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Internet of Things Market Pulse: The State of the Market

Perspective by
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Internet of Things Market Pulse: The State of the Market

The Internet of Things (IoT) has garnered significant attention in the last couple of years. From its presence at trade shows to the string of new product, partnership, and acquisition announcements, it is clear that technology providers are pushing aggressively to gain competitive footholds in the IoT market. However, there are many factors making it difficult to successfully chart the right course forward, including:

- Rapid growth of the IoT space
- Constant flow of new entrants
- Rebranding of many traditional companies as IoT providers
- General buzz around the topic

To successfully navigate the hype and target high value opportunities, technology companies should adopt a market-facts-driven approach to identify and prioritize IoT opportunities and develop new solutions to take to market.

This paper—the kickoff of Waterstone’s new Internet of Things Market Pulse series—gives an overview of the current state of the IoT market and includes relevant observations and findings within each of the five stages leading up to the launch of an IoT solution:

Stages of an IoT Business Launch



Each subsequent Internet of Things Market Pulse paper will focus in on one of the IoT business launch stages. By focusing on one stage at a time, we will be able to dig more deeply into the subject to provide thorough and relevant information on developments in the market and smart strategies for moving forward. In the meantime, here is some general information to lend an overall view of the market.

Waterstone Internet of Things Market Fact Base

The IoT trends and examples in this paper were drawn from the Waterstone Internet of Things Market Fact Base. We developed this comprehensive database of consumer and enterprise IoT assets to help our clients navigate the rapidly evolving, hype-filled IoT market. This continuously updated intelligence source, which is compiled from Waterstone’s client work, research efforts, and discussions with leading industry practitioners, includes information on:

Use Cases

Used for prioritizing and targeting high value use cases to take to market, including:

- High Value Use Cases
- Market Size Estimates

Landscape & Ecosystem

Characterizes the IoT ecosystem and tracks new entrants and investments, including:

- Startup Tracker
- M&A and Investment Levels
- Leading Provider Profiles

Offerings & Pricing

Helps understand example in-market solutions and associated user sentiments, including:

- Offering Architectures
- Pricing Models
- Solution Schematics
- User Surveys

Go-to-Market & Service Delivery

Aids in shaping go-to-market and service delivery models, including:

- Consumer Offering Channels
- Enterprise Partnership Models
- Solution Enablement

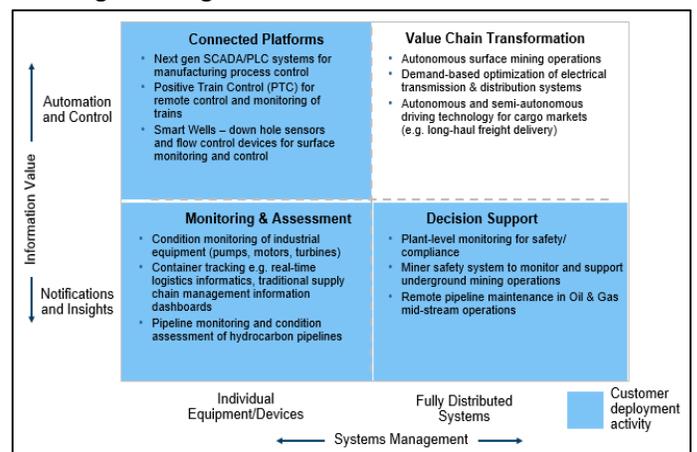
Stage 1: Use Cases & Opportunity Filtering

Opportunities exist to expand beyond simple monitoring use cases.

In both enterprise and consumer markets, the diversity and volume of IoT use cases continue to rapidly evolve. As seen in Figure 1, Waterstone segments use cases in the enterprise sector into four major categories:

1. **Monitoring & Assessment:** Use cases that detect changes in conditions of a particular environment or equipment
2. **Decision Support:** Use cases that provide real-time information and insights to help take preventative or remedial actions
3. **Connected Platforms:** Use cases that automate and orchestrate operational functions
4. **Value Chain Transformation:** Use cases that fundamentally change the business to a fully autonomous or semi-autonomous operation

Figure 1: High Value Use Cases in Industrial Sector



The first category—simple monitoring and alerting—is by far the most prevalent in the enterprise sector. Solutions that monitor high-value industrial assets and equipment (e.g., oil wellheads, electric transformers, and assembly lines in industrial plants) are increasingly being adopted. GE’s Predix is a good example of a solution that connects to and monitors a variety of industrial equipment such as turbines, motors, and pumps. Examples in the consumer sector include connected home monitoring solutions such as Vivint’s Sky home security monitoring, Wally Home’s moisture and water leak detection, and Emerson’s ComfortGard heating and cooling equipment monitoring service.

