

F&I and Showroom

The Connected-Car

Two major players in the aftermarket telematics space are attempting to do what others have failed to achieve: carve out a profit opportunity for dealers in today's connected-car evolution.

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by Gregory Arroyo



OnStar now counts 12 million customers globally, nearly half of whom are fleet customers. The service's mobile app surpassed 1.5 billion interactions in December 2016. General Motors' Greg Ross said the real innovation is OnStar the device, which establishes a link between a vehicle's databus and the cellular infrastructure. The vehicle data flowing through that two-way connection is paving the way to future capabilities and services.

The future of in-car technology was on display this past January during the annual Consumer Electronics Show in Las Vegas, where the world's biggest automakers laid out plans for developing the next generation of connected-car technology. The event set the stage for the 2017 NADA Convention & Expo less than 20 days later, where two longtime players in the aftermarket telematics space debuted solutions they said will allow dealers to cash in.

“The connected-car evolution has been happening for a number of years, but we’re still in the beginning stages,” said Jason Penkethman, chief product officer for Spireon. “The OEMs obviously have their connected-vehicle strategy, so they’ve served as kind of an enabler of this technology. But no one has created value for the dealerships. So Spireon is looking at making them part of this whole connected-car era.”

Founded in 2002, the Irvine, Calif.-based firm is doing so behind a mobile app that connects to its location-tracking and stolen vehicle-recovery services. Just across Hall E inside the Ernest N. Morial Convention Center in New Orleans, site of the National Automobile Dealers Association (NADA)’s 2017 convention, aftermarket GPS maker CalAmp debuted a similar platform with a similar goal and some advantages.

“We’re vertically integrated, which means we’re building the hardware for a lot of companies in this space that are just in the application portion,” said Dev Bhatia, senior director of product management for Irvine, Calif.-based CalAmp. “So we’re designing the box, we’re assembling it in California, it’s our platform. Now we’re offering these applications. And because we’re vertically integrated, we can do things that no one else can.”

But longtime watchers of the aftermarket telematics space believe OEMs hold the key to the future of connected-car technology. Greg Basich, associate director for Strategy Analytics’ automotive group, is one of them. “Based on sales of these devices, they haven’t done real well in the direct-to-consumer space,” he said. “And a lot of companies that have been in that space have pivoted to the fleet space, to the usage-based insurance market.”



At the 2017 NADA Convention & Expo, CalAmp showcased a telematics system that doubles as an inventory management tool for dealers and a connected-car solution for consumers. Assembled in California, the offering is powered by a plug-and-play cellular device equipped with a 32-bit processor.

Will They Pay?

Basich said the big question facing Spireon and CalAmp is whether consumers care enough to pay for connected-car services. The analyst shared a chart gauging consumer interest in connected-car services like remote diagnostics, teen driving alerts, and automatic crash notification. Out of the eight services listed, only “stolen vehicle assistance” registered interest above 50% among the 1,552 U.S. respondents with children under 18 years of age.

In June, IHS Markit released results of a survey of more than 5,000 vehicle owners from the United States, Canada, China, Germany, and the United Kingdom who intended to purchase a new vehicle within the next 36 months. Thirty-two percent of respondents agreed that telematics is a feature they’d be willing to pay for in their next new vehicle, while 29% noted interest in in-car Wi-Fi. But those willing to pay for those technologies offered price points lower than what dealers are charging, on average, for Spireon’s connected-car solution — \$484 for telematics and \$472 for in-vehicle Wi-Fi.

However, more than half of all respondents in the IHS Markit survey said they owned at least one vehicle equipped with a system offering features like roadside assistance, stolen vehicle

assistance, crash notification, and turn-by-turn navigation. These features garnered the most interest for future vehicles as well — 32% of respondents indicated roadside assistance is the most important telematics feature, followed by stolen-vehicle assistance at 28%.

J.D. Power also measured driver experiences with in-vehicle technology features during the first 90 days of ownership for its 2015 Driver Interactive Vehicle Experience Report. At least 20% of new-vehicle owners had never used 16 of the 33 technology features measured. The top five features never used were in-vehicle concierge at 43%, mobile routers at 38%, automatic parking systems at 35%, head-up display at 33%, and built-in apps at 32%. Findings like these, however, have done very little to stop the proliferation of such services and features.

The Connected Car

At CES, Hyundai offered live demonstrations of its autonomous “IONIQ” concept vehicle, which features a laser- and radar-based detection system for navigating stop lights, signs, road construction, and dense pedestrian traffic. Toyota announced the development of a cloud-based telematics system featuring improved navigation features, in-vehicle Wi-Fi, and remote connectivity via a smartphone app. The automaker also announced a partnership with Verizon to drive the Wi-Fi portion of its Entune 3.0 telematics platform, which will also offer automatic crash notification.

