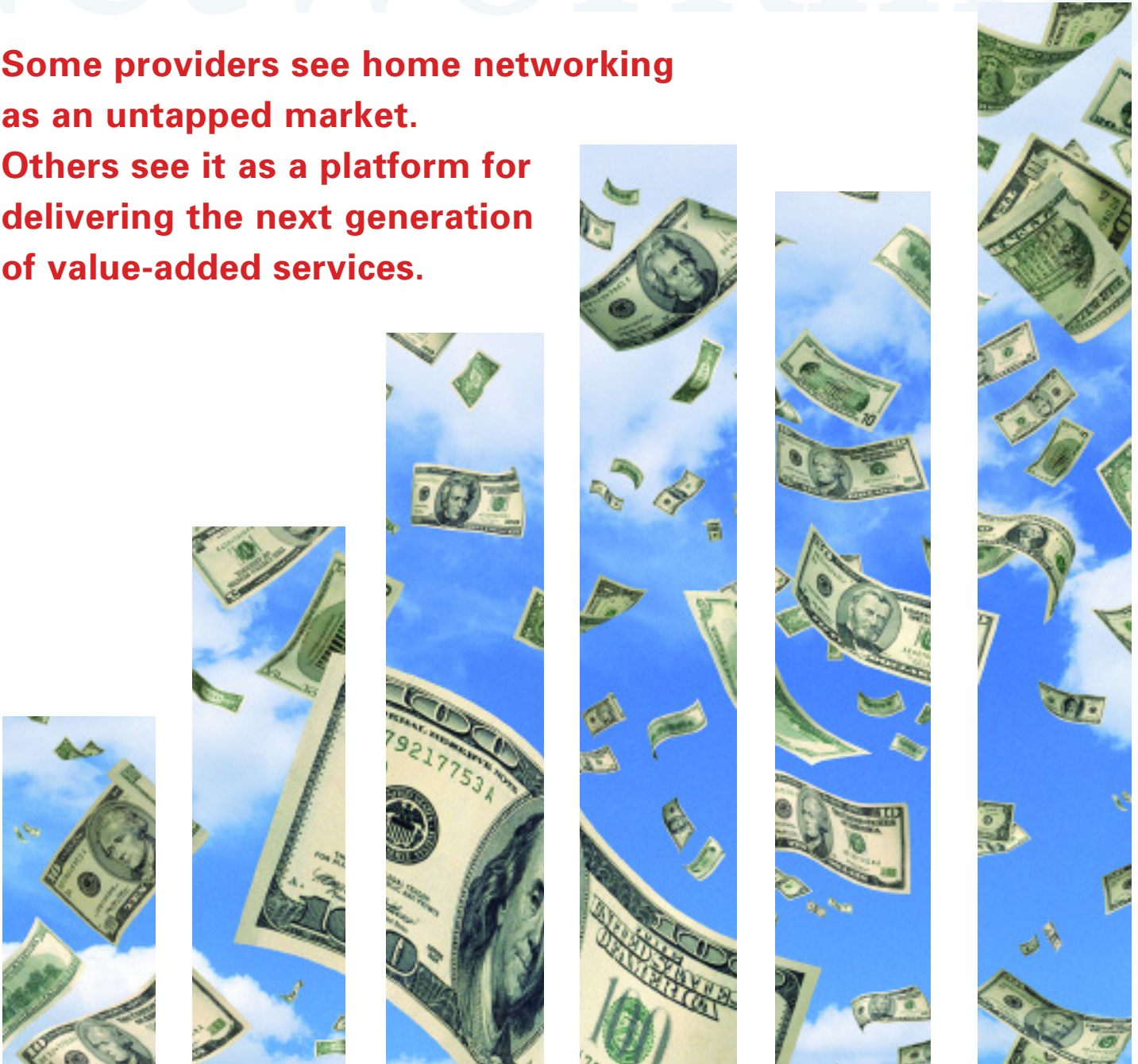


Is There Value in Home Networking?

Some providers see home networking as an untapped market. Others see it as a platform for delivering the next generation of value-added services.



As the worldwide number of broadband households continues to grow, it automatically follows that the market for home networking solutions—the products and services that allow consumers to connect multiple devices and share content—is hot on its heels, right? Well, not quite.

According to research from The Diffusion Group (TDG), the number of households with a data network will expand from 76 million in 2006 to close to 162 million worldwide by 2010, so the good news is that the market is growing. However, those numbers represent only a fraction of the overall broadband market, and a much slower growth rate relative to broadband subscriber growth. Computer Industry Almanac estimates that the total number of Internet broadband subscribers was 215 million in 2005, and is projected to reach 500 million by the end of 2010, implying that home networking will only reach about a third of the total market at that time.

