Accenture
Digital Home Survey Document

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Digital Home Solutions:
Issues, Trends and Consumer Insights

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Introduction

As the convergence of hardware, communications and content becomes more of a reality, so does the concept of the digital home. The interconnection of smart devices—PCs, PDAs and mobile phones, for instance—combined with increasing adoption of high-speed Internet access and advanced digital TV services will finally allow consumers to seamlessly share and access movies, games, and music regardless of where they are and which devices they are using. But it no longer stops at entertainment. The digital home promises a wide range of other capabilities that can benefit consumers in more substantive ways—exchanging health information in real time with doctors and nurses from one's bedroom; managing e-mail, fax and voicemail with a single device in the home office; and continuously monitoring the status of the home's physical plant (heating and cooling, lighting, and security).

The business potential offered by the digital home is not lost on companies that already have a stake in some segment of the market. Hardware manufacturers, broadband providers, health care companies and even retailers are among the organizations already jockeying for a share of what promises to be a significant growth opportunity for the foreseeable future.

But what is the attitude of consumers? Are they as excited about the digital home as potential providers are? Do they believe it can help them in their daily lives? Are they even aware of the potential?

Seeking greater insights on what consumers are thinking about digital home solutions, Accenture conducted a comprehensive survey of individuals around the world. Our survey sought to answer a number of key questions that are emerging about the digital home market:

- What kind of digital home solutions do consumers want?
- What digital home value propositions appeal most to consumers?
- What barriers to adoption matter most to them?
- Are consumers willing to "outsource" digital home solutions to providers?
- From whom do they want to buy digital home solutions and why?
- How much are they willing to pay? How do they want to pay?
- What services do they perceive to be valuable?
- What kind of content do consumers most want to use and where do they want to use it?
- How soon do consumers feel they will be able to access and afford such solutions?
- How do attitudes vary by country and demographic segment?

Accenture hired Research International, an independent third-party survey firm, to administer a 30-minute Web-based survey to 2,600 consumers in five countries: 1,000 in the United States and 400 each in the United Kingdom, Germany, France and Japan. The survey collected both qualitative and quantitative data, and explored general interest in the digital home concept among survey participants.

Respondents were queried about four specific examples of digital home solution bundles:

- Integrated Home Entertainment: Providing entertainment on demand, from any room (or any place, for that matter), and on any device. Features of this bundle include the ability to view and manage all content in a home theater, access and transfer content from any room and any device, retrieve and record content from the libraries of service and content providers, and conduct intuitive searches and receive customized notification of new content that matches consumer preferences.

- Family Health Care: Bringing the doctor's office into the home by enabling the doctor to remotely and in real time measure family members' vital health indicators (such as temperature, weight, blood pressure and pulse) and conduct routine health screenings, as well as allow the family to send daily health profiles to doctors and communicate with nurses via a video link to describe or demonstrate medical problems.

- Home Management: Ensuring the home's security and operating efficiency by having the capability to continuously monitor and control security sensors, cameras and locks to prevent intruders, detect fires and alert emergency services; notify home owners of water or gas leaks, appliance problems, and the need to schedule home utilities maintenance; automatically shut off water or electricity upon detection of flooding or other problems; and monitor energy consumption and schedule appliance usage, temperature settings and other factors to improve energy efficiency.

- Virtual Office: Enabling corporate support and connections for home owners without their leaving home. Features of this bundle include a "virtual secretary" that picks up and screens calls, schedules meetings and takes meeting notes automatically; the management of all incoming and outgoing communications (i.e., voice mail, e-mail and fax) from any device, anywhere; and the ability to organize and participate in video and audio conferences with just a few clicks of the mouse or cell phone keypad.

Because the survey samples were representative of the full consumer population in each country, we feel that our findings present an accurate picture of the attitudes toward and interest in digital home solutions in each participating country. A further breakdown of survey participant demographics appears in Figures 1 through 4.

Figure 1: Geographic Breakdown of Respondents

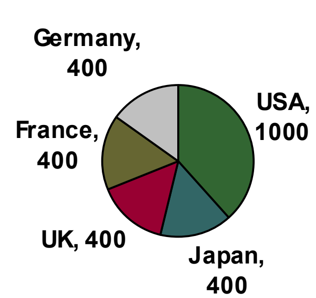


Figure 2: Age Distribution of Respondents

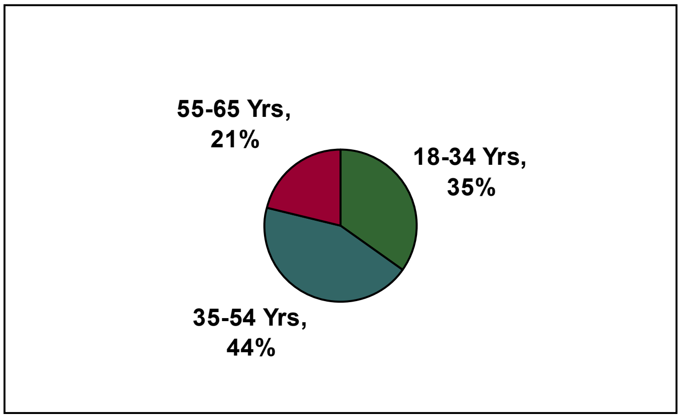


Figure 3: Income Distribution of Respondents

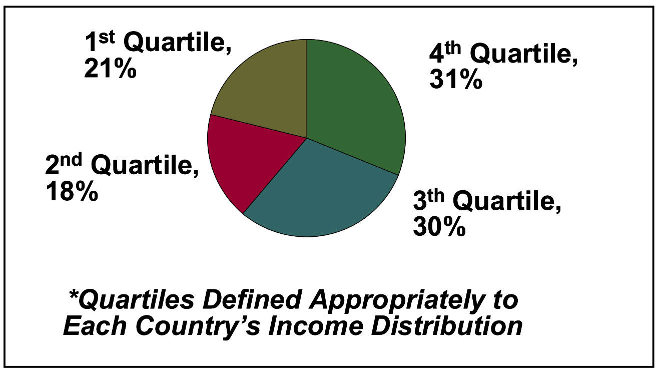
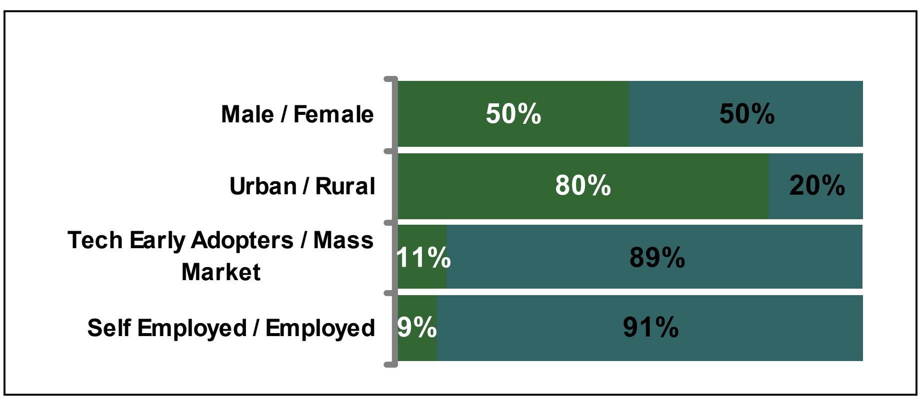


Figure 4: Other Characteristics of Respondents



Key Findings and Implications

The results of our survey paint a vivid portrait of consumer attitudes toward and preferences for digital home solutions. At a high level, we found consumers to be very interested in such solutions, and willing to spend a considerable amount of money for solutions that offer them more options, a better experience, and save them money, time and frustration related to day-to-day management of their home and professional lives. Consumers also were strong in their desire for a single company to deliver and support the entire solution, and stressed that the provider must be trustworthy, reliable and experienced.

