

The Connected Car in Europe: Gaining market share with telematics

Telematics Update asked five of the top connected car experts in the industry about the best approaches to enhance adoption of connected services and revenue opportunities across Europe.

Turn the page to see what they had to say, and to see a brand new infograph of data...

This document has been produced exclusively in association with Telematics Munich, November 11th-12th, Europe's largest connected car forum.

Telematics Update white paper

September 2013

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COMPANIES INTERVIEWED:

STRATEGYANALYTICS



 WirelessCar

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A TELEMATICS UPDATE WHITE PAPER

Who pays for what, how, and who will benefit the most from the data captured in the process. These are some of the big questions that are being asked as the connected car industry shifts attention from growing market penetration rates to getting a return on its investment.

Last year, Telematics Update took the questions to the 700 or so attendees of Telematics Munich 2012, Europe's largest connected car forum. This year, we are revisiting them with five leading experts on the subject:

Roger Lanctot, associate director, Strategy Analytics; Michael Schraut, project manager, ConnectedDrive, BMW Group; Martin Rosell, managing director, WirelessCar; Marc Necker, manager augmented reality, Daimler AG, and Pavan Mathew, global head of connected car, Telefónica Digital.

You will find major differences of opinion between last year's survey results and this year's expert views. This is as much a sign of how fast the connected car industry continues to evolve as evidence of the nebulosity that continues to characterize the space.

Still, important points of consensus are beginning to emerge, at least when it comes to this year's connected car experts.

One is that connected navigation, which includes real-time traffic information and routing services, is what customers will be most willing to pay for in the foreseeable future. Remote access apps like Volvo On Call, which lets a smartphone-happy driver perform remote functions like car lock/unlock, view the dashboard or adjust climate control settings, are the runner-up when it comes to paid services.

Although pay-as-you-go may sound like the fairest way of billing for many services, including telematics in the price of the vehicle and monthly/yearly billing will continue to dominate, with mass-market OEMs like Volkswagen or Opel favoring the former and high-end car makers like BMW, Mercedes and Audi opting for the latter. Both are expected to use extended free trial periods as an inducement.

Four out of the five experts interviewed agreed that OEMs (along with dealers) will harvest the most data from connected cars. What remains to be seen, however, is whether they will succeed in leveraging that data into additional revenue from aftermarket sales of repairs and services.

To find out more about Europe's biggest connected car forum visit:

www.telematicsmunich.com

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Telematics Munich: An Overview

Telematics Munich 2013 (11-12 November) will discuss how to empower the consumer with connected services to position telematics as the key automotive revenue enabler.

- Join 800+ delegates and 100+ senior level speakers including BMW, Daimler, Volkswagen, FIAT, Opel, Ford, Toyota, Volvo, Car2Car Consortium, Renault, Allianz, Zurich, Emil Frey Group, Facebook, BBC, Vodafone and The European Commission in Europe's largest telematics forum
- The key topics of car connectivity (EU regulations, smart billing, dealerships & CRM, car-sharing, LTE connectivity, V2X and safety, insurance and fleet telematics, infotainment trends, key business models and emerging markets) will be discussed across 45 business focused sessions and case studies
- Pre & post show E-networker, 10+ hours of structured networking breaks and exclusive drinks parties in a relaxed setting

Find out more about the whole event at www.telematicsmunich.com

What is the top telematics service that consumers will pay for?

▶ Roger Lancot, Associate Director, Strategy Analytics:

I am inclined to say navigation services, despite the fact that there is some movement towards free. But doing navigation properly, with up-to-date map [data], reliable traffic information and appropriate alerts and routing, that has value. And people are willing to pay for that. Roadside assistance is pretty much freely available with any new vehicle. Emergency services ... I think people expect that and would be outraged to have to pay for it. [Remote diagnostics] will manifest itself in terms of accessing vehicle information on mobile devices, which already exists today, and consumer websites and dealer-facing websites, which are at the very earliest stages. But it's going to take a process of education before people will even be aware or interested in that, let alone willing to pay for it.

