Europe's smart home dynamics 2023 & how to win the next wave of consumers in 2024

Overview of the smart home market today

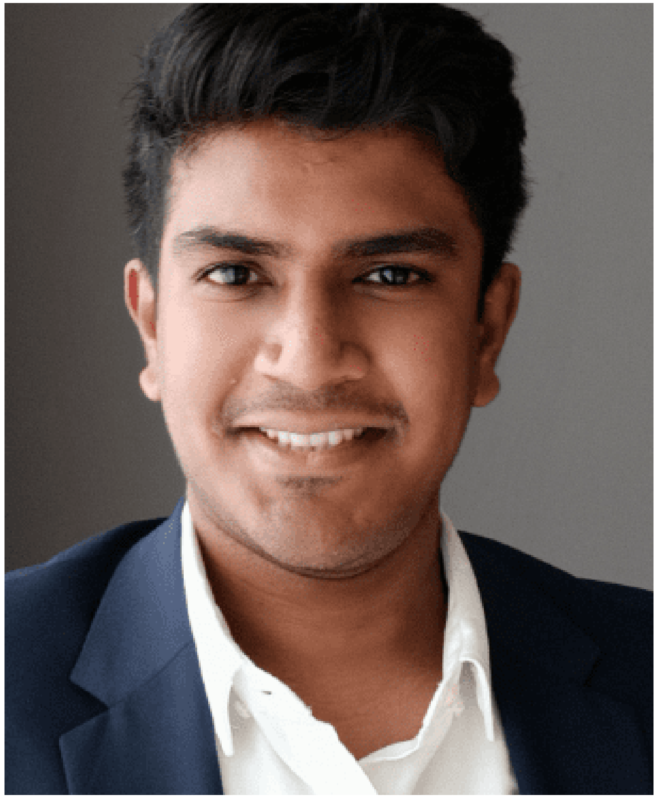
A word from the author:

The world is going through a reset. Consumer behavior and market dynamics have not "normalized"; they have evolved and changed.

Amidst this change, smart home technology is slowly but surely going mainstream as a consumer choice. Yet, even as awareness goes up and price barriers start to come down, there remains a set of consumers who are reticent.

Join me as I look at how can brands and retailers win over these sceptics, who make up a large chunk of the potential consumer base, and get smart products really pushing into the mass market.

[Next page: analysis of sales trends across EU7]

