

AT&T Digital Life

Home Security and Automation Service



EXECUTIVE SUMMARY

COMPANY OVERVIEW

AT&T is the largest telecom services provider in the world and has a wide range of offerings, including fixed-line, mobile, broadband, managed networking, and wholesale services. For the 2012 fiscal year, AT&T reported revenues of US\$127.4bn and an operating income of \$13.0bn. It does not disclose number of employees, although third-party sources suggest 241,810 employees for 2012.

BUSINESS CHALLENGE

- Grow revenues and profitability while faced with increased competition
- Differentiate in marketplace
- Manage partner program, which is key to future success of any end-to-end service offers

INNOVATIVE SERVICE OFFER

- Home security and home automation package for residential customers
- Simple end-to-end service and experience from installation, service, and user support
- Focused and collaborative approach to the M2M and connected devices market opportunity
- Can leverage the existing residential customer base while attracting new customers from other service providers with offers in this area

BUSINESS RESULTS

- Digital Life is a new offering, and so far subscriber numbers or forecasts are unavailable
- U.S. home security market is currently estimated to be about \$10 billion

Overview

Digital Life is a home security and home automation package for residential customers. Newly launched by AT&T, it offers a simple end-to-end service and experience for users.

AT&T sees a huge opportunity in home security and automation, markets that currently have low penetration. The challenge will be around installation and support as take-up grows nationally. AT&T will gain direct revenue from new subscriptions including equipment sales. It also stands to gain increased revenues from new device sales and churn from other service providers through service bundling.

AT&T has partnered with Cisco for the home controller, plus other specialist vendors for service, components, and installation.

Service Innovation

Digital Life is AT&T's new consumer home security and home automation service, which was commercially launched in 15 markets in April 2013 after an eight-month trial in two markets. It is now available in 27 markets, with plans to extend this to 50 markets by the end of 2013.

Digital Life provides professional 24-hour home security through AT&T-owned and operated monitoring centers that will respond to emergencies by contacting the police, fire, or emergency medical authorities.

The product is connected to the AT&T 3G wireless network, but service is available to any customer, regardless of whether AT&T is their wireless or home broadband provider. Customers can operate the service in the home, or remotely manage it via a smartphone, tablet, or PC (on any network) using their secure login. The Digital Life application is browser based, and apps are available for iOS, Android smartphones, and Windows phones.

AT&T's offering is distinct from other service providers' offers in that AT&T aspires to own or at least control the entire ecosystem on which it is based, and to deliver a complete end-to-end service rather than providing a partial service that depends on complements from other suppliers. AT&T is not simply reselling someone else's service, as is the case with some of its competitors. The Digital Life service is based on components bought in by AT&T, service delivery partners under contract to AT&T, AT&T monitoring centers, and AT&T data centers. It is distributed via AT&T own channels, and uses the AT&T 3G network as its principal connectivity component. Since AT&T owns the end-to-end user experience, it has the freedom to change that experience as the market evolves.

Digital Life comes in two versions: Simple Security, a basic home security package, and Smart Security, an enhanced security package with an option to add home automation.

Simple Security includes 24-hour home monitoring, 24-hour battery backup, a wireless keypad, keychain remote, recessed sensors, and an indoor siren.

Smart Security includes Simple Security plus a choice of three of the following features: motion sensor, carbon monoxide sensor, glass break sensor, smoke sensor or takeover kit.

In addition, the Smart Security add-on automation packages include:

- **Camera Package:** live video inside and outside the home
- **Energy Package:** Control appliances, lighting and thermostats
- **Door Package:** Allow trusted third party into the home remotely with automated door locks, check to see whether doors are open
- **Water Detection Package:** Detect water leaks
- **Water Control Package:** Detect leaks and shut off water at the main water source

The following Smart Security "lifestyle" bundles are offered:

- Protect the Family (Smart Security + Door Package + Camera Package)
- Pet Care (Smart Security + Door Package + Camera Package + Energy Package)
- Gadget Guru (Smart Security + Door Package + Camera Package + Energy Package)
- On the Go (Smart Security + Energy Package + Water Control + Camera Package)
- Bundling with other services

AT&T plans to package Digital Life with other AT&T wireless services and products. The first of these packages was announced at the end of May. Customers who order AT&T Digital Life in any one of the AT&T-owned retail stores selling the service will also get up to US\$100 off a smartphone or tablet. This is a limited-time (two month) offer and a two-year agreement for Digital Life with the Smart Security package is required.

