

YOUR CUSTOMER IS CONNECTED - ARE YOU?

INDUSTRY INSIGHTS | AUTOMOTIVE



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INSIGHTS FROM: 2013 CONNECTED AUTOMOTIVE CONSUMER STUDY

EXECUTIVE SUMMARY:

Overview

This paper summarizes high-level findings from a proprietary research study conducted with new vehicle buyers in early 2013. Participants were asked to confirm their awareness of current Connected Vehicle (CV) offerings, and to identify their expectations for, and perceptions of, various future services. It was conducted by CGS Advisors with a random sample of consumers in the United States that acquired new vehicles within the past 24 months. Covisint Corporation, a leading provider of Automotive Connectivity Solutions, sponsored the research study.

Summary of Findings

The study found that respondents have a high level of awareness of connected vehicles, and are optimistic about the value that CV services will provide in the future. Respondents also feel that CV services provide the manufacturer with an opportunity to significantly improve their relationship with vehicle users. They indicated that the biggest general value of the CV is to save them time as the vehicle integrates with other personal and mobile devices. These elevated expectations by consumers may be influenced by experiences with non-automotive connected devices (smart phones, tablets, gaming systems, etc.). Consequently, it is concluded that automotive OEMs have relatively high user experience expectations to meet in their connected vehicle offerings.

Implications to the Automotive Industry

The connected vehicle is here to stay, and it has some dramatic implications for the auto industry moving forward. First, the auto industry has historically viewed the vehicle as a stand-alone device and, as such, the industry has been very “vehicle centric”. However, the world is changing. Consumers have existing personal devices and services, so their expectations have already been set by these experiences outside of the vehicle. Soon, automotive OEMs will recognize that owners are increasingly seeing themselves as users at the center of a network of integrated personal devices and services. Automotive OEMs that place the user at the center of their strategy are more likely to succeed in this newly connected world.

Second, the CV allows the OEM the opportunity to connect during the user’s full ownership period. In effect, the vehicle becomes the ultimate touch point as part of a very robust Customer Relationship Management (CRM) opportunity. It is estimated that automotive OEMs and their retailers have spent an average of ten hours with its customers over the duration of the 1,460 days, or four years average ownership period of a vehicle. With the CV, the OEM can conceivably collect vehicle-in-use data for each of those 1,460 days. That data can be tremendously valuable in monitoring and improving the customer relationship.

Finally, as with other personal mobile devices, it is expected that the CV will generate an explosion of data that will be exchanged inside and outside of the vehicle. It will be possible for the OEM to create value added services through an interoperability platform. This model will become critical to an OEM’s success. An integration platform to manage the very large data and its requirements will be necessary to meet these needs. However, the creation of such an integration platform inside each auto OEMs is not very practical. Therefore, the need for automotive OEMs to find strategic integration partners that provide the necessary competencies will quickly be realized.

THE CONNECTED VEHICLE: THE NEW NORMAL

For decades, the basis of competition within the auto industry has been vehicle styling, performance and value. In the language of the industry, the “main thing has always been the main thing,” and that is the product. In the industry, everything orbits around the product, including customers.

The CV has created a disruption to the stability of competition within the auto industry. CVs change the notion of the vehicle being a closed, standalone device. In addition to style, performance, and value, connectivity is a potential differentiator, and changes the basis of competition in the industry.

**A CONNECTED VEHICLE IS
DEFINED AS ANY VEHICLE WITH
THE CAPABILITY TO CONNECT
TO THE INTERNET TO SEND OR
RECEIVE INFORMATION.**

Specifically, CVs have the ability to upset the current competitive balance in the industry. It is observed that automotive OEMs are entering a new era that uses the dominant automotive industry logic of treating connectivity as just another feature in the vehicle. This is a major misunderstanding of the transformational potential that CV services may have on personal transportation.

