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Forecast Outlook for Residential Security and Add-On Devices

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The Report, Forecast Outlook for Residential Security and Add-On Devices, 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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FORECAST OUTLOOK FOR RESIDENTIAL SECURITY AND ADD-ON DEVICES

Security industry watchers have anxiously followed earnings calls to see how market leaders are faring as a robust start to 2020 hit COVID-19 headwinds in March. A strong 2019 resulted in 31-32% of US broadband households owning a working security system, up a substantial 5% points over 2018. Eighty-eight percent of security system owners have professional monitoring today, a slight increase over 2018. While DIY systems contribute to expansion of the sector, this expansion is not at the expense of pro-monitoring. In fact, the attachment of pro-monitoring to self-installed systems contributes to overall pro-monitoring growth.

The view from the top after Q1 earnings calls was that the residential security sector was faring well, though Q2 was anticipated to prove the most challenging of the year. At the time of writing, earnings calls for Q2 have not yet happened. Parks Associates data from a survey fielded in July 2020 indicates security system adoption dipping slightly. This could indicate some level of over-reporting in Q4 2019 or some market attrition from Q1-2 2020. The share of professional monitored households indicates a corresponding mid-year dip. Another survey at year end will provide confirmation of whether the installed base of systems and professional monitoring is flat or has declined slightly. If the market remains at the current level by year end, it will still finish higher than year-end 2018.

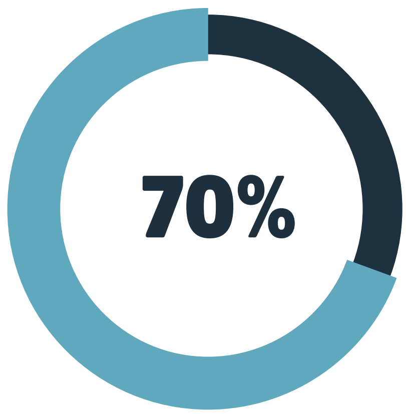
Parks Associates' forecast for the residential security industry was slightly adjusted in April 2020 in light of currently available information and trends at the time. The forecast counts the installed base of security systems at the end of 2020 at 34.06 million, increasing to 38.08 million by 2024 with a 5-year CAGR of 5%.

Professionally monitored security subscribers are expected to dip slightly in 2020 from 29.32 million at the end of 2019 to 28.64 million in 2020. While the net impact of the co-mingled effects of COVID-19 and an economic downturn are impossible to foresee at this point, the following assumptions of drivers and barriers are reasonable:

1. Consumer interest in security solutions will persist and some consumers show a heightened interest in security during the current crisis;
2. Security is considered an essential business from an operating standpoint, thus free to conduct business even with some mandated and voluntary limitations;
3. Consumers enjoy an increasing diversity of security system options and price points that provide more value at lower cost, which helps drive adoption;
4. New account generation has been challenged by COVID restrictions and likely will continue to struggle through year-end, especially in hotspot regions;
5. Reports of attrition rates were stable through April-May but could increase if more higher-salaried workers become furloughed or unemployed for a number of months, (almost half of pro-monitoring households earn 100K +);
6. Real estate activity among existing and new homes, a common purchase driver, is forecast to decline in 2020, despite the rebounding in May-June due largely to pent up demand

After a substantial jump in monitoring revenues from 2018 to 2019, revenues for 2020 are forecast to likewise dip slightly, though to a lesser degree than subscribers. Revenues are shored up by increases in average revenue per user driven by conversion of legacy customers to interactive services and upselling of smart home automation, video services, add-on devices and other adjacencies. The long-term revenue forecast sees revenue increasing to $18.10 billion in 2024 with a 5-year CAGR of 6%.

Consumer demand for devices and services that drive RMR is expected to remain strong. The share of broadband households with a security system that has pro-monitoring (~28% of US broadband households) and interactive services will rise to 70% in 2020. Among these interactive security households, 42% will subscribe to home control services. Considering all types of pro-monitored subscribers, 31% will have network security cameras with a video storage service.



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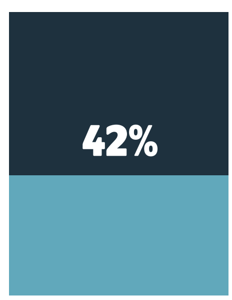

Among these interactive security households, 42% will subscribe to home control services.