In this section, we explore our findings in more detail, and discuss some implications our survey results have for prospective providers of digital home solutions.

Finding 1: Awareness of and interest in the concept of digital home solutions is generally quite high among consumers globally, although there are differences across participating geographies.

Overall, between 68 percent and 70 percent of consumers said they have heard at least a little about emerging digital home solutions, and upwards of 20 percent believe they know a lot about them. US and European consumers tended to rate their awareness of all four solution bundles more highly than Japanese participants, although in no region was awareness of health care solutions particularly high. In general, consumers were most aware of home entertainment and virtual office solutions.

Japanese respondents had the strongest overall interest in nearly every type of solution—especially health care, in which 54 percent of Japanese respondents reported to be interested or extremely interested (compared with 35 percent of US and 22 percent of European respondents). US and European respondents are most interested in home entertainment, with 46 percent of US and 38 percent of European respondents reporting to be interested or extremely interested in this solution.

Figure 5: Consumer Awareness of Digital Home Solutions by Geography

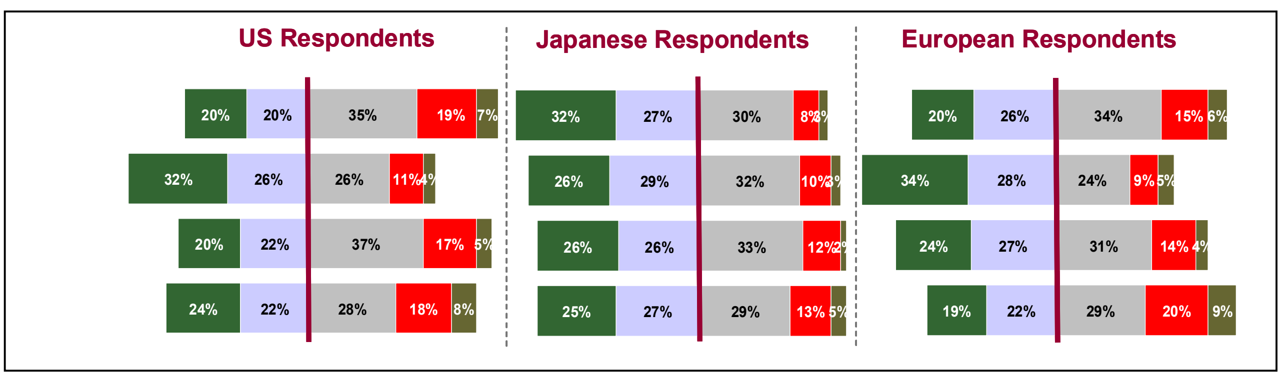
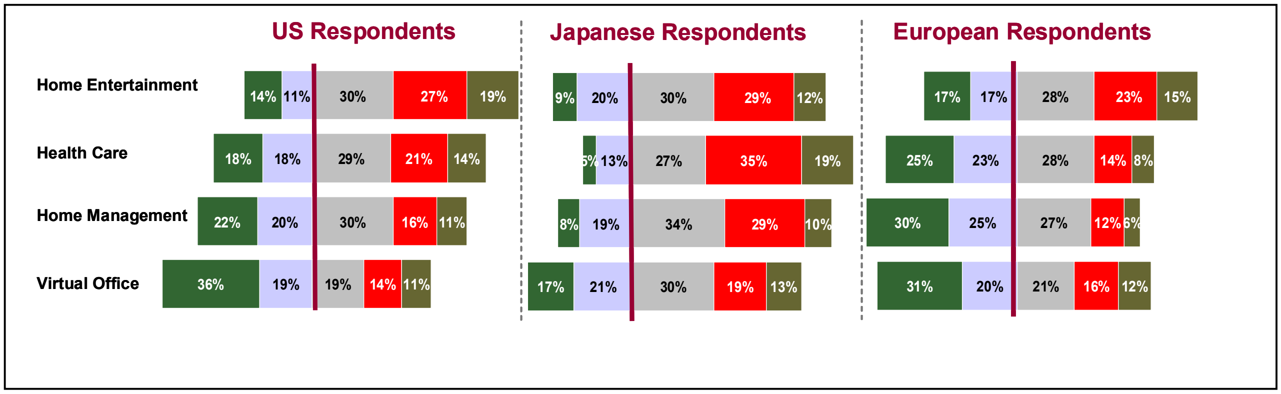


Figure 6: Consumer Interest in Digital Home Solutions by Geography



In breaking down the data further, we found a number of other interesting results. For example, interest in home entertainment solutions does not vary much by income level, gender, or location of residence (urban versus rural), but it does vary strongly by age group. Not surprisingly, younger consumers have a much higher demand for entertainment than older ones – perhaps a function of the "technology literacy gap". Furthermore, interest in health care solutions tends to be higher in rural areas, for lower-income consumers and for younger consumers. And, as might be expected, self-employed and higher-income consumers are much more interested in virtual office solutions than other consumers.

Implication: The data suggest that there is a significant need for consumer education on digital home solutions—especially in Japan, where the gap between interest and awareness is about three times larger than in the US or Europe. Companies that take the initiative to build awareness of digital home solutions can establish themselves as market innovators in the minds of consumers and begin laying the groundwork for their offerings. Additionally, if providers can improve the "ease of use" factor on new technologies, it will likely help consumers understand, adopt and consume more solutions, with greater value, sooner. Providers should especially pay attention to the home entertainment space, which appears to be the near-term driver of digital home adoption. It has the highest level of awareness among consumers, is most in demand across the global population, and is closest to market reality.

Finding 2: Consumers tend to overstate what is available in the marketplace today, and underestimate when they will be able to afford such solutions.

Eighteen percent of respondents believe that digital home solutions are in the market today, and another 51 percent expect them to be available within 3 years. Expectations of availability in the marketplace is fairly consistent across different digital home solutions—except home healthcare which is less perceived to be currently in the marketplace.

While a large percentage of consumers believe the solutions exist or are imminent, a much smaller percentage expect such solutions to be within their reach financially. Just 10 percent of all respondents think they will be able to afford one digital home solution within a year, and 21 percent expect to be able to afford one in one to three years. Again, expectations of affordability of solutions is fairly consistent across different bundles—except home management, which is seen as least affordable in the near term. However, these expectations are clearly subject to change as hardware, content and service prices continue to decline, especially for newer technologies.