Toyota and Ford also used CES to announce the SmartDeviceLink Consortium, a nonprofit organization that will manage an open-source software platform for app developers. Members include Mazda Motor Corp., PSA Group, and Suzuki Motor Corp.



Basich said the challenge for aftermarket telematics providers is that, with the exception of Honda-branded vehicles (Acura offers AcuraLink), every other nameplate offers some kind of embedded cellular-based telematics platform. The pioneer, of course, is General Motors. And until recently, it was the only manufacturer to embed its telematics device in every vehicle it offers. Now, virtually every automaker is embedding cellular modems as factory options, if not a default factory feature, he said.

Greg Ross, OnStar's director of commercial experiences, has taken note. Part of his role is to seek out partnerships to enhance GM's connectivity services — OnStar serving as the connecting point. Introduced in 1996, the platform now counts nearly 12 million customers globally — nearly half of whom are fleet customers.

To understand the advantage GM has with OnStar, Ross said, one must separate the device from the service. "The real innovation is having this built-in connection, this piece of hardware that's on the databus of the vehicle and has the ability to connect with the cellular infrastructure and gives us information remotely," he said. "You can build more than just safety and convenience services with that connection. And I think you're gonna find other OEMs are increasingly seeing the need to have a built-in connection in their cars."

This past March, General Motors added Spireon to its roster of telematics service providers, a partnership forged after a large commercial customer with a mixed fleet requested the connection to the company's telematics services. "And we said, 'Of course.' We're not dependent on hardware, so there's nothing proprietary here," Ross said.

From Fleets to Inventory

That doesn't mean OnStar the service is taking a backseat to developers and service providers. In fact, according to Ross, the insurance products the company is developing were modeled after usage-based insurance programs. Ross is eyeing opportunities in the finance space as well.



Spireon's Kahu, which originally debuted in December 2015, offers dealers the ability to locate, protect and manage inventory across multiple lots and locations.

“We think we have an ability go even further because we’re more deeply connected into the car and have some capabilities that they won’t have,” he said, noting that the data the automaker can pull from that connection can also be used to supplement vehicle history reports from providers like Carfax. Ross hinted that GM is interested in another space aftermarket telematics providers like Spireon have entered as well.

CalAmp and Spireon aren’t just targeting consumers with their solutions; they’re also looking to automate the way dealers manage their inventories. Spireon’s Kahu, which was initially released to a select group of dealers in December 2015, offers dealers the ability to locate, protect, and manage inventory across

multiple lots and locations. CalAmp’s LotSmart by LoJack — a mobile app and plug-and-play cellular device equipped with a 32-bit processor — offers similar lot-management capabilities from anywhere with an internet connection.

Both platforms offer battery voltage monitoring, eliminating the chance of a customer landing on a vehicle with a dead battery. The solutions also eliminate that all-too-common scene of salespeople walking the lot chirping car alarms until a vehicle is located.

“So this creates value for the dealership in three different points: before they sell the vehicle, when they come to sell a vehicle, and after they sold a vehicle,” Spireon’s Penkethman said.

Dealers using CalAmp’s LotSmart simply type the model they’re looking for into the platform’s mobile app, which displays a picture of that specific vehicle atop a list of every available color and trim level. The app then displays a map with a pin showing the selected vehicle’s location. LotSmart also auto-populates new assets the moment the GPS box is plugged in, eliminating manual entry.

“There have been a lot of great companies out there that have tried to figure out the right model, the right technology,” CalAmp’s Bhatia said. “And I think our vision is the right one for the industry, which is multiple touchpoints of value for the dealer and a lifetime relationship with the customer. We call that ‘vehicle relationships management.’”

The Sell-Through Opportunity

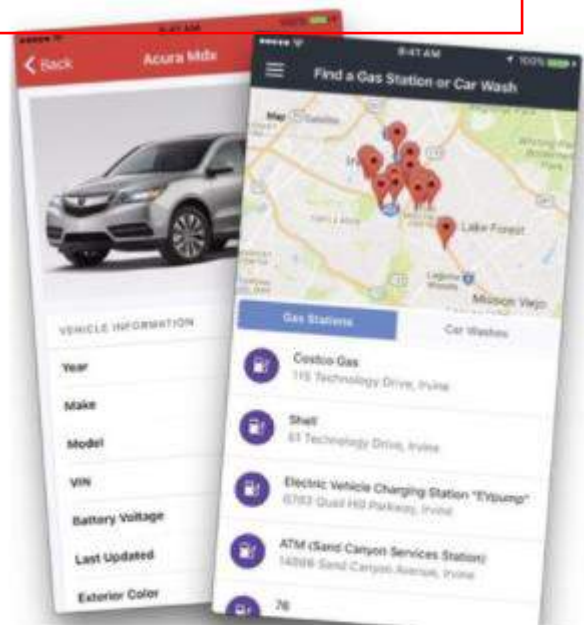
Cox Automotive’s Xtime reported that nearly 65% of dealers it surveyed in 2016 said customer retention was their primary concern overall. R.L. Polk, however, put the industry’s retention rate at 51% the year prior. The problem, according to Xtime, is that 85% of dealers don’t currently have the technology that enables a superior service visit.

