

Brief Analysis of the Brand Development Path of China's Automotive Aftermarket

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Abstract

As China's automotive aftermarket make a step towards the direction of specialization at a rapid rate, the niche in the aftermarket-the automotive lubricant market is increasingly competitive. This paper attempts to take Valvoline as an example, analyzes the development status and influencing factors of foreign brand lubricants in the Chinese market from the users, products, channels, and other directions, studies the opportunities and challenges of the automotive lubricant market, and puts forward policy suggestions.

Keywords

Foreign Brands; Automotive Lubricant; Chinese Market; Brand; Development Path.

1. China's Automotive Aftermarket

With the rapid growth of China's economy for many years, China has become the second largest economy in the world, the income of residents has been continuously increased, the consumption of residents has been upgraded, and the automotive consumption market has also developed rapidly. China's car market is the largest in the world, and its production, sales and ownership have ranked first in the world for many years, by the end of 2021, China's car ownership has exceeded 300 million. (Table.1) Although the outbreak of the epidemic in the first half of 2020 had a certain impact on the passenger vehicle market, fortunately, the epidemic in China was quickly controlled in the second half of the year, the car market recovered quickly, consumption upgrade, Generation Z, etc. have become the key words in the Chinese consumer market and even the automotive consumption market.

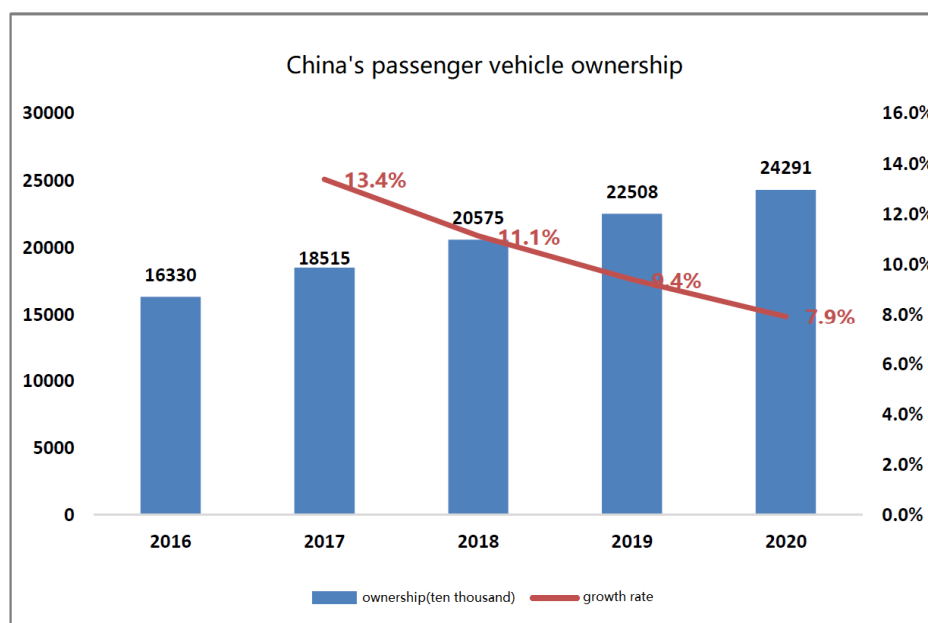


Fig 1. China Passenger Vehicle Ownership, Industry Information Network

As the automotive consumption market become increasingly mature, the national policy level relaxes restrictions on second-hand car trade, cancels the “restricted movement” of second-hand cars and the registration of second-hand car trade elsewhere, consumers’ consumption concept of second-hand car is also constantly developing, moreover, the global shortage of chips objectively affects and even aggravates the number of new cars before they leave the factory, boosts the second-hand car trade, the second-hand car trade in the Chinese car market is increasing almost year by year, and the growth momentum is very obvious in 2021. In the first half of 2021, the total trade of second-hand passenger vehicles in the narrow sense was about 6.14 million, increased by 18.7% in comparison with the second half of 2020, and the increase was about 121.4% in comparison with to the same period last year.

