

Automotive

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Honda's FM Traffic Harbinger of Satellite Doom

Business Models, Connectivity, Digital Broadcasting, HMI, LBS, Mobile phone, Navigation, Software, Telematics, Vehicle OEMs, Vendors

Next week American Honda Motors will introduce its 2011 Odyssey at the Los Angeles Auto Show. The car comes equipped with what the company calls FM Traffic. This seemingly innocuous announcement marks a shift in the industry with wide ranging implications for both automotive radio and on-board traffic information.

Auto makers are confronting major decisions regarding content delivery to the car and the configuration of the center stack. The battle lines for content delivery divide over the question of embedding a telecommunications module or connecting the driver's smartphone. Smartphone connectivity shifts the data plan burden onto the driver, while embedding allows wider latitude for vehicle data collection by the OEM.

The radio is the beating heart of the center stack and here a struggle is unfolding between and among traditional AM/FM technology, HD Radio, satellite radio and Internet radio. The battlelines are drawn over content delivery, personalization, localization, monetization and flexibility.

Honda's FM Traffic is based on RDS-TMC, a free (to the consumer) traffic data service delivered over the FM sideband. RDS-TMC represents the state of the art in North America for delivering accurate and timely information on traffic conditions. The Honda solution is unique in that it is supplied by the Broadcast Traffic Consortium (BTC), a nationwide group of broadcasters allied with Navteq.

The industry will have to wait until next week to see how Honda has implemented incident and flow messages, but it is likely that Honda and its supplier, Alpine, have added value to the traffic reporting proposition (<http://automobiles.honda.com/traffic/>). Alpine will also be bringing the BTC RDS-TMC solution to its aftermarket products.

Honda is only the second North American OEM to deploy RDS-TMC from BTC, following Mercedes-Benz. More are expected. The dominant RDS-TMC supplier in North America is Clear Channel, which is partnered with Inrix. The Clear Channel solution is offered by BMW, Volvo, Mazda and a few other OEMs.

Honda's decision is significant given that the company also offers Sirius XM's NavTraffic service, which requires a monthly subscription. But Honda's choice reflects several hard truths for the industry:

Truth #1 – The value of traffic data is declining. Once valued at \$1/user/month, traffic data has declined in value to 25

cents/user/month or less at the supplier level. For the consumer, traffic information is perceived as free – especially since so much of it is readily available over radio and television broadcast sources as well as from Depts. of Transportation via the Internet. RDS-TMC traffic information is also free (to the consumer) and, therefore, fits this model and mindset.

Truth #2 – RDS-TMC traffic data is better than good enough. Anyone who has used RDS-TMC-equipped navigation systems in a heavy traffic corridor can attest to its accuracy and reliability. Satellite radio traffic information, by comparison, is not competitive – based on this analyst's experiences. (Some European RDS-TMC data, Germany in particular, is the exception to this.)

Truth #3 – Traffic information services continue to evolve and improve and service providers must evolve along with them. While HD Radio deployment of TPEG traffic data services will be the next step, it will be followed quickly by solutions based on smartphone integration and, ultimately, embedded traffic data platforms that provide for Internet connectivity.

All of this is bad news for Sirius XM. The company is already wrestling two alligators – a transition of existing Sirius users to XM service by 2016 (see <http://bit.ly/bIWHJ6>) and the introduction of Satellite Radio 2.0 in Q4 2011 (see <http://bit.ly/bqiU7F>). While managing these two processes, the company is also justifying its existence on a quarterly basis before its investors as a public company.

Traffic data services are key to Sirius XM because they represent the most successful telematics service the company has been able to deliver. Unfortunately, because of the capacity limitations (traffic data for all cities must be delivered down a single connection leading to data being left out due to capacity limitations or delayed due to the carousel-like data transmission) and one-way nature of the satellite pipe, Sirius XM traffic is poor.

In fact, Sirius XM traffic, based as it is on Navteq's Traffic.com, has given Navteq's data service a bad reputation – through no fault of Navteq's. (This is not to be confused with the city-by-city audio traffic broadcasts provided by Metro Traffic.) Honda's selection of BTC RDS-TMC is a shot in the arm for Navteq's traffic team which is looking to bounce back from its reliance on Sirius XM.

