Be an Early Adopter

Why Smart Home Technology Needs a Place in Your Store

By Jesse Carleton,
jcarleton@nrha.org

Meet David and Liz. They just purchased a new home. They also just purchased a new smart thermostat for that home, which means they can control their home's temperature from their smartphones. Now, they're considering the purchase of a smart smoke/carbon monoxide detector that's compatible with their thermostat to make sure their new home is safe for their family.

Maybe you don't know David and Liz personally, but you likely have a lot of customers just like them. More homeowners of all ages are opening their wallets for smart home devices. They are looking for the security, energy savings and overall life enhancements these items offer. It's undeniable smart homes are entering the mainstream.

So what are you doing about it? While David and Liz are happy with their new smart thermostat, the sad part of the story is that when they shopped at their favorite local independent home improvement store, they couldn't find the product they wanted on the shelf. They had to make their final purchase from a big-box retailer.

Smart home products are here to stay. By becoming an early adopter of these items and getting them into your store, you have the opportunity to cash in on their large sales potential and get repeat customers. In case the category is still a mystery to you, we'll explain consumers' current attitudes toward these products; help you understand the basic products that make up a smart home; and then give you the information you need to start selling them.

What Is a Smart Home?

Before exploring the products in this category and how you can sell them, there's a whole new set of product knowledge to learn. By general definition, a smart home is a home that has multiple electronic devices, such as a thermostat, security system or an appliance, all controlled remotely by a computer or device, such as a smartphone or tablet. But these aren't just souped-up remote-controlled devices. They are "smart" because they can learn your habits and connect to information from outside sources to make important decisions about controlling some of the functions of your home.

It's also important to understand how devices can work together. Similar to the way your smartphone or laptop operates, most smart home devices operate on either an iOS or Android operating system, or both. You can look on the packaging of many of those devices to identify which operating systems they are compatible with. Products from different manufacturers may be compatible with similar operating systems.

Ideally, these devices are connected with each other in what is known as an "ecosystem." In an ecosystem, all of the devices are compatible with the same operating system, can be controlled from a single device, and share information with each other. They are all connected by a network, such as through Bluetooth, Wi-Fi or special wiring in the home. They also can connect to information outside of the home, such as weather forecasts, to help your devices make decisions.
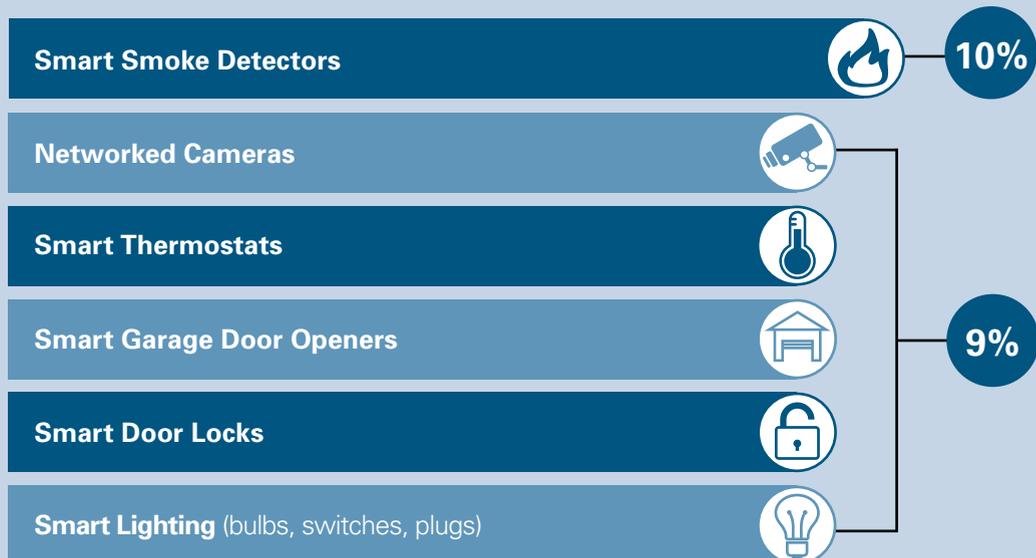
Each smart device often has its own app that allows you to control that device, but a better solution is having a way to control all of those devices with a single app. One great example is Apple's HomeKit. HomeKit allows you to control multiple devices from a single app, as long as they are all compatible with the iOS operating system.

