamic and can provide opportunities that should be seized first and foremost.

We cannot of course ignore market globalization or the attractiveness of some Asian markets, but our advice to the players of the sector would be to head for these markets as serenely as possible…

And by 2024?

1984-2004: so many developments difficult to predict 20 years ago… What will the Connected Home look like in 2024? I'm wary of making predictions, just in case a keen CABA Quarterly collector digs out this edition in 20 years' time and laughs at my prediction errors in the same way that back in 1984 I laughed at George Orwell's (what I find comforting is that Bill Gates himself allegedly once predicted that home computing would not take off ☺). Maybe the vision in figure n°1 will have become a reality, after the current period characterized by figure n°2, and will lead to a much more harmonious development of integrated services in the home?

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