Nest Learning Thermostat

Marketing Plan

MKT 338-004

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Executive Summary

Product Overview:

The Nest Learning Thermostat is a smart technological heating and cooling device that learns personal temperature setting preferences while saving homeowners energy and costs related. The founders of Nest Labs are Tony Fadell and Matt Rogers. Fadell and Rogers introduced the Learning Thermostat in Palo Alto, California back in 2011 [1]. The Learning Thermostat is synced with the app that can be downloaded onto a smartphone. The app allows you to regulate/change the temperature and produces reports. These reports display the data regarding the daily set temperatures, then learn from the data by regulating the temperatures to save the homeowner both money and energy. Nest Labs states on their product webpage, "independent studies showed that it saved people an average of 10% to 12% on heating bills and 15% on cooling bills. So in under two years, it can pay for itself" [1].

Section I:

The first section of the Nest Learning Thermostat marketing plan covers: category attractiveness category, competitive situation/analysis, and customer analysis. Category attractiveness will cover aggregate marketing factors, industry structure, and the environmental analysis. Competitive analysis will cover the company/competitor overview, finances, and the value chain analysis. Lastly, is the customer analysis that covers market segments and buying processes.

Section II:

The Nest Thermostat has many strengths, like being back by Google, easy installation, and energy savings. Despite these positive traits, the price is still very expensive compared to other competing thermostats, and software issues still arise occasionally. Threats like hackers and competitors creating similar products have arose as well. However, if Nest can push sales towards more businesses and continue to provide connectivity with other forms of technology safely, the product can be very successful.

Section III:

The third section covers the marketing and financial goals for the product. The Nest Learning Thermostat is one of the top choices for consumers in the smart thermostat industry. These goals and objectives will be carefully measured on a monthly basis over a six-month period. The marketing objectives consist of increasing social media presence, website traffic, and overall sales for the Nest Learning Thermostat.

Section IV:

This last section covers the basics of the marketing strategy such as: target market, the marketing mix, and the contingency plan. The marketing mix will breakdown the details of the Learning Thermostats': price, placement, product, and promotion.

Section I

Category Attractiveness Analysis:

a. Aggregate Market Factors:

Aggregate market factors involve the market size and growth. According to the Zion Market Research report, "the global smart thermostats market accounted for USD 1,294.1 million in 2017 and is expected to reach USD 7,904.4 million by 2024, growing at a CAGR of around 29.5% between 2018 and 2024" [6].

b. Industry Structure (Porter's Five Forces):

Competitive rivalry: There are about 10+ main competitors within the smart thermostat market such as, "Nest Labs (U.S.), Honeywell international (U.S.), Ecobee (Canada), Schneider Electric SE (France), Emerson Electric Co. (U.S.), Tado (Germany), Control4 Corporation (U.S.), Ingersoll Rand (Ireland), Carrier Corporation (U.S.), and Nortek, Inc. (France)" [5] according to the *MarketsandMarkets* report.

Buyer power: The selling price for each thermostat system among competitors varies. Listed are the base selling prices of Nest and other main competitors within the United States. Nest Learning Thermostat $249, Honeywell thermostat $200, Ecobee4 $249, Emerson Electric $160, Carrier Corporation's thermostat models range from $130-$170. The Nest Learning Thermostat is among the most expensive thermostats on the market alongside the Ecobee4.

Threat of new entry: The primary barrier to entry is the fact that most homeowners already have a thermostat within their home. Another barrier to entry within the smart thermostat market is finding unique features to set you apart from other competitors, being that most already are compatible with technological assistants/in-home systems.

Threat of substitution: Currently, Nest Labs does not face many threats of substitution since Nest has advanced data learning strategies that saves money and energy. Nest's unique feature that they advertise is how eventually the product will become smart enough to pay for itself.

c. Environmental Analysis (PEST):

Political factors: Government regulations and sustainability thresholds need to be met. Focus on energy consumption may help Nest attract a bigger market.

Economic factors: Electricity costs are increasing and aside from energy consumption, consumers are looking for products that can cut electricity costs and end up saving them money long term.

Social factors: Consumers within Nest's target market strive to be trendy, eco-friendly, and modern. By doing so, they like to have up to date technology to stay up to speed with new trends in their society.

Technological factors: The target market involves tech-savvy consumers who seek convenience and quick responses from smart applications and devices within their homes and lifestyle. The Nest Learning Thermostat is an advanced homeowner's technological device that provides convenience, peace of mind, and comfort by self-learning capabilities.