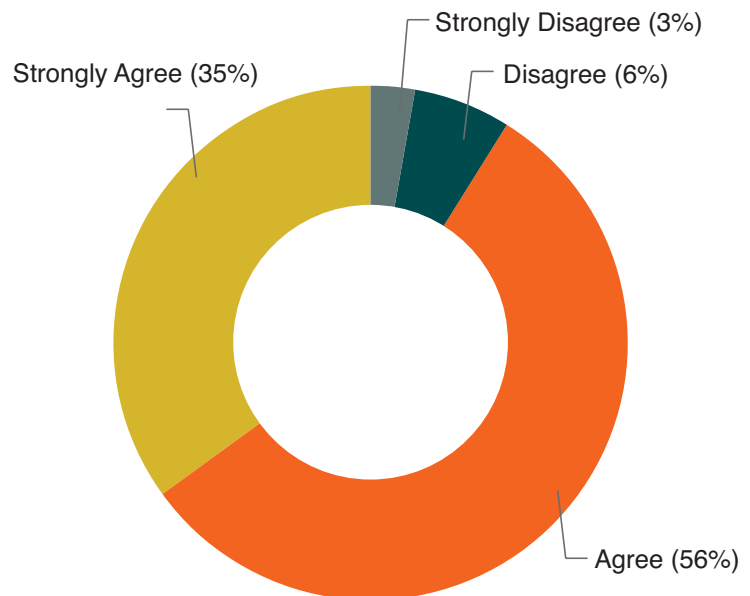
THE IMPENDING EXPLOSION OF CONNECTED USERS

High Awareness Already Exists

The study found that respondents were aware of a broad array of devices and products that have the ability to connect to the internet. Although only approximately 23% of the survey respondents currently use a connected vehicle, the majority felt that connected vehicles are on the horizon. As can be seen in Figure 1 below, over 90% of the respondents who expressed an opinion, felt that all vehicles will provide connectivity in the future.

It is felt, that the high level of awareness about connected vehicles is tied to the exposure to the various solutions that have been in the market for several generations of vehicles (e.g. GM OnStar, Ford Sync, etc.). In addition to automobiles, over 80% of survey respondents were also aware of other connected devices including: connected appliances, lighting, home energy solutions, security systems, and even picture frames. This is most likely due to the fact that all kinds of non-automotive connected products are also permeating many facets of everyday life. In the future, consumers may have higher expectations of services that should be offered in vehicles based on consuming similar services with other devices.

Figure 1: Level of Agreement - All Cars in the Future Will Connect to the Internet



A Positive Outlook for the future “Connected Vehicle User”

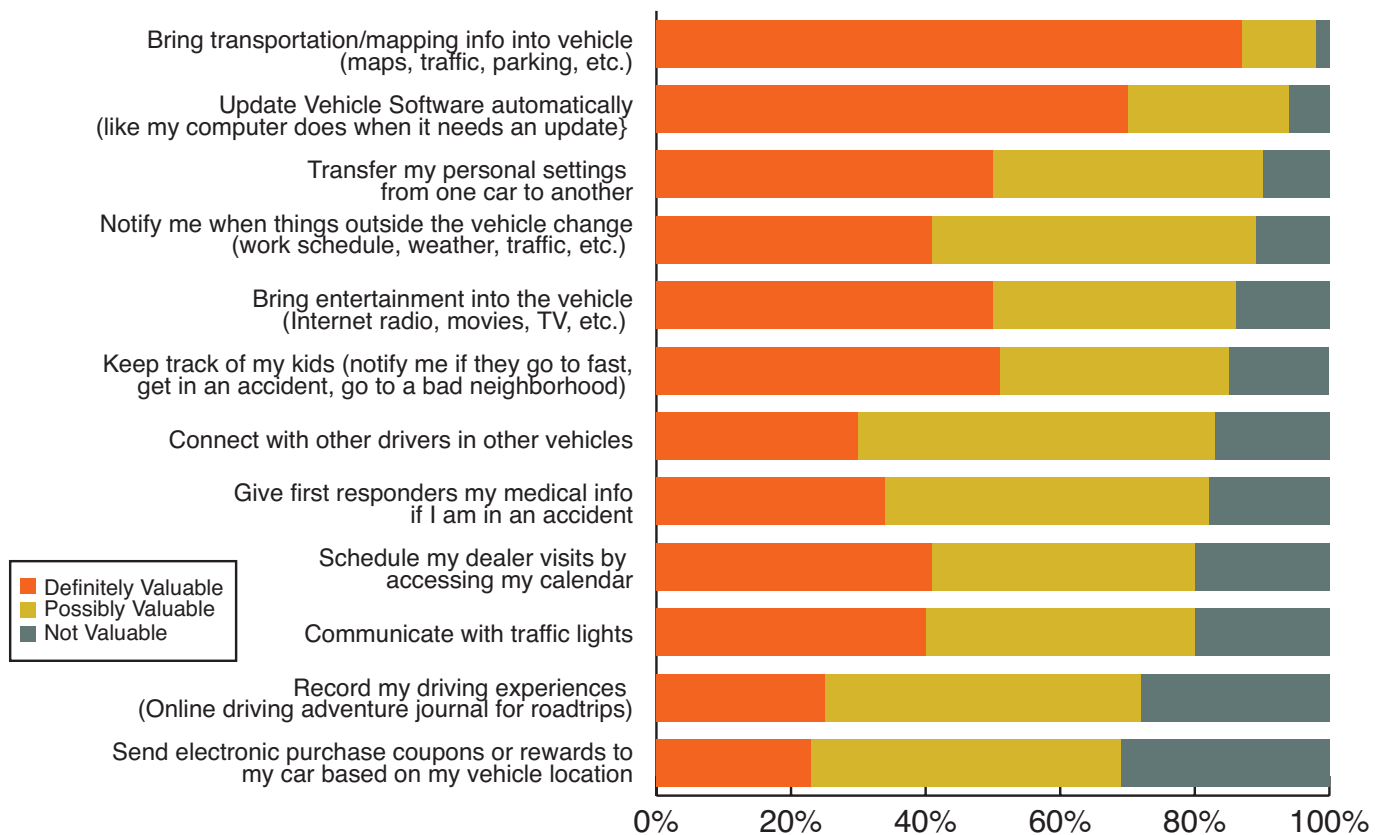
Survey respondents displayed a favorable outlook toward the future CV offering. Over 40% of respondents claimed to be outright enthusiastic about what lies ahead, and 53% indicated they had a “wait and see attitude”. Only 7% of the respondents classified themselves as skeptical about the prospects of the future connected vehicle.