Overall, 52% of all US broadband households intend to purchase some kind of smart home device in the next 12 months versus 43% in 2018. Among professionally monitored households (~28% of US broadband households), 64% own smart home devices, a much higher level than self-monitored and non-security households. Video cameras and video doorbells are the most highly adopted adjacencies for security system owners whereas video doorbells and smart door locks garner the highest purchase intentions among all households. Outdoor light fixtures with cameras represent a newer device category with a security use case that is gaining interest among consumers. Fifty-seven percent of smart home device owners and 14% of device non-owners indicate intention to purchase one in the coming year.

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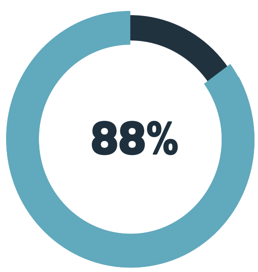

88% of security system owners have professional monitoring today.

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Implication for Dealers: *While uncertainty characterizes today and the near future, prevailing trends indicate consumer demand for professionally monitored security remains strong. Adding self-installable systems enabled by Do-It-With-Me support provides a means for dealers to address COVID limitations and provide a lower price point for green field security system buyers. Among newly installed systems in the past two years, over half were self-installed. Add-on services and devices continue to provide the best route to increased ARPU. Cameras and smart door locks lead in consumer interest, but customers with these devices are ripe for add-ons such as smart garage door controllers and smart outdoor lighting. The interactive security system with smart home support continues to account for the lion's share of home control systems in the US today. The unified smart home experience provided by these smart security-based systems may be more attractive than the security features to a segment of consumers. Dealers can lead with smart home to reach this segment.*

US Forecast - All Housing with Security System

(2018 – 2024) Total # of U.S. Households with a Security System (#M)

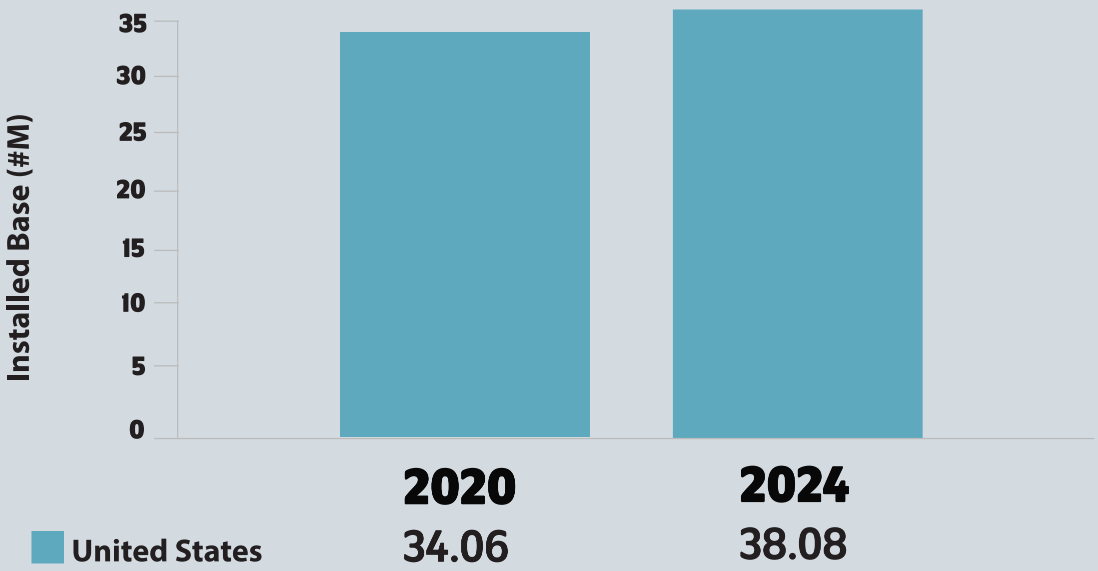


Figure 1: All Housing with Security System

Source: Parks Associates Forecast | © 2020 Parks Associates

US Forecast - Professionally Monitored Security

(2018 – 2024) Total U.S. Households with Professionally Monitored Security (#M)