When the devices work together, they share information and may even cause each other to perform tasks. For example, another well-known ecosystem is Nest. First known for its smart thermostat, Nest now includes multiple items that work together. For example, let's assume your home has a smart smoke/carbon monoxide detector, a smart thermostat and smart lighting. If the detector senses an unsafe level of carbon monoxide in the home, it sends a signal to the thermostat to shut off the gas furnace. In addition to sounding an alarm, the smoke/carbon monoxide detector also sends a signal to the smart lighting wired into the system to flash on and off to get your attention and let you know something is wrong. It will also send an alert to your smartphone or other device so you are aware of what is happening at home if you are away.

Smart Home Device Ownership

U.S. Smart Home Device Market Still has Room to Grow

Recent research shows what percentage of U.S. households with broadband Internet service own a smart home device. The market for these items is still new, posing an opportunity for retailers.

Smart Smoke Detectors	10%
Networked Cameras	
Smart Thermostats	
Smart Garage Door Openers	9%
Smart Door Locks	
Smart Lighting (bulbs, switches, plugs)	

Source: Parks Associates

Current Consumer Attitudes

Just a few years ago, smart home devices may have been the stuff of futuristic movies. Today, however, manufacturers are making smart devices for nearly every area of the home. Sales of smart home devices will continue to grow to reach 9.5 million units sold in 2016, a 29-percent increase over the previous year, according to data released by the Consumer Technology Association (CTA). The good news for independent home improvement retailers is that the market still has a lot of room to grow.

A recent study by Coldwell Banker Real Estate surveyed U.S. adults and found that nearly half of them either own smart home technology or plan to invest in it in 2016. Those interested in purchasing the technology were not doing it just because they wanted to be on the cutting edge, either. In fact, more than one in three of the survey respondents said they didn't consider themselves to be early adopters of technology. This is another indication smart home technology is gaining broader acceptance among consumers.

In addition, consumers who want these devices are very likely to purchase them from a national or local retailer, compared to other retailers, like online retailers, according to a study by Parks Associates, a market research and consulting company specializing in consumer technology. Once they've purchased one smart home device, they are highly likely to purchase another one soon thereafter.

Big-box and discount retailers have already caught on. Walk into any Home Depot, Lowe's or Menards, and you're sure to see several feet of shelf space dedicated to the category. This past year, Target introduced its Open House, a 3,500-square-foot concept home designed as a showcase for how devices in a home can connect to each other.

Consumers who purchase a device at one of these retailers are likely to return for subsequent purchases. Stores that are early adopters are the ones that will earn the repeat business of customers for smart home products, as well as other home improvement items.

Ian Williams, department head of hardware and customer relations for Fresno Ag Hardware in Fresno, California, has been selling smart home devices for about three years. He says now is the time for independent retailers to adopt this technology. "This is just the beginning of the smart home age," he says. "As it catches on with more people, it will grow. Once it gets past the early adopter stage and to the majority stage, you want to already be established as the retailer with these products as the category takes off."

A Closer Look

Recent surveys show consumers are warming up to smart home technology, and there's a big opportunity for home improvement retailers.

45% of all Americans either own or plan to invest in smart home technology in 2016.

70% of those with smart home technology said buying their first smart home product made them more likely to buy another one.

30% of consumers look to a national or local retailer to purchase smart home products, rather than an online retailer or other source.

Those who own smart home technology are...

Millennials	**43%**
Between 35-54	**33%**
55 or older	**24%**

Sources: 2016 Smart Home Marketplace Survey, Coldwell Banker Real Estate; Smart Home Ecosystem: IoT and Consumers, 2014 Study by Parks Associates and the Consumer Electronics Association

What's in a Smart Home?

Smart home products cover a variety of categories, including lighting, safety, entertainment, appliances, security and heating and cooling. Here are some of the more common items on the market today and some of their distinguishing features.