As shown in Figure 2, when selecting from a list of current and potential connected vehicle services, respondents’ top three choices in order of highest perceived value were:

1. Bringing transportation information (maps, traffic, available parking) into the vehicle;
2. Updating vehicle software automatically (like my computer when it needs an update);
3. Transfer my personal settings from one vehicle to another (for example, from owned vehicle to rental vehicle, or within a shared vehicle).

It is no coincidence that each of the top three services above currently exist with other connected devices. Transportation services are available through mobile devices (smart phones and tablets). Updating and keeping operating systems and software current, directly from the OEM via the Internet, is a standard for personal computers and mobile devices. Saving favorites, home pages, and profile settings and transferring them automatically from device to device, is an emerging standard for personal computers, tablets, mobile phones, and even gaming systems.

Figure 2: Perceived Value of Connected Features



It seems that expectations for connected vehicle service categories, and service levels within those categories are being set outside the automobile industry by other connected devices. The implications of this observation are not trivial for automotive OEMs. If other technology devices are setting the user experience standards for connected vehicles, they are also likely setting user expectations about pricing and even partnerships.

It is also no coincidence that each of these most highly valued services represents real efficiency benefit to enhance the driving experience. En route transportation information helps economize the driving time, while automatic and remote updates to vehicle software avoids unnecessary dealership service visits to plug and flash software. The transfer of personal preferences ranging from radio channels to automatic transmission shift points (i.e. sporty versus economy settings), allows the driver to get straight to the business of his or her preferred driving experience. It is not surprising that respondents identified that the largest benefit of the connected vehicle is to “save me time.” Alternatively, it might also be proposed that eventually an “unconnected” vehicle (i.e. one that does not connect for the services preferred above) could be perceived as a vehicle that “does not save me time” or, even worse, “wastes my time.”

