REPORT

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Telematics Industry Outlook: Think 'Outside the Vehicle'

Viewpoint

Consumer interest in telematics is growing, but is not yet strong enough to avoid market consolidation in the short-term.

The telematics industry has to create applications that supplement a broader mobile service offering to build a solid value proposition.

Dynamics

- Consumer interest in telematics continues to center around non-subscription communication, safety and security services.
- Consumer interest in remote-vehicle-diagnostic tools grew by 133%, the highest growth rate for any telematics application.
- Overall demand remains low; only 1.3% of U.S. households expect to get telematics in a new vehicle in the next 12 months.

Predictions

- The telematics industry will face company closures, reorganizations and lower investments in the next 12 to 24 months.
- Significant growth in consumer adoption for telematics services won't occur before 2004.
- By 2012, telematics applications will be found in most new vehicles.

Recommendations

- Telematics companies: Expand into new markets to ensure short-term survival and prosper from telematics offerings in the long-term.
- All: Make telematics services available beyond the vehicle and integrate them into a broader mobile service offering.

Dig Deeper

- Related Research from GartnerG2
- Methodology

Thilo Koslowski

"The telematics market is not dead. The industry is undergoing a healthy cleansing process that will replace technology-hype with real consumer value."

Viewpoint

Don't believe the hype

Automakers and telematics companies alike are perplexed as consumers shun their marvelous technological creations. The hype was supposed to draw consumers to telematics, and drive revenue through service-subscriptions and the lucrative market potential of millions of new and used vehicles. But consumers are decidedly indifferent to most telematics offerings, and this situation is not going to change much in the next 12 months.

As the first company closures are reported, the industry is at risk of overreacting and falling into a pessimistic trough. Instead, the remaining players should understand that the recent market developments are a healthy result of aligning demand and supply. While more market consolidation is inevitable, consumer data clearly shows the long-term potential of in-vehicle information and communication technologies:

- Consumer interest is growing in getting individual, specific telematics applications in the future.
- Consumer preferences for individual applications are intensifying and show what potential buyers expect from a successful telematics offering—remote vehicle diagnostics, for example.

Current telematics services are tied to the vehicle, and offer only limited appeal for the price of service subscriptions. To boost consumer demand for telematics in the long-term, new business models are needed. Telematics offerings need to become an integral element of a broader mobile service offering that addresses consumers' information and communication needs at home, at work and in the vehicle.

Dynamics

The past = misguided telematics industry

Telematics, like many other innovative technologies, follow a typical scheme of market visibility, maturity and customer acceptance. The telematics industry's hype cycle, beginning in 1994, is characterized by two periods:

Technology Trigger: Between 1994 and 2000, Internet technology and progress in new mobile computing devices boosted the interest of automakers and technology providers to push information and communication technologies into the vehicle.

- In 1996, General Motors introduced OnStar, the first subscription-based telematics service offering.
- Other automakers and independent telematics service providers followed by committing resources and investments into their own telematics strategies, such as ATX Technologies, Tegaron and Wingcast.

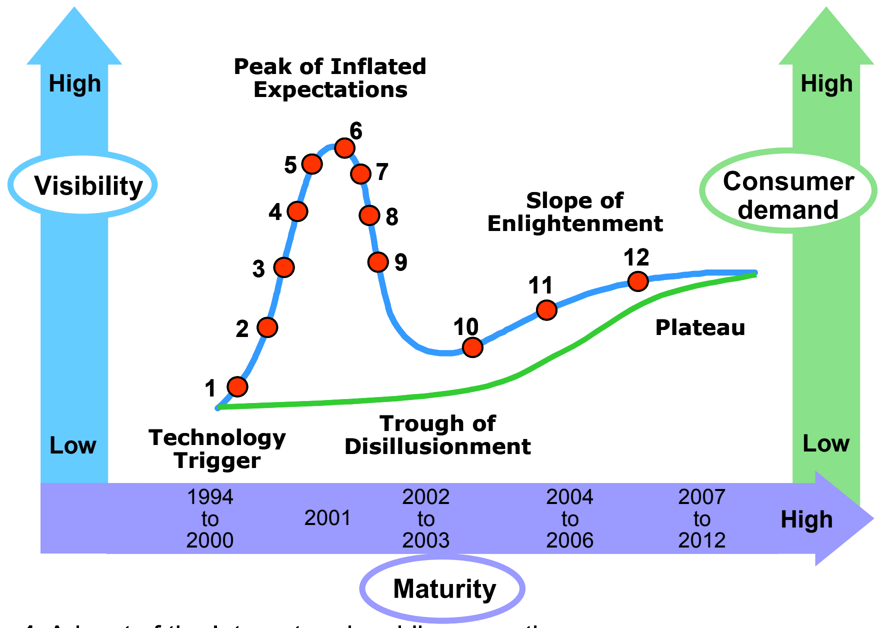
Peak of Inflated Expectations: During 2001, a "gold rush" mentality dominated the telematics industry.