▶ Michael Schraut, Project Manager, ConnectedDrive, BMW Group:

Navigation services [with traffic information] are very important. Getting somewhere fast is, of course, very important, but so is knowing your arrival time. Fleet and security services are, of course, a very high priority for customers who manage fleets. Other things like in-car entertainment are interesting as additional services, but they are not core.

▶ Martin Rosell, Managing Director, WirelessCar:

On a global scale, there will be a number of different answers to this, depending on geography, culture and things like that. Do you pay for stolen vehicle recovery? Well, if you are in Russia, obviously you do, and for good reasons. But do you do that in Europe? Not really. In the United States, you pay for emergency call [services]. Fleets? Definitely when it comes to commercial vehicle telematics, but there are also really interesting new areas like car sharing or car pooling. Connected car services, remote diagnostics? I think people are interested in paying for [services] like the Volvo On Call app, which lets you see where the car is, you can get notifications, you see a lot of information. In-car entertainment? People will pay for it, to a certain extent. But I will never pay for a new subscription for Spotify. I have it on my mobile phone [already]. However, I am willing to pay for the phone integration into the head unit. Connected navigation services? Definitely. They are very much focused on the core value of using a car, particularly when it comes to big cities with traffic problems.

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► **Marc Necker, Manager Augmented Reality, Daimler AG:**

Certainly people will be willing to pay for navigation services like TomTom Live Traffic because these systems actually cost money to operate. So you have to charge money for it. The question is how much of it will be a commodity in something like ten years. I don't believe people will pay for in-car entertainment. What would that be? Renting a video? Commercial fleet operators pay for fleet and security services today, and they will pay in the future. And I think people would be willing to pay for connected car services like remote activation of climate control, remote door unlock and remote configuration of radio settings or MP3 uploads to the vehicle. Still, it's difficult to say if the whole connected services stuff will be a huge source of revenue for the car manufacturer. I personally don't believe that we will make a huge amount of money. People expect that the vehicle will do stuff like this. So it will [eventually] become a commodity.

► **Pavan Mathew, Global Head of Connected Car, Telefónica Digital:**

There is a little bit of variability between regions. In the U.S., it's diagnostic- and safety-related services, and I believe it's the case in Europe too. But it's changing [there] because of some of the news that eCall is making. I am not sure if it's reached the consumers yet, but it's obviously reached the automakers and the ecosystem, and they are almost making it sound as though vehicle diagnostics and safety-related [services] may be included in the price of the vehicle. In that case, I would say that infotainment is creeping up in Europe. But it's a [very] early stage, and only a handful of items qualify [at the moment]: things related to navigation and things related to music or radio. Eventually, if you – and I am talking five, ten years down the road – bring some autonomous driving type of applications that are revenue-based, I think you'll have something cooking and something huge.

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How do you think the future EU consumer will pay for telematics services?

► **Roger Lancot, Associate Director, Strategy Analytics:**

If I am a consumer, I don't want to pay. If I am a car maker, I want to make sure everybody is paying. The direction of the market is towards a long-term free, sort of extended trial subscription period with some kind of a [base-level] service and then some very attractive step-up propositions. Having all cars connected is too important for an OEM to allow people to drive off the dealer lot without something being activated. We are [also] at the earliest stages of enabling more flexible payment propositions. The companies that provide these sorts of flexible payment platforms on the wireless side are just beginning to come over to the automotive side. Pay-as-you-go, pay-per-use, on demand, advertising supported, everything will be on the table. But the infrastructure elements are not in place yet, and they will take a few years.

► **Michael Schraut, Project Manager, ConnectedDrive, BMW Group:**

For our business customers, it's interesting to have [telematics services] in a kind of [prepaid] package. They don't want to go to the boss every month and ask if they can buy additional services. For private customers, I think it's interesting to have a monthly or annual [billing]. The user should really understand what he gets, and a time-based [billing] is a good way. [Pay-as-you-go] depends on the situation. If you are renting a car, it might be interesting because it's not your car, and you just need it for the ride. But once you own the car, I think flat rates are more interesting.