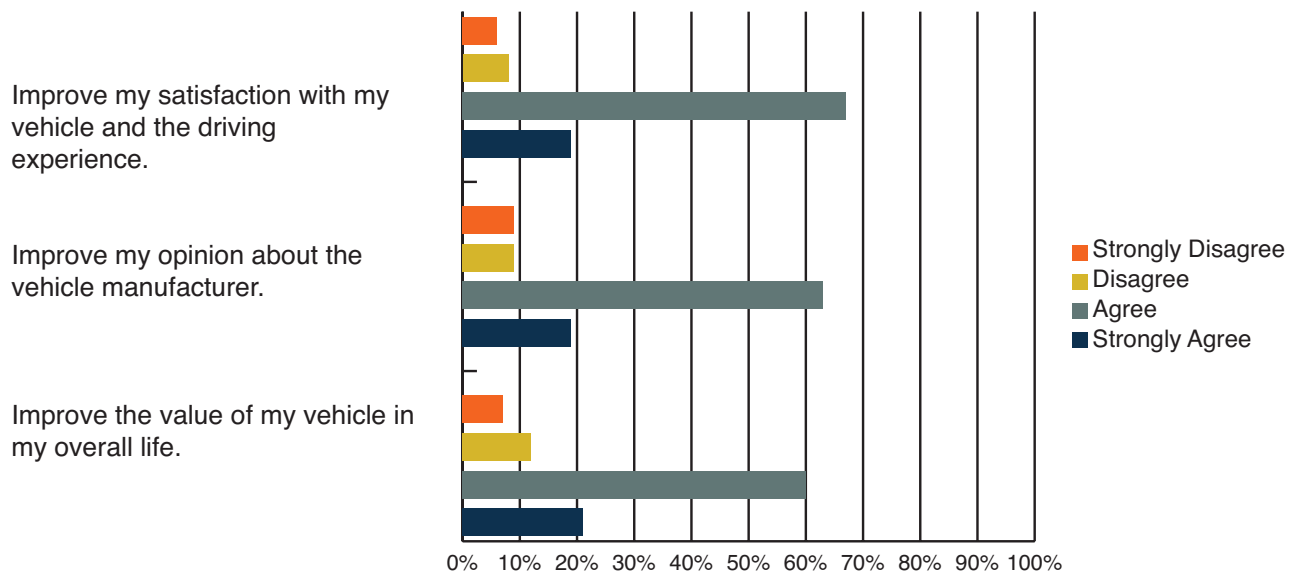
User Expectations for OEMs on the Rise

Survey respondents were quite optimistic in their outlook on the opportunity that the connected vehicle creates for the automotive OEM. Respondents overwhelmingly agreed that the connected vehicle represented the core opportunity to improve user satisfaction with their vehicle, their opinion about the vehicle manufacturer, and the perception of the value of the vehicle itself.

**84% OF SURVEY
RESPONDENTS BELIEVE
CONNECTED DEVICES
WILL SAVE THEM TIME**

The respondent's optimism about future connected vehicles is more likely influenced by their experiences with other non-automotive connected devices (i.e. smartphones or tablets) than the trajectory of new product features that are likely to be offered by automotive OEMs.

Figure 3: Type of Impact Internet Connected Vehicles Have on Ownership Experience



For example, respondent's expectations for enhanced route planning and enhanced transportation information (the number one preferred connected service in the survey) may mean that users expect that the results of their preferred route planning service is contextually aware, integrating with their calendar, and preferred routes. This information may be developed or designed by the user prior to vehicle use and is expected to be seamlessly and remotely transferred into the vehicle before departure. It is not expected that users will be receptive to the scenario in which he/she must bring the end address information into the vehicle, manually enter it into the OEMs proprietary navigation system (or even via an OEM controlled owners portal), and wait as it re-calculates the route, potentially using a different set of available route planning criteria.

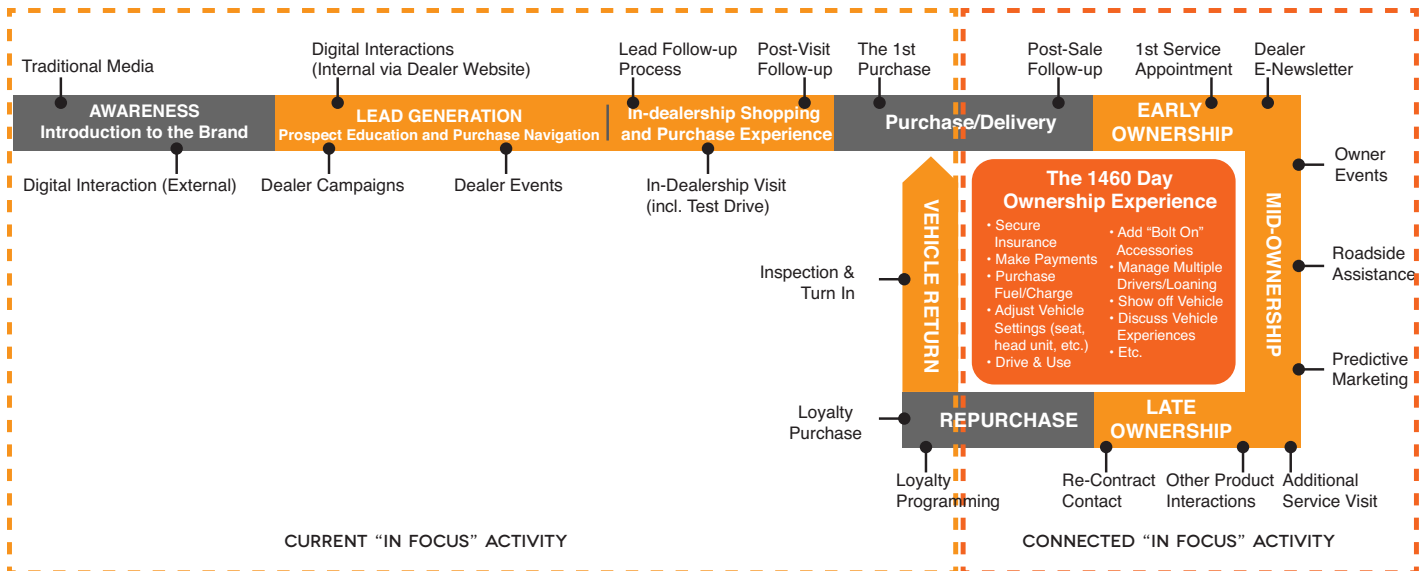
In short, if automotive OEMs continue to put the vehicle at the center of the connected picture, they risk misalignment with the rest of the connected society where the lens has shifted to have the user at the center. When viewed through the lens of the user, the vehicle is yet another device. The user view is that the vehicle needs to be connected in a manner that is seamless with all other devices in "user orbit". Vehicle proprietary features that are not architected for integration with other connected experiences will likely appear to be isolated, and the brands that produce them risk being viewed as isolationist in their thinking towards connected. We suspect that automotive OEMs' connected vehicle offerings that seem insulated from the rest of the connected society risk being perceived as wasting user time.