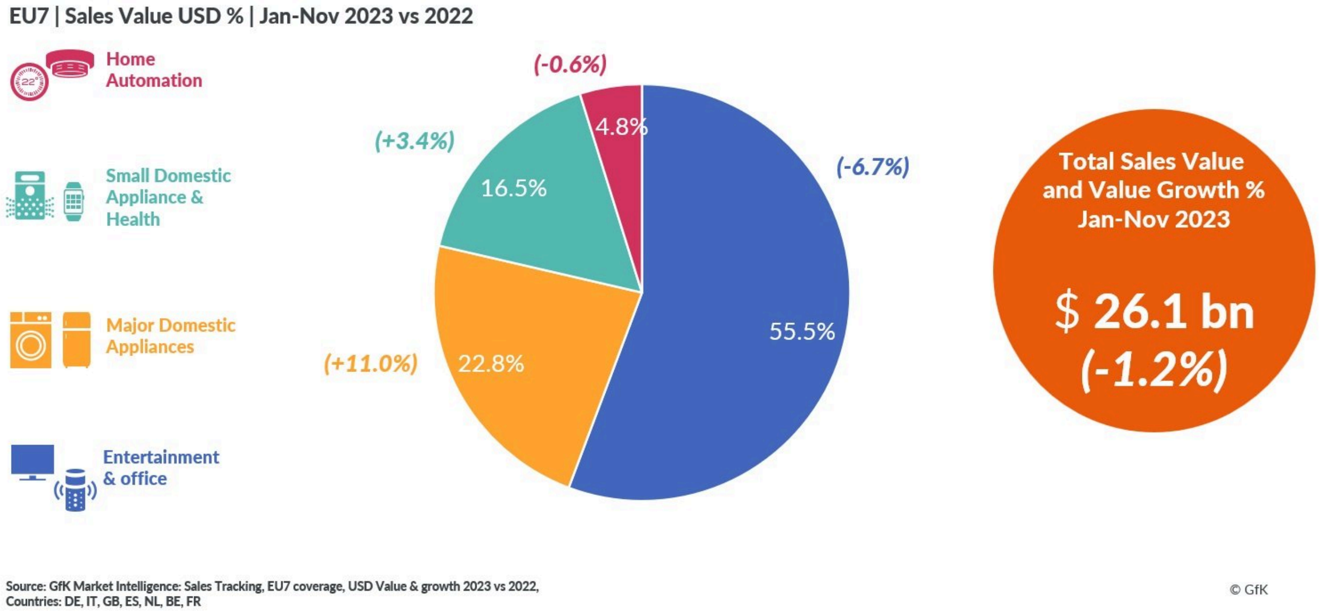


Nevin Francis, Global Strategic Insights, GfK NIQ

Smart Home adoption has faced deceleration last year - but it's in-line with the overall T&D market

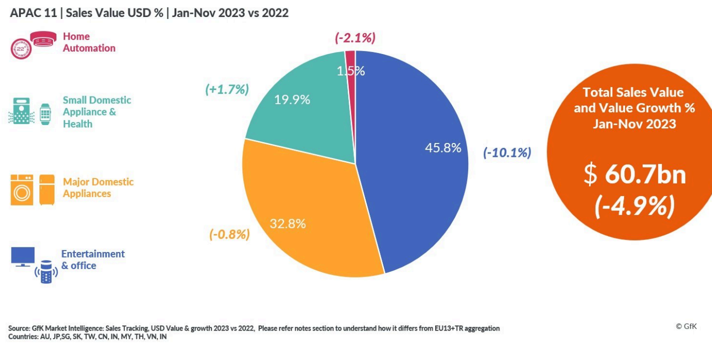
During 2023, smart home products felt the same deceleration in demand that has impacted the consumer tech & durables (T&D) market at large, with high inflation further diminishing a consumer appetite that was already falling from its pandemic peak.

However smart features and connectivity features are still one of the best levers for product premiumization, if the product has the right use cases.



Between January and November last year, sales of smart products brought in $26.1 billion across 7 major European markets (Belgium, France, Germany, Great Britain, Italy, Netherlands, Spain), down 1.2% on the same period 2022. The stand-out sectors were domestic appliances, with MDA and SDA showing positive growth.

By comparison, major Asian-Pacific markets (China, India, Australia, Japan, Singapore, South Korea, Taiwan, Malaysia, Thailand, Vietnam and Indonesia), brought in $60.7 billion, which was -4.9% down on 2022. Here, only small domestic appliance managed positive growth, and that was limited at +1.7%,



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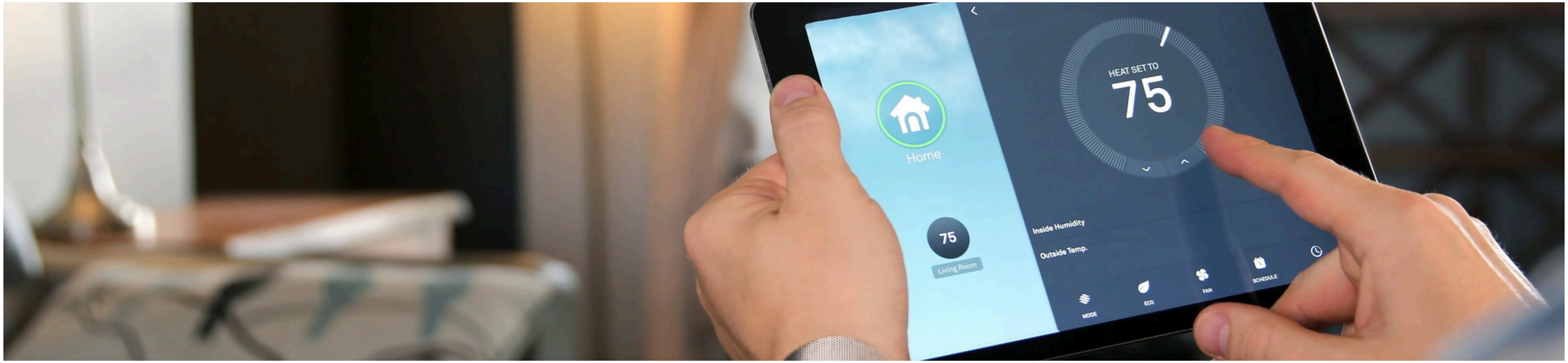