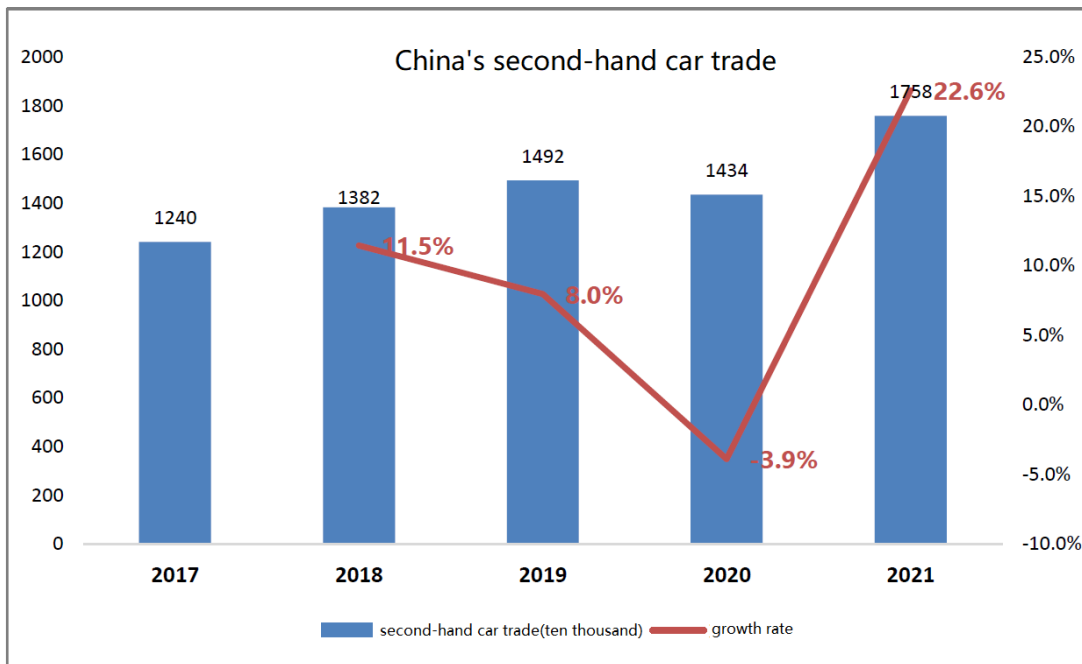


Fig 2. China's Secondhand Car Trade, China Automobile Dealers Association

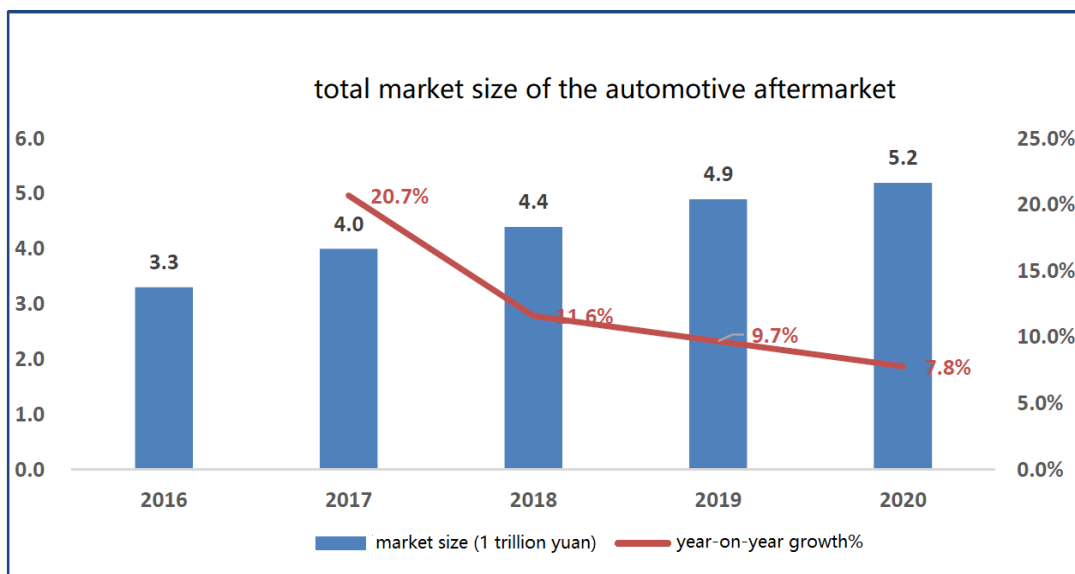


Fig 3. Total Market Size of Automotive Aftermarket, F6 Automotive Technology Big Data Research Institute