The Connected Vehicle – The Most Important Customer Touch Point

Over the past decades, automotive OEMs have built Customer Relationship Management (CRM) practices to deliver meaningful, differentiated experiences to customers which were intended to build owner loyalty. However, the idea of creating and managing a customer relationship through a set of limited, periodic, and infrequent touch point apertures that occur during ownership, is not seen as optimal.

If a customer owns and operates a vehicle for four years (or 1,460 days), it is estimated that the customer would likely have interaction with the entire automotive value chain of OEM (brand), Captive Finance Company and Retailer on less than 20 of those days with an average duration of about 30 minutes per interaction. This equals about ten hours of opportunity over four years to improve the likelihood of a repeat purchase. There is a great deal of investment riding on those few touch points.

Figure 4: In Focus Activity for OEMs is shifting from Pre Purchase Marketing to Integrated “In Use” Interactions



Furthermore, the governance over those touch points is fragmented across vehicle OEMs, retailers, retail groups, and even autonomous OEM Captive Finance companies. There is limited evidence that suggests that the necessary maturity exists between these fragmented stakeholders such that a consistent customer experience can be delivered at any given customer touch point. In some cases, each of these unique stakeholders has its own CRM strategy, which, unfortunately, is not harmonized with the others. Automotive OEMs are likely to acknowledge that they have underutilized, incomplete, or incorrect customer data. Consequently, it would appear that automotive CRM practices have some real challenges to overcome to fulfill the promise of managing a customer experience to enhance owner loyalty.

The Vehicle as the 1,460 Day Touch Point

In the connected world, the vehicle becomes the ultimate touch point. The connected vehicle will sense and aggregate usage data that can be accessed by the user, and shared (with the user's consent) with third parties. In return, the user will receive valued services that enhance the vehicle or other life experiences. Even on days that the vehicle user does not occupy the vehicle, it can transmit a daily operating health report to the user's mobile device summarizing readiness (fuel levels, tire pressures, battery charge, software version, etc.) to perform as expected on its next use.

THOSE 1,460 DAYS BETWEEN NEW VEHICLE PURCHASES, WHEN THE CUSTOMER BECOMES AN OWNER AND USER OF THE PRODUCT, HAVE NEVER BEEN MORE CRITICAL TO THE SUCCESS OF THE AUTOMOTIVE INDUSTRY.

The connected vehicle is capable of on demand sending and receiving data to/from its user, or autonomously sending and receiving data (with user consent) to/from third parties for maintenance from dealerships, or other commercial service providers.

The value of this data exchange can be quite extraordinary if available to the automotive OEM in a manner that is met with consent from the vehicle user. In this survey, respondents confirmed a willingness to exchange data about their vehicle-in-use patterns for certain connected vehicle services being provided to them at no charge. This is analogous to the current monetization schemes for various internet services where content is offered for free in return for monitoring usage data and catering third party advertising directly to the user.

