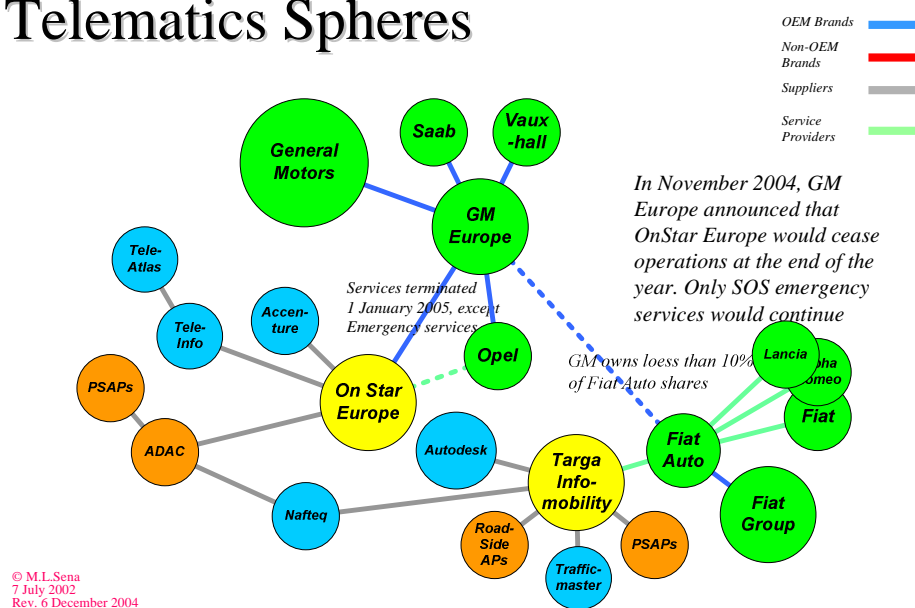


GM HQ Reinforces OnStar Message

OnStar North America Sets Direction

After yet another, perhaps final, attempt by GM Europe's **OnStar** division to set a course that was different from **OnStar North America**, it looks like GM management has decided to put a stop to the in-fighting. OnStar is about safety and security and nothing else. GM has taken the opportunity of a major cost-cutting program in its European operations to make its move. OnStar Europe will be closing down its operations at the end of 2004. The only service that will continue to be delivered is SOS emergency response. Every other service is cancelled. This will not make much difference to the 25,000 or so users of OnStar's older generation hardware, but it will definitely affect buyers of the new generation system that went to market in the spring of 2004.

Telematics Spheres



OnStar Europe at the beginning of 2004 had just completed a major overhaul of its service infrastructure with the help of Accenture. A new generation of hardware was introduced that offered more functions than the earlier version. More than 100,000 of the first generation

systems had been installed in Opels sold in Germany, and 25,000 of those systems were being used by active, paying subscribers. OnStar Europe was planning on a large take-up of the new generation, initially in Germany, and then in the rest of Europe.

Unfortunately for OnStar Europe, it picked a bad time to make new investments in infrastructure and services. GM Europe has been underperforming for several years. Its Opel and Saab subsidiaries are losing large amounts of money. Attempts to stem the losses have thus far proven ineffective. An additional €500 million per year needs to be taken out of structural costs, and 12,000 jobs will be eliminated, according to CEO Rick Wagoner in an extensive interview he gave to Automotive News Europe that is printed in the November 29, 2004 issue of the newspaper. Plants will be closed, and the company will soon decide whether Saab can remain a Swedish designed, engineered and produced brand.

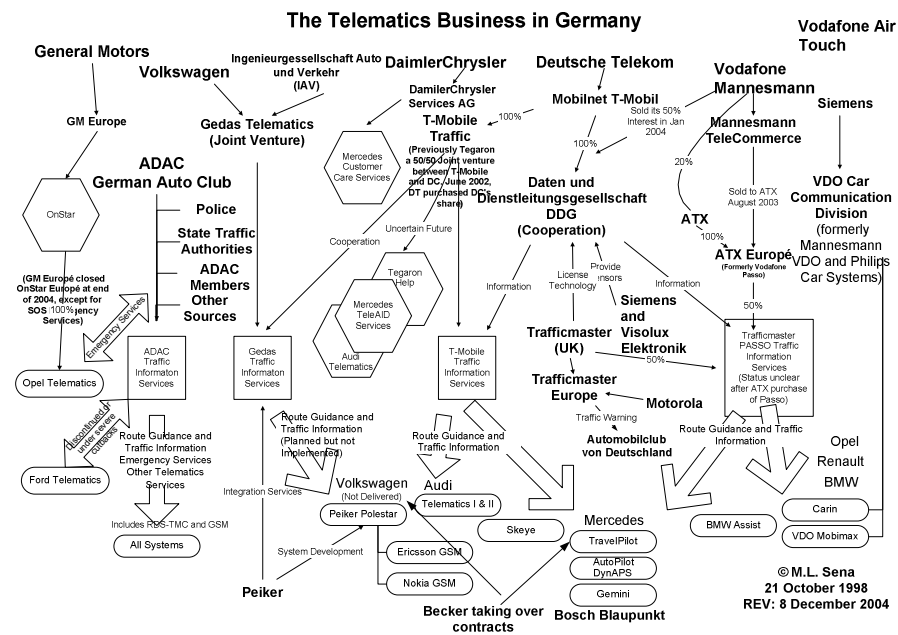
In such an environment, it is difficult to justify spending money on programs that are not directly related to selling more cars at higher margins. Anything that adds cost without generating an equal amount of income will be a prime target for removal. OnStar Europe has spent a considerable amount of money since it first began operations in Europe in 1997, and it is not yet showing positive figures. It required more investment to continue in business. So it would appear that GM Europe really had no choice other than to shut down OnStar Europe, no matter how strategically important OnStar as a concept is to GM's global future.