► **Martin Rosell, Managing Director, WirelessCar:**

Initial price of the vehicle, like BMW in North America, which includes BMW Assist for ten years. People are starting to follow this. In China, it's 36 months included in the car because, in China, the average car ownership is 36 months. Then you have a discussion about the second owner, and then it comes to connected [customer relationship management] CRM – how do you make sure to keep the relationship with the second owner. That's going to be important as well. [Many] connected car services will be provided for free because OEMs and dealerships want information to increase aftermarket services. That's where the big volumes are. I can imagine all manner of business models will be used to some extent, but I think it will be [mainly] initial vehicle price and some sort of a pay-as-you-go model. And [here] I can see navigation or traffic information as one good option. ... All of our customers are looking into more sophisticated functionality in subscription and service management.

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► **Marc Necker, Manager Augmented Reality, Daimler AG:**

Initial vehicle price and annual payments will be the payment methods in the automotive market. I don't see pay-as-you-go as becoming too important. The initial vehicle price will be one major thing because people will expect that their cars can do certain things. And then there is the annual fee for certain services. This could also be a monthly fee. Personally, I don't believe there is much of a difference between a monthly and annual fee. [About pay-as-you-go,] I don't believe that's what customers want to have in the vehicle. They are used to the vehicle working the same every day. I also don't think it's a desirable [solution] for car manufacturers. It involves too much overhead. And you have to install tracking and billing systems that track every usage of the system. It could be an option for very specific services like music, for example, but even there people expect a flat rate these days. Maybe for a video rental service, if you want your kids to watch a video, but then it's hard to say if this is still a connected car service.

► **Pavan Mathew, Global Head of Connected car, Telefónica Digital:**

If you look at some of the mid- to higher-segment vehicles – this would be BMW, Mercedes, Audi – I think there you are going to have value-added services that customers [will buy]. They will say, 'Oh, that's available. Yes, go ahead and include that.' They are a little less price-sensitive, and you can develop services that appeal to them. If you look at mass-market vehicles like Volkswagen or Opel, I think services are going to be priced in. If you think about what airbags and power windows are [to the car engineering space, in the telematics space] it will be eCall, it will be standard diagnostics, and I think it will be mobile phone integration.

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Who will harvest the most data from connected cars?

▶ **Roger Lanctot, associate director, Strategy Analytics:**

IT companies. They will play a central role in capturing and managing that data, IBM, Oracle, these kinds of organizations. Carriers will certainly touch all the data. It will come through the carriers. But the lowest common denominator for all data will be the IT provider.

▶ **Michael Schraut, project manager, ConnectedDrive, BMW Group:**

OEMs, of course, have the most opportunity to get data. Telematics solution providers? I am not sure about them. They are usually somewhere on the back end. Yes, we send data to telematics solution providers, such as traffic data collected by our own cars. Telecom companies do a lot of things [as well.] Again, traffic information is also measured by the movement of cellular phones. But we have to be careful that we don't do anything the consumer might not like.

▶ **Martin Rosell, managing director, WirelessCar:**

Dealerships and OEMs, and you cannot mutually exclude them. They are the same thing. OEMs can never get what they need without the dealership being involved, and vice versa, because the dealership owns the customer, and the OEM controls the product. This is about the combination of CRM and VRM, customer relationship management and vehicle relationship management. ... There are also some really neat examples of telecom companies taking advantage of this data and using it for a lot of value-added services. But will they be allowed to do that [in the automotive space]? No, not at all. This is about data integrity – who owns the data, what can you do with the data. There are laws and regulations about that.

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► **Marc Necker, manager augmented reality, Daimler AG:**

I could imagine that the premium manufacturers like BMW, Mercedes or Audi will try to avoid working with telematics solution providers. And those car manufacturers that want to have a cheap, off-the-shelf solution will work with telematics solution providers because it's too expensive for them to build up their own systems. Dealerships are only 2% here, and I believe that dealerships will harvest more data. When you go and have a car serviced, all the diagnostic data will go to the dealership and will be harvested there. I think dealerships are underrepresented here, and telecom companies are overrepresented.