Implication: In the past two decades, consumers have come to expect a lot of technology, and generally are no longer in awe of what technology can do for them. Yet, it is also true that most consumers—even those who are inclined to be bullish on technology—are slow to adopt new technologies, especially those that appear to be overly complex. To be enthusiastically embraced by consumers, digital home solutions must follow a phased approach in which consumers are slowly introduced to specific features and applications that gradually build up to a comprehensive solution. A "complete solution" that is dropped into the marketplace is likely to fail because it might give consumers too much, too soon – or is too complex and difficult for them to successfully install, configure and leverage. This is not unlike the path that other technology advancements have taken. An excellent example is Microsoft's Media Edition, which began life as an add-on to a regular PC. It then became a "super PC," and eventually, a separate piece of hardware with advanced features. In using such a gradual introduction of the technology, Microsoft enabled consumers to become comfortable with its new capabilities in "bite-sized chunks."

Of course, cost is an important factor. A $15,000 digital home entertainment solution will likely have few takers in the mass market, no matter how it improves consumers' entertainment options and experiences. A gradual, phased and modular approach to solution introduction helps maintain affordability for consumers inclined to embrace it.

Finding 3: Money always will be important to most people, so it is probably no surprise that saving money tops the list of digital home benefits with the greatest appeal and perceived cost of the solution is far and away the biggest barrier to adoption. But beyond cost issues, lifestyle considerations carry significant weight.

More than half of all consumers—56 percent—said the opportunity to save money is the biggest incentive for them to purchase a digital home solution. Next on the list are three other practical concerns: making their lives easier (46 percent), improving home energy efficiency (41 percent) and saving time (40 percent). Beneath this top tier of potential benefits are several enticements that fulfill consumers' lifestyle or emotional needs, such as making their life at home more fun (34 percent), feeling safer at home (30 percent) and making communication with friends and family outside the home easier (28 percent).

A focus on practicality and frugality also could keep consumers from embracing digital home solutions. In fact, 79 percent of participants cited the perceived cost of the solution as a factor that would discourage them from buying and using a digital home solution. The percentage of consumers naming cost as a barrier was double that of the next-biggest barrier, concerns about data privacy and security, which was noted by 40 percent of respondents. Complexity of installation (35 percent), concern that the solution would be outdated quickly (33 percent) and concern that they would have to replace their existing home equipment round out the top five barriers.

Figure 7: Potential Benefits of Digital Home Solutions Identified by Consumers

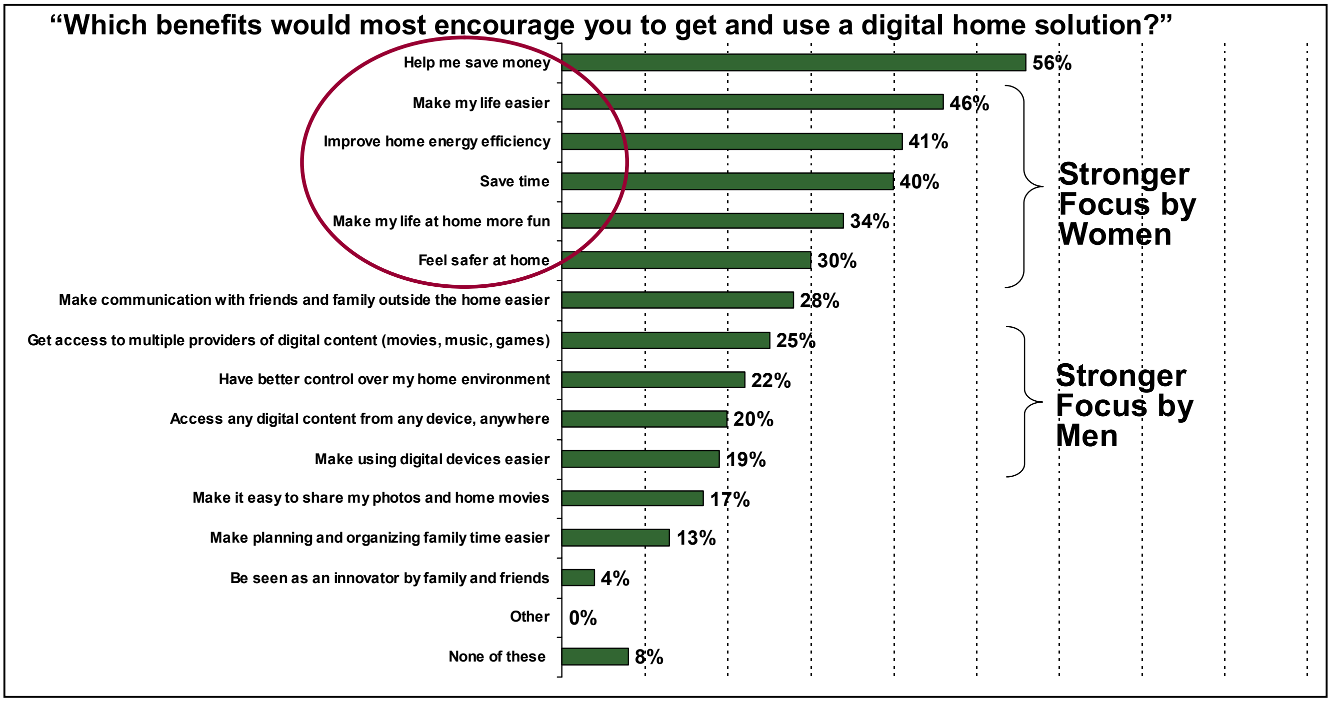
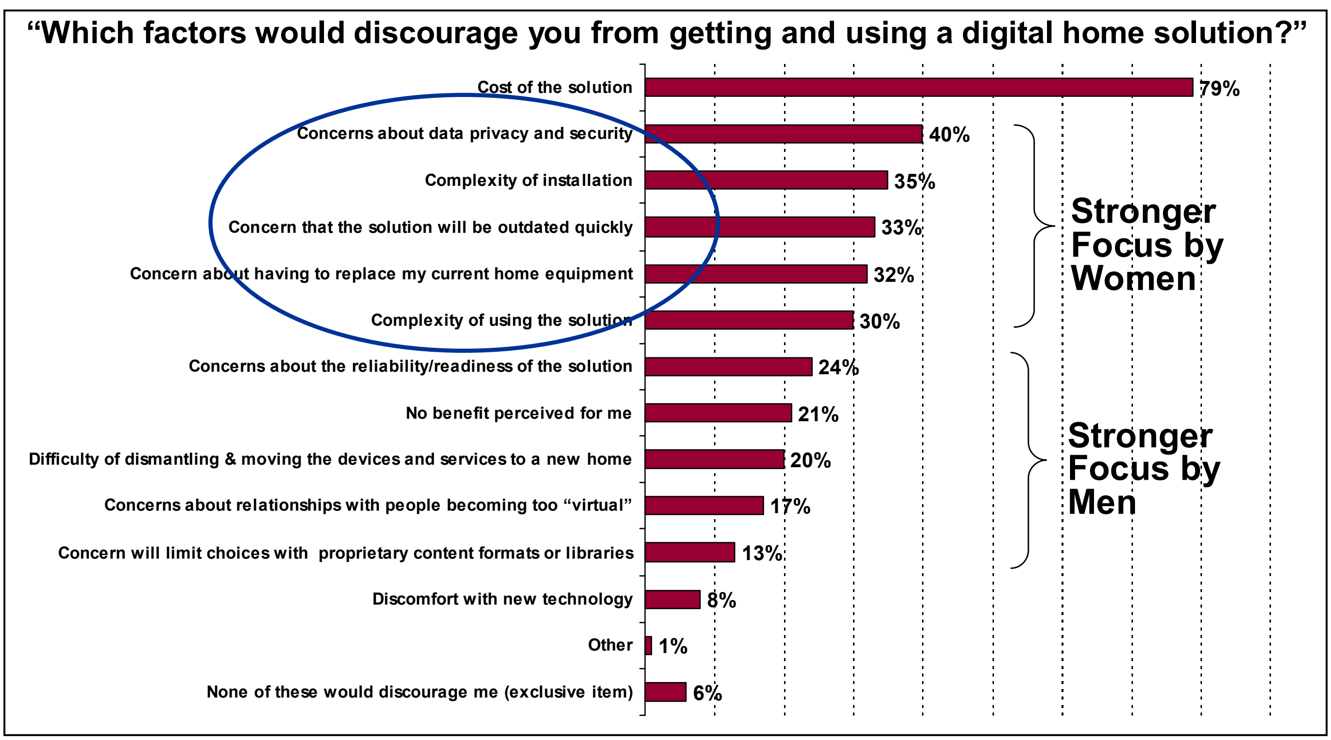