Could mobile apps be the gateway to higher retention? In 2014, DMEautomotive, which now operates as AutoPoint, studied more than 366,000 purchase records from a mix of 111 dealerships that offered a branded mobile app. The firm found that buyers using those apps were 73% more likely to make a purchase from the dealership. They also booked 25% more service appointments and spent 7% more than car owners without an app.

The challenge, however, is keeping those dealer-branded apps on customer smartphones. Spireon and CalAmp believe they have the secret sauce.

While Spireon’s Kahu retains its name as a sell-through option, CalAmp’s LotSmart by LoJack becomes SureDrive by LoJack when a dealer sells the solution and the associated mobile app. At the heart of both platforms are theft-recovery services. CalAmp, which acquired LoJack in March 2016, chose to market SureDrive’s connected-car features as extensions of LoJack’s services. Bhatia pointed to the platform’s Tripwire crash notification and live agent assistance as an example.

“So if you get into a dinger on the road, we know it right away. We escalate that by calling



CalAmp’s LotSmart by LoJack becomes SureDrive by LoJack when the solution and the associated mobile app are sold to a customer. The company markets SureDrive as an extension of LoJack’s vehicle-recovery services.

you right away. ... That's very synergistic with the LoJack brand," he said. "So when we start marketing it as, 'Look, here's LoJack, which has your back,' I think that resonates with the consumer versus the connected-car thing they've never heard of."

Both systems offer features designed for families with teen drivers, Kahu offering buyers speeding alerts. Both systems also take advantage of geofencing, allowing users to create virtual boundaries around their vehicle or a location. The apps then notify them when the vehicle exits or enters that virtual perimeter.

"Part of the value proposition here is you want your connected car integrated with your connected life," Bhatia said, adding that SureDrive's Tripwire feature also uses geofencing to prevent theft. "If I set pins around the middle school where my daughter goes, that means she gets a push notification as soon as I'm five minutes away. She doesn't have to stand out on the curb. She's in the library until I'm close."

SureDrive also offers parking reservations. The feature is not unique to the app, but it could help make it sticky with consumers. Both companies' directors believe, however, that the lot-management solution will serve as a nice entry point for an F&I manager's sales pitch.

"The value to the consumers is that they can use geofencing for other reasons, like knowing where their kids are, are they driving in certain areas, are they in school when they should be, and are they speeding," Spireon's Penkethman said. "And if the vehicle is stolen, they hit one button and they go straight through to a service center that initiates the recovery process. So the value to the consumer is about reducing risk."

Penkethman shared that dealers, on average, sell Kahu for \$800, but prices can range from \$600 to \$1,200. That one-time fee covers a three-year subscription. As for where it's sold, some dealers sell it in the showroom, others in F&I. Penkethman revealed that a number of Spireon dealers are achieving a 30% sell-through rate with Kahu, but there are also several dealer outlets achieving rates of 50% to 60%. Most of those dealers, the executive revealed, present Kahu in the showroom.

"It is up to the dealer, but one of the things we wanted to use as a strategy is having sales reps, with their Kahu app on their smartphone or tablet, locate the vehicle for the customer," Penkethman said. "So the customer is already seeing the value of that location-tracking

capability, and it becomes a beautiful handoff from the salesperson when the customer walks into the F&I office.”

The Marketing Tool

At some point in the pitch, the salesperson or F&I manager will cover one last critical feature: a connection to the dealership’s service department. In the case of Kahu, the salesperson explains to customers that they have the option of sharing odometer information with the dealership — a feature that opens up a host of service-marketing opportunities. At the very least, the feature eliminates mistimed marketing efforts, such as sending mailers with free oil change offers to a customer who just purchased his or her car.

“That’s the missing link we’re addressing,” Penkethman said. “So we provide those alerts back to the dealership so they can proactively reach out to the customer at the right time, with the right information and the right offer.”