Michael Greeson, president and principle analyst at TDG, warns that while the opportunities related to home networking are indeed growing, overt demand is beginning to soften. In a report titled *Consumer Interest in Value-Added Managed Home Network Services*, Greeson warns, “Recent consumer research suggests that demand for home networking solutions is not nearly as bright as either vendors or the popular press would have us believe. Even TDG’s own internal research found that less than 11 percent of non-networked broadband households are interested in *buying* a home network.”

Why the hesitation? It depends on who you ask, but experts believe it boils down to two reasons: Consumers view home networking as being too complicated; and home networking alone does not offer a compelling enough value proposition to propel the market forward.

Let’s start with the first one. Most major service providers and electronics retailers offer home networking kits that require customers to self-install their own networks. While this works fine for tech-savvy early adopters, many mainstream consumers perceive the process to be too complicated. In fact, even consumers who have demonstrated interest in the technology are frustrated. In a 2005 report titled “Supporting the Digital Home Is Increasingly Complicated,” the Yankee Group found that, “On average, consumer electronics retailers are seeing home network return rates of 30 to 50 percent.”

Depending on your perspective, these statistics represent either a sobering dash of cold reality or an enormous market opportunity. For major electronics retailers such as Best Buy and Circuit City, it may be both. Not only do these retailers sell networking equipment, they sell the services to make it work. For example, Best Buy’s highly successful Geek Squad service offers in-home technical support for a wide range of products. Since it went national at the end of 2004, Geek Squad’s 11,000 agents throughout North America have served more than three million customers. And topping the list of the company’s “most popular services,” according to its web site, is wireless home networking. The Geek

Squad charges \$159 for the service, which includes connecting two computers together. Additional devices can be added for \$49 each.

Although a little late to the game, Circuit City has also decided that technical support services represent too big of an opportunity to ignore. According to a recent *Business Week* article, the company’s services business has grown from 7,000 orders on July 29, 2005 to 500,000 on July 29 of this year. To meet this spike in demand, the company recently announced the launch of its own branded service offering, called Firedog.

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The phenomenon is not limited to the U.S. In Sydney, Australia, a company called Gizmo is building a business around helping customers simplify the technology experience. For \$160, the company will install a home network that connects two computers together and provide basic security features, and show the customer how to share files, printers and other content and devices connected to the network. Additional computers can be added at a cost of \$70.

Will Providers Profit?

If retailers and independent service businesses are able to charge upwards of \$150 for a home networking installation, why aren't service providers jumping on the bandwagon? Most offer the service either included with their broadband service offerings or for a minimum charge, and judging by their web sites, providers are more interested in promoting bundled services—voice, TV and high-speed Internet—than they are in data networking. Part of the problem may be that the complexity of installing and managing a home network results in costly support calls. Retailers handle this by charging for installation and technical support, but broadband customers have come to expect ISPs to support their services free of charge.

One provider that sees the value in home networking services is BellSouth (now part of AT&T). Marcos Arias,

senior product manager for broadband applications, says the company began offering its home networking service four years ago. "There's no question there's a demand within our customer base for this type of service," says Arias. BellSouth FastAccess DSL customers have the option to order HomeNetworking Plus for an additional \$5 per month. The service includes a wireless gateway that allows customers to share their DSL Internet access, files and printers on up to four computers. While the service requires customers to self-install their own network, subscribers can receive specialized home networking phone support if needed.

Security is another big concern for broadband customers, says Arias. In addition to the home networking service, BellSouth offers a Premium Internet Security Suite that includes anti-spyware, anti-virus protection and a firewall. The suite is available for an

extra \$6 a month for one computer, and \$11.99 for up to four computers.

Canadian telecom provider TELUS is taking another tack at making home networking easy for customers to install and use with its eCare service. The company's broadband service, which includes home networking as part of its Tier 2 and higher packages, also includes eCare, a web-based, automated support solution. The eCare solution diagnoses and fixes common e-mail and Internet problems, and helps customers with routine tasks, such as changing passwords or adding an e-mail address to their account. If a customer encounters a problem that can't be solved automatically, eCare connects the customer with a technical support agent who can then access the modem remotely and troubleshoot problems. Chris Langdon, vice president of network services for TELUS Consumer Solutions, says that eCare

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has saved the company costs and consumers a lot of frustration. "The most expensive thing you can do in this business is roll a truck," says Langdon, "so we do everything we can to make the customer experience simple and easy."

BT recently announced that it is taking the headache out of home IT with a new, dedicated advice and support service for broadband customers. Called BT Home IT Advisor, the new service gives customers a single point of contact with a team of specially trained advisors dedicated to supporting customers' PCs, networks, applications and up to 20 connected devices in the home. The new service can even create a 'virtual engineer' in the home that enables an advisor to remotely access a customer's computer to troubleshoot a problem. Emma Sanderson, director of value-added services for BT Retail, said "The need to keep everything running smoothly and trouble-free is greater than ever before. Even when you've got the answer to a problem, everyone knows how time-consuming it can be to have to navigate your way through complex instructions, so BT has made it even simpler with our remote engineer access."