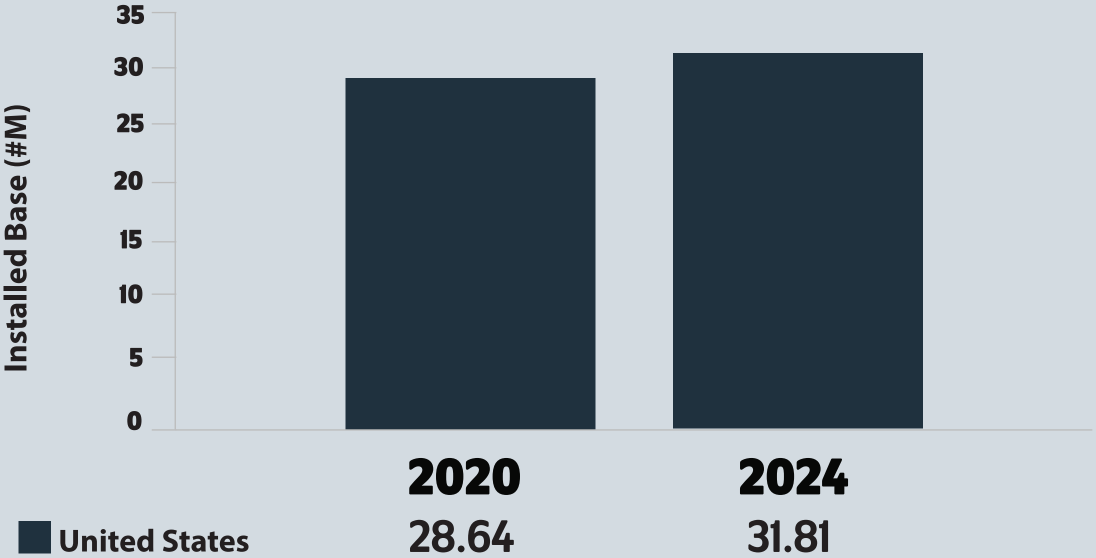


Figure 2: Professionally Monitored Security Subscribers

Source: Parks Associates Forecast | © 2020 Parks Associates

US Forecast - Professionally Monitored Security (2018 – 2024)

Total Annual Revenue for Professional Monitoring in U.S. Households ($B)

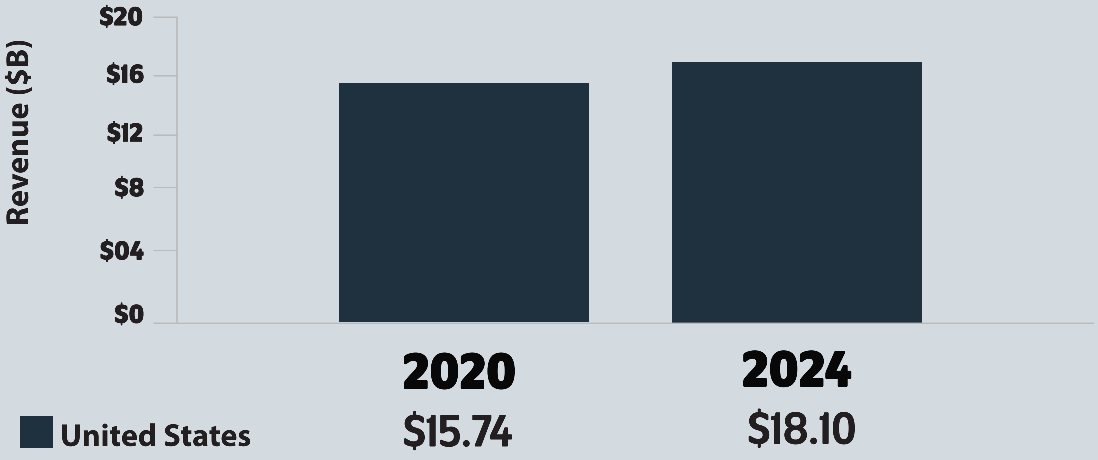
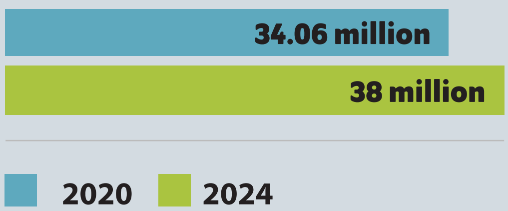
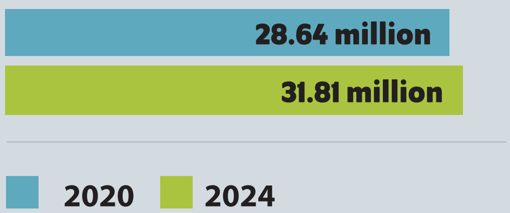


Figure 3: Professionally Monitored Security Revenue

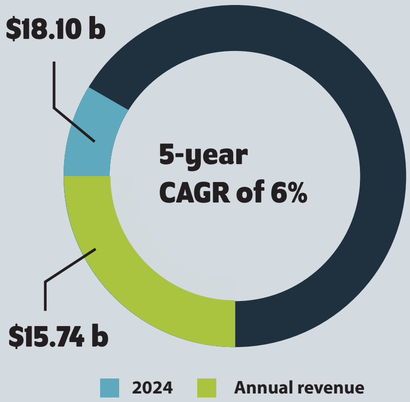
Source: Parks Associates Forecast | © 2020 Parks Associates