Providers looking to build on the success of monitoring use cases should consider higher value-add offerings around decision support and value chain transformation use cases as they present an untapped and potentially large market opportunity.

Stage 2: Market Entry Strategy Development

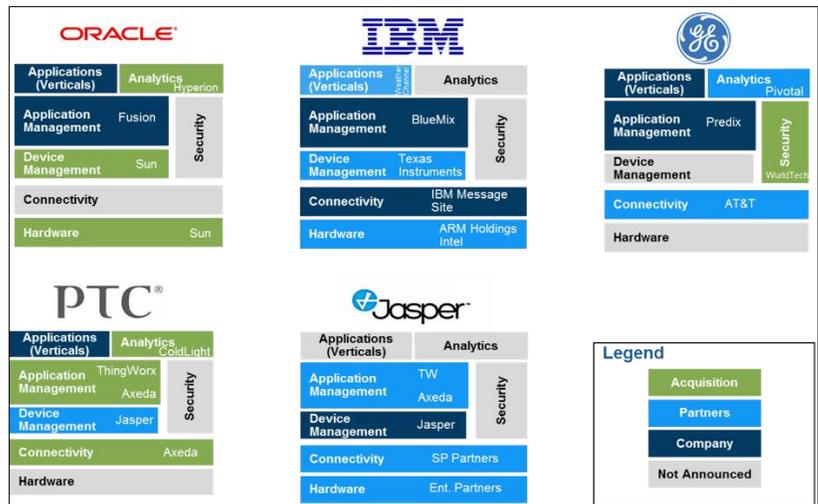
Incumbents are relying primarily on acquisitions and partnerships to enter the market.

Providers are largely relying on developing capabilities inorganically to enter the IoT market. Currently, most incumbents are accelerating entry through acquisitions and partnerships. Prominent examples include PTC, which entered the IoT market with the acquisition of ThingWorx and has subsequently broadened its footprint with the acquisitions of Axeda and ColdLight. Similarly, Samsung entered the market with its acquisition of SmartThings, a connected home platform provider. We also see a

predominance of partnerships being structured in the market. One example is IBM’s partnerships with data, technology, and services providers such as The Weather Channel, Texas Instruments, Twitter, and a host of others.

Driving market entry strategies is a critical need for end-to-end IoT solutions that are well integrated and can be deployed quickly. Providers must fully understand the components that are needed to take a complete IoT “stack” to market and consider acquisitions and partnerships to fill missing capability gaps in their solution stack.

Figure 2: IoT Solution Stack of Selected Providers



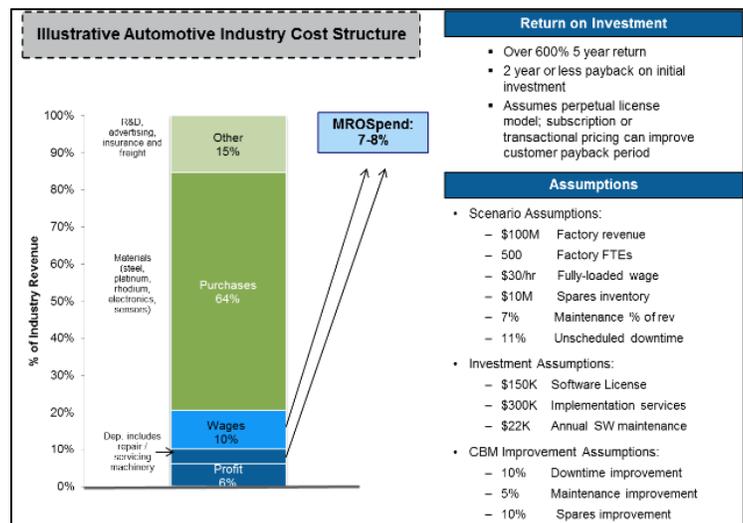
Stage 3: Offering Development & Testing

Enterprise offerings that emphasize cost reduction as well as consumer offerings that deliver on convenience and peace of mind are resonating in the market.

In most industry verticals served by enterprise IoT solutions, offerings that emphasize a cost reduction value proposition are seeing stronger traction. For example, based on customer research conducted by Waterstone, reducing maintenance, repair, and operations (MRO) cost is a key driver of IoT solution interest and adoption in the industrial and manufacturing sectors. The high return on investment (ROI) as shown in Figure 3 illustrates why monitoring to reduce MRO cost has gained traction.

