

Analysis of Automotive Lubricant Market in India and Marketing Strategies for Rural Markets

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1) Introduction

Economic, political, and regulatory forces are reshaping the dynamics of lubricants supply and demand throughout the world, and opportunities to grow this business continue to emerge. India, in particular, has emerged as a key growth market, as well as a source of competitively priced lubricants. Strong growth in the Indian automotive, power and engineering sectors is creating new market opportunities for lubricants manufacturers.

In the automotive sector, consumers are migrating to better quality vehicles and increase in demand for four stroke motorbikes, tie ups with original equipment manufacturers using higher grade lubricants; this is benefiting multi-grade lubricant products with strong brand recognition and wide distribution. Whilst there are no restrictions on foreign lubricant manufacturers from establishing 100%-owned operations in India, many have chosen to partner with National companies. (Merger & Acquisition). The automotive lubricant market is estimated to have grown volumes by over 3% on the back of a strong economic performance. Increased motorcycle and car stock, growth in agricultural driven lubes consumption and a booming construction sector have been the primary factors to this.¹ The old generation truck market and the 2-stroke motorcycle lubes market, is projected to continue declining sharply in the short-term.

The trends highlighted above are expected to continue, Thus, lube consumption is projected to grow strongly in cars and 4-stroke bikes.² With the rapid growth in vehicle and infrastructure sector, the shape of the customer groups would be undergoing significant change in the future. Fleets, construction companies and large workshop groups would be forming an increasing percentage of the market. Another trend, which is rapidly catching up, is the emergence of organized retail chains. While the impact on lubricant sales at this juncture is minimal, these outlets could present opportunities for marketing in rural areas who are customers in the future. It is also expected that the rural growth of 4-stroke motorcycles will continue to outstrip urban demand in the foreseeable future. Penetration in rural and semi urban areas is extremely low and could provide opportunities for marketers. New entrants will have to deal with uncertainty of demand, different and involving customer needs, a relatively poor supplier base, a market crowded with competition and niche market specially in rural areas.

As part of strategy to focus on rural markets, the companies are now planning to increase the share of distribution infrastructure to reach out to an additional six lakh villages., currently the distribution reached between 5000 and 7000 towns and villages across the country, eventually the companies are aiming at taking its products to six lakh villages with a population of less than 5000.³

The evolving market forces in India present significant opportunities in rural areas to new and existing marketers and formulators of lubricant.

2) Overview of Indian Automotive Lubricant Industry

Lubricants

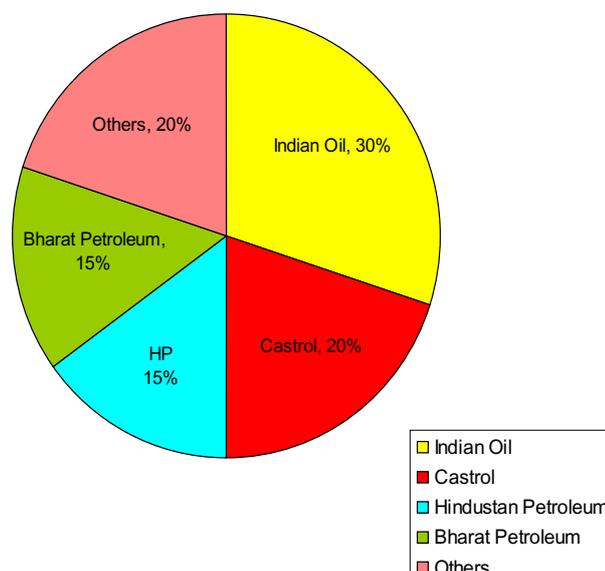
Lubricants are used to reduce friction between moving parts, thus resulting in lower wear and tear. In many machines, lubricants also play a role in cooling, rust prevention and help to avoid deposition of solids between closely fitting parts. Liquid lubricants are most commonly used. A lubricant is a blend of base oils and performance-enhancing additive as required by engine, gearbox and other applications areas ⁴.

Indian Automotive Lubricant Industry

The Indian automotive lubricant market is the sixth largest in the world with the market value more than US \$ 1 Billion. It is also one of the fastest growing retail markets in India. Total production of automotive lubricants in India is approximately 8 to 10 percent of global lube production⁵. The lubricant sector in India is broadly divided into 3 major markets sectors: Automotive, Industrial and Marine & Energy applications. Liberalization in the early 1990's has brought a tremendous change in the Indian Lubricants scenario, the government decided to open the Indian market to foreign competition. No Government Controls on Import of lube oil Base stocks, Additives and finished lubricants. Pricing of base oil was deregulated basic custom duty on base oil stock was reduced from a peak of 85 percent to a level of 25 percent. All quantitative restrictions were also removed.⁶

Automotive lubricants are further divided into diesel lubes and petrol Lubes. Diesel lubes comprise 70 percent of the market and petrol based lubricants cover the rest. As diesel lubes are used by commercial vehicles, which have to cover greater distance so their market share is higher. CNG Gas is in emerging stage.