- Based on over-inflated revenue expectations and the belief that telematics represented the logical extension of consumers' online information needs, companies viewed the telematics market as a promising investment that would yield high financial returns.

- Non-automotive content, application and technology providers viewed telematics as a new channel for their service offerings and developed telematics departments to exploit this new opportunity.

2002 was a turning point for the telematics market. The dissolution of Ford Motor Company's Wingcast telematics joint venture illustrates that many automakers, suppliers and telematics service providers overestimated the short- and mid-term potential of telematics; consumer demand for available telematics applications is very limited.

Figure 1: Telematics hype and demand cycles



1 Advent of the Internet and mobile computing
2 OnStar launch
3 Growing interest and investments from automakers, suppliers and technology providers
4 New telematics service providers enter the market
5 Non-automotive content and application providers see telematics as a new channel opportunity
6 Wingcast dissolution
7 Reduced investment activity
8 Search for new, second-tier telematics market opportunities/segments
9 Growing market consolidation and company closures
10 Realization of true potential of telematics
11 Development of applications that meet consumers' needs
12 Integration of telematics services into broader mobile service offerings

Source: GartnerG2, September 2002

The bad news: Short-term demand will stay low

Short-term demand for telematics services remains low:

- Only 1.3% of U.S. households (approximately 1.3 million) expect to chose telematics services in a new vehicle in the next 12 months. This would account for roughly 7.6% of all new vehicles sold in the United States during the next year (1.2 million new vehicles).
- 17% of U.S. households are interested in telematics services, but don't have any concrete plans to get them—indicating that many consumers are still unclear about the potential value-add these services would represent.
- 67% are not interested in getting telematics services in the next 12 months.

The good news: Consumer interest in telematics is mounting

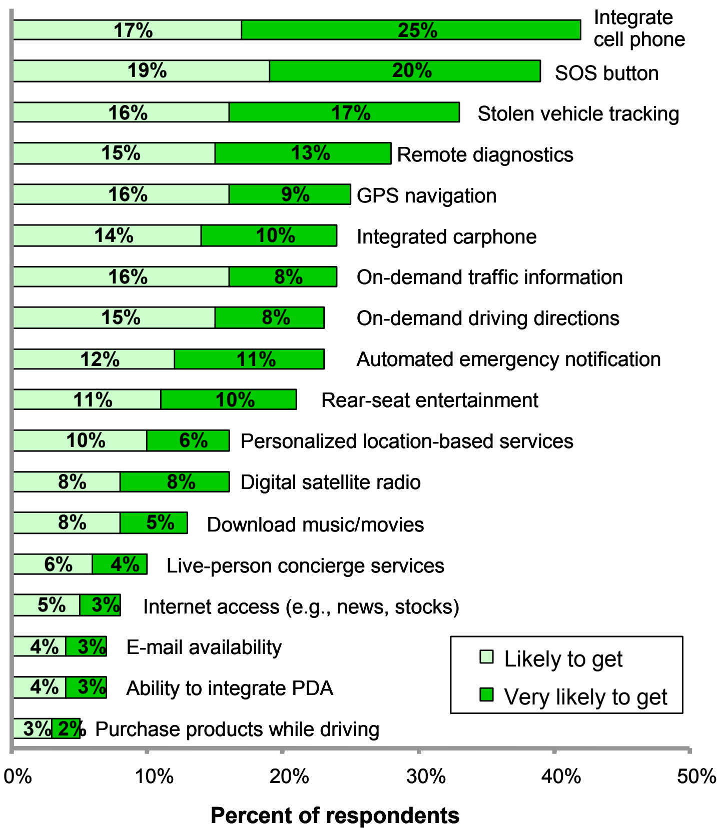
Telematics offerings in the past put technology first and the consumer second. The development of telematics services was driven by the capabilities of innovative technologies rather than by what applications consumers really wanted. The consequences:

- Consumers must experience telematics on their own to understand:
  - The potential benefits to their lives.
  - Which applications are not needed or seem excessive.