In consumer markets, convenience and peace of mind are the primary drivers, particularly with connected home offerings as evidenced by the value proposition emphasized by home security offerings, lighting automation, remotely controllable appliances, etc. Providers developing new IoT offerings need to pay careful attention to aligning their solution value proposition with customer needs and pain points.

Figure 3: Illustrative ROI of Monitoring & Preventative Maintenance IoT Solution



Stage 4: Go-to-Market Model

Strategies are being shaped to strongly leverage indirect channels and partner ecosystems.

In the connected home market, several channel-based routes to market exist as shown in Figure 4 below. These channels include telecom and cable providers, home security providers, OEM manufacturers of home appliances, retailers, and pure-play providers of smart home solutions. Of these, the home security providers, particularly ADT and Vivint, have gained the most market penetration by far, followed by smart home pure-plays.

In the enterprise sector, providers are investing in developing ecosystems to help drive market penetration. Examples of this include:

- PTC’s ecosystem of 350+ partners
- Cisco’s ecosystem of industrial technology providers that includes Rockwell, Emerson, and Honeywell
- SAP’s partnerships with networking and telecom providers such as Huawei and T-Systems (Deutsche Telekom), IoT enablement partners such as Jasper, Industrial equipment manufacturers such as Siemens, and a host of others

Given that indirect channels and ecosystem partners are critical components of the go-to-market strategy, providers need to give careful thought to the reach and scale offered by existing channels and the desired mix of partners needed in their ecosystems. Getting this right can have a significant impact on the initial success of the offering in the market.

Stage 5: Services Delivery Model

Services that help drive adoption, ensure usage, and maximize customer value-capture on an ongoing basis need to be emphasized.

We see growing emphasis on capabilities around setup and deployment of the solution, whether they be simple installation and setup services in consumer markets or more complex portfolio of professional services in enterprise markets. One such example in the consumer market is SmartThings, which offers professional installation services to its customers via a partnership with Cross Country Home Services, the second largest provider of home warranty services in the US. In the enterprise sector, bellwether IT services firms, such as Wipro and Cognizant, have started to offer IoT services focused on architectural planning, solution design, and program rollout.

Figure 4: Consumer Sales Channels

| Telcos | Cable / Sat Cos. | Security Cos. | Appliance OEMs | Retailers | Smart Home PurePlays |
|---|---|---|---|--|---|
|  |  |  |  |  |  |
| <ul style="list-style-type: none"> • CenturyLink • Bell Canada • Frontier • Windstream • Verizon | <ul style="list-style-type: none"> • DirecTV • Rogers • Cox • Dish Network • Charter Comm • Cablevision • Brighthouse • Insight | <ul style="list-style-type: none"> • Monitronics • Protection 1 • Slomins Inc. • Central Security Group, Inc. • Protect America Inc. | <ul style="list-style-type: none"> • Honeywell • GE • Whirlpool • AO Smith • Carrier • Lennox • Phillips | <ul style="list-style-type: none"> • Staples • Best Buy • Fry's • Target | <ul style="list-style-type: none"> • Nest • Control4 |

The focus on these capabilities reflects the criticality of deployment-related services, particularly in enterprise markets, where there is a need to integrate new IoT solutions with existing operations technology and IT, drive nascent user adoption, and broaden the deployment footprint beyond pilot projects and selected departmental roll outs.

Given the strategic importance of services, IoT providers should give careful thought to the full suite of service capabilities that are needed to deploy their solution in customer environments, the delivery approach (i.e., service delivered through in-house or acquired capabilities or by partner ecosystem), and how these services get priced (e.g., separate a la carte services, built into IoT solution pricing, etc.).

The Importance of Facts

The potential for technology providers to capture value within the IoT market is enormous. However, it is a highly dynamic and rapidly evolving market fraught with hype and noise, making it difficult to navigate. It is paramount that technology providers take a fact-driven approach when formulating and executing their IoT strategies and plans, from identifying their 'plays' and shaping market entry plans to developing new offerings and designing their operating model.

Waterstone Management Group helps technology companies and investors create measurable value by identifying and capitalizing on disruptive growth opportunities and driving excellence in Services, Cloud, and Customer Success performance.

If you would like to learn more about the Waterstone IoT Market Fact Base and how it can be leveraged to maximize the success of your IoT strategies, please contact me to schedule a one-hour IoT market briefing.

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