Figure 8: Potential Barriers to Adoption Identified by Consumers



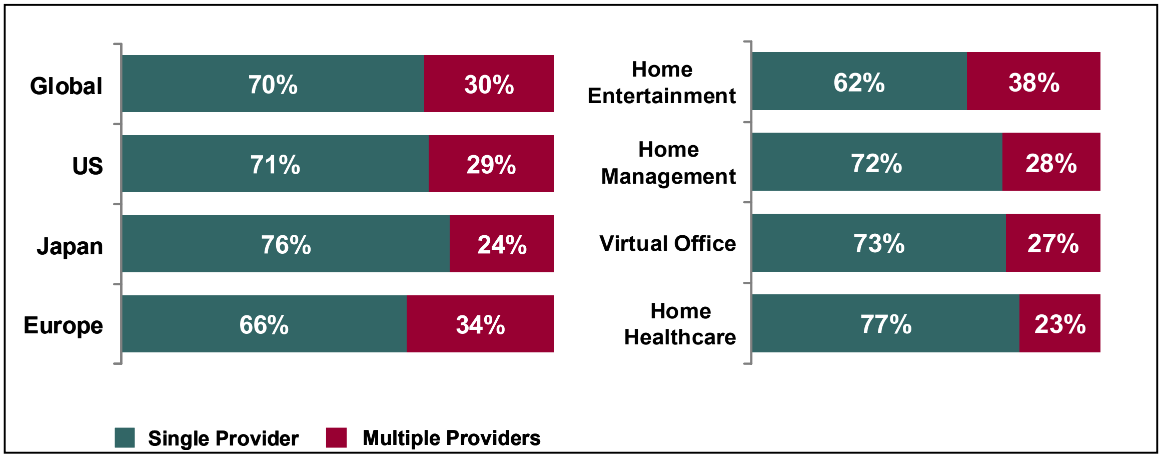
Implication: To be sure, providers must keep an eye on costs. No solution will experience widespread adoption if it is too expensive for most consumers. But once beyond the usual hurdle of economics, consumers clearly view lifestyle or even emotional considerations as playing a major role in their decision to buy—or not to buy—digital home solutions: What can these solutions enable me to do that I can not do today? Is my data safe? Can I accomplish more work at home so I do not have to waste two hours commuting to the office? Will the solution be too hard for me to install and maintain? Will the solution be obsolete in three months, so should I wait? Will prices come down next month?

For providers, this means steering their emphasis away from a discussion of features and functions to a conversation about the positive impact on consumers' lifestyles. Hyping the speed of Web access or memory of a particular device will have little resonance with most consumers. What is likely to resonate is detailing, for example, how consumers away on vacation can relax, knowing that their home's physical plant is being monitored and that they will be alerted if a problem crops up. Such a positioning not only will more effectively convey the solution's value proposition, it should also help keep solutions from becoming commoditized (which ultimately means higher margins).

Finding 4: Consumers strongly prefer a single "aggregator" provider of the solution bundle—particularly for solutions with specialized content or capability—but generally do not care what type of company fills that role.

Seventy percent of surveyed consumers overall want a single provider, while just 30 percent said they would rather deal with multiple providers of devices, content, applications and services (Figure 9). When viewed from the perspective of specific solution bundles, the same preference remains, although the intensity strengthens or lessens depending on the solution. For instance, 77 percent of respondents prefer a single provider for the health care solution—presumably because health care requires depth of expertise in a critical specialty, and consumers would be more comfortable "leaving it to the pros." Conversely, when discussing home entertainment, the single-source preference figure drops to 62 percent—likely due to consumers' familiarity with the current state of the entertainment market (and possibly to their desire for access to multiple sources of entertainment content, or perceptions about how they think they need to obtain content).

Figure 9: Preference for Single or Multiple Provider of Digital Home Solutions Bundle



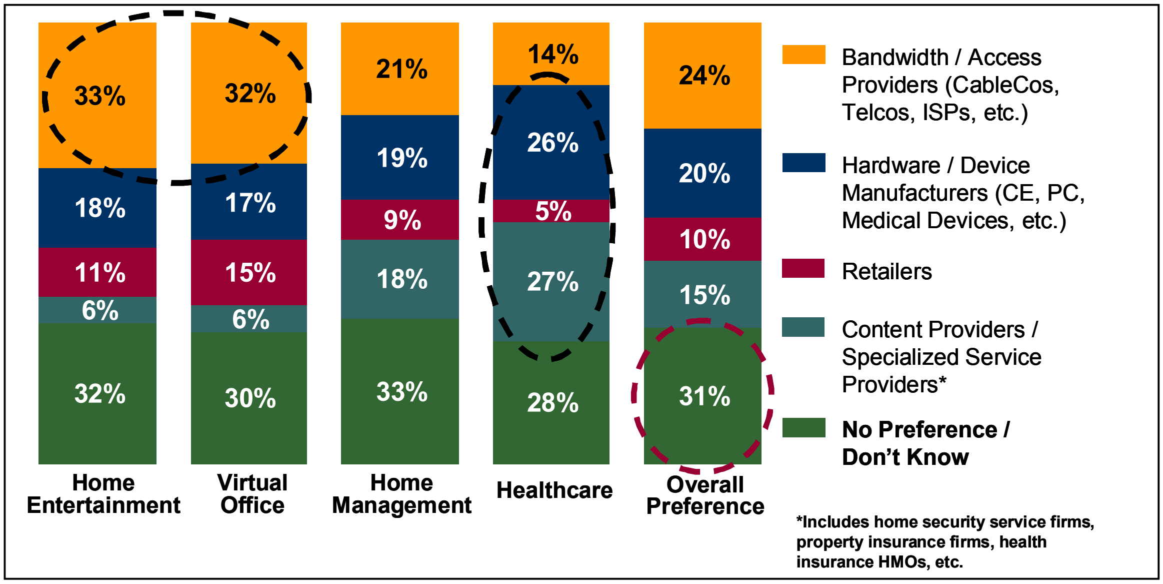
Geographically, there are some notable variations. Respondents in the US nearly mirror the overall sample: 71 percent prefer a single source and 29 percent want multiple providers. In the UK and Germany, the vote for a single provider is not as strong—60 percent and 61 percent, respectively—while in France and Japan, close to 80 percent prefer a single source.