Price factors

Last year saw a continuation of the drop in prices of smart products in major European markets, due to ongoing cost-of-living pressures and demand decline.

Another factor that's contributed is the increased commoditization of smart products within each category. This has led to the price for innovations in smart functionality also reducing.

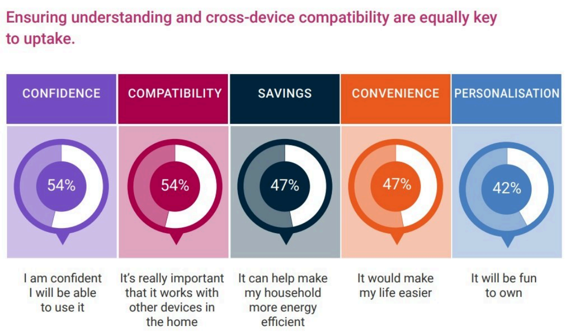
Despite this muted performance, T&D revenue overall is still higher last year than 2019 levels and smart features remain one of the best levers for premiumization if the product has a compelling use case.

With the world economy showing signs of a rocky recovery, we expect to see consumer appetite pick up this year, especially as smart home products play into the three themes that have driven consumer purchase decisions in recent years: performance, simplification/ convenience and premiumization.

However, barriers to broad-based adoption remain, and will need to be overcome if smart products are to appeal to the mass market.

Who’s buying & why?

Who's buying? (UK market)



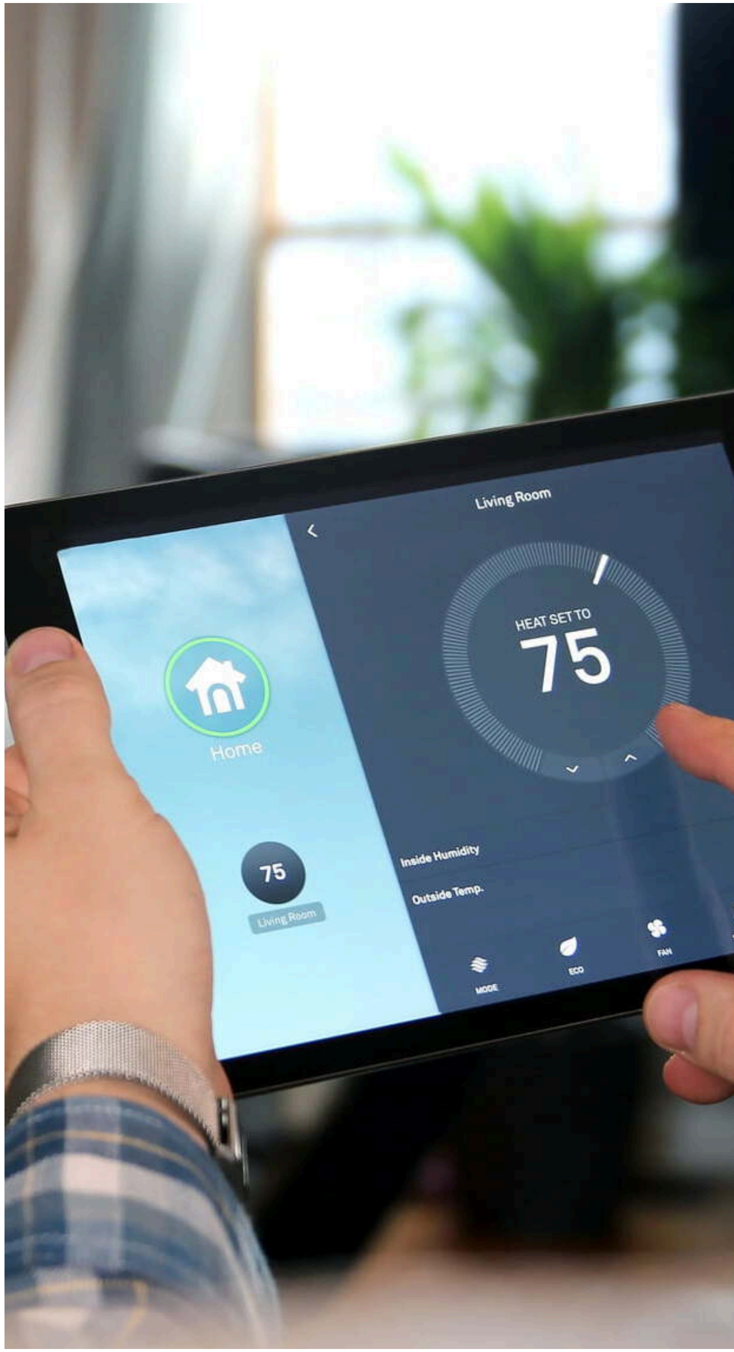
GfK study for techUK: Connected Home Report 2023