Due to the growth of car ownership and the aging of the car ownership structure, the scale of China's automotive aftermarket is expanding year by year. According to statistics, the average age of passenger vehicles in the Chinese market is 6.0 years in 2020 at present, it is expected to reach 6.5 years in 2021, the average mileage of passenger vehicles is 11,020 kilometers in 2020, and it is expected to reach 11,070 kilometers in 2021. The scale of the automotive aftermarket maintenance industry is growing rapidly, and the double-effect of "age + ownership" drives the rapid increase of the demand for automotive after-sales maintenance, it is expected that the output value will exceed one trillion in 2023.

Automotive supplies as the rigid demand product of car ownership, the growth rate of the market size or is broadly consistent with the annual growth rate of car ownership, the automotive oil/lubricant market is on the threshold of huge business opportunities and the competition is increasingly fierce.

2. China's Automotive Lubricant Market

2.1. Automotive Lubricants Market

Lubricant is the oily liquid applied to the surface of machine bearings, equipment, and moving parts, it is mainly used to reduce the friction between the surfaces of moving parts, furthermore, it plays the role of cooling, sealing, anti-corrosion, rust prevention, insulation, power transmission, cleaning impurities, etc. It is a technology-intensive product and complex mixture of hydrocarbons. As the downstream product of the petroleum industry, lubricant has the characteristics of high technical content and high product added value.

With the in-depth development of the Internet+ industry, China's automotive consumption has increased year by year, and the consumption of automotive lubricants has also increased year by year. According to the demand proportion of segmented product market and the total output of lubricants, it is estimated that the output of automotive lubricant is about 3.68 million tons in China in 2019.

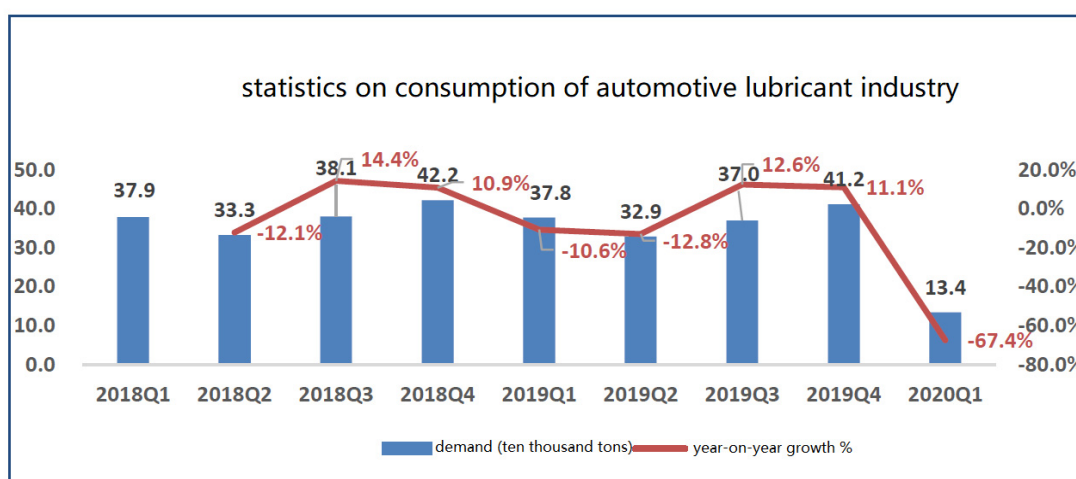


Fig 4. Statistics on consumption of automotive lubricant industry

There are many brands in China's passenger vehicle engine oil market, self-owned brands such as Sinopec, Kunlun, etc., foreign brands such as Castrol, Mobil, Shell, etc. the engine oil brand with the highest market share is the self-owned brand Sinopec, foreign brands such as Mobil, Castrol and Shell entered the Chinese market early, have many products, rich series, and high market shares.