Visual Summary

Digital Life offers two basic tiers of service: Simple Security and Smart Security. With Smart Security, the option is available to add on a variety of supplementary home automation packages. Various lifestyle-based service bundles are available.

Home Security at Your Command

Smart Security Add-On Solutions:
Beyond Home Security to Home Automation

Simple Security
Package starts at: \$29.99/mo
\$149.99 one time fee

Water Detection
Energy Package
Door Package
Camera Package

Our Most Comprehensive Remote Security Package

Smart Security Lifestyle Bundles:
Specially-designed Packages to Fit Your Lifestyle

Smart Security
Package starts at: \$39.99/mo
\$249.99 one time fee

Protect the Family
Flat Care
Gadget Guru
On The Go

Cisco provides the home controller for AT&T's Digital Life service. The controller uses five radio technologies. Four of these are used to control and manage appliances, lighting, and HVAC; remotely lock or unlock doors; and detect water leaks. The fifth radio is GSM/HSPA and links back to the AT&T mobile network. In addition to the five radios, the controller includes an Open Services Gateway initiative (OSGi) software framework Home Plug AV to communicate with connected IP devices over the home power network, for 24-hour backup and diagnostics. The principal mode of connectivity between the home controller and the back end is 3G, via an AT&T 3G module. However, it also connects to the customer's home fixed broadband, both for redundancy and to provide a cost-effective way of sending video data. Where video cameras are installed, they connect to the controller via WiFi. The security devices (locks and door closers) connect to the controller via proprietary wireless protocols. Z-Wave is used to connect to other devices.

Opportunities

AT&T believes that the home security and home automation markets are underdeveloped; only 20 percent of households have a home security service, and less than 1 percent has any kind of home automation. The company sees a clear opportunity to grow the market.

AT&T also believes it can offer a service that can take customers from existing providers. It believes it can do this by offering a service with a better experience that genuinely provides "peace of mind" to customers. To this end, it offers not only a hardware solution but an end-to-end service that also includes:

- Professional installation
- User support
- Two certified monitoring centers
- Connectivity packaged so it can charge a flat rate for the system, and for any modular add-ons such as a video camera package, water leak prevention) with no further charges
- Application with a simple user interface (UI) for monitoring, configuration, and control over the web via PC tablet or smartphone.

AT&T aims to enhance the purchasing and fulfillment experience too, allowing as much flexibility as possible to customers.

In addition, AT&T has the following service expansion and enhancement opportunities:

- Deployment of Digital Life to AT&T's domestic markets is expected to proceed rapidly during 2013. AT&T emphasizes that the speed of rollout is under its control and is not reliant on partners.
- AT&T is looking to leverage other products in its portfolio and plans some creative promotions, for example discounts on smartphones or tablets for customers signing up for Digital Life, and bundles that include Digital Life and other AT&T services. No integration with Uverse, the residential triple play, is planned
- Also under consideration is a telecare extension, to be offered to adult carers allowing them to remotely monitor vulnerable relatives (an "assisted living" or "Living in Place" tool). This might involve adding some new devices, such as movement sensors, to the existing product configuration so as to bring other kinds of information to the care-givers.
- In addition, AT&T aims to expand its offering to small and medium business, with a similar play planned.

"We know how important security is to our customers, and this was our top priority when we set out to build Digital Life. People rely on their mobile devices more than ever, so Digital Life offers an easy and convenient way to secure their homes, protect their families, and simplify their lives from virtually anywhere. Digital Life offers our customers a single integrated solution built around their needs, making security and home management easier than ever."