Competitive Situation / Analysis:

a. Company & Competitor Overview:

The Nest Learning Thermostat is now up to their 3rd generation product and it is designed to save homeowners energy and money. The Nest Thermostat sells for $249 on the market because of its reputable and high-end technological brand image. An article states, "It's one of the more expensive models, however Nest remains the best choice if you have the budget for it" [2].

There are other several smart thermostats on the market besides Nest Learning Thermostat. A few of the competitors on the market include the following: Ecobee4, Honeywell Lyric, and Netatmo Thermostat. The Ecobee4 has all the same technical abilities as the Nest but can also be synced with an Alexa (homeowner's technical assistant). The Ecobee4's selling price is listed as $249. Honeywell Lyric is compatible for Homekit households and goes for $200 on the market and was one of the first competitors of Nest Learning Thermostat. The Honeywell Lyric has a weather feature that predicts the weather and will adjust the temperature accordingly. Lastly, the Netatmo Thermostat is sold outside of the United States for £110 which implies that it is not too much of a competitive threat to Nest Learning Thermostats. Kim Wetzel from Digital Trends states, "The Netatmo works with gas, fuel, wood boilers, and heat pumps, and the company recently introduced beautifully designed, smart radiator knobs that give the thermostat even more functionality" [2].

b. Company & Competitor Finances:

Net Income = Nest Labs Inc. - N/A Nest Labs was acquired as a subsidiary by Google under the parent company, Alphabet Inc. Database, *NetAdvantage* has no available income statement for the subsidiary branch of Alphabet Inc. (Nest Labs) [7].
Ecobee Inc. - $35.4MM [8] | Honeywell International Inc. - $1,642MM [9] | Emerson Electric Co. - $2,090MM [10] | Carrier Electric - N/A [11]
Total Revenue= Nest Labs Inc. - $64.6MM [7] | Ecobee Inc. - $34.4MM [8] | Honeywell International Inc. - $42,275MM [9] | Emerson Electric Co. - $16,955MM [10] | Carrier Electric - $11,680.3MM [11]

c. Value Chain Analysis:

Nest Learning Thermostats' product design is created within their headquarters in Palo Alto, California. The design then comes to life when it is manufactured overseas in China. The Nest Learning Thermostat and Nest Learning Thermostat E are then available for purchase online through: their website, e-commerce websites such as Amazon, or within common retail stores such as Bed Bath & Beyond, Best Buy, Walmart, etc. Nest Labs offers answers to commonly asked questions by Nest consumers/users within their support section of their website. The company also offers a contact phone number, email, and chat service to follow up with customer reviews, complaints, troubleshooting questions after they have purchased their product.

Customer Analysis:

a. Market Segments:

The target audience for the Nest Learning Thermostat is primarily divided into demographic and psychographic market segments. Age, social class, and income are all demographic segments that Nest Labs considers when marketing their product. The Nest Learning Thermostat is marketed to the middle-class homeowners within the age range of around 25-50, and have a full time job with a moderate level of disposable income. Psychographics such as lifestyle and personal values play into Nest Labs' market segmentation. The Nest Learning Thermostat target audience lives an eco-friendly and sustainability conscious lifestyle. The target audience also values saving energy and convenience within technology.

b. Customer Buying Process:

The customer buying process involves: need recognition, information search and processing, identification and evaluation of alternatives, purchase decision, and post-purchase behavior. Consumers want to purchase the Nest Learning Thermostat for several reasons: they needed a new thermostat, wanted to cut costs on electricity, or were looking to be more eco-effective. Consumers would have needed sift through different devices on the market such as the competitors listed prior. Consumers would need to have considered which thermostats would be the most compliant with their technological devices. For instance, maybe a consumer who has an Android versus an iPhone would need a different heating/cooling system due to technological compatibility. Price and how much a consumer is willing to budget for a thermostat is a part of both the information search and evaluation of alternatives. Consumers would also compare and analyze the product features in order to move onto the next step of the customer buying process (purchase decision). Post-purchase behavior involves consumers being either satisfied or unsatisfied. Consumers who have purchased the Nest Learning Thermostat are most likely going to be satisfied with the cost-cutting ability and independent learning abilities of the product. If the user does not like the product, they may have to go through the return procedure. Nest Labs' webpage states their policy clearly as follows, "If you are not completely satisfied with a product purchased from the Nest store, you can return it within 30 days of shipment for a full product refund" [4]

