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SPEECH ON CONNNECTIVITY AND CONTENT

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Good afternoon. I am Adam Singer, here today as Chairman of the British Screen Advisory Council (BSAC), an organisation that is at the crossroads between Government, media, technology and regulation. Our members include the BBC, ITV, Sky, Vodafone, Google, the British Film Institute, Warner Bros. and UK producers and distributors. I also intersect with the automotive sector, through my other role of Chair of Digital Radio UK, giving cars more audio content.

But today, I am in the sector I adore: cars. For me, this is like being at a Rock Convention, but, at a professional gathering, there is nothing worse than an amateur petrol head, high on Castrol R, long on cars, who races cars – real races not wussy track days – and I am flying to New York tonight to collect my 1956 Cadillac and drive to Denver.

I am about auto nostalgia and you are about a modern industry, but luckily your sector is meeting my sector, where the massless values of information – that is, anything that can be expressed in a one and zero – is set to change this industry. The arrival of the 'net on wheels' gives a chance to create new values in this sector. Today, I am going to talk about how connected tech is really a tool for creating shareholder value.

We marvel at the values of the information sector. Take Facebook, founded in 2004 and eight years later worth $104 billion. We think this is a recent phenomenon, yet, at the turn of the 20th century, Facebook was spelt Ford. Ford was founded in 1902; by 1905 investor profits were 300%; by 1914 it was one of the most powerful companies in the world. The motor industry was the 'data' industry of the early 20th century: the internal combustion engine and its ancillaries drove the 20th century economy, stock markets and industrial values.

Today, you add up the market values of General Motors, Ford, Fiat/Chrysler, Volkswagen/Audi, BMW, Daimler, Nissan, Honda, Peugeot and Renault: that's ten companies with a total market value, as of last Friday, of $520-ish billion US dollars. That's a lot of money, but it's also $45 billion less than the current $565 billion market cap of just one company: Apple.

This doesn't say much, except that the automotive sector is slipping down the pole of economic primacy, to be replaced by the information and entertainment that can be wrought from binary code and the devices that store and manipulate it.

The good news is that connecting the car gives access to the helium of value added data. The value that connectivity confers is going to set the investment trajectory of the automotive industry for the next 20 years. I know this, because that's what digital connectivity did in our sector: back in 1992, it set the investment agenda for the next 20 years.

As governments realise that cars are just three dimensional data packets, they will see vehicles as part of a switched network, and that roads and broadband networks are analogous, and this will transform how we maximise road infrastructure, the economic benefits of which will be like a blast of nitrous, and really push connected investment beyond getting YouTube in the back for the kids.

Connectivity is not playing Candy Crush while the car steers itself to Tesco. It's a vision of the car as a consumer and generator of data. So, the question is, how does one get some of those entertainment and data revenues?

Let's start with some stories from my sector, which we arrogantly call the creative industries, a label that implies that other industries are not creative, or that Adele is more creative than Adrian Newey – not in my book – but anyway, the creative industries for the sake of this talk are: Photography, Games, Movies, Music and TV, generating close to £20 billion of added value to the UK, which makes us about twice as valuable as Pharmaceuticals and three times Aerospace.

So, what have we learnt about connectivity? Well, first and foremost it shifts values. The music industry is worth half what it was ten years ago and part of this value has shifted from the record companies to iTunes, Spotify and YouTube. The music industry could have had those values, it could have created its own iTunes, but there were a number of powerful players who created competing standards, confusing the consumer and allowing solutions to be imposed from outside, to wit Apple, who saw music, not as a product in its own right, but as a product to move Apple's devices.

It was the inability of the established music majors to get together that allowed Apple to come in and eat their lunch.

I am sure the automotive industry would not do anything as daft as creating competing entities and multiple standards to drive connectivity, as that would be to ignore a major facet of the net, in that it loves natural monopolies: Google, Facebook, eBay, Twitter, Microsoft, Amazon, iTtunes, are all variations on a natural monopoly theme. They are gatekeepers. The debate is always: can we be a gatekeeper, should we share gatekeeping, or do we just give it away?

