

Too Many Choices?

With Six Motor Oil Tiers, Retail Appears Unruly

By Larry Solomon

Prior to 1994, motor oil retail categories were quite simple. There were conventional motor oils and synthetic motor oils. That's all. From a technical standpoint, conventional motor oils were made mostly from API

Group I solvent-refined mineral base oils. Synthetics were made from costly man-made chemicals such as polyalphaolefin. Conventional oils were about \$1 a quart, synthetics cost at least four times that much.

With a clear technical separation between the two

types, and pricing that underscored it, the consumer's choice was uncomplicated: Conventional motor oils were "Good" and expensive synthetics were the "Best" motor oils. Mobil 1 synthetic dominated the latter segment, and everyone else on the shelves (led by Castrol, Mobil, Pennzoil, Quaker State and Valvoline) was good. Simple.

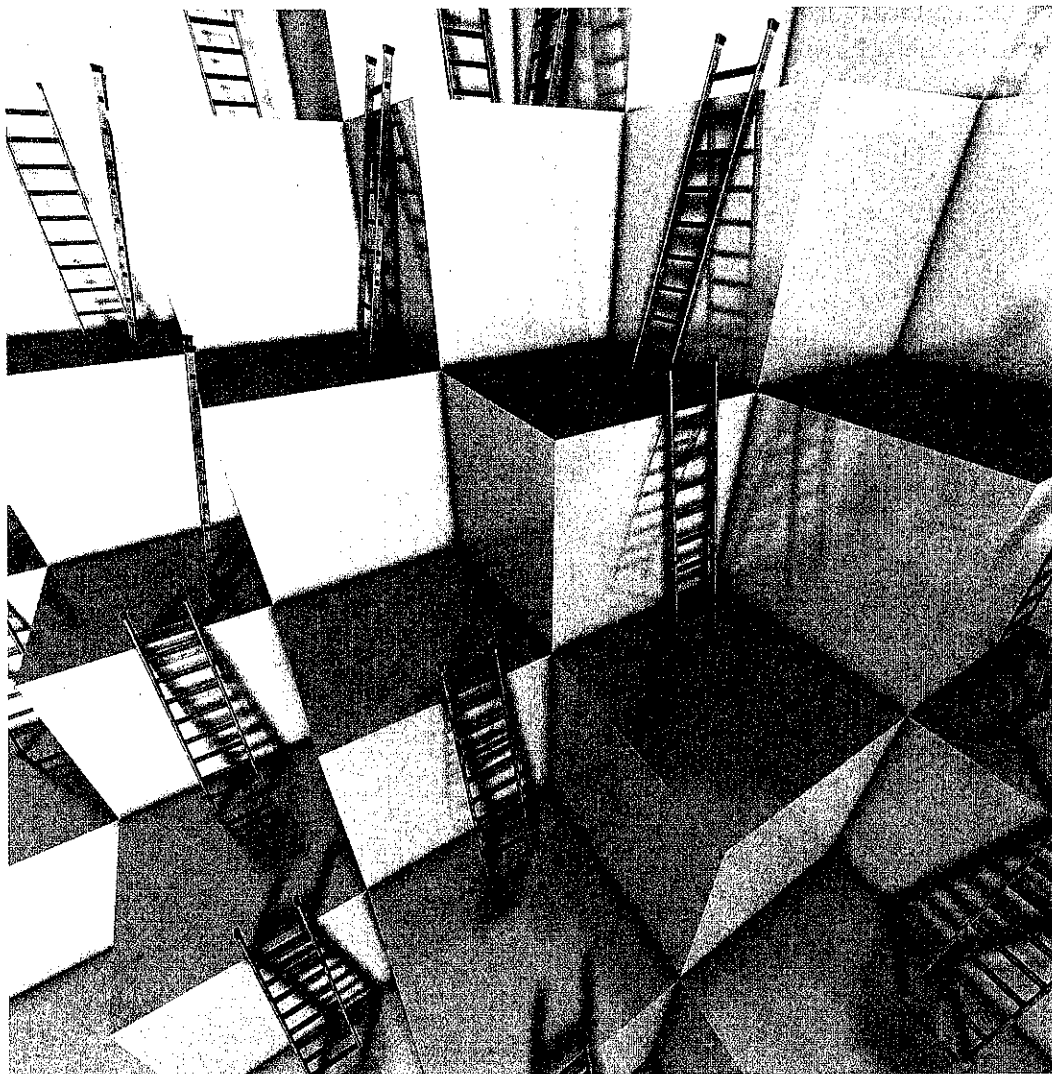
Fast-forward to 2013. The same five leading brands have 30 product offerings at auto parts stores and quart prices range from \$4.79 to \$9.59. The shelves are now segmented into Good (\$4.79-\$5.49)/More Good (\$5.99)/Better (\$6.59)/More Better (\$7.99)/Best (\$8.99) and More Best (\$9.57).