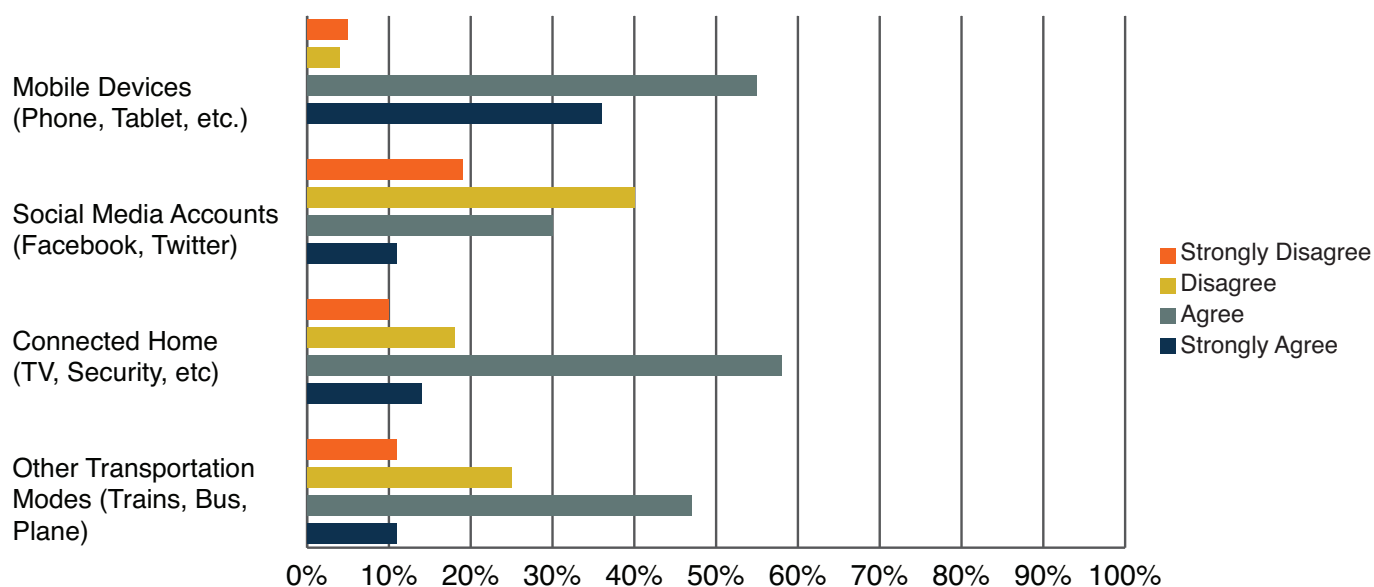
THE MOST FAVORABLE PRICING MODEL ALLOWED CONSUMERS TO SHARE VEHICLE-IN-USE INFORMATION WITH OEMS IN EXCHANGE FOR “NO CHARGE” CONNECTED SERVICES.

OEMs have not placed a marketing emphasis on the phase in the relationship lifecycle that matters most: the vehicle ownership period. In contrast, the high tech industry focuses the majority of its relationship efforts on product or service usage. With the emergence of the connected vehicle, automotive OEMs now have the opportunity to rethink their CRM approach and to incentivize users to share their vehicle-in-use experiences and data just like portions of the consumer-focused, high tech industry.

Integration – the New Strategic Weapon

A third major implication of the research is that the CV will create and consume tremendous amounts of data that consumers are willing to share. This will present a very large integration challenge in allowing services to be accessed across multiple devices, including the CV.

Figure 5: Importance of how their vehicle must integrate with other aspects of their connected lives

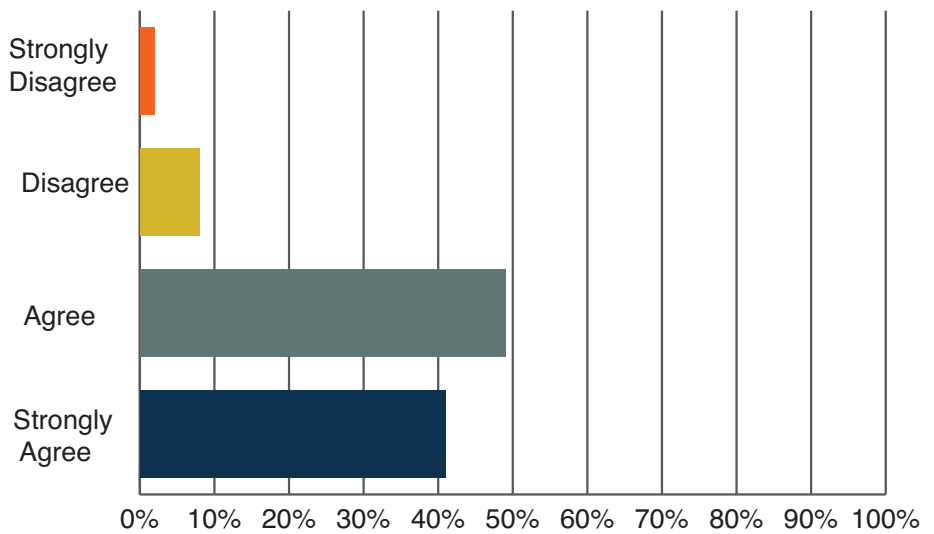


One of the most fundamental ways to think about the disruptive effects of the connected vehicle on the auto industry is to realize that the connected vehicle is the integrated convergence of the automobile, telecommunications, information technology services, and consumer electronics industries. The automotive industry, however, is not ideally positioned to address this convergence today. Integrating the vehicle with a society that is dramatically accelerating towards being continuously connected will be challenging for many of the automotive incumbents.