Yet despite their strong preference for one company to handle the entire digital home solution, survey participants surprisingly reached little consensus on what kind of company they would like to see in that role. Approximately one-third of respondents said they were not sure or had no preference, a figure that was constant across the four sample solution bundles we tested in the survey. Access providers—telcos and cable operators—were preferred by 24 percent of consumers, followed by hardware or device manufacturers (20 percent), content or specialized service providers (15 percent) and retailers (10 percent).

These figures shift, however, when looking at the responses from a solution perspective (Figure 10). In the home entertainment and virtual office areas, access companies (eg telcos, cable) have the clear upper hand over other types of companies—being preferred by 33 percent and 32 percent of respondents, respectively. When it comes to providing health care solutions, consumers lean toward content or specialized service providers (27 percent) or manufacturers (26 percent).

Similarly, there are differences in preferences across the US, Europe and Japan. For home entertainment, US consumers seemed to prefer cable companies—presumably due to the strong entertainment role such businesses already play—while Japanese respondents liked Internet portals and Europeans focused more on manufacturers and retailers. In health care, US and European consumers leaned toward traditional medical care companies, while Japanese consumers gravitated somewhat toward device and data service firms. In home management, home security companies are top of mind for US consumers, while Europeans expressed slight favor for manufacturers and Japanese respondents again leaned toward portals. And, in the virtual office arena, the Japanese gave a slight edge to, once again, Internet portals, while there was no clear-cut preference in Europe or the US.

Figure 10: Types of Companies Preferred as Single-Source Solution Provider



Implication: The market is wide open for any type of company to jump in and grab it, much as Apple did with iTunes. In the span of a few months, Apple completely transformed the online music market—and set itself up as the company writing the rules of engagement. The same thing could happen in the digital home arena, as a hardware manufacturers or even a retailer could conceivably challenge cable companies or telcos for dominance in digital home solutions.

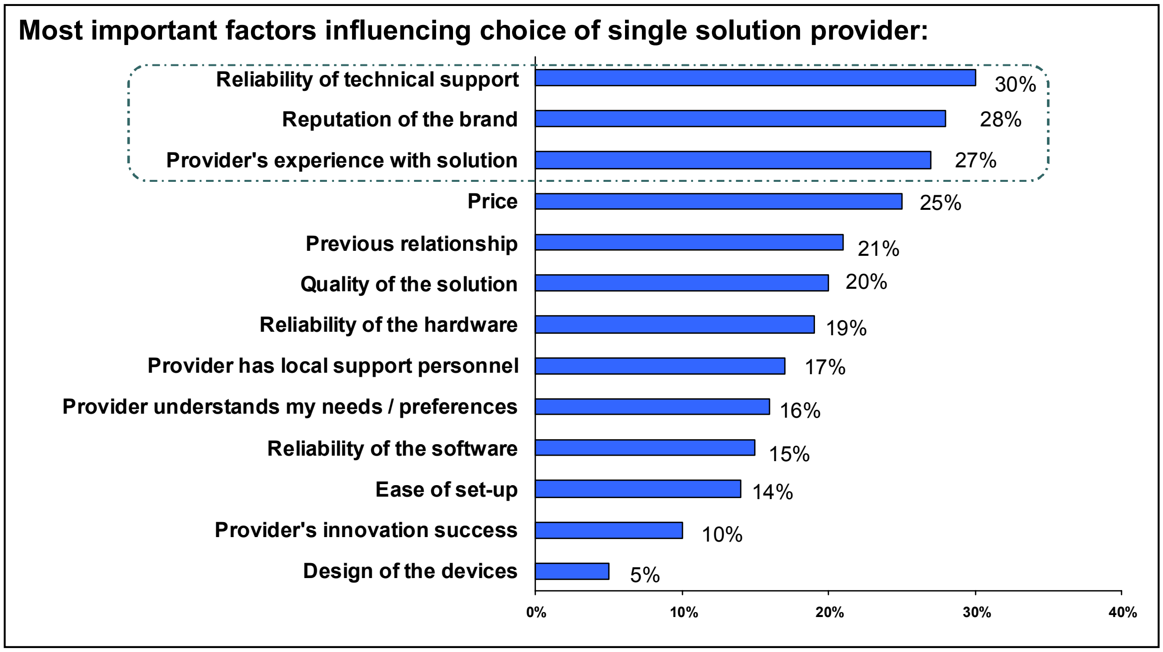
Consumer perception of the need for specialized capability or knowledge in some cases is an opportunity for teaming, and a signal that a strong and trustworthy brand will be required. In fact, brand will likely be key to successful digital home solutions—more important than device capabilities—as providers must sell an experience rather than a product. This "experience sell" will require a different set of skills and new capabilities—especially for hardware companies and medical device manufacturers—as selling and marketing a solution is much different from a tangible product. Even though the components of the solution are tangible products, the benefits they deliver are much larger and more intangible.

Finding 5: Reliability, reputation and experience—not price—are the main factors influencing consumers' choice of solution provider

The top three reasons why respondents would choose a single provider are related to "reassurance" (Figure 11): They want to know that technical support for the solution is reliable (30 percent), they want to deal with a reputable and trustworthy company (28 percent) and they want to know that the provider has experience with the solution (27 percent). Surprisingly, given consumers' focus on saving money and citing solution cost as the largest potential barrier, price was named only by 25 percent of respondents as a principal factor in choosing a provider. Even less critical was having a previous relationship with the provider (21 percent) and the quality of the solution (20 percent).