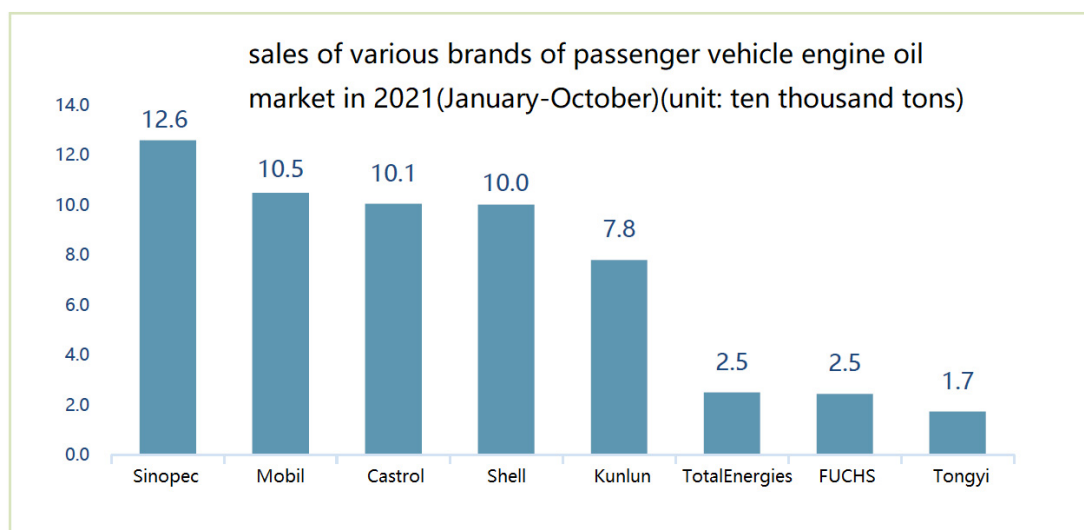


Fig 5. Sales of various brands of passenger vehicle engine oil market in 2021 (January-October) (Unit: ten thousand tons)

2.2. Introduction to Main Foreign Brands

Mobil engine oil has a long history, entered the Chinese market earlier, and has a high reputation and market share, its product has a long-term oil change mileage and a good comprehensive ability, which has been recognized by many consumers.

Castrol engine oil was founded in the United Kingdom and is famous for protecting the performance of the engine, the classic slogan "protect first before starting" is deeply rooted among the people; the features of engine oil products are low temperature resistance and good anti-wear property.

Shell Oil has been deeply dug the Chinese market, and has started various types of cooperation very early, has various product series, covers engine oil with fully synthetic, semi-synthetic and mineral types; Most of the low-end market, its products are known for their strong cleaning ability, moreover, they have high quality and low price, occupy a large part of the low-end market.

The Valvoline engine oil studied in this paper entered the Chinese market relatively late, the market awareness is low, and the market share is not high; but the Valvoline engine oil has a long history and is the first lubricant brand registered in the United States, which has more than 150 years of history and excellent product quality, it is first-line in the North American market's popularity and reputation, and its products are suitable for racing cars, high-mileage cars, and old cars.

3. The Development Paths of Valvoline Engine Oil in China

3.1. User Level

Because it is difficult to directly use oil products in automotive products, and usually requires the assistance of professionals such as technicians, the target customers of oil products are not only ordinary car owners, but also automotive technicians who have mastered oil change technology and certain selection and recommendation rights.