Section II

Opportunity and Issue Analysis / Evaluation of Alternatives (SWOT Analysis):

A SWOT analysis was performed to help verify the current and future position of the Nest Learning Thermostat in its industry. The Nest Thermostat was found to have the following Strengths, Weaknesses, Opportunities, and Threats:

Table 1

Strengths	**Weaknesses**
1. Environmentally Friendly (Saves Energy) 2. Saves Money on Energy Bills 3. Easy Installation 4. Backed by Google	1. Expensive Price 2. Software Problems 3. Lots of Competing Thermostats
Opportunities	**Threats**
1. Push sales towards businesses rather than focusing on homeowners 2. More connectivity with other technology	1. Competitors being backed or joined by Amazon 2. More thermostats with sustainability aspects 3. Hacking Risk

a. Strengths:

One major strength that Nest provides is that it will save energy along with money on energy bills. Thermostats control most of the expenses on an energy bill, which makes saving energy very important to saving money. In fact, on their website Nest declares that it can pay for itself in 2 years or less due to the energy savings it provides. This reimbursement on energy savings is faster than most competing products.

Another strength of the Nest Thermostat is that it is very easy to install, and it is compatible with 95% of 24V heating and cooling systems. This is crucial because almost anyone has the capability to install this thermostat and save money on their next energy bill. Not only is the thermostat easy to install, but it is also accessible with an app on any phone, which allows the consumer to change the temperature of their home whenever they would like.

The final strength of the Nest Thermostat is their company is backed by Google. A Google Home can change the temperature of the thermostat with a simple voice command. This makes the Nest more accessible than any other thermostat on the market, which is a huge strength for the product.

b. Weaknesses:

The first weakness is the price of their thermostat. At $249 for their most popular thermostat, that is much more expensive than their competitors like Honeywell and Emerson. Nest has produced a cheaper thermostat starting at $169, however it is less compatible and still more expensive than most Wi-Fi thermostats offered by their competitors.

The next weakness that Nest faces is software problems. These are problems that a normal thermostat may not face, but due to the interconnectivity and capabilities of the Nest it may face these issues. These software issues may be problems that most people would not want to deal with, so they may choose a simpler and cheaper thermostat instead.

Another weakness of the Nest Thermostat is there are a lot of other competitors in this industry. Some people may not care enough about their thermostat to buy one as sophisticated as Nest's, so some consumers may be more inclined to purchase a cheaper one from a competitor.

c. Opportunities:

One opportunity for Nest is to push more sales towards more businesses, and maybe focus on individual homeowners a little less. Since businesses are looking for ways to become more sustainable and also save money, it would be a wise investment to have their heating and cooling systems controlled by a Nest Thermostat. This would also increase larger quantities of sales for this product, rather than individual homeowners.

Another opportunity for Nest would be to expand their thermostat to connect to even more technology. Nest has done this to an extent, by offering doorbells, security systems, and cameras that can be added to your home. However, Nest should focus on more sustainable products that can add energy to the consumer's home, like solar panels or other energy saving products. Nest already shows the consumer how much energy they are saving through their app, so they could add more products like that, so the consumer can be even more sustainable.

d. Threats:

Most of the threats that the Nest Thermostat faces is from competitors like Honeywell and Emerson. Nest is backed by Google technology, but if any of their competitors join forces with a company like Amazon and are compatible with the Amazon Alexa, that would be a major threat to their sales.

With more companies focusing on eco-friendly products, other sustainable thermostats will likely appear in the market as well. These are major threats to Nest, because their thermostat differentiates itself based on its eco-friendliness and compatibility. If their competitors can offer these same services for a cheaper price, Nest will face a major disadvantage.

Another major threat for Nest is hacking concerns. Whenever there is software involved, there can be people who hack into it. This can be very dangerous for Nest, because it could allow hackers an entry point into the homes of their users.

Section III

Where Nest is Going with Learning Thermostat:

Our team has calculated the goals for the Nest Learning Thermostat and what requirements the company should meet to increase online presence and sales for product in a six -month period. Based on our research, we believe the Nest Learning Thermostat has potential to increase sales by a tremendous amount and become the top of the line product in its industry.

a. Marketing Goals & Objectives:

Nest's current marketing strategy is to utilize humor in their advertisements to reflect the life of owning a home on a day-to-day basis to relate to the primary audience [12]. They can get creative and utilize this humor in advertisements targeting businesses to show how the learning thermostat can save them money in the long run.