Lighting Systems

Window Coverings

Door Bells

Door Locks

Sprinkler Systems
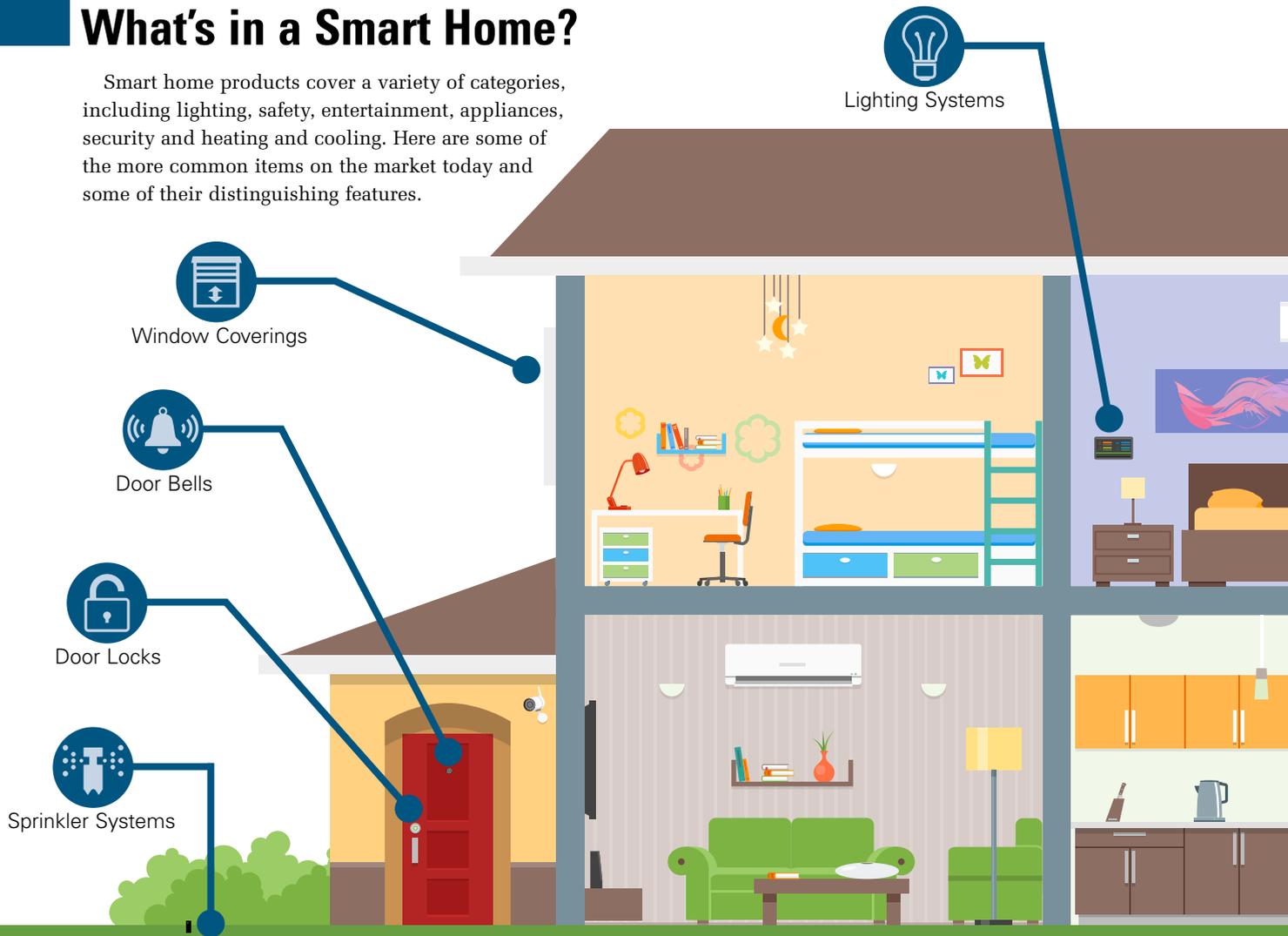
Window Coverings
Automated window coverings allow you to set when you would like your blinds to open and close, then adjust that schedule as the seasons and sunrise/sunset schedules shift. You can also control them remotely.