The subscriber volume for satellite traffic has been poor as a result of the poor data. Some OEMs do not even offer satellite traffic for their satellite radio systems. This points to a wider problem for satellite radio. The company has yet to find a successful model for branching out beyond talk and music.

Both Sirius TV (Chrysler) and Travellink (Ford) are seen in the industry as failed services due to low subscriber volumes. Of course, the business models were also flawed. Sirius TV only offered three channels of rearseat entertainment, a fatal limitation, and most of the Travellink services – for parking or inexpensive gas – are available on smartphone apps.

Now Sirius XM is setting the stage for Satellite Radio 2.0. In a report to LibertyMedia shareholders last month, CEO Mel Karmazin tipped his hand a bit by referencing the possibility of transmitting local movie times and/or red-light camera info to drivers via satellite radio. He also mentioned enhanced time-shifting technology, presumably from storing or buffering some satellite content.

Other reports regarding Satellite Radio 2.0 suggest more sophisticated search functions for finding particular artists or songs that may be playing at any given time across the voluminous satellite radio dial. Some industry sources say SR 2.0 is expected to have 25% more capacity. It's not clear whether any of these SR 2.0 possibilities are true, possible or even compelling to future subscribers.

But Karmazin has a compelling story for investors. He told them last month that OEM penetration of satellite radio as a percentage of new cars was 60% and that the number of satellite radio factory-enabled vehicles in operation in North America was approximately 30M and on a path to hit 80M by 2015. For this reason, the company is continuing to promote certified preowned vehicle programs

for satellite radio re-activation – which is seen as a key to future growth.

Karmazin further notes that Sirius XM has some of the lowest subscriber churn in the media landscape (1.8%), has one of the largest subscriber bases (19.5M, second only to Comcast), and now captures 15% of overall radio revenue (\$2.8B) vs. \$15B for terrestrial radio, and ~\$1B for Internet radio/music services. He also notes that satellite radio's subscriber revenue is \$2.8B vs. ~\$300M for Internet radio which translates to per subscriber revenue (annual 2009 est.) of \$136 vs. \$1.25/user for Internet radio and \$10-\$20/listener for terrestrial radio.

Conclusions

It's worth noting that Karmazin made no reference to either HD Radio or to Sirius XM's stated transition to XM by 2016. While the present looks promising for Sirius XM in the form of rising vehicle sales and the launch of new certified pre-owned vehicle programs, the long-term outlook is less rosy.

The wider deployment of competing and free traffic services should put the last nail in the coffin of Sirius XM's telematics ambitions. Embedded telematics services and smartphone connectivity, combined with FM- and HD Radio-based solutions, will obviate the need for any Sirius XM data services.

A new front end to Sirius XM's audio content will provide a short-term lift in allowing for easier access to specific types of music. And premium sports and personality content remain a demand wild card and, combined with nationwide reception, preserve the satellite value proposition.

But car makers are still not likely to integrate satellite radio into the core of their center stack platforms, meaning satellite radio will remain an add-on, particularly given ongoing system upgrades. In a matter of years, cars will be shifting to Internet connected solutions allowing for personalization and location awareness, two propositions with which satellite radio cannot compete.

Additional insights:

<http://bit.ly/dniNxa> - Navigation Heuristic Evaluation: Telmap5 – Schreiner – Automotive Consumer Insights

<http://bit.ly/95NCoW> - Automotive DMB Digital Radio: Marketing Strategies an Increasing Priority – Blight – Automotive Multimedia and Communications Service

<http://bit.ly/dtRE5C> - Automotive Telematics Services: Shifts in Pricing and Monetization Expected – Canali – Automotive Multimedia and Communications Service

<http://bit.ly/bwdwcW> - Connected Vehicle and Vehicle Device Connectivity System Database by Feature, Region, and Price 2010 – Canali – Automotive Multimedia and Communications Service

<http://bit.ly/d0aLhq> - Connected Vehicle Telematics: Car Maker Profiles – Canali – Automotive Multimedia and Communications Service

<http://bit.ly/deumcd> - # Traffic Data Quality Will Determine #Telematics Winners - Lanctot - blog - Strategy Analytics