► **Pavan Mathew, global head of connected car, Telefónica Digital:**

I would say it's the OEMs. They decide what data needs to be communicated to a mechanic, what's readable [to whom]. ... But not all OEMs are going to find the data valuable or spend the resources/have the people to spend a whole lot of time thinking about how to monetize that data. [For mobile network operators,] there is some value there [as well] in the sense that once you have usage data, you can much better develop bundles of services [tailored to] how services are consumed, where they are consumed, etc. If you look outside the industry, cable operators are very good at bundling services. For the life of me, I can't get my cable bill under \$100 a month. And I think telcos are too. Clearly, there is an opportunity for us to learn how the vehicles are used, learn how some of these services are consumed, when, how much, where. I think that's where we can benefit. [But the OEMs will remain in control] because, at the end, it's the OEMs that bear the risk of how the data is used. In Europe, especially in Germany right now, there is a whole lot of sensitivity around how data is being used. A misstep by anyone carries a lot of risk.

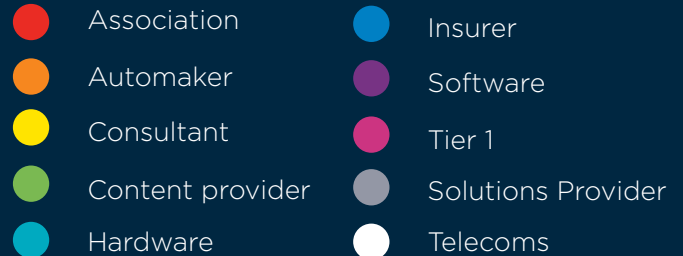
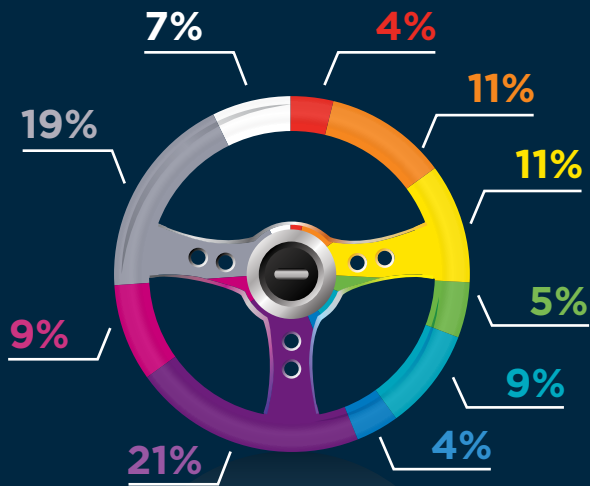
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The Connected Car in Europe: Gaining Market Share with Telematics

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1. What is your company category?



More than 90% of new cars sold in 2025 will come with factory-fitted telematics, **up from around 10% today** (SBD Research)

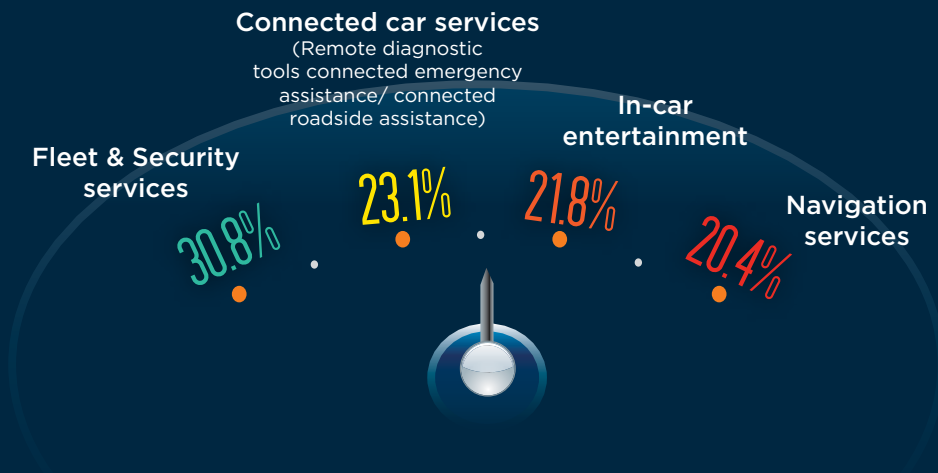
2. What country are you from?