3.1.1. Ordinary Car Owners and Users

After internal research, the main features of Valvoline car owners are: the users are mostly young and middle-aged men, middle-class, have received higher education, their careers are on the rise (ordinary staff), and their annual family income does not exceed 200,000; they usually drive the sedan fuel car within 150,000; when using the car, it is mainly for daily commute,

buying vegetables and shopping, and picking up children; the total mileage of their vehicles is about 50000 kilometers, they drive an average of 10,000 kilometers per year; they cherish their vehicles and have awareness of changing the engine oil—they will change the engine oil once every six months or 10000 kilometers on average; when changing the engine oil, they will choose an independent maintenance store or O2O chain store that is close to home and has a good reputation; because considering the brand image, reputation and recommendations of technicians, they are more willing to choose big foreign brands such as Mobil, Castrol, Shell, fully synthetic engine oil; fewer users will consider Valvoline engine oil due to the quality of engine oil products, technicians' recommendation, etc.; because they have high loyalty to the engine oil brands they have chosen, they believe that these brands do not need to do much improvement from product performance and outer packaging, but upgrades in oil change mileage and good value for money, and will be more popular among users, the outer packaging of the oil bottle is more fashionable and more humanized, and it will attract more users' attention, when changing the engine oil, car owners and users will also change the filter element, antifreeze solution and brake fluid, and clean the vehicle, therefore, the stores launch the maintenance package/membership card service these service combination, which will also be accepted by some users; compared with other users, Valvoline users change brake fluid and antifreeze solution more frequently, and insist on choosing Valvoline products, this has more connection with the quality of Valvoline products and the technicians' recommendation; at the same time, Valvoline users prefer to do vehicle cleaning and beauty, and product prices and technician's recommendation have an impact on them.

3.1.2. Technician Users

Technician users' loyalty for engine oil brands is very low, and basically need additional means to motivate them to choose a specific brand, but technician users have some commonalities that can be grasped: most of the engine oils sold by the stores they work in are well-known big brand, for example Mobil, Castrol, Shell, because big brands have good product performance, good oil quality, and great brand influence; for them, a single customer changes the engine oil once a year and a half or once within 10,000 kilometers, so the store usually offers package services, for example, oil package/membership card, oil change+ beauty cleaning and maintenance, etc. one-stop solution; in the past two years, some technicians will recommend some new engine oil brands based on the big brand oil sold in the original store, these engine oil brands are domestic and some imported, but all the engine oil products themselves have good oil quality, good performance and profit, let the technicians continue to recommend the engine oil products, some product performance improvements need to be made, moreover, the improvement of the outer packaging is "adding flowers to embroidery" for the technician's recommendation; at present, although the understanding of the technicians for the car, engine oil, etc. comes from traditional channels such as dealers, brochures, etc., but the influence of the current mobile phone information channels on them should not be underestimated, for example, Douyin, Kuaishou, short videos, live broadcasts, information on e-commerce platforms such as Tmall, etc.; because training can increase their income, improve their business capabilities, and improve their professional titles, technicians are eager for training, whether it is in the form of on-site observation and learning, online Q&A, and instruction, help, guidance of old teachers, they are eager to learn knowledge related to maintenance, automotive knowledge, and other business technologies, as well as repair and maintenance knowledge related to new energy vehicle in the training.

3.2. Product Level

Brand influence, technician recommendation and product quality have a great impact on the choice of users and technicians, therefore, Valvoline needs to build its brand power in the Chinese market while doing well in product quality, and takes the technician as a powerful

weapon for brand promotion and product recommendation. In other words, users rarely use Valvoline engine oil, and some technicians do not recommend Valvoline engine oil, it is because KOL does not recommend it much, Valvoline after-sales service in the Chinese market is average, Valvoline is suitable for old cars or cars with high mileage, these unique product advantages are not known to many users; compared with engine oil and other products, because users will do car cleaning and beauty services relatively more frequently, therefore, Valvoline will focus on these two aspects in the future, and may obtain better market performance, which in turn promote its development in engine oil.

3.3. Channel and Marketing Level

The sales channels of Valvoline engine oil are divided into online and offline, online mainly includes various sales forms such as shopping websites and official malls, which account for a relatively small proportion, the target users are car owners with relatively rich car knowledge. Offline channels are mainly various types of automotive repair and maintenance shops, including independent automotive repair and maintenance shops, namely individual repair and maintenance shops, non-chain/franchise repair and maintenance shops, chain car repair and maintenance stores (stores opened in different places across the country with unified store name, decoration, and operation), O2O chain car repair and maintenance stores: Tmall Cars, Tuhu Cars, Jingdong Cars, Damai Cars, Xiaoju Cars Etc., fast maintenance beauty shop: quickly repair, simply maintain and beautify the car well, including tire repair, replacement of oil filter, replacement of spark plug, replacement of brake pad, brake oil addition, replacement of speed changing box oil, etc., and tire shops are stores that specialize in tire replacement.