Nest should start a marketing campaign around the learning thermostat that is geared towards businesses and demonstrate that the product can reduce energy costs, while tracking the amount of energy being saved.

The primary goal of this campaign should be to increase website traffic by 15% over the course of a six-month period for the marketing campaign. This data should be monitored on a monthly basis to see if the marketing tactics being implemented are attracting a new audience towards the learning thermostat.

The company should also aim to increase social media post engagements by 25% on Facebook and Twitter. This should be tracked on a monthly basis

b. Financial Goals & Objectives:

Based on our data from Zion Market Research, the global smart thermostat market is expected to reach 7,904.4 million USD by 2024 [6].

Consumers want to reduce electricity costs in the long run and sustainable products being the new trend in society will give the Nest Learning Thermostat a great opportunity to increase sales.

The Nest Learning Thermostat is at the top of the list for smart thermostats in its industry and has the best reviews from consumers compared to its 10 biggest competitors [13].

By 2020, Nest should aim to increase overall sales for Nest Learning Thermostat by 30%. This goal should be monitored on a monthly basis to track the increase in sales and measure if the company is reaching its target goal.

Section IV

Marketing Strategies:

a. Primary Target Market:

Nest has made multiple YouTube channel that provides videos that shows someone who does not like the Nest Thermostat such as the elderly, kids, teens, and pets. This leads to Nest's primary target market leading towards middle class, energy conscious homeowners in their late 30s to early 40s. This was not made for kids because they are not the ones who pays the bills. It is not for the elderly because they on need to keep their legs working efficiently and exercise in any way possible. This specific market male or female can control and monitor the temperature using the mobile app on their phone. It also allows you to access all of Nest's products including the Nest Cam and Nest Protect.

b. Marketing Mix:

Product- Nest is an ecofriendly thermostat created to save money and energy. It is a small circular pad that sits easily on a wall and can be controlled using the dial or with the app on your phone. The advantages of using the app are: it controls the temperature no matter how far away you are, learns from your schedule to minimize the amount of energy used, can sense when someone is entering the room (five meters away), and tracks how much energy is used and saved. People always enjoy saving money whatever way possible, Nest is the solution. Nest research shows that on a yearly average users can save $131 to $145[14]. Although it is typically used in a home setting, many small businesses enjoy using the product as well.

Price- Nest prices range from $150-$250 depending on the model. Their competitors' prices are as followed: $250 for Ecobee4 and $200 for Honeywell Lyric [15]. Nest has partnered with companies like ComEd, Liberty Mutual, and Airbnb to create some co-branding by signing up or making a purchase with any of their partners, you receive discounts and rebates on Nest products [16]. The price point is set on a higher price point do to its incredible technology. It pays for itself in only a year depending on the user's lifestyle. It will save users money no matter what.

Promotion- Nest currently has their commercials on YouTube featuring four videos promoting their various products. Nest thermostat, video camera, and smoke/CO2 alarm. The commercials create a humorous experience that displays everyone outside their target market. The target market for the thermostat are middle class, energy conscious homeowners in their late 20s to early 30s. The videos feature a dog, child, and a grandpa to provide a humorous ad for viewers while highlighting its features. As much as they are enjoyable to see, these videos need to be featured on television or Hulu. Amazon's Alexa is already compatible with the Ecobee4 and Nest should take advantage of an opportunity like this. This product would be highly marketable before the beginning of winter close to Halloween and end of spring heading into summer. It is during these times when the thermostat is at its peak value.

Place- Nest is available in many different retail stores and online from various sites. Companies such as: Lowes, Best Buy, Target, Home Depot, Walmart, Amazon, or on the company website. These distribution channels vary on inventory some are available in store, others require online ordering. Their only competitors include the Ecobee4 and Honeywell Lyric. Google now owns

the Nest Thermostat and could link with Google Home like how the Ecobee4 uses Alexa to control it wirelessly. However, the Nest does have the app which makes it easy to control and it learns from your patterns.

c. Contingency Plan:

Currently the product is doing great job using humor to point out users outside the target market. Commercials that are currently on YouTube are not being aired on television. This is the plan b if the current strategy does not work. This product needs to be aired during seasonal changes such as Halloween time moving into winter and spring around March when summer is approaching. It is during the transition into the warmer or colder months when heating and air conditioning unit are used the most. With Nest, it resolves the problem by saving energy and cost of your bills.

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*Madelon Castelvecchi – Section I