Automotive OEMs will have to make decisions about what they still consider to be proprietary, and what will be adopted from other service or technology providers. Then, automotive OEMs have fundamental decisions to make about how to select and engage various partners, and how to design or adopt the underlying technical platform.

Two propositions seem clear. The first is that the basis of auto competition in the future will be highly influenced by how vehicle performance data and vehicle-in-use data will be collected, converted, and aggregated for consumption. The implication is that massive amounts of data will be created, stored, and exploited into real-time services.

Figure 6: Agreement Level - Concern about Security of Data Exchanged through Internet



The second proposition is that the users of future connected vehicles will expect that the connected vehicle be fully integrated with other personal devices. Also, they will expect that any vehicle-in-use data that they agree to share with automotive OEMs to be secure. Furthermore, they expect connected vehicle services to be readily available and able to respond to the standards already established with other connected devices. Figure 5 shows the respondent's expectations that auto OEMs find ways to integrate services across devices, and Figure 6 shows the respondent's level of concern that the service data they opt to provide to auto OEMs or other providers will be secured and only utilized for the purpose to which they consented.

This secure integration requires planning for the future. Vehicle users do not care if an integration point was apparent when a vehicle was designed. They only care that the integration point is available during use. In the life of a vehicle, the devices, services, and experiences that vehicle users expect to integrate with will certainly shift, and by automotive standards will need to ensure that "future proofing" and flexibility is engineered into solutions.

INTEGRATION MAY ACTUALLY BE THE COMPETITIVE DIFFERENTIATOR IN AUTOMOTIVE OEM'S CONNECTED VEHICLE OFFERINGS.

The implication of these two propositions is that integration may actually be the competitive differentiator for automotive OEMs' connected vehicle offerings. As suggested above, survey respondents stated their perceptions that connected vehicle services should save them time. The quality of the technical integration of various service providers that integrates all data required to create these services is key to realizing this benefit. A poorly architected or executed technical integration platform can end up with opposite the intended impact with the user perception that these services "waste my time". Integration may be the new services battleground and the quality of the integration partnerships will create or erode competitive potential.

SUMMARY AND CONCLUSIONS

Based on the results of this study, it is concluded that the American car buyer expects dramatic growth in the ability of cars to connect. It is predicted the automotive industry is reaching a “tipping point” of demand for connected vehicle services. Further, users of future connected vehicles have expectations about services based upon using other non-automotive internet connected devices, most notably with mobile consumer electronics.

Automotive OEMs that reframe their thinking and place the connected consumer in the center of their strategy are more likely to succeed. The high-technology industries that are setting expectations for in-vehicle, connected services are user-centric in their approaches. Automotive OEMs can learn quite a bit by observing those fast-paced industries.

The study suggests that current leaders of automotive OEMs’ CRM practices expand their thinking to include the connected vehicle as the ultimate touch point and the most meaningful manner to influence the user repeat purchase decision. The most important customer data in the future CRM system will be less influenced by infrequent customer contacts with the OEM, dealer, or branded websites, and far more influenced by the rich stream of continuous vehicle performance and vehicle-in-use data.

Finally, it is predicted that the ultimate success of the automotive OEMs’ connected vehicle service offerings will rest on the effectiveness of the partnerships for technical integration platforms to manage unprecedented levels of user, vehicle, and third party data.

It is important to point out that the conclusions from this study are interdependent. Reframing auto owners as users of a connected vehicle experience leads directly to framing the vehicle as the ultimate CRM touch point, and implicates the integration platform as the key strength or weakness for success in this domain.

THOUGHTS FROM COVISINT, STUDY SPONSOR

By Tim Evavold, Covisint Director of Automotive Connectivity Delivery



Through our work with connected vehicle and OEM ecosystems, we see an industry on the precipice of great change. Like any precipice, change can go in one of two directions. It will either lead to unheard of innovations in the automotive experience if the change is embraced and new methods are adopted, or it will lead to the vehicle being just another connected device if they are not.

As seen through the results of this study, the connected vehicle is here to stay, and there is great anticipation for the future. There are also many challenges and expectations about the future. It will be interesting to see which companies meet these challenges and deliver superior value, or win in the future. The winner will not be the automaker that spends the most, or creates the newest connected ecosystem. It will not even be the one with the most apps in its connected vehicles. The winner will be the automaker that embraces the new normal, meets customer expectations, and puts the user (vs. the vehicle) in the center of the relationship. This company will be one that is capable of integrating organizations that span this user experience to deliver a consistent and engaging lifecycle.

The new normal requires that the automaker moves at web-market speed while ensuring vehicle quality and brand experience. This can be achieved through utilizing a de-coupled controlled open connectivity platform. This platform supports multiple protocols and payloads, reduces impact on hardware and vehicle systems, and enables content from multiple parties and “best of breed” solutions.