How did we get to this multi-tiered pyramid of prices? And more important, does each tier have a clear message to help consumers distinguish one price position from another? In some cases, the answer may be no.

A Simpler Time

Let's go back to 1993, when the first break-away tier was born. At that time, Valvoline was seeking a new class of

Continued on page 48



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Continued from page 46
 product to capture market share and looking to Europe for ideas. In Europe, it noticed, full synthetic and synthetic-blend motor oils held solid market positions. European oil change intervals were longer, nearly dou-

“Better” segment to the United States, Valvoline’s marketing team launched into a new product development initiative. The team conducted extensive qualitative and quantitative marketing research (which this author coordinated) which

Valvoline did not yet have a notable full synthetic (its SynPower brand came about a year after DuraBlend), so DuraBlend remained positioned as a less expensive alternative to full synthetics in general. Within a year Quaker State had introduced

Pre-1994: Two Motor Oil Tiers

Price Per Quart	Top Five Motor Oil Brands	Price Segment
\$3.99	Mobil 1 full synthetic	BEST
\$0.99	Castrol GTX conventional Mobil conventional Pennzoil conventional Quaker State conventional Valvoline conventional	GOOD

1994: Three Tiers

Price Per Quart	Top Five Motor Oil Brands	Price Segment
\$3.99	Mobil 1 full synthetic	BEST
\$1.99	Valvoline DuraBlend synthetic blend	BETTER
\$0.99	Castrol GTX conventional Mobil conventional Pennzoil conventional Quaker State conventional Valvoline conventional	GOOD

ble that of U.S. change intervals. Further, in some countries (like England) oil changes were a once-a-year event, as part of annual vehicle servicing.

Because European blenders knew that a large portion of vehicle maintainers could not easily afford regular oil changes with full synthetics, they offered synthetic-blend oils as an alternative, mixing mineral base oils with PAO. That brought many of the performance benefits of a full synthetic but at a less-expensive price. This was the original reason to have synthetic-blend motor oils, and selling them in tandem with full synthetics offered a solid business proposition for European lube manufacturers.

Seizing the opportunity to introduce a mid-tier,

led the company to introduce Valvoline DuraBlend motor oil in 1994 — the first synthetic-blend motor oil from a leading brand for the U.S. market.

Price positioning would be critical for distinguishing DuraBlend from its brethren on retailers’ shelves. Extensive price modeling today would come up with just the right price-tag for DuraBlend, but at the time, a quart of full synthetic averaged \$3.99 a quart at retail and conventional motor oil cost 99 cents. Neatly, Valvoline cut the full-synthetic price point in half, making DuraBlend’s price \$1.99. And it worked; at that price point, the margins were good and consumers accepted the value. Thus, the U.S. mid-tier “Better” segment was born.

synthetic-blend products, followed by other leading brands. The market positioning for these was based on the European model: “all the benefits of a full synthetic but at a less expensive price.” This was reinforced when Castrol introduced its Syntec full synthetic and Syntec Blend brands in tandem, hitting the “Best” and “Better” price points respectively.

Technical Advances

Time doesn’t stand still, and neither did the market after 1995. Until the late ‘90s, PAO was the fluid of choice for making lubricants labeled as full synthetic and for making synthetic blends as well. But then API Group III base stocks began to become more widely available. Group III base oils are

Today: Six Tiers ..., Or More?