In this observer's view, it is the strategic importance of OnStar that is the main reason for limiting OnStar Europe to emergency services only. I admit it is mostly speculation on my part, but my conclusions are based on my reading of signals being sent out by both the North American and European camps. At the ITS America 2004 conference I attended in April, the OnStar North America team delivered a single, consistent message about what they are trying to achieve with OnStar in the US. The message they delivered is exactly the same as the one that Americans constantly see on TV, the Internet and in print media: OnStar provides safety and security to its customers. OnStar may be making money selling air time for hands free telephone operation, but they believe that people want the OnStar service in their car to add to their peace of mind. OnStar North America has over 3 million paying customers, the operation is reportedly profitable, and GM North America has announced it will double the number of vehicles in 2005 that will come equipped with OnStar as standard.

The management of OnStar Europe disagreed with the "safety-and-security-first" message. They positioned OnStar Europe to compete with wireless carriers' services—not surprising since the unit's last business manager came from the wireless industry. And like the wireless carriers, services would be constantly rolled over based on performance. If off-board navigation or traffic reports did not deliver acceptable financial results, they would be replaced with services that did. This is not exactly what car buyers have come to expect from car companies. They expect that whatever is delivered with their car,

works for the life of the car. While the OnStar Europe philosophy may have been totally compatible with its customers' expectations of wireless services, there were major disconnects with both automotive and mainstream OnStar philosophies.

It is not a certainty that if OnStar Europe was following the same policies as its larger and successful model operation in the US, a way would have been found to continue financing the business. It is, however, likely that the fact that the two groups were at odds cannot have helped the OnStar Europe cause when it came time to make the final decision about keeping it open or shutting it down.



What is the impact for the rest of the telematics players in Europe from this setback for OnStar Europe? If the news does make it to the board rooms of Fiat and PSA Peugeot Citroën, two companies who compete with Opel in several segments and who have operational telematics services, their managements may have second thoughts about continuing or increasing funding. I doubt this will be the case. It is more likely that they will view GM Europe's exit from this arena as a further sign of the company's weakness, and PSA will take the decision of GM to continue with emergency services only as bolstering their own decision to deliver a pure-play emergency system.

BMW is expanding its bConnect service in markets all over the world after having it only in Germany and the US for the past five years, more recently in the UK, and now in Italy. During that time, OnStar was not factored into BMW's decision-making process, so it is improbable that anything that GM does at this point will affect BMW. Volvo has operational services in two European markets, the UK and Sweden, and is preparing for introductions in three other countries. Germany is not yet among the new countries, and the local Volvo market company may view the GM decision as a negative sign. That would be unfortunate because both Audi and Mercedes have proven that a safety and security message does resonate among German

drivers, especially at the medium-to-high end of the market where Volvo is positioned, and the Volvo system is one of the most robust safety and security systems on the market.

One company that may be comforted by OnStar Europe's situation is Ford. They were caught up in the telematics-as-wireless-services craze on both sides of the Atlantic more than any other OEM, and they still have not been able to make the transition to a company that views telematics as a driver and vehicle support system that helps to sell vehicles and reduce costs.

There may be another, positive result of OnStar Europe's exit from the wireless services telematics market. Possibly, more OEMs will realise that setting up separate service networks is costly and unnecessary. One of the reasons that OnStar North America is successful is that they provide services to several non-GM brands (Honda, Toyota, Audi, Subaru), as well Saab and all the GM brands. The only real competitor to OnStar NA is ATX, who services Mercedes, BMW, Lincoln, Jaguar, Rolls Royce and Infinity. In Europe, we have T-Mobile Traffic, ATX, WirelessCar, TargaInfomobility, IMA, ARC clubs, Mondial, and each one is serving one or maybe two brands. Building separate, full-function infrastructures is an expensive and time-consuming activity, and all of these companies cannot hope to survive by providing a solution to one or two companies, no matter how many cars the OEM sells. The co-operation among Ford and the two French companies, Renault and PSA, was an attempt to address this problem, but it failed when all of the partners could not agree on funding, and Ford Europe was in a similar situation financially as GM Europe is today.

This may also be a wake-up call for the OEMs who have not yet developed a telematics strategy regarding the future of emergency call processing. Sooner or later, the PSAPs and telecommunications industry are going to come to an agreement with the government authorities on how they will handle emergency calls with position. The Global Standards Collaboration group representing the telecommunications and radio standards organisations, adopted a resolution regarding Automotive Crash Notification (ACN) at their annual meeting this year. They urged their participating standards organisations to "incorporate elements in their programs in order to provide a common, world-wide communications solution for the vehicle industry by 2010 that efficiently integrates into public wireless networks while ensuring that ACN messages have the highest reasonable likelihood of getting through". As far as I know, only Volvo and possibly BMW have implemented a telematics solution with a direct interface to a PSAP. This is in the UK with BT999. The reason that others have not accomplished this feat, although several have tried, is that the UK solution is neither standard nor easy to implement. Their solution does not strictly follow the suggested method arrived at by a European working group, but it is probably closer to what may well be the final design, with data and voice being separated into different channels to arrive at the PSAPs where they are merged.

As I have written many times before, telematics is about getting a communications device in the vehicle. Automobile manufactures need to get communications devices in their vehicles for many reasons that are related to saving money for them, and offering compelling safety and security advantages to their customers. If the devices can also double as stolen vehicle tracking systems, or if they can be used as gateways for data—music, video, maps, points of interest, etc.—all the better for the OEMs and their customers. Every company should not have to invest tens or hundreds of millions of Euros in their own infrastructures in order to obtain the advantages of this connectivity. Not every company can afford to do so, not even GM, the largest car manufacturer in the world.