Door Bells
These door bells alert your smartphone when a visitor rings. Via a built-in camera, the bell allows you to see who's at the front door and talk with them via a smartphone, even if you're not home.

Door Locks
Manage the exterior lock to your home with a smartphone. These locks have keyless entry or a keypad. Besides making it easier to open your door, the locks enhance security because they can track who comes in and out of your house, since each user has a customized code. You can also unlock the door from a remote location if you need to let someone in when you're not home.

Sprinkler Systems
These solve the problem of lawn sprinkler systems that turn on during a rainstorm, wasting water. They adjust your watering schedule according to the weather forecast. You can also program them to customize a watering schedule based on zones in the yard, sun exposure, soil and plant types. If there are watering restrictions in your area, they adjust your watering schedule accordingly.

Lighting Systems
Using your smartphone to control the LED lighting in your home, you can dim, brighten, change the color or even synchronize the lights to music. No need for timers; you can set the schedule for your home's lighting from your smartphone or device. Some lighting systems change their brightness based on the time of day or whether or not the room is occupied.
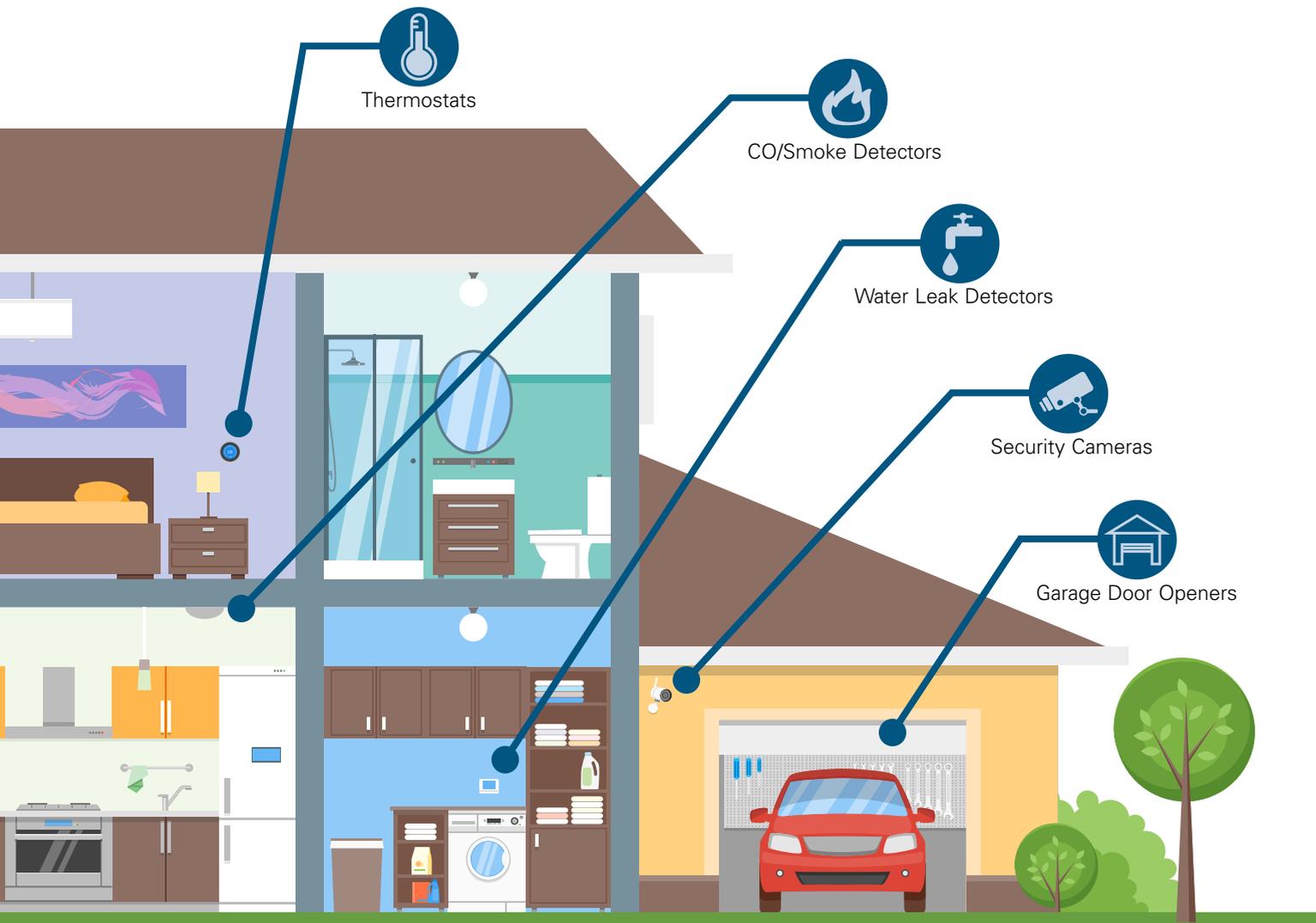
Thermostats