Price Per Quart	Top Five Motor Oil Brands	Price Segment*
\$9.59	Castrol Edge with Titanium full synthetic Mobil 1 Extended performance full synthetic Mobil 1 High Mileage full synthetic Pennzoil Ultra full synthetic	MORE BEST
\$8.99	Castrol Edge With Syntec full synthetic Mobil 1 full synthetic Pennzoil Platinum full synthetic Valvoline MaxLife Higher Mileage full synthetic Valvoline NextGen SynPower full synthetic Valvoline Racing full synthetic Valvoline SynPower full synthetic	BEST
\$7.99	Pennzoil Gold synthetic blend Quaker State Ultimate Durability full synthetic	MORE BETTER
\$6.59	Castrol GTX Synblend Castrol High Mileage Mobil Super full synthetic Pennzoil Next-Generation High Mileage conventional Quaker State Enhanced Durability synthetic blend Valvoline DuraBlend synthetic blend Valvoline MaxLife Higher Mileage conventional Valvoline MaxLife NextGen higher mileage	BETTER
\$5.59	Castrol GTX conventional Castrol GTX Diesel conventional Mobil Super High Mileage conventional Pennzoil conventional Valvoline NextGen 50% recycled conventional Valvoline Premium conventional	MORE GOOD
\$5.49	Quaker State Defy synthetic blend	GOOD
\$4.99	Quaker State Advanced Durability conventional	
\$4.79	Mobil Super conventional	


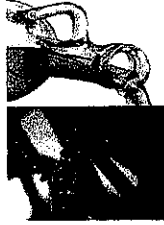
*2013 retail pricing (incl. AutoZone, Advance Auto, etc.) Source: Strategic Resources Inc.

hydrocracked and catalytically dewaxed, not simply refined.

Group III had a lot to offer the blender of the 1990s. They cost about half as much as PAO; were light, pure and free of sulfur; and they had a much higher viscosity index than solvent refined Group I base oils. In fact, some including Castrol viewed them as equivalent to full synthetics, performance-wise, and marketed them as such.

Castrol's advertising campaign for Syntec motor oil, which was made with Group III, provoked strong objections from Mobil, which had built its Mobil 1 brand on PAO. But in 1999, the National Advertising Division of the Council of Better Business Bureaus ruled in favor of Castrol. NAD said products made with Group III could be labeled synthetic, and that the word itself was just a

Continued on page 50

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Continued from page 49

“marketing term” signifying a high level of performance.

This ruling changed the industry. Afterward, full synthetic motor oils could sell at essentially the “best” retail price but cost significantly less to produce. What’s more, it opened the door for manufacturers to blend some amount of Group III base oil into their formulations — any amount would do, the volume was never officially defined — and offer a synthetic-blend product for sale at a price point higher than conventional motor oil.

A Fractured Market

It has been 19 years since the U.S. mid-tier segment was born. If the first synthetic-blend motor oil (Dura-Blend) was a human, he or she would be going to college by now. So, let’s see what the market looks like today.

Of the 30 products cited above, from the six leading brands, 13 are full synthetics. The “Best” segment (the one-time full synthetic positioning) is now priced at \$8.99 a quart. Castrol Edge With Syntec, Mobil 1, Pennzoil Platinum and Valvoline SynPower represent the traditional performance positioning. Additionally, Valvoline has ventured into Racing Synthetic, Higher Mileage Synthetic and the just-introduced NextGen SynPower

Full Synthetic, going after the environmentally conscious top-tier buyer.

In addition to broadening the “Best” segment, these leading brands saw profit potential in expanding the market upward to offer “More Best” synthetic motor oils. Castrol Edge offers Liquid Titanium Fluid Strength Technology. Mobil 1 Extended Performance claims to keep your engine running like new. Mobil 1 High Mileage maximizes engine performance to extend engine life. And Pennzoil Ultra offers Hyper Cleansing Technology. Each promises even greater motor oil benefits and obviously commands a higher \$9.59 per quart shelf price.