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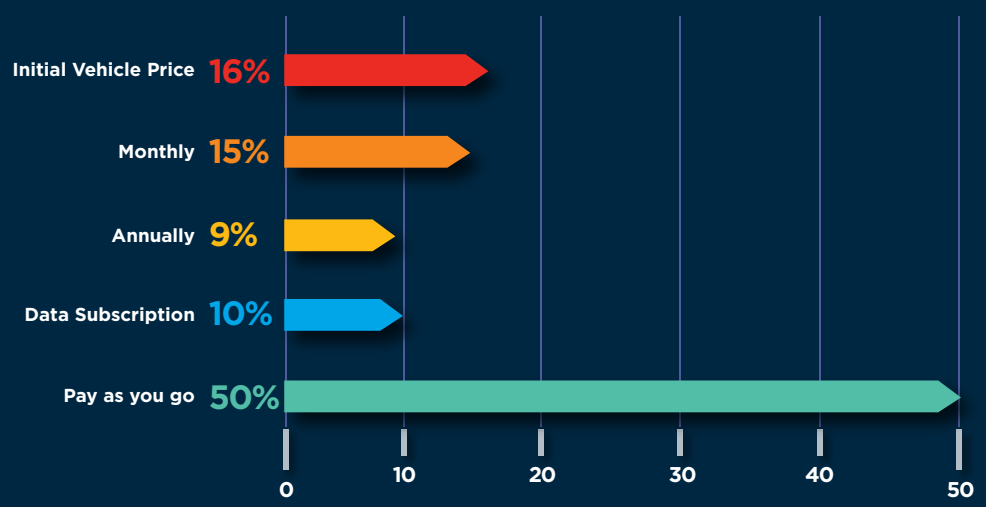


3. What is the top telematics service that consumers will pay for?



By 2016 automotive telematics is likely to be the largest contributor of the M2M market representing **\$15.5 bn** (ABI Research)

4. How do you think the future EU consumer will pay for telematics services?



Machina Research predicts revenue of **€714 bn** (\$933 billion) by 2020 for M2M overall.

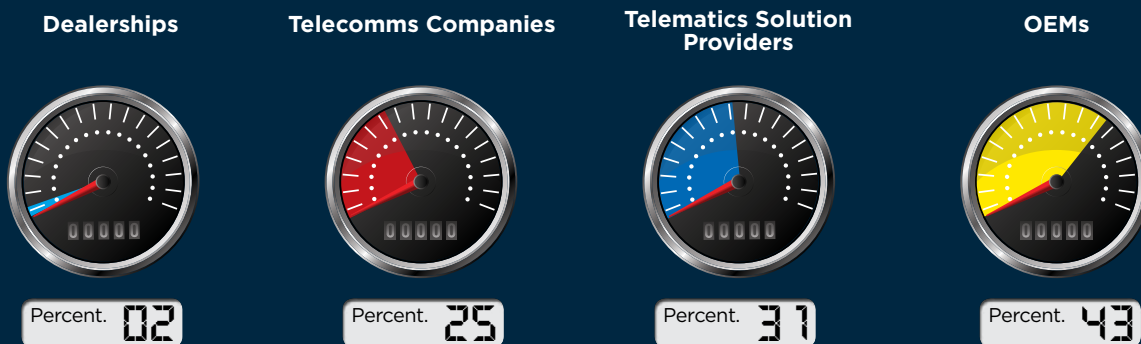
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There will be **44 million** European insurance telematics users by 2017, compared with **1.5 million** in 2010. The two largest markets are UK and Italy. (ABI Research)

Berg Insight forecast shipments of **15 million** OEM telematics units by 2015 thanks to the pan-European eCall safety system.

5. Who will harvest the most data from connected cars?



All data taken from 700 Telematics Munich 2012 Attendees

Telematics Munich 2013 is Europe's biggest connected car forum, with over 800 delegates in attendance.

Discover more at: www.telematicsmunich.com