CO/Smoke Detectors

Water Leak Detectors

Security Cameras

Garage Door Openers

Thermostats
These products allow you to adjust the thermostat remotely from a smartphone or other device, but they can also use a combination of sensors and algorithms to learn your schedule and adjust the temperature throughout the day accordingly. The big benefit is helping you save energy. They give you a complete energy usage report so you can see how much money you are saving.

CO/Smoke Detectors
Built for safety and peace of mind, these detect smoke and carbon monoxide, and some even monitor air quality. They minimize false alarms and send an alert to your smartphone or other device when there is an emergency. Some can work with other systems in your home, such as the thermostat, to turn off the furnace if there's a gas leak.

Water Leak Detectors
These detect water leaks early and some even report elevated levels of moisture and temperature, which could also damage homes. The detector sends an alert to your phone and can often be integrated with other home security systems.

Security Cameras
Wi-Fi security cameras allow you to see what's going on inside or outside the home from a computer, tablet or smartphone. The camera sends you an alert when it senses something suspicious. Some have built-in microphones so you can send a message through the camera via a phone.

Garage Door Openers
Using your smartphone, you can control and check the open/close status of your garage door, from anywhere. It is typically an add-on to an existing garage door opener.

How to Sell It

Selling smart home devices requires many of the same skills required to sell any category in the store—good merchandising and product knowledge. But it's important to know some of the specific needs customers have in this category.

Show, Don't Just Tell

There's an easy answer to why most consumers these days buy smart home devices from brick-and-mortar retailers: They want to see them and ask sales staff a lot of questions. This is another reason independent home improvement retailers have the opportunity to outsell big-box retailers in this category. Your store can have the experts shoppers want.

> "It's also important that employees understand not only how the individual product works, but also how that product interconnects with other products in the system."
>
> —*Ian Williams, Fresno Ag Hardware*

The more customers interact with a product, and the more they hear about the experiences of others who have tried the product themselves, the more likely they are to purchase it. That's the driving principle behind Target's Open House concept. By showing smart home products in the context of real-life situations, the company hopes to demystify the connected home and inspire consumers to buy. You can carry this concept into your own store by using working displays to show how smart home products work. If, for example, you're selling smart locks, let your employees install the app that controls the lock on their smartphones so they can show customers how the lock operates.

In addition, the idea of installing a high-tech device in the home may not seem like an easy DIY project to some. However, most products are easy to install. Make sure this is a part of the sales conversation, even if a customer doesn't directly express hesitation about the installation process.

Try it Before You Sell it

Williams has several smart home products in his home, many of which are now in Fresno Ag Hardware. He also encourages employees to try

One of the most-sold smart home devices at **Fresno Ag Hardware** is a doorbell, and a manufacturer video helps explain the different ways it can be used.

the devices on their own. Giving a customer a personal referral about a product he has used in his own home carries a lot of weight, he says. Especially as this technology is still new, consumers still feel a bit skeptical about smart home technology. They might have questions such as, "What is the life span of the product?" or "If technology is advancing so quickly, won't this item soon be irrelevant?" Those are the types of questions you will need to answer. Firsthand experience and an enthusiastic recommendation will go a long way toward alleviating shoppers' concerns. You can also use social media to tell customers about products you've installed in your own home and how they are working.