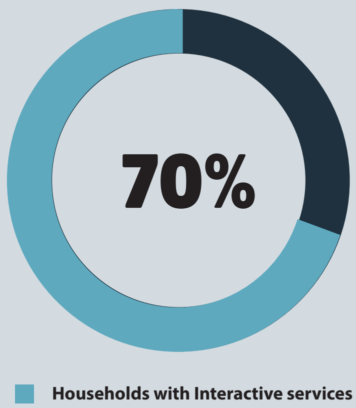
Installed base of security systems in 2020 = 34.06 million increasing to 38 million by 2024 (5-year CAGR of 5%)



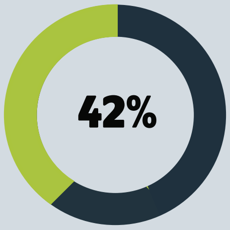
Professionally monitored security subscribers in 2020 = 28.64 million, increasing to 31.81 subscribers by 2024 (5-year CAGR of 2%).



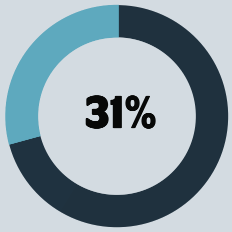
Annual professional monitoring revenue = $15.74 billion increasing to $18.10 billion by 2024 (5-year CAGR of 6%).



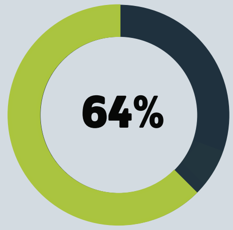
% of pro-monitored security households with interactive services in 2020 = 70%



% professional monitored security systems with interactive services and home control in 2020 = 42%.

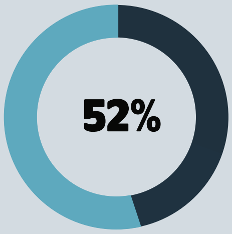


% pro-monitored security households with network security cameras with video storage service in 2020 = 31%.

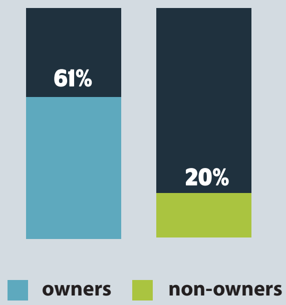


64% of professionally monitored households own one or more smart home devices compared to self-monitored households and non-security households.

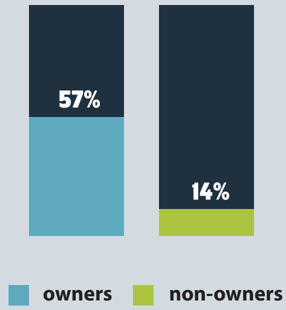
Source: Parks Associates Forecast | © 2020 Parks Associates



52% of all US broad-band households intend to purchase some kind of smart home device in the next 12 months.



Video doorbells garner the highest purchase intentions of all smart home devices, with 61% of smart home device owners and 20% of non-owners intending to purchase a device in the next year.



57% of smart home device owners and 14% of device non-owners indicate intention to purchase a smart outdoor light fixture with camera in the coming year.

Source: Parks Associates Forecast | © 2020 Parks Associates

Attribution:

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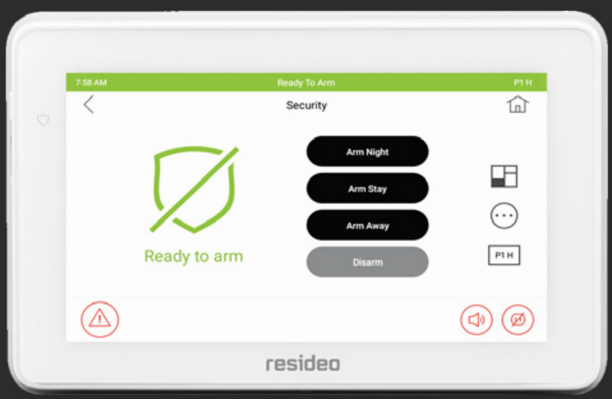

Tuxedo Touch® Security and Smart Controller

The Tuxedo Touch® Controller brilliantly transforms new and existing VISTA® installations into smart homes and smart businesses – perfectly blending intuitive security system control and powerful automation together. Supporting control of up to 232 Z-Wave® devices, it can create automated scenes activated by time, day, action or conditions. The Tuxedo Touch Controller makes new and existing systems smarter, but it's also smart for you – helping increase system add-on revenue, reducing attrition and driving additional RMR.

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