Market Share analysis



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The industry is led by four major players, (Indian Oil, Bharat Petroleum, Hindustan Petroleum and Castrol India Ltd) who contribute to over 80% to the market, rest 20% is shared by several players like Gulf, Elf, Tide water company, Agip, Shell.

3) Review of key conceptual elements

The market is fragmented with over 22 big and small manufacturers and with the spate of merger and acquisitions only a handful of big companies enjoy a major market share Companies are adopting a more customer-oriented approach where they likely to focus on creating brand awareness through print and visual media .

Channel of Distribution

The marketing channels for automotive lubricants in India consist of the following,

- Petrol Stations
- Wholesale Distributors
- Lube Oil Shops
- Auto Spare Shops
- Authorized Service Stations
- Garages
- Rural & Agricultural dealers

Till recently, the Indian consumers linked filling of lubricants to that of petrol & diesel in petrol stations. With the advent of deregulated market scenario & fierce competition, efforts are being made to position lubricant as a high involvement consumer goods.

Market Trend

In the recent past, the Indian lubricant market has witnessed a phase of consolidation. Multinationals with better technology, brand name and finances have the power to launch themselves on their own in the market. However, with increasing number of competitors it is not possible for every one to carve a niche in the market. This sector has witnessed considerable amount of mergers and acquisitions. British Petroleum's recent acquisition of Castrol is one example. Elf lubricants acquisition with Total Lubricant. Merger of Pennzoil with Shell Lubricants. Companies find themselves fighting a tough battle for survival. In the OE sector also lubricant manufacturing, companies are entering into collaborations with vehicle manufactures. Maruti Udyog, Hyundai Motors, Hindustan Motors, TAFE, Toyota, and Skoda have entered into collaboration with IOC and Castrol for some of their models. Some companies like Bharat Petroleum and Tide water Company collaborated with Hero Honda and TVS. Trend of Retail marketing is getting established⁷, accordingly some private players also have their outlet established i.e Castrol has Castrol point where every product range is available, and Castrol Bike Point where servicing of vehicle is done.⁸ Servo has Servo Shoppe . Then trend is changing in retailing sector for retaining their position in the market and compete with the competitors.

Competitive Analysis

Recent deregulations in the lubricant market have promised many new opportunities for the private lubricant manufacturers. Private participants will also gain a presence in the market and hence there will be competition between participants that will ensure the growth of the sector. The monopoly of the public sector holding will no longer exist. Private player like Reliance, Essar, Sheel are also selling their products through petrol pumps. Companies like Gulf, Valvoline, Veedol, Elf, are also making their presence felt in the market . In the couple of years ,the industry is going to witness sea changes.

Chart : SWOT analysis of Automotive Lubricant Industry

<p>Strength</p> <ul style="list-style-type: none"> • Strong Distribution network. • Technology • R & D department. • Low cost of operations in PSU companies 	<p>Weakness</p> <ul style="list-style-type: none"> • Bad Product positioning • Lack of trust with dealers • Failure in promotional activity • Improper distribution channel
<p>Opportunity</p> <ul style="list-style-type: none"> • Privatization prospect • Can enter new market • Untapped rural market • Expansion of shop stops 	<p>Threats</p> <ul style="list-style-type: none"> • Entry of new player • Threat from existing players • Loss due to similar product • Rise in crude oil prices

4) Customer Buying Behavior

Factors affecting the buying behavior are presently as follows :

Brand Awareness:- With lubricants becoming a fast moving consumer good and the brand preference of the consumers witnessing a change, brand image plays a key role in affecting the consumer’s decision to buy a Brand Awareness is a major issue in lubricant sector.

Price Sensitivity:- The transformation from the administered pricing mechanism to free pricing has increased the importance of providing cost effective product to the users. Thus product costing and competitive pricing are key factors affecting the market.

Purchase Locations :- Purchase form stockiest, dealers, distributors, mechanics, and retail stores offered to the storeowners and mechanics prompt them to purchase a particular brand.

Lube oil changing habits:- The period at which the lubricant is to be drain varies from customer to customer .

Technology awareness:- Very few customers are aware about the changing technology They are influenced by some advertisement, information from mechanics regarding using advanced technology lubricants.⁹

5) Conclusion

Analysis of the market dynamics reveals that automotive lubricants market is the competitive market with larger powers of the intermediaries on supply side. Evaluation of industry structure points to ever growing bargaining power of the suppliers. However, effective management of these competitive forces could lead to strategies for deeper penetration of reputed lubricants brands into rural markets. Further, analysis of consumer buying behaviour shows that there is a need to put efforts for spread of awareness amongst the consumers regarding product differentiation.

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