Focus on a Single Ecosystem

Similar to stocking the complete line from a popular brand elsewhere in the store, it's best to sell smart products from the same ecosystem, or same family of products. While all products don't need to be from the same manufacturer, it's helpful if they are compatible with the same operating system.

"We do sell a few standalone products," says Williams, "but we try to keep our selection of smart home items small, so everything you buy here connects to the same system. It's also important that employees understand not only how the individual product works, but also how that product interconnects with other products in the system. Be prepared to answer questions like, "Will this item work with my iPhone?"

Finally, rather than merchandising products in their respective departments throughout the store (such as putting the locks with builders' hardware and the smoke detectors in heating and cooling), it's better to group smart home products together in a single display. This will help customers understand how that ecosystem functions and create more of a statement to shoppers that you are indeed a destination for these products.

Communicate Benefits vs. Price

Price may be one of the biggest objections shoppers have to purchasing

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>
> *—Chris Ely, Consumer Technology Association*

smart home products. The retail price for a smart smoke and carbon monoxide detector might be $99 and a smart thermostat might be $250.

"This is still a nascent category, so the average consumer doesn't automatically understand the benefits of paying a higher price," says Chris Ely, senior manager of industry analysis at the Consumer Technology Association (CTA). "It's more than just having a display; you must have a retail staff that can answer questions, and that communication takes a bit of time." It should be no surprise that purchasing a smart home device is not an impulse purchase for most consumers. The Parks study revealed that more than 60 percent of current smart device or system owners spent more than a day shopping for them. Be prepared to spend some time up front explaining these products to shoppers. Then once shoppers understand how the device or ecosystem works, they are likely to need less time for subsequent purchases.

Look for Opportunities With Builders

More sophisticated smart homes require structured wiring, or specialized wiring and cables to support a whole-house network of home automation. This is one category you can offer to builders looking to install structured wiring in new construction. "This is a great opportunity for retailers to create partnerships with architects, builders and handymen," says Ely. "If you help them in the design phase, they will in turn send their customer, the end-user, to your store to purchase the devices."

Focus on Safety, Then Savings

Consumers who buy smart home products have several motives, all practical, but safety tops the list. "Security use has been the driver behind smart home adoption," says Brad Russell, research analyst with Parks Associates. "You can think of a hierarchy of use cases leading with security, followed by safety, peace of mind, energy savings and life enhancement." He says manufacturers who offer devices with multiple uses in addition to safety will get the most traction with consumers.

But many products offer significant energy savings by monitoring energy usage and controlling systems in the home, such as the heating and cooling system or the watering system. While there are currently no federal rebates for smart home devices, you should search for any rebates state or local governments or energy companies may offer for energy-efficient purchases. Communicate these to customers as you help overcome any price objections they may have to the purchase.

Experiment With Your Product Mix

A doorbell with a built-in security camera is one of the best-selling smart home devices at Fresno Ag, says Williams. In the three years he's been selling smart home products, the selection has grown to include a keyless entry system, a thermostat, a CO and smoke detector, a security camera and some light bulbs. Not every product he tries is a hit—there's a bit of trial and error as it is with any category. He sources from his co-op's market, the National Hardware Show® and customer requests. "Our product mix is a 50/50 split between items we thought we'd like to sell and products our customers asked for directly," he says. He's learned to try a product even if he's not convinced it will sell. "We brought in a Roomba (robot vacuum cleaner) and I was skeptical at first, but then I bought one for my home and I love it. Most importantly, don't be afraid to take a chance on a product to see if it will sell."

Compete on Knowledge, Not Price

A big-box electronics' store is Williams' closest competitor in the smart home category, and competition isn't on price. "Most of these products are not price sensitive because they use MAP (minimum advertised price) pricing set by the manufacturer. Everyone is selling the product for the same price," he says. "We have to promote our customer service and the fact that we are a local business putting money back into the community." ◄

Rather than scattering smart home products throughout the store, it's best to group them together in a single display and offer them as a single category.