Earning money with the connected car

Q&A with David Coleman, Director, Automotive Strategy at Deloitte

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Q&A

David Coleman, Director, Automotive Strategy at Deloitte and Dr Christof Engelskirchen, Chief Economist at Autovista Group, discuss the most exciting connected car developments, what it takes to monetise them and the business cases that add up for OEMs.

Christof Engelskirchen, Autovista Group

David Coleman, Deloitte

Bio

David is a Director in the Munich office of Deloitte and leads automotive strategy work for OEMs and suppliers in connected services, eCommerce, mobility services, and aftersales. David has served OEMs across global markets, and was previously based in the US, UAE, South Korea and Japan.

Christof: The rise of the connected car is one of the automotive industry's megatrends. What does the connected car mean for you? And how does Deloitte support its clients in this area?

David: The connected car is one of the most exciting developments in vehicle technology in recent times. It enables data communication between the vehicle and the internet, as well as between the vehicle and infrastructure and/or other cars. Vehicle connectivity supports a range of services to the customer but is also critical to provide data to improve the vehicle, its systems and components.

Deloitte's European Automotive practice works closely with OEMs, suppliers, and their connected services teams on an end-to-end basis, designing connected services strategy, driving service development and execution, and supporting the backend and software stack.

Christof: How do OEMs and suppliers approach the connected car? For example, many OEMs have adopted Android Auto OS. Is this a good strategy?

David: A key battle in the automotive world is for ownership of the customer – i.e., the customer's engagement, usage data, profile data, loyalty, etc. – and the battle is playing out between the tech giants and OEMs across operating systems (OS) and services.

A key battle in the automotive world is for ownership of the customer

For operating systems, OEMs need to choose between open-source solutions, such as Android Auto OS, or home-grown alternatives developed by the OEMs themselves. Open source options offer speed to market, cost efficiency and a path towards potentially broader cooperation with tech giants. On the other hand, a home-grown OS offers complete customisation and control, and potentially broader monetisation options via Car as a Platform (CaaP). For example, OEMs could collect a fee from developers to build services on the OEM-owned platform and access customers directly, as well as take a commission on purchases made over the platform, or on in-app advertising.

For services, many OEMs began with a 'walled garden' approach to their front-end UX and app ecosystem, which excluded third party smartphone connectivity solutions such as Apple CarPlay or Android Auto. However, customer demand has shifted the market to a state of 'coopetition', whereby OEMs increasingly offer CarPlay and Android Auto, while providing their own services alongside them. Providing a compelling alternative to

Apple and Google is crucial for OEMs to maintain access to customer data and usage characteristics, which could be monetised via ancillary services, features, marketing or other options.

Christof: From an end user perspective, could you lead us through a couple of use cases of the connected car?

David: There are a basic set of services that most OEMs offer across areas such as navigation, infotainment, communications, safety, remote services, and others. For example, customers could access real time traffic and speed limit data, receive live sports or weather updates, make hotel bookings, send messages via their smartphone, stream media, allow remote trunk access for delivery, and many others.

Recently, OEMs are increasingly differentiating using more advanced services, using connectivity to enhance the driving experience and/or improve safety. One example is virtual navigation and point of interest display via the heads-up display (HUD), allowing drivers to see turn-by-turn directions and incoming notifications without taking their eyes off the road. Another innovative service, augmented reality (AR) navigation, displays a real time view of the road overlaid with directions, street names and landmarks via the multimedia display.

Christof: What will users be willing to pay good money for?

David: Direct customer monetisation of connected services is a key challenge for OEMs. There are two factors that help evaluate customer willingness to pay for a service: 1) unique value-added by the OEM or vehicle to the service and 2) newness to the market. For example, displaying turn-by-turn navigation, points of interest, and landmark data using the HUD has high potential for direct customer monetisation, since the

service is new, and cannot be replicated via smartphone (as it requires OEM/vehicle value-add via the HUD). In contrast, a service to mirror a smartphone map on the vehicle display would be difficult to monetise, as there is limited value-add from the OEM/vehicle, and the service has existed long enough to become a commodity.

Christof: Have you calculated the business case for the connected car? What was the result?

David: The business case to invest in connected services is positive, but its value lies far beyond what is monetisable directly to the customer. Significant value is generated through connected sensors in the vehicle, measuring system and component performance, temperature, vibration, humidity, speed, and other data. AI and analytics techniques can use sensor data to help predict failures of systems and parts before they occur. Using this approach, OEMs can identify defects earlier in the vehicle lifecycle, fixing them in the factory, and limiting costly recalls. In one recent example, [Deloitte helped Daimler](#) generate savings in the tens of millions annually via connected sensor data analytics.

Christof: We are entering an economic crisis. Money is still cheap, but cash is king. Will we see any delays connected car developments or partnerships as a result?

David: As the global crisis continues, we have seen shifts in customer buying behaviour for vehicles overall, and for specific vehicle attributes, such as connected services. Customers are driving less and delaying their next vehicle purchase. This will put pressure on OEMs to define a compelling value proposition. For many vehicle segments, a portfolio of connected services, and sleek multimedia system and UX, have become table-stakes in the purchase decision. Support

and development of these services will likely continue. However, more advanced services would be evaluated to weigh development costs vs. expected monetisation (e.g., via service subscription, hardware package sale, increased vehicle sales price, or access to saleable data).

> *For many vehicle segments, a portfolio of connected services, and a modern multimedia system and UX, have become table-stakes in the purchase decision*

Christof: For you personally, if you had to pick one, what is the most exciting feature in the connected car?

David: The most exciting part of the connected car is yet to come. With sensors throughout the car and increasing connectivity to infrastructure and other vehicles (in addition to the internet), we will soon see an explosion of data to be harvested by OEMs, tech giants, and others. The volume of data will drive more computing power into the vehicles, further increasing the capability of what connected cars can do. Cloud solutions will continue to expand, and advanced 5G data networks will increase data throughput, reduce latency, and prioritise top tier applications in data transfer via 'network slicing'. These factors will allow for advanced connected use cases that will bring vehicle safety and reliability to new levels, further enhance the driving experience, and make the car a permanent part of our connected and digital ecosystem.

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