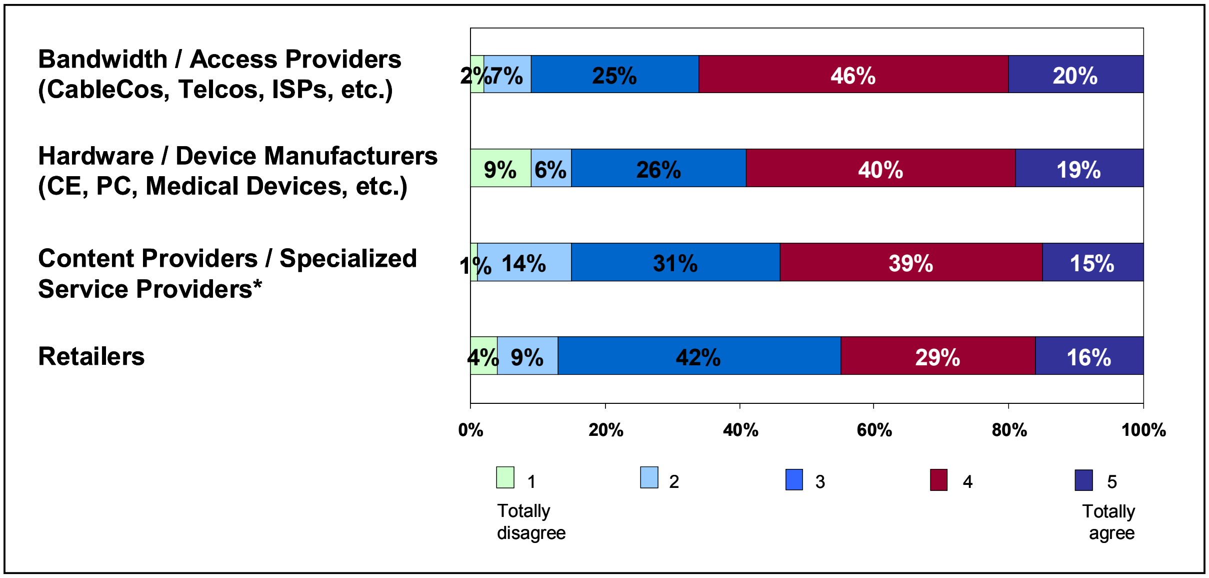
As one might expect, these factors are different when considering the specific solution involved. The quality of the solution and the provider's understanding of the customer's needs and preferences are more important—and reliability of technical support, price and a previous relationship are less important—for health care solutions. For a virtual home office, ease of set-up is more important and the provider's experience with the solution is less important.

Figure 11: Factors Influencing Choice of Single Provider



Interestingly, when considering "outsourcing" digital home solutions to a single provider, consumers expressed a higher level of trust in bandwidth/access companies than other potential providers—with retailers needing to do the most work to earn consumer's trust (Figure 12). Participants were asked to rate, on a scale of 1=totally disagree to 5=totally agree, their reaction to the following statement: "I trust this provider to manage and support this solution inside my home." Sixty-six percent of respondents rated bandwidth/access providers a 4 or 5, compared with 59 percent for manufacturers, 54 percent for content or specialized service providers, and just 45 percent for retailers.

Figure 12: Consumer Trust of Different Types of Providers to Manage and Support Solution Inside my Home



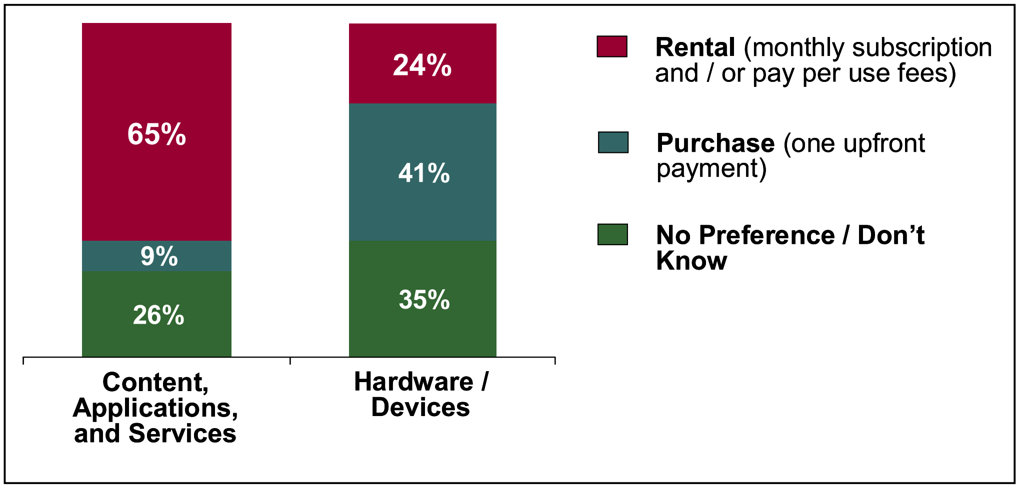
Implication: This, again, reinforces the importance of brand for any solution provider. Although it is not necessary for consumers to have a previous relationship with the provider, that provider must have an established brand that people trust. Cultivating and living up to a brand promise that conveys trust, longevity and reliability is critical. This, certainly, appears to give an initial advantage to well-established companies that are familiar to consumers. But it does not necessarily preclude a new entrant with an innovative point solution from playing a role. Although a new entrant may find it difficult to come from out of nowhere to become the sole provider of the entire solution, it can make its product or service an integral part of an overall solution by striking an alliance or partnership with the dominant brand.

Finding 6: Leasing or renting the whole solution is becoming a viable business model, and consumers do not appear to be shy to spend the money if they think the solution is worth it.

More than half of consumers prefer a subscription model for digital home services—65 percent prefer a subscription that covers all content, applications and services, either as a flat fee or as a base with additional pay-per-use fees (Figure 13). Similarly, a surprisingly large 24 percent said they would prefer to rent/lease the devices that enable them to use the applications and services, and 35% said they had no preference between rental/leasing and purchase of the devices.

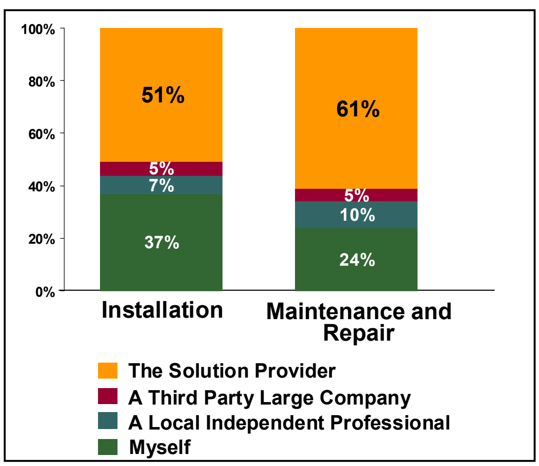
The sentiment varies across geographies. Those in the UK are more likely to want an "all-inclusive" monthly subscription, while Japanese consumers preferred the model incorporating a base subscription plus pay-per-use for additional services. As far as hardware is concerned, Germans—and to a lesser extent, UK respondents—were more inclined to purchase the necessary devices outright.

Figure 13: Consumer Preference for Paying for Digital Home Solutions



As part of the services that come with the solution bundle, half of consumers (51 percent) want the provider to handle all installation and training (Figure 14). Germans were the exception: 55 percent of these consumers said they would rather do this themselves. Consumers felt more strongly about their desire for the provider to handle maintenance, troubleshooting and repair, with just 24 percent of global participants wanting to take on that chore themselves. However, nearly half of all consumers said they would prefer to do software updates themselves. Again, the Germans (53 percent) were particularly interested in handling this duty, as were the Japanese (56 percent). France had the lowest percentage of respondents (16 percent) willing to do their own software updates.

Figure 14: Consumer Preference for Who Performs Installation, Maintenance, and Repair Services



And how much will consumers pay? Based on responses, it appears that consumers are willing to spend significant amounts per month to subscribe to valuable services. For example, on average, consumers would pay up to $35 to $45 per month for automatic, guaranteed data backup services; $25 per month for access to multiple entertainment content libraries; $55 per month for automatic health monitoring; and $40 for the ability to automatically share medical data with doctors or third parties. They also stated a willingness to pay a one-time upfront fee of anywhere from $105 to $175 for device installation and training. It's worth noting that as digital imaging increases in popularity, the inevitable "I lost all my pictures!" phenomenon due to storage hardware failures might accelerate consumer proclivity to adopt data backup services or products.