Established businesses are trapped by history and sunk costs. For example, ITV is based on an advertising model and had no natural affinity for subscription models; Newscorp, which was founded on selling newspapers every day and supplementing those purchase revenues with advertising, had the right mindset for a new TV world. This is why ITV is worth £7-ish billion and Sky around £13 billion, and Sky is the most powerful Television entity in the country. ITV could have been Sky. What does Sky have that ITV doesn't? Subscription

revenues. What you should glean is that connected data loves subscription models. Sky, HBO, Spotify, Netflix and Vodafone, are all hard subscription models. I would argue that iTunes, Amazon and Microsoft are soft subscription models, but they too lock you into their purchase systems.

Here lies an opportunity for the auto sector, which has spent 100 years trying to lock in their customers. The connected car is a potential basis for a huge subscription system that locks in the customer. In a digital world nobody ever buys anything, they just lease. That new digital camera you just bought is, in reality, a lease payment until the next model comes along. Leasing is a model you are comfortable with, but in the data world it takes on added dimensions, and I would argue the data players are good at this and can help you.

In this world you never want to sell another car again, you want to sell data subscriptions, and the car becomes analogous to mobile phones: a sexy form factor to drive subscriptions.

Most will think this is an extreme post-spliff vision of an impossible future, but some will understand that convergence levels all sectors in the same way, and this is the star you will steer by: to sell transport devices that lock the customer into a subscription network.

One company on this road is Tesla. It sold roughly 22,000 units last year and the market value of Tesla is approximately $25 billion, that's roughly half the value of General Motors, which made 9 million units. One might scratch one's head and say 'go figure,' but it shows that products that look as if they could be part of a connected future are deemed to be of high value, and Tesla isn't even connected to that much, but, as of today, they are doing a better job at creating shareholder value than many established players.

Let's look at a current example of extracting value from the connected car. In the US there is Sirius satellite radio. The sets cost $200 and is installed by specialists: for $10 per month you get 80 channels; $18 will get you 150 channels, including adult radio channels – the mind boggles: I assume adult radio is Jane Birkin singing *Je T'Aime* on an endless loop. Anyway, 60 million cars now have Sirius and this car connected business is worth $3.8 billion. Note there were once two satellite radio systems, but now there is only one and it uses cheap satellite bandwidth. Also worth noting is that, in the UK, digital radio provides a similar diversity of service, but for free, thus leaving this latent value to be extracted from the UK car. Sirius implies digital radio is tremendous value for the UK auto sector.

The return data path is going to be valuable, knowing when and where every car goes. It allows the creation of immensely valuable predictive algorithms. Apps will spring from the back of this. Apps have value. How to participate in that value? But it gives permission to believe that the current Sirius value of $63 per car could get doubled and there is no reason why it should not happen here, if you have the right services.

However, there is a problem at the heart of this. Most connectivity seems to rely on SIM cards and using existing mobile data networks supplied by existing service providers. Tales from the broadcast convergence wars tell us one more story. Sirius works because they control their cost of bandwidth. If you are renting connected bandwidth from a third party, they are controlling your economics and will siphon off the value.

The economics of all channels carried on Sky, whether they own those channels or not, are controlled by Sky, in the same way that a coffee stand at a station is controlled by the rent charged by the station. So, Sky charges access and distribution: rents that control channel

profits. Bandwidth is rent and, if you don't have some way of controlling the price of bandwidth, you will have the same problem.

If you are not careful the real winners in this game will be those who deeply understand subscription, apps and data, and how to get content; then followed by those who supply bandwidth; and only then, finally, you.

So, I know nothing about the car sector, but I do know convergence wreaks the same havoc on every sector. It shifts values, it rebases the economics, which allows new entrants, and these can become dominant. The only difference between the creative sector and the auto sector, in a connected world, is that we were a canary down the convergence mines before you, and we are happy to share our knowledge.

Finally, our content creates value. It was the creative industries' content that drove Netflix, iTunes, iPhones, iPads and pretty much anything else that fancies an 'i' in its title. Our content can do the same for you and we are happy to help. But you don't just phone Hollywood and say 'can I buy a few movies?' They need to be wooed, and they know how to play this game.

But the take away is this: the connected car could be the biggest leap in value since Henry Ford stared at a conveyor belt, and the question for you will be: who will get this value?

Adam Singer