The UK is one of the leading markets for take up of smart home devices. Currently, 4 in 5 UK consumers own at least one smart home product, and a third own more than 3 – rising to more than 40% of under 35s

Added to this, **25% of UK consumers expect to spend more than last year on smart devices.** Only 18% expect to spend less.

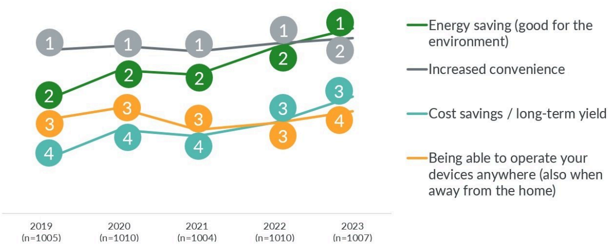
The key factors that British consumers consider when purchasing connected home devices have remained relatively consistent over time. However, they are placing increasing levels of importance on the interoperability of their prospective purchase.

In particular, a device's ability to connect to their smartphone remains the clear priority in the UK, with **80% of people saying that this is essential or quite important** when considering a new smart product purchase. The ability to connect to other devices (such as tablets or smart speakers) to control their connected home products is considered much less important for most consumers.



Who's buying? (Dutch market)

Ranking of main benefits of smart home tech. Netherlands



GfK Smart Home Study Netherlands 2023

In the Netherlands, **45% of consumers now say they are interested or very interested in smart home products**. This equates to 4.9 million shoppers, continuing a steady upwards trend in numbers seen in the last few years. View our Smart Home Monitor 2023 - Netherlands data

The most important benefits of smart home products for Dutch consumers has seen some reshuffling in the last year. While the **top 4 most important benefits** remain the same, the order in which they are placed by shoppers has altered, with energy saving seen in an environmental light taking the top place over convenience, and ‘cost saving' moving ahead of being able to operate or control one's home when out and about.

These trends on what Dutch consumers mostly want from smart products was mirrored when we asked them whether there were any smart features that they would like to have and felt were currently missing. The main answers related to wanting more assistance with household chores, more assistance when leaving the house/not at home, and more energy saving.

An NIQ Company

What’s holding shoppers back?

The three top barriers to smart home adoption are the same as we reported last year, but consumers' objections are slowly fading.

Price

Price remains the number one barrier to smart home adoption. This is true in 22 out of a global core of 25 countries, even for affluent consumers, with 43% of global consumers saying it's their main obstacle.

However, this is down three percentage points since 2020, reflecting the value depreciation of innovation that occurs over time as well as the recent drop in prices due to demand deceleration in the TCG market.

More than half of global consumers say they are not willing to pay more for a smart home product than its standard version. However, over 44% of consumers are prepared to pay a premium for a helpful product, and this has increased over time.