Implication: Solution providers have an increasing opportunity to change the nature of the business relationship with the consumer to be an ongoing, higher touch, higher margin relationship. A monthly subscription, as well as a device-leasing arrangement, have significant benefits for the solution provider. They provide an annuity revenue stream, a vehicle for interacting with customers at least once a month, and greater opportunities for cross-selling and up-selling. On the other hand, a subscription/rental arrangement requires a business model that features very specific supply chain capabilities, excellence in billing and customer service, and diligence to execute flawlessly day in and day out—especially for a company that is the sole provider. Given this, one could argue that access companies have a head start on others, as they already have a subscription-based relationship with customers and the accompanying core competence in monthly billing. However, if they hope to become the dominant provider of digital home solutions, access companies must improve their historic weakness in customer service. For their part, hardware companies, content providers and retailers arguably have the most work to do to build the capabilities required by a subscription model. But they could quickly acquire such capabilities through effective partnerships or alliances.

Finding 7: The ability to seamlessly integrate home and mobile devices is important to a large percentage of respondents.

Forty percent of respondents said they preferred to use a single device – eg. a PDA or smart cell phone to operate their digital home solution. This preference is particularly evident among German consumers and respondents who live in urban areas.

Furthermore, between 35 percent and 40 percent of respondents said they would want to be able to access via their mobile device many types of content created or stored in their home—especially pre-recorded music, movies, computer files, home security status, shopping lists and pictures. Nearly the same percentage expressed a preference to do the opposite: store or view on home devices content created on mobile devices—including pictures, meeting and schedule information, videos and health status (pulse, temperature, blood pressure, etc.).

Implication: These findings clearly illustrate that digital home solutions do not stop at the front door of the home. In fact, they underscore Accenture's basic definition of convergence: the elimination of limitations in time, place, interface or device on the end user's experience. Quite simply, consumers do not think of their home, car, or office as separate universes, but rather, they see them as part of one digital ecosystem. And because of this perspective, they are frustrated when they can not take the content they own and use it where and how they wish.

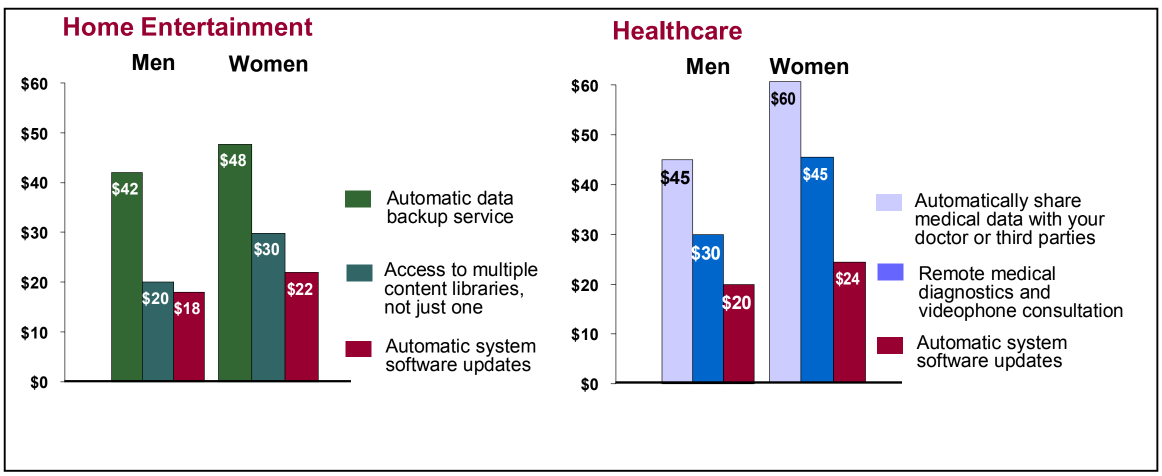
They do not understand why the commands for accessing voice mail in the office, at home and on their cell phone are different. They are perplexed when they have to juggle four or five different formats for audio files and remember which device can play which formats.

For digital home solutions to be truly successful, the survey results indicate that providers will need extremely robust content management capabilities that enable complete portability of content across devices and locations. Furthermore, stronger industry standards must be in place to encourage interoperability among devices—regardless of manufacturer—and ensure a common user interface infrastructure so that consumers do not have to learn totally different ways of interacting with their devices. The simple fact is that consumers do not inherently care about the technology; they care about what they can do with it.

Finding 8: While participants' age and income have a relatively small effect on responses overall, there does seem to be a "gender gap," as male and female participants differed in their responses to many questions.

Overall, men and women are about equally interested in digital home solutions—although men showed a slightly higher level of interest in home entertainment and virtual office, and women leaned more toward health care and home management. The bigger difference is in awareness: Women expressed a lower level of awareness of all four solution types.

Figure 15: Men and Women Differ in Willingness to Pay for Value-added Services as Part of Digital Home Solutions (Cost per Month)

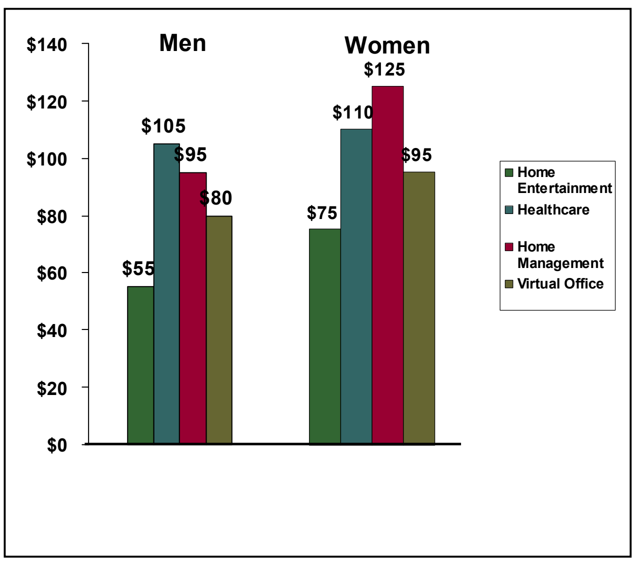


While women tended to be more pessimistic about overall affordability of solutions, women demonstrated a greater willingness to pay for specific value-added services. For instance, the average monthly fee women and men were willing to pay for automated backup of home entertainment data was $45. Yet women were willing to pay $6 more per month than men for data backup services and $10 more per month for access to multiple entertainment content libraries. Even sharper were the cost differences related to health care services. Women said they were willing to pay $60 per month—compared with just $45 for men—for the ability to automatically share medical data with their doctor or third parties. And, women reported they would spend as much as $45 monthly—versus $30 for men—for remote health monitoring and diagnostics.

Unlike men—who cited the technical aspects of the solution and the ability to control their environment as potential barriers to adoption—women were more concerned about the complexity of solution installation and use and privacy issues. Furthermore, women were more interested in the lifestyle benefits of digital home solutions, while men again focused more on technical and control issues (Figures 7 and 8).