The richest user experience requires that the automaker take advantage of the wealth of potential customer touch points across the 1,460 days of ownership. This requires implementing a robust identity and access management solution that increases security while minimizes distracting logins and PIN entries. It requires utilizing common business logic modules that make the user experience easy and prevent constant re-entry of data. These capabilities enable the user to engage with the vehicle off-line such as managing preferences, routes, and other settings, which will reduce distracted driving, increase utilization, and generate more engaging and relevant communication opportunities.

Integrating all of the disparate organizations that span the connected vehicle experience requires leveraging a cloud integration hub that can manage the unprecedented levels of user, vehicle, and third party data. This technique allows for faster integration of services and protects against external threats. It also enables more frequent access and richer content for users both inside and outside of their vehicle.

We are excited about the future of the connected vehicle landscape and believe it is fully possible to achieve unheard of innovation in the automotive experience. We feel that those who embrace these challenges, adjust their paradigms, and adopt a controlled-openness strategy will disrupt the current balance in the industry. They will not only become the new normal, they will become tomorrows “must-have brand”.

Tim Evavold is the Technical Director for Covisint’s global Automotive Connectivity solution. Evavold has more than 24 years of implementing and managing strategic process and technology with a strong track record of delivering process re-engineering, cost reduction and revenue growth for competitive advantage and profit improvement. Prior to joining Covisint, Evavold held several executive positions such as, the VP of Operations and CTO at SCI Ltd, and the CIO of OnStar. At OnStar, Tim led an operational turnaround improving reliability, scalability, quality and delivery, while also implementing advanced features such as OnStar Vehicle diagnostic e-mails, turn-by-turn directions with multiple delivery options (agent, MapQuest, onboard navigation, etc.), vehicle slow down, owner on-line experience, and more.

ABOUT THE AUTHORS



Greggory R. Garrett

Greggory R. Garrett is the CEO and founder of CGS Advisors, LLC. For the last 15 years he has pushed the limits of corporate cultures by developing and implementing unique market-based strategies. He is a visionary leader who prides himself in recognizing commonsense solutions for complex problems and motivating teams to reach well beyond the typical boundaries to achieve greatness.

Prior to launching CGS Advisors, Gregg was the Chief Strategy Officer for IT & Innovation at Volkswagen Group of America. Before his time with VW, Gregg led corporate strategy & marketing for Deutsche Telekom's business division in North America, and was part of Ernst & Young's Management Consulting practice.

Gregg holds an MBA from Michigan State's Broad School for Executive Management, and a Bachelors of Science in Systems Engineering from Oakland University in Rochester, Michigan.



Warren Ritchie, PhD

Dr. Ritchie leads CGS Advisors' Strategy Services Practice, where he advises an elite group of clients on dynamic market issues, and strategic changes necessary to grow. His practice specializes in corporate and business strategies, wrestling with the questions "what business are we in", and "how do we compete" respectively. The small team of specialists that he leads contributes in the formulation, and implementation phases of strategy.

Prior to working with CGS, Warren had a 25 year tenure in the automotive industry where he held leadership positions including CIO, Director of Corporate Strategy, Marketing Director in locations including the United States, Canada, and Argentina.

Warren holds a PhD in Strategy from the University of North Carolina at Chapel Hill, an MBA from Dalhousie University in Halifax, and a BA from Queen's University in Kingston, Ontario.

ABOUT THE COMPANIES



CGS Advisors, LLC is a boutique advisory services firm specializing in assisting enterprise leaders prepare for industry disruption. We assist clients through our three core practices: Strategy Services, Innovation Services, and Connected Services. Each useful on its own, it is the intersection of our practice areas where we most excel, allowing us to help our clients realize strategic value by harnessing enterprise innovation in the emerging connected economy.

We are:

- a small firm focused on solving meaningful problems;
- made up of experienced, transformational advisors;
- able to convert complex issues into simple visions & solutions;
- specialists in imagining the path, and running the first mile.



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Covisint provides the leading cloud engagement platform for creating and enabling new mission-critical external business processes. Our solutions enable organizations to connect, engage, and collaborate with the critical external audiences that define their success — including customers, business partners and suppliers.

Covisint's cloud engagement platform offers OEMs a robust, secure and proven platform for driving additional revenue and customer loyalty through connected vehicle initiatives. With Covisint, OEM CIOs, CMOs and LOB leaders can deliver a unified and global connected vehicle platform – based on their own business strategies, not their TSP's limitations – and one, integrated experience across the ownership lifecycle.

More information is available:

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