—Kevin Petersen, President, AT&T Digital Life

Challenges

While AT&T has the unique advantage over its competitors for providing a complete end-to-end solution, AT&T is very dependent on its partners for installation and service. It aims to offer a flexible service so that the customer can change the details of the installation up to the day of the install. Support is not an area where the service provider can fall short. However, AT&T believes its support processes have been tested and enhanced as a result of its eight-month trials. AT&T refers in particular to the support area on the Digital Life website, which includes videos and real-time web chat with experts.

AT&T is selling Digital Life through all its existing channels, using its existing (wireless and wired) contact centers and its company-owned retail stores. Channel support may prove a future challenge if and when AT&T makes distribution arrangements with other channels, such as retailers.

Strategic Partnerships

AT&T is the prime provider of the service to the consumer and integrates product and service components supplied by others. None of these partners has a direct relationship with the customer.

Cisco is the main partner to AT&T Digital Life supplying the home controller that is at the core of the offer.

Other vendor partners to AT&T Digital Life include:

- Yale, which provides the security devices (door locks)
- Honeywell, which provides thermostats
- Aon, which provides lighting
- Linear (a subsidiary of Nortek), which provides wireless security controllers.

On the installation/service side, it uses AT&T-branded partners:

- Four partner companies with networks of professional licensed security system installers
- Sears' national network of tradespeople (plumbers, electricians, etc.)

AT&T chose not to partner for the monitoring centers but to create its own. These centers are fully UL (Underwriters Laboratories)-certified by the insurance industry, so that customers receive the appropriate discount on their home insurance. AT&T is aware that this was a big decision, but it was crucial to control the service end-to-end and control the future roadmap.

Monetization

Because Digital Life is a completely new service, it will deliver new revenues to AT&T and not take away any existing revenues from the operator. AT&T has aimed from the start to have simple pricing for Digital Life; users get one price that includes all (3G wireless) usage, with no surprises.

Pricing is modular with two basic plans:

- **Simple Security:** from \$29.99 pm, plus \$149.99 for equipment & installation
- **Smart Security:** from \$39.99 pm, plus \$249.99 for equipment & installation

Smart Security add-on automation packages (additional charges):

- **Camera Package:** \$9.99 pm
- **Energy Package:** \$4.99 pm
- **Door Package:** \$4.99 pm
- **Water Detection Package:** \$4.99 pm
- **Water Control Package:** \$9.99 pm

All add-ons are also subject to additional equipment and installation charges.

The Smart Security Lifestyle Bundles are priced as follows:

- **Protect the Family:** from \$54.97 pm, plus \$549.97 for equipment and installation
- **Pet Care:** from \$59.96 pm, plus \$749.96 for equipment and installation
- **Gadget Guru:** from \$59.96 pm, plus \$749.96 for equipment and installation
- **On the Go:** from \$64.96 pm, plus \$899.96 for equipment and installation

All pricing is for a 24-month contract term.

AT&T intends to be the number-one player in the U.S. home security and home automation markets. Ovum's approximate estimation for the U.S. home security market is currently about \$10bn, based on collated figures from multiple public sources.

Success Metrics

Digital Life is a new offering, and so far, AT&T declines to release any subscriber numbers or forecasts. It reports that the broader Smart Security (home automation) package is the most popular bundle so far with customers, outselling the Simple package by a considerable margin. The majority of customers are also adding on the video, energy, and door add-ons.

All revenues and connections for Digital Life will be recognized in wireless connections and revenues.

Since bundling with other services is planned, with the first promotion launched recently, AT&T will need to measure how much Digital Life drives sales of other products such as wireless connections, tablets, and fixed broadband bundles, as well as churn reduction.

For More Information

To learn more about AT&T Digital Life, visit <https://my-digitallife.att.com/learn>.

To find out more about the AT&T, go to www.att.com.



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