This self-education process is becoming an indicator of which applications consumers prefer:

- Consumers' primary interest in telematics continues to center around non-subscription-based communication, safety and security needs that are directly related to the vehicle:
  - Almost 50% of U.S. consumers are "likely" or "very likely" to get a telematics application in their next new vehicle that allows them to use their cell phone in a hands-free, voice-activated manner.
  - Nearly two-fifths want an SOS button in their next new vehicle that connects to emergency services.
  - One-third want a vehicle-tracking application that will help to recover their vehicle in case of theft.
- Internet and PC-like telematics applications continue to be in low demand:
  - Less than 10% of U.S. consumers are likely to get telematics applications that provide access the Internet from the vehicle, send and receive e-mails, purchase products or integrate a personal digital assistant (PDA).

Figure 2: Consumer likelihood to get telematics in next new vehicle



Source: GartnerG2, September 2002

Popularity of telematics applications: Winners and losers

U.S. consumer preferences in telematics applications have changed over the past 18 months. Most telematics applications improved in popularity.

- Strongest growth in consumer interest: an application to remotely diagnose the vehicle's performance to prevent potential malfunctions and to simplify or automate the maintenance process. Consumer likelihood to get such applications in the next new vehicle grew by 133%, re-emphasizing the significant potential of remote vehicle diagnostics as a means for customer relationship management purposes.
- Consumers' daily commuting hassles lead to increased interest in leveraging vehicle-related technologies to improve driving efficiencies—the demand for dynamic traffic routing grew by nearly three-fourths.
- Interest in concierge and entertainment-related applications that are typical for subscription-based telematics services (e.g., digital satellite radio) increased, although overall demand remains relatively low.

Telematics applications that show a decrease in consumer demand are primarily non-vehicle related:

- Consumer interest in Internet and PC-like telematics applications declined by roughly 30%.
  - Although it remains one of the most popular telematics applications overall, the demand for stolen-vehicle tracking functionality (e.g., LoJack) decreased by more than 20%, indicating the beginning of demand saturation for this type of application.

Figure 3: Demand changes for telematics applications (2002 vs. 2001)

Percent change in consumer demand

	+	–	
Remote vehicle diagnostics	+133	-42	E-mail capability
Dynamic traffic routing	+71	-30	Ability to integrate PDA
Live-person concierge	+67	-29	Purchase products
Digital satellite radio	+60	-21	Stolen-vehicle tracking
Automatic emergency notification	+44	-20	Internet access
GPS navigation	+19	-3	SOS button
On-demand driving directions	+10	-1	Integrate car phone
Personalized location services	+ 6		
Rear-seat entertainment	+ 5		
Ability to integrate cell phone	+ 5		

Source: GartnerG2, September 2002

Successful telematics value proposition extends beyond the vehicle

One of the biggest challenges for automakers and telematics service providers is to develop a solid value proposition for telematics to convince consumers of the benefits these services can offer and justify subscription fees. The biggest challenge is that telematics services are limited to the automobile and hence don't provide any value to consumers when they are not using their automobile, even though subscription fees continue to apply. Extending the availability of telematics applications outside of the vehicle—making certain applications like live-person concierge service available on mobile devices, for instance—is a first step toward building a meaningful value proposition.

Rather than view telematics as the center of consumers' mobile data needs, successful telematics offerings must be integrated in broader mobile services that encompass consumers' information and communication needs in all the relevant environments (home, work and vehicle). This will require new business and revenue models from all the parties involved.

- For example, instead of building their own telematics service offering or licensing it from another company, automakers in the future might choose to provide a network carrier access to the vehicle's data-bus to offer remote diagnostic services to consumers as part of a whole suite of mobile applications.