Privacy

In 2020, over 50% of global consumers were concerned that smart home products would jeopardize their privacy, and 63% feared their personal information could be used fraudulently.

These fears are waning, but still present. Now, 31% are concerned about the privacy implications of a smart home, and around 25% have safety concerns.

For voice assistant speakers, however, privacy remains the top concern, following media reports of home security cameras being hacked, and smart speakers eavesdropping on conversations.

Brands must focus messaging around their privacy measures, as awareness and trust around privacy measures can go a long way to win over the sceptics.

Apathy

For a good number of consumers, the case for smart home products is still not compelling.

Apathy is a particular issue in Developed Asia, North America and Western Europe—even in the UK 42% of consumers say they don't know enough about smart home technology to buy it. In these economies, consumers are often more sceptical about tech than in emerging markets where populations tend to be younger and more experimental with tech innovations.

Lack of appeal is also notable for specific products. For example, 32% of global consumers don't see the point in smart blinds and shades.

Winning the next wave of consumers in 2024

To move beyond confident early adopters, cracking the mass market is imperative. Smart home products must focus on these 4 requirements of smart shoppers worldwide in 2023.

1. Useful and convenient

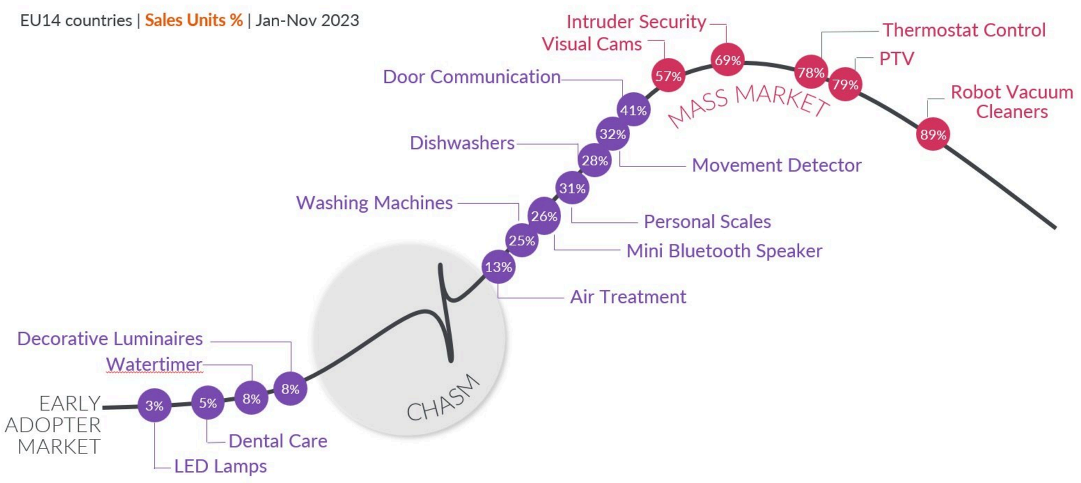
Smart home products must show a practical use case. This is crucial to earning mass market adoption, and **41% of consumers are prepared to pay a premium for products that make their lives easier.**

The prime example of this is smart robot vacuum cleaners which have cracked the mass market even though they cost close to four times the price of standard versions (smart robot vacuums averaged $397 selling price in Jan-Nov 2023, compared to $149 for non-smart ones). The use case for smart robot vacuums has become so strong that nearly 89% of the volume assortment is now smart.

Likewise smart panel TVs, thermostat controls, intruder security and visual cams are now mass-market items while consumers are increasingly seeing the benefits of smart door communications, movement detectors and dishwashers.

Of course, a raft of convenient functions doesn’t help if consumers don’t know about them. So, brands need to promote these use cases within their device advertisement, as well as touchpoints such as newsletters, tech magazines, vlogs/blogs, influencers or streaming channels.

Remember that geopolitical events and trends can strengthen or weaken use cases. For example, we saw a 10% spike in smart security categories after the outbreak of war in Ukraine and a big uptick in smart thermostat purchases when energy prices rose.