At the marketing level, as far as most users are concerned, in addition to traditional channels such as search engines and dealers, emerging channels such as short videos/live broadcasts will also make them to better understand oil/car-related knowledge, compared with the promotion of vehicles, the promotion of engine oil is more niche and professional. More than half of the users of Valvoline have understood oil related knowledge through search engines.

4. The Advantages and Challenges of Valvoline Engine Oil in the Chinese Market

The advantages of Valvoline engine oil are divided into their own advantages and external advantages, the biggest own advantage is the brand history and product quality, Valvoline has a long history and a good brand reputation, moreover, it also has high-quality engine oil quality, which is suitable for old cars/cars with high total mileage. The external advantages of the brand are the increase in the number of passenger vehicles in the Chinese market and the increase in demand for engine oil at the same time, the surge in sales of new energy vehicles will also promote the further development of aftermarket maintenance of new energy vehicles, and new energy vehicles (hybrid vehicles) also have need to change their engine oil. At the level of other engine oil supporting services, such as vehicle cleaning/beauty, there is a great demand among users, which can be developed as a product combination. From the user's angle, Valvoline users are young middle-class and technicians who are eager to train, and they have strong spending power and willingness.

But what cannot be ignored is that the development of Valvoline engine oil in the Chinese market is also facing challenges and difficulties from the inside out. As for as itself is concerned, as a multinational company that enter the Chinese market late, there will be some disadvantages in management, such as slow market response, poor execution, low management efficiency, and lack of offline channels, etc. At present, the engine oil market is rapidly online, and the car repair and maintenance knowledge of car owners and users is relatively weak, chain maintenance stores which promote O2O tend to become stronger, how to face the rapidly

changing market environment that is not the same as the North American market is a huge challenge for Valvoline. Moreover, self-owned brands are generally on the rise, the oil products of self-owned brands led by Great Wall and Kunlun are more cost-effective, and some other domestic niche brands are rising, give technicians more discounts and rebates, and the profit of repair shops is also higher, they are strong opponents that cannot be ignored.

5. Policy Suggestions

After summarizing the current development status and the advantages and disadvantages of Valvoline in the Chinese market, this paper attempts to put forward some policy suggestions for the further development of Valvoline in the future.

1. Develop more engine oil product lines: including engine oil suitable for new/inferior new car/midcourse mileage models, as well as oil suitable for new energy hybrid vehicles, and launch new products (cleaning supplies, beauty supplies) at the level of oil supporting services, etc.
2. Pay attention to the packaging/creation of advertising and marketing contents: including the promotion of different advertising and marketing channels, the content level should reflect the 150-year history and market reputation of the Valvoline; give more "benefits" to "old customers": give actual car owners, technicians, and other oil users more price concessions, rebates, promotional materials, etc., motivate their subsequent product/brand stickiness from a practical level.
3. Broaden marketing and publicity channels, offline + online paint a picture with two brushes at the same time: offline can increase the number of stores that sell and advertise products, and increase store service contents (engine oil + brake fluid/ antifreeze solution + cleaning/beauty), online uses different forms for publicity and promotion; for target users, adopt more targeted advertising/marketing activities: such as advertisements that create a sense of family warmth and daily commute, or cooperate with stores to change engine oil and send small gifts around engine oil, etc.
4. Highlight the quality and value for money of its own products in comparison with major brands such as Mobil, Castrol, Shell, and launch various package discounts: engine oil + brake oil / antifreeze solution / cleaning products / beauty products, maintain the advantages and stability of all products of the Valvoline, and adhere to the stability of Valvoline in non-oil products (such as brake fluid, antifreeze solution), and enhance user stickiness.

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