The BT Home IT Advisor service is available to both BT Broadband customers and customers of other broadband providers.

Many of these providers rely on automated service management software built into their offerings to make it easier for customers to install and use their networked services. One company offering this type of service automation software is Austin-based Motive, Inc. Motive's Home Device Manager (HDM) product, a joint development with Alcatel, enables providers of next-generation broadband services such as IPTV, VoIP and advanced home networking to remotely activate, support and upgrade customer premise equipment in the subscriber's home.

"We're seeing strong demand for

our HDM solution," says Alfred Mockett, Motive's chairman and CEO. "In the first half of the year, six customers in North America and Europe licensed HDM, including three new customers, and two of the world's top ten broadband service providers."

Greeson agrees that software such as Motive's provides a key ingredient in making home networking easier for customers to install and use. "Service providers are finding it very difficult to manage today's home network environment, especially given the wide variety of devices and applications that the network may support. A certain degree of transparency into the home network ecosystem is critical if operators are to remove the hassle of installing, configuring and maintaining these environments—concerns that continue to inhibit widespread adoption and sophisticated usage models."

Is "Easy" Enough?

Even if you make it easy, many experts argue, home networking in and of itself is not where the true value lies for providers or for their customers. Just as moving customers from dial-up to broadband access was necessary for delivering more high-value applications such as video and music, the home network will provide the platform that will allow subscribers to access and use these services across multiple devices in the home and beyond.

"Removing the hassle of installing, configuring and maintaining home networks will serve to eliminate one of the major inhibitors to widespread network adoption," says Greeson. "And once home networking indeed becomes widespread, the opportunity to market and sell value-added network services becomes a reality, thus providing reliable long-term revenue to broadband service providers."

For example, France Telecom, which claims 8.5 million ADSL customers

as of June 2006, has introduced Livebox, a product that integrates multiple home communications services such as broadband access, digital television, VoIP and videophones. Initially introduced in July 2004, the company says it had sold 2.9 million Livebox units as of June 2006. Similarly, BT recently introduced BT Home Hub, which connects different BT services, such as broadband Internet, VoIP and video phone services, wirelessly to PCs and other broadband devices. The Home Hub is designed to update automatically to work with future BT Broadband offerings such as BT Vision, the next-generation TV service scheduled for launch in the fall of 2006.

AT&T is also making clear moves toward cross-platform services with its Homezone service, which integrates the company's AT&T Yahoo! High Speed Internet, DISH Network satellite television and home networking services via a single device. The service offers customers digital video recording, movies on demand, photo- and music-sharing, storage for both, and remote, Web-based access to the system. "This new service underscores the company's strategy to integrate the three screens that many consumers value most today: the TV, PC and cell phone," says Rick Welday, chief marketing officer, AT&T Consumer. Initially introduced in San Antonio, Texas, the company plans to roll out Homezone in additional markets in the AT&T service area in the coming months.

Another North American service provider, Time Warner Cable, is aggressively pursuing a cross-platform service strategy that includes giving consumers the ability to interact directly with television programming and advertising, and even get customer support, all through their TV screens. According to Joan Gillman, vice president, interactive television and advanced advertising, "More than 50 percent of our cable customers are also high-speed data

customers, they're not different populations. We surpassed the 'early adopter' phase of broadband a few years ago, and now we're much more focused on using our cable infrastructure to deliver the high-value services our customers want, where they want them, than we are on the idea of rewiring a home for a data network."

For example, Time Warner Cable, which provides broadband, cable television and voice offerings, already allows its VoIP customers to view caller ID information about an incoming call on their TV screens. In addition, cable subscribers in select markets recently had the opportunity to vote for the winner of NBC's *Last Comic Standing* show using their TV remote controls. The polling appeared as pop-up screen generated by the viewer's set-top box. Gillman says the initiative was a big win for the company's programming

partners, as well as for its customers. "Typically, a show will display a web site address and the customer has to get up and go to a PC to vote. By enabling viewers to vote directly with their remote controls, we were able to increase voting response from the 'two-screen' industry average of around one percent to an average of 25 percent, with peak levels of 30 percent."

Another new Time Warner Cable service, called PhotoShowTV, gives customers the ability to create and publicly share their own "shows," made from personal photos and video clips, directly on cable TV. Using a PC connected to Time Warner Cable's Road Runner broadband service, customers can create personalized PhotoShows and place them on the company's video on demand service for public viewing. The service was launched in the company's Hawaii division, and will be made avail-

able in additional markets in the future. "There's so much hype around web sites like YouTube and MySpace," says Gillman, "we believe that those same customers would love to see themselves and share their stories on TV."

Whether providers view home networking as an opportunity in itself, or as a platform for delivering future services, the message is clear: it is a market waiting to be developed. Most providers are just beginning to tap that market with new services that consumers care about and will pay to use. And while different providers are approaching it from different angles and different price points, the ultimate goal is to offer services that play better together, and that's something customers really value. **20**

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