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Slowing car sales is prompting automobile OEMS to look to connected car services as additional revenue stream

The COVID crisis has taken its toll on automotive sales. While third quarter sales reports showed some resurgence, [the year-to-year numbers](#) still look pretty grim. General Motors, for example, reported third-quarter U.S. sales down almost 10 percent from a year ago, although a lower decline than the second quarter. Even before COVID hit, the automobile industry began experiencing major shifts in customer demand. [McKinsey & Company](#) has predicted car unit sales to slow down to two percent annually by 2030.

Over the next decade auto OEMS face a number of key challenges, but within those challenges also lie new opportunities for revenue and customer growth. Challenges are:

- Reacting effectively to customer expectations for more technology-rich vehicles
- Offering connected car services that are contextually relevant and provide value
- Learning how to better use customer data to provide revenue-generating services
- Moving from a hardware to a software mindset to accelerate time-to-market offerings

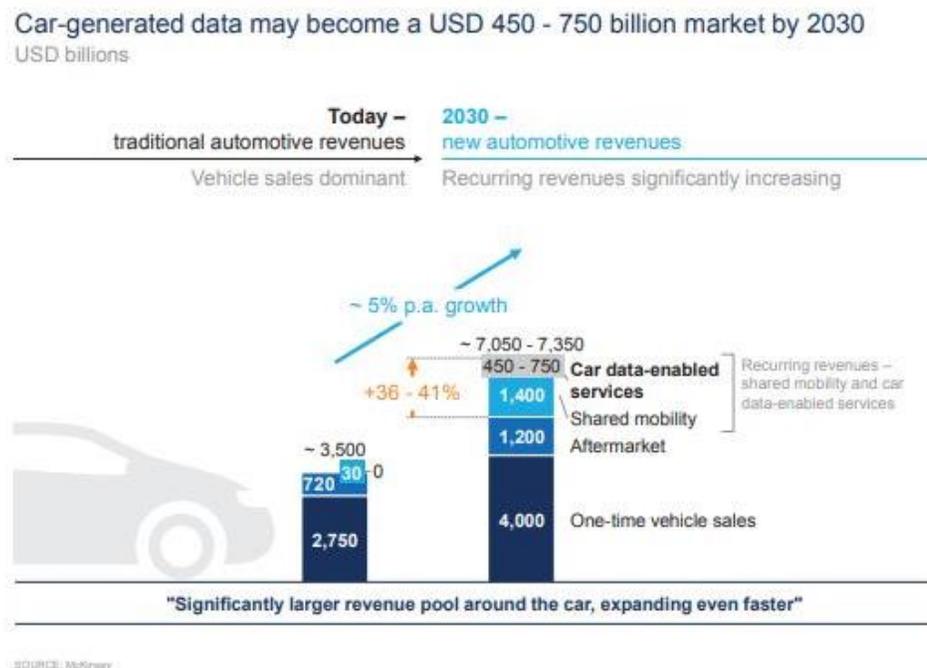
The positive side is that customers are receptive to new services but they must be spot on in providing a clear, evident benefit – one that will further relate a customer to the OEM's brand in an era in which brand loyalty is sketchy.

OEMs, as McKinsey notes, will be operating in an evolving environment:

- A growing trend toward shared mobility – a customer driven model in which a driver can rent a car for a limited period of hours and drop off when done.
- Increasing customer acceptance of autonomous vehicles as technology improvements and safety features occur.
- More availability of connectivity technology solutions
- Consumer willingness to embrace new connected car services

Revenue Expectations

Leveraging the new ways of using vehicles and customer receptivity to connected services is the answer to generating more recurring revenue. However the market is getting crowded with tech companies like Google aiming to own connectivity services of all types. The monetary upside is significant: in comprehensive research, which included input from major OEMs, McKinsey estimates the [overall global revenue](#) pool from car monetization to be \$450-\$750 billion by 2030.



Winning in this competitive market will require OEMs to improve their use of customer and usage data. Shared mobility is a perfect example of new service opportunities. Millennials, already comfortable with taking Uber around town, are a natural user segment for sharing vehicles. OEMs can offer in-vehicle advertising, recommendations on local parking and store availability and gain revenue from co-op partners. Data collected from driver usage can be valuable in seeking more partners to offer information services, thus adding to the revenue stream.

From another perspective, vehicle owners will pay for in-vehicle services, but they must show sufficient value to warrant payment, i.e., streaming infotainment services. One service that can give connected car customers a great post-COVID benefit is usage-based insurance. If an employee is switching to work-from-home part of the week, data provided by a third-party

solution can be sent to the insurer and the driver pays a variable rate based on total monthly usage. Similarly, vehicle lease arrangements can be made variable according to usage.

The Money is in the Data

Connected car services are not a replacement for slower sales; rather they are a part of what will be a much-changed vehicle picture in 2030. Shared mobility, autonomous driving and technology-rich features will define vehicles in the future. How can auto OEMs ensure they achieve their piece of the connected car market? Putting it simply, the deals (money) will be in the data. As [Nielsen says](#), consumers will not be reverting to pre-lockdown (COVID) behavior. “That’s why companies need to understand evolving consumer sentiment before assuming that open-for-business means business as usual,” according to the report.

Auto OEMs have a chance to respond to this changing consumer market with connected car services that fulfill consumers’ current needs and to greatly improve their customer retention rate. Previously, the retention rate has been dismal – as low as 20 percent. Fortunately, Auto OEMS already have a wealth of car purchaser’s data via software connectivity. The data resides in the cloud. By mining the data and using analytics to more deeply understand consumer sentiment, OEMs can more effectively create and monetize connected car services, plus ensure that the next wave of new car purchasers become steady service customers.

Monetizing data benefits the entire ecosystem: OEMs, connectivity providers, technology partners, dealerships and consumer services. For example, car owners can get an automated, message when the vehicle needs maintenance service. Connecting this message to the dealership provides revenue and creates brand attachment. Technology providers enable the connectivity and other partners provide the automated messaging platform. With the advent of shared mobility and autonomous driving, thinking of the data as the feeder system for supporting all these businesses makes sense.

Modernizing Auto OEMS

When COVID hit two companies that responded quickly were DoorDash and UberEats. As customers went from dining-in to delivery they were able to pivot successfully because they already had good data and understood their markets. However, they represent companies already highly conversant in the use of data analytics to obtain current customer behavioral changes. Auto OEMs do not have this expertise in-house and need to make good use of third-party provider solutions to help turn the wealth of data into monetization ideas. Outsourcing and/or partnering on data connectivity solutions will enable OEMs to respond much more quickly to market changes and competitively introduce services in a timeframe consumers need. Typically, hardware-centric OEMS have been used to lengthy time-to-market cycles. COVID taught businesses that agility was essential to survival.

Contextualizing available data is the next refinement, which can help add a layer of detail to new services—detail that can make the difference in a customer staying on past a subscription trial period. For example, a customer’s driving behavior in a major metropolitan area will differ from a suburban resident. More precise use of data can determine a number of patterns: people who choose to drive more frequently post COVID; people who are driving less since they are choosing a part-time, work-from-home option; or people driving more, but locally, by choosing to spend more time at a company satellite office. This is indicative of high-value data that depends on solid, thorough data collection and analytics.

Going forward, auto OEMs can win their share of monetized services but one of their biggest challenges will be adopting a tech, software-oriented mindset to innovate far more quickly. While Google and others were born into the fast-track era, auto OEMs have previously flourished in a hardware oriented, multi-year time-to-market cycle. With up to \$750 million at stake this decade the time is right for OEMs to become far more agile.

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