Women were more likely to want the solution provider to handle installation and training, as well as software updates. Men, on the other hand, were more comfortable taking responsibility for those actions themselves. These findings are consistent with the large differences we found between the amount of upfront money men and women reported being willing to spend on such services. Women overall said they were prepared to spend between $15 and $30 more than men on installation and training, depending on the solution bundle in question. The biggest difference ($30) was in home management while the smallest ($15) was in virtual office (Figure 16).

Figure 16: Men and Women Differ in Willingness to Pay for Installation and Training for Digital Home Solutions



Finally, in the area of payment options, men were slightly more likely to prefer upfront payment for long-term access to content and the purchasing of the solution devices, while women would rather pay monthly content-access and device-rental fees.

<u>Implication</u>: The message in these results is that a "one-size-fits-all" approach is doomed. Digital home solution providers must be able to generate deep insights into consumers to understand how their needs, preferences, buying behaviors and demographics differ. Although this sounds incredibly obvious on the surface, many companies—especially hardware

manufacturers—typically lack the systems and processes necessary to fully understand the people who ultimately use their products and services. In addition, providers must use the insights they develop to tailor specific solutions and marketing messages for various segments. Given the differences in responses noted earlier, a home entertainment solution appeals to men very differently than to women, so it is critical to have different offers that emphasize the relevant points. In short, companies have to move past their traditional engineering-driven models to a model that begins with the "pull" of consumer preferences.

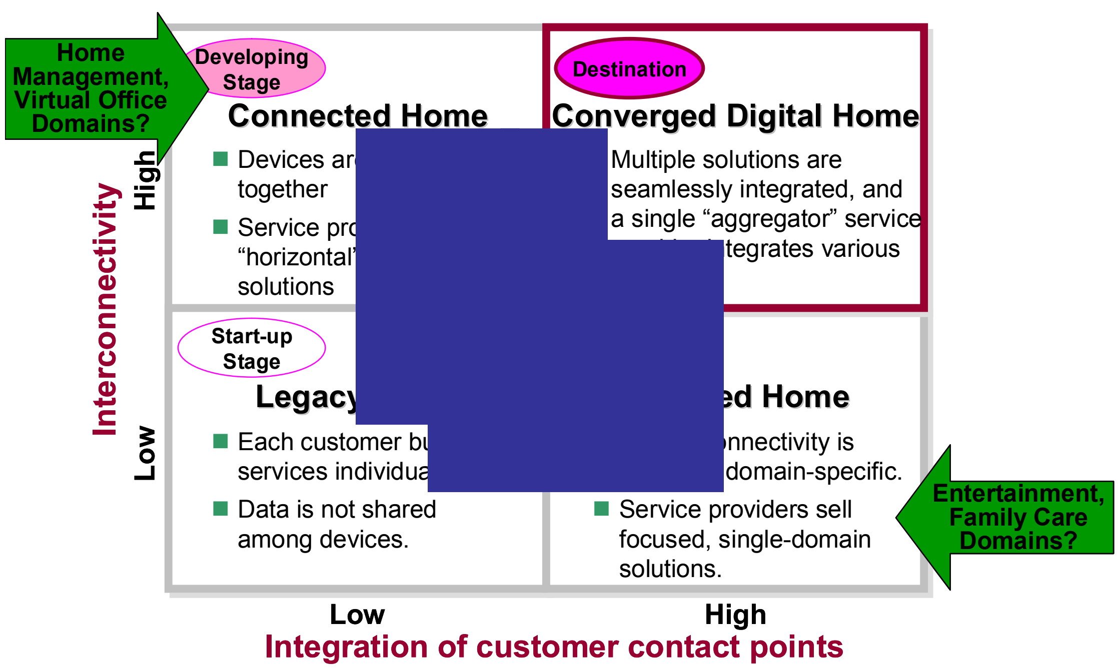
Conclusion

Based on our survey results, it is safe to say that consumers have a high level of interest in digital home solutions, and are prepared to invest in them if the solutions deliver value.

However, for solution providers, the route to capitalizing on this emerging market is neither straightforward nor direct. Based on our research and work with leading access companies, health care providers, retailers and technology companies, Accenture believes that different digital home solutions will have different evolution paths. The determining factors likely will be the type of solution, where it is used and which partnerships are required to enable it.

As illustrated in Figure 17, we see at least two scenarios for how the converged digital home will evolve: interconnection platform and focused service.

Figure 17: Two Routes of Evolution to the Digital Home



The interconnection route (moving up and right in the matrix) takes consumers from the legacy home through the connected home. This journey will begin with the development of an interconnection platform characterized by the rise of broad "horizontal" solutions within domains centered around specific capabilities. Competition at this point is largely across domains, and emphasizes building platforms that enable the integration and interconnection of devices. This route likely will culminate with a merging of services as dominant domain players acquire or build alliances with players in other domains to provide one-stop, cross-domain solutions.

The focused service route (right and up on the matrix) moves through what we refer to as the "serviced home." This process will begin with the emergence of focused "vertical" services for the home, centered around specific devices and solution domains (e.g., entertainment or health care), largely provided by players with strong potential that have begun to establish their brand for home services. At this time, competition within domains intensifies. In the next phase, providers ultimately achieve seamless integration of the infrastructure, and the big name brands begin broadening their solutions across domains.

These two routes, of course, are not the only ones; others may emerge as technology and markets evolve. But regardless of how the market evolves, companies should keep in mind a number of key considerations:

- ***A successful strategy will likely take the form of a very focused, user segment-targeted, brand named "point solution" that will expand its footprint over time.*** Think, for instance, a branded MP3 player combined with a music download service, or a DVR combined with cable or satellite service. Successful mass-market providers will couple focused solutions with brand strength, the elusive "coolness factor" and superior lifecycle customer support.

- ***Over the next few years, it appears that successful convergence solutions will be focused on well-understood single consumer needs, and deliver a simple, integrated, easy to understand user experience.*** All of this will be underscored by in-depth customer insight and superior customer service and support: sales, installation, training, maintenance, support and upgrades.

- ***Teaming will be key.*** Winners will have to partner to assemble components of the total solution or solution delivery and support capabilities they lack. For example, a communications provider, a hardware provider and a retailer partner may team up to deliver a managed home theater solution.

- ***Brand and reputation is arguably the single-biggest factor in wooing consumers.*** Consumers said they did not care which type of company provided the solution, but they also noted loud and clear that they care deeply about the provider's reliability, experience and trustworthiness—which takes time to build and only seconds to destroy.

- ***The proliferation of IP as the basis for all devices, networks and services is the key enabler and is well under way.*** Convergence of *devices* will be less important than convergence of *solutions*; in fact, devices themselves may diverge as end users demand most devices do a few things well rather than many things not so well.

Companies serious about competing in the digital home solutions market can not afford to sit by until things come into sharper focus. They need to begin developing their digital home strategy now, identifying their strengths and weaknesses in meeting consumers' needs, and determining how their operations must change to accommodate new digital home offerings. In doing so, they will be better prepared to capitalize on what promises to be an important and exciting growth opportunity for years to come.