Source: GfK Market Intelligence: Sales Tracking, Period : Jan-Nov 2023 Smart Connect is based on App and Voice control and only includes diagnostics for MDA categories. Countries :EU14

Click to zoom

2. Compatible and integrated

The prospect of compatibility problems is a major turn-off for consumers, with 18% worried that technology across different systems may not be able to communicate with each other.

Brands need to make it as simple as possible for users to set up multiple devices and bounce back quicky from any update errors or connectivity disruptions. Headway is already being made via the communication protocol Matter, which leverages existing technology such as Thread, Wi-Fi, Bluetooth and ethernet to allow smart devices from different brands to communicate together.

Big brands have pledged support for the new standard, which should break down one of the most challenging barriers to mass smart home adoption. However the adoption has been quite slow since the declaration.

Smartphone connectivity is a clear priority for consumers, with three-quarters of users in the UK saying this is important.

3. Secure and trustworthy

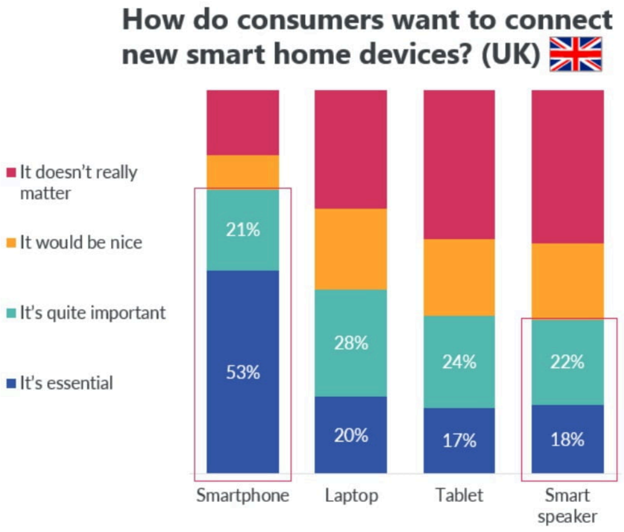
Although privacy concerns have reduced in the last three years, the T&D industry clearly has some way to go to build trust in connected home devices. To reassure consumers, it is vital to clearly communicate the safety and data protection features of your products.

In June 2023, the privacy watchdog in Japan, where smart home adoption is very low, warned the makers of ChatGPT not to collect sensitive data without people's permission. This is just one example of a market where increased engagement and transparency is important (sometimes even mandatory) and could dramatically pay off, especially given that AI will drive the evolution of many new features, from pattern recognition and routine setting to predictive maintenance alerts.

One idea to build credibility would be to circulate an FAQ to explain how you protect their personal data and safeguard your products from cyber or hacker attacks.

4. Innovative and high-performance

Smart connectivity provides a rationale for



Source: techUK Connected Home Report 2022

securing margins through premiumization. But with even affluent consumers wary of high prices in the volatile economic climate, brands need to work even harder to demonstrate the long-term value of owning smart home technology.

As described above, this could be in the form of increased convenience, or it could be through innovative high-performance features that provide a superior experience, or save the consumer money or time in the long run, for example through energy savings.

Take smart robot vacuum cleaners as an example. These continue to evolve, with new wet and dry suction docking stations seeing triple digit growth year-on-year from Jan-May 2023, while dry-suction only grew marginally.

The interplay of smart functionality and sustainability is also growing. In fact, it is becoming an enabler for the latter, especially by allowing measurability of sustainability within tech products. The definition of a good product is broadening from mere performance features to sustainability features too. At major consumer trade fairs like IFA and CES there is a clear trend for brands to bolster their energy efficiency credentials by helping consumers understand and optimize their energy consumption.

Conclusion

Smart home technology has immense market growth potential where products have obvious practical benefits and superiority over standard versions.

To pull in the next wave of first-time buyers, manufacturers and retailers need to pitch their products in the affordable premium range, build trust through transparency and prove to the sceptics that it's better to be connected.

Find out how consumers are using smart tech in their homes: GfK's smart home report 2023

Dive deeper into our Smart Home findings

GfK's smart home report 2023

https://www.gfk.com/gfk-smart-home-report