Meanwhile, Quaker State has edged downward into the “More Better” price segment, with its Ultimate Durability Full Synthetic (\$7.99/qt.), and Mobil went even deeper into the “Better” bracket with Mobil Super Full Synthetic (\$6.59).

Better: A Mixed Bag

The “Better” segment now is shelf-priced around \$6.59 a quart. The traditional home of synthetic blends, this tier is populated by Castrol GTX, Quaker State Enhanced Durability and Valvoline DuraBlend. However one brand, Pennzoil Gold Synthetic Blend, expanded upward into the “More Better” to command another

Continued on page 52

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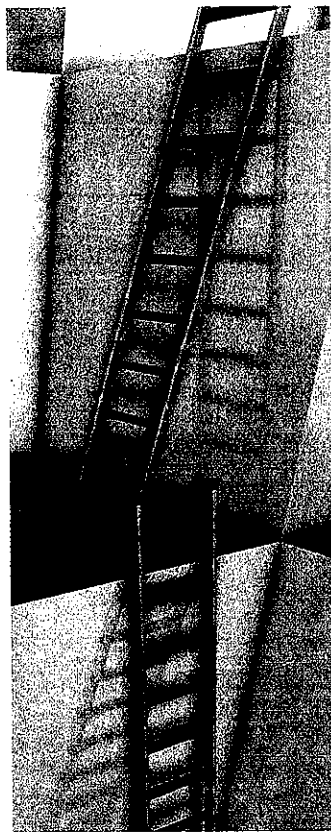
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**When you put
all the leading
manufacturers'
brand offerings
together, it's
apparent how
fractious the
market has
become.**



Continued from page 50
\$1.40/quart. Then there's Quaker State Defy Synthetic Blend motor oil, priced at \$5.49 — right in the "Good" segment with conventional motor oils.

Another change: In 2000, the Better territory was invaded by High Mileage motor oils, with Valvoline MaxLife leading the way and hotly pursued by Castrol, Pennzoil, ExxonMobil and many others. More recently, Valvoline MaxLife NextGen Higher Mileage recycled motor oil has elbowed into this tier, too. So for the past 13 years, the "Better" tier has seen very dissimilar

offerings occupying the same price position.

Notably, ExxonMobil eliminated synthetic blends from its line-up. It still offers three Mobil 1 full synthetic offerings, Extended Performance, High Mileage and Mobil 1. As well, it offers Super brand full synthetic, high mileage, and conventional. But no synthetic blends!

Conventional: Fighting Grades

Conventional motor oils primarily compete within the "More Good" area, with a premium paid for national brand offerings like Castrol GTX and Diesel GTX, Mobil

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So what is the current state of the motor oil market?

The answer to that question is — confusing! When you put all the leading manufacturers' brand offerings together, it's apparent how fractious the market has become. Full synthetics are price competing in segments upward and downward from their traditional "Best" segment. Likewise, synthetic

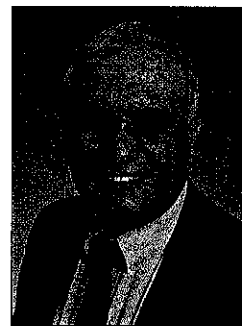
blends are straying into segments upward and downward from their traditional "Better" berth. Moreover, synthetic blends must share price positioning with higher-mileage motor oils, making the "Better" tier even more blurry.

Since the introduction of the ILSAC GF-5 specification in 2010, most U.S. passenger car motor oil has been formulated with some Group II+ or Group III base oil, and Group I's have exited the scene. So where is the line drawn now between conventional motor oil and synthetic blends? Some would say there is not one,

and point to the NAD ruling that these are just "marketing terms."

Meanwhile, brand managers and oil marketers must work harder to delineate their offerings and convince end users that their brand is better than a competitor's.

It may be that synthetic blend's era is over, and its position will be filled by products such as High Mileage, Green, Recycled or other types. Especially obvious is that that motor oil marketers are seeing synthetic — both full and blends — as "just a marketing term." ■



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