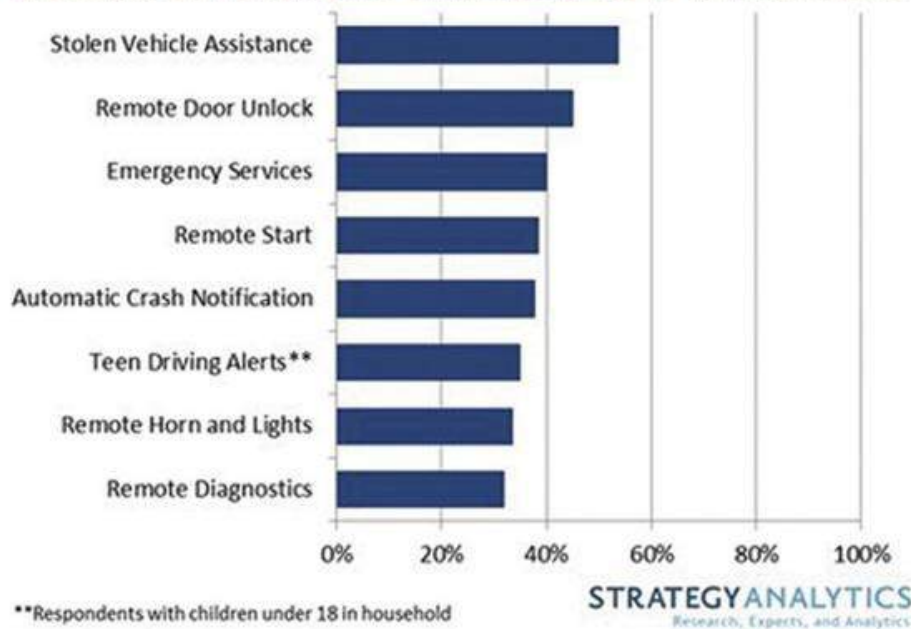
SureDrive takes that connection one step further. Built into the platform’s plug-and-play cellular device is a capability that enables a dealer to offer white-glove concierge services. So when a vehicle’s “Check Engine” light activates, the diagnostic trouble code the vehicle issues is sent to the dealership. The cellular box can even tell the dealership when the customer arrives in the service drive.

“If you’re talking to someone in their moment of need, it’s not marketing anymore. It’s ‘How can I help you?’ The whole tenor of the conversation is different,” Bhatia said. “So what we’re doing is bringing permission marketing to the automotive industry.”

But will these features be enough to entice car buyers? Strategy Analytics’ Basich said both platforms offer a compelling value proposition for dealers, particularly the lot-management features and potential service-marketing benefits. He’s just not sure consumers are willing to pay for connected-car services.

“Just something as simple as sending basic diagnostic data and knowing when your vehicles are either having a problem or are up for maintenance, that’s useful to fleet managers. For the average consumer, not so much,” Basich said. “It just hasn’t been a really attractive proposition outside of automotive enthusiasts.”

U.S. CONSUMERS WHO ARE 'VERY INTERESTED' IN TELEMATICS



Strategy Analytics' automotive practice surveyed 1,552 U.S. consumers to gauge interest in connected-car services. Out of the eight services listed, only "stolen vehicle assistance" registered interest above 50%.

A Connected Future

Basich said automakers are moving away from the service subscription model. It's still the dominant model in the telematics space. But automakers view the data they're collecting from the two-way connection their embedded cellular modems establish as the path to new services, such as internal process improvements that would allow them to catch potential recalls while vehicles are still on the assembly lines.

"There will always be some degree of paid services that automakers are going to offer to consumers, but largely, that two-way connection is more for the long-term horizon," he said.

"And as we move toward an era of autonomous driving, which is coming, automakers will want to offer services around that."

Asked about consumer acceptance for OnStar the service, GM's Ross offered this response: "We wouldn't have been doing it for 20 years if we didn't think we were covering our costs and then some with the customer subscription revenues." He then offered a few stats.

In July 2015, GM announced that OnStar had reached about one billion customer interactions. In December of the following year, it passed 1.5 billion interactions. A major driver of that half-

billion gain was the OnStar mobile app, which the company launched in October 2010 and now gets 27 million requests each month.

“So we’re pretty confident that customers want to interact with their vehicles this way, and the business model continues to evolve in terms of what are the services people want to pay for,” Ross said. As for when he thinks the true connected car will arrive, Ross said he doesn’t believe it’ll be “big bang thing.”

“It’s going to be like what you saw with smartphones — that once you created a platform that has the ability to add all kinds of flexible and creative applications, you started to see things that nobody expected,” he said. “Because we’ve put those Lego blocks out there for developers to use, we’re expecting innovation will bring us new applications and new uses.”

Tags: [Connected Vehicle](#), [Kahu](#), [LoJack](#), [Spireon](#), [telematics](#)

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