Predictions

The future: Consolidation, true opportunities and integration of services

- **The telematics industry will face company closures, reorganizations and lower investments in the next 12 to 24 months** as a result of unrealistic revenue expectations and low short-term demand. This is a positive, healthy development that will enable the entire industry to prosper from successful telematics offerings in the future.
  - Pure-breed telematics companies will explore new markets for their offerings and/or intellectual property (e.g., wireless, location-based industries) or seek to be acquired by others.
  - Companies with more extensive financial resources (such as OnStar) will be able to survive longer, even if they don't adjust their strategy in the short-term. But they will still face low consumer demand in the mid- and long-term.
- **Significant growth in consumer adoption for telematics services won't occur before 2004.** Today, the telematics industry is undergoing a process of realization in which the true potential of telematics services becomes apparent. Over the next four years, the telematics industry will advance its service offerings, refocus its business goals and provide true, value-adding applications to consumers.
  - The true potential of telematics in the short- and mid-term is to improve customer satisfaction and loyalty. The business justification for automakers' telematics strategies lies in indirect revenue gains (i.e., repeat business from loyal customers) and lowered marketing costs (i.e., telematics as a more efficient media and communication tool).
  - Telematics services that are limited to the vehicle will fail to pass consumers' value assessment and lower their propensity to pay for these services (e.g., live-person concierge services).
- **By 2012, telematics applications will be found in most new vehicles** as the industry shifts from a vehicle-centric view to a communication-centric approach. This shift will make telematics an important element of a new generation of mobile service offerings.
  - Transportation will still be the vehicle's primary role, but it will also provide access to applications that satisfy consumers' personal information and communication needs. Some examples are a notification when other family members are nearby or a cell phone alert to let the user know, in real time, when to leave the office to avoid traffic problems.
  - Strong demand for telematics applications that allow U.S. consumers to use their existing mobile phone in a hands-free/voice-activated manner in their vehicles today is an early indicator of the trend toward communication.

Recommendations

- **Identify consumers' telematics preferences first and leverage flexible technologies to satisfy their needs. Don't do it the other way around.** To ensure that future telematics offerings generate appropriate consumer demand, focus your efforts on identifying and monitoring consumers' diverse needs. Create applications to satisfy them (e.g., remote vehicle diagnostics).
  - In the short-term, develop flexible telematics solutions that require minimum resources but provide the ability to upgrade to more comprehensive services in the future (e.g., provide connectivity to mobile services via Bluetooth or other short-range, wireless technologies).
- **Telematics companies: Expand into new markets to ensure short-term survival and prosper from telematics offerings in the long-term.** Immediate revenues from non-telematics markets and a revised approach for the long-term is the best strategy for telematics companies today.
  - Telematics and wireless data services are each specifically designed to address consumers' mobile information and communication needs. Specialized applications can easily be targeted at wireless devices (e.g., location-based, point-of-interest information). This will allow pure-breed telematics content companies to enter more market segments and diversify target markets in order to reduce dependence on the telematics market alone.
  - At the same time, don't abandon the telematics market. Although the next two years will be challenging, telematics are to stay.
- **Make telematics services available beyond the vehicle and integrate them into a broader mobile service offering.** In the short-term, make telematics offerings accessible outside of the automobile, through other mobile devices.
  - In the mid- and long-term, position vehicle-specific applications to supplement a complete mobile service offering that covers users' home, work and vehicle environments. Such a service could be led by a wireless network provider, media company, Internet portal or a new generation of personal services companies.
  - Developing such a complex offering is challenging and requires extensive collaboration between companies from various industries, such as automotive, media and telecommunications.

Dig Deeper

Related Research from GartnerG2

Report: His Master's Voice—Controlling Access to Telematics Services
By Thilo Koslowski *(22 February 2002)*

Report: Telematics in Europe: Searching for a Route to Car Buyers' Hearts
By Michael Dornan *(25 January 2002)*

Report: Supercharging Your Telematics Strategy
By Thilo Koslowski *(16 October 2001)*

Report: Telematics Services: An Audience Builder, Not a Quick Buck
By Thilo Koslowski *(14 August 2001)*

Report: Auto Industry's Challenge: Selling Software in a Hardware Market
By Thilo Koslowski *(25 June 2001)*

Methodology

Information in this report is based on a GartnerG2 survey, conducted in May and June of 2002, among a representative sample of U.S. households. Respondents were 5,835 adults aged 18 or older. Responses were weighted and projected to a universe of 105.5 million households and 201.3 million individuals in the contiguous United States.