

## **Our gadget lust has reached a crossroads**

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Lost amid the endless parade of new devices at the Consumer Electronics Show is the much larger story of how the industry is undergoing one of its most radical shifts in decades.

Gadget-hungry consumers seem to have finally reached the saturation point. After exploding for three decades, the average number of devices owned by U.S. households has hit a plateau and is expected to decline in the coming years.

Never fear, Silicon Valley. This does not signal the end of the digital revolution, but a new phase.

In this new era, companies can no longer count on consumers continuing to add to their stockpile of gadgets. Instead, new devices, to succeed, will need to be able to perform the functions of several older ones, while working seamlessly with all the other devices in the household.

"The next decade will be defined not by growth in the number of those devices, but in what they do and their interoperability," said Shawn DuBravac, chief economist and research director for the Consumer Electronics Association, the trade group that hosts CES.

Three years ago, I wrote a column during CES about how the number of devices owned by the average U.S. household had grown from 1.3 in 1975 to 24 in 2008. I recently asked the CEA to send me the latest numbers, assuming that even with the tough economy, that number would have resumed its march upward since we've seen smartphones catch fire, and a host of new device categories such as e-readers and tablets. For these purposes, a gadget is just about anything that contains a chip of some kind, except appliances.

Boy, was I wrong.

The average number of devices was still 24 in 2011. How could this be?

First, DuBravac offered a cautionary note, saying the data are based on a survey, and the methodology and the devices that CEA asks about can vary from year to year. Indeed, he thinks the number may have crept up a bit.

Still, he said it's clear the growth in number of devices owned has slowed dramatically and he's expecting it to hit a plateau and possibly decline over the next decade.

Stephen Baker, an analyst for NPD, one of the most respected consumer research firms, went a step further. Baker said NPD's data indicate the number of devices has already flattened.

"At some point next year, we'll start to see a decline," Baker said.

So what's going on? Both DuBravac and Baker were in general agreement over the reasons.

For years, people have been replacing analog devices like a Walkman with digital equivalents like an iPod, while adding new categories like digital cameras and digital video recorders. They were also increasing the number of TVs and cellphones they owned.

Even the most wired homes can hold only so much, though, and even the most connected person can use only so many gadgets. But more important, these devices now perform multiple functions. A smartphone, for instance, is now your MP3 player, digital video and still camera, and personal digital assistant, as well as a phone. One device can replace five.

"The right tool for the right job is now often the same tool," Baker said.

It's not enough, then, for a gadget company to just launch a new device and hope you will make room for it. A company has to figure out how it will work with all the other devices you own, and how it can be extended to do other things.

The prototype of this next-generation device maker is -- no surprise -- Apple. With the launch of iCloud last year, the company now offers services that make it easier for your Macs, iPhone, iTunes account, iPad and Apple TV all to work together. Companies now need to think of a consumer's entire system of gadgets and how their product fits into that, DuBravac said.

The logical next step is the kind of connected home the industry has dreamed about and promised for decades. But thanks to the growing speed of wireless networks and the continued decline in costs, we're finally at the moment where it's possible and affordable.

To get a glimpse of what this connected home looks like, step inside the Saratoga residence of Josh Goldman, 46, where he lives with his wife and two teenage children. A venture capitalist at Norwest Venture Partners, Goldman has always been fascinated with consumer electronics and has at least 50 of them, so he's a bit of an outlier.

But he represents the bleeding edge of where many of us are heading as we connect more of our gadgets together.

His gadgets -- including multiple TVs, smartphones, iPads, several TiVo boxes, as well as Apple TV and Roku -- are all linked through a broadband network he had built within the home.

What strikes him is how much easier all of these things are to use and connect. Where it used to take heroic efforts to configure and network all these devices, increasingly he noticed that all he has to do is plug something in and it finds the other gadgets in the home.

He said his family has been delighted by simple things like taking photos on their iPhones and having them suddenly appear on their TV through their Apple TV box. Or using any Apple device to control and stream their music and videos through the TV.

"What used to be the realm of the hobbyist is now in the range of the average person."

So get ready.