

Lukoil's Global Brand and Ambitions in China

The Asia Pacific region is the largest lubricants consumer in the world. Demand in the Asia Pacific region constituted 40.5% of global demand for lubricants in 2015. It is projected that China, the region's largest market and the world's second largest consumer of lubricants, will surpass Western Europe and the United States in the next two years to become the largest global lubricants consumer. The potential for continued growth has many global lubricants producers vying for a foothold in the Chinese market.

History of the Lukoil Lubricants Brand

At the beginning of an interview with Alexey Fedorov, General Manager of Lukoil Lubricants China, Mr. Fedorov provided an overview of Lukoil's brand and history of development.

The Lukoil Petroleum Group is one of the largest comprehensive oil and natural gas companies in the world. It was founded in 1991, after its predecessor had served as one of the three major oil refineries in Western Siberia in the Soviet Union. Lukoil's lubricants business was separated from the rest of the company in 2005, to become Lukoil International Lubricant Oils Co., Ltd., a wholly-owned subsidiary of the Lukoil Petroleum Group. According to Mr. Fedorov:

"Lukoil has three primary business functions: lubricant oils, which includes passenger car lubricants, commercial vehicle lubricant oils, and industrial oils, accounting for 20%, 30%, and 50% respectively, of its business. In addition, Lukoil maintains other products, such as ship oil, grease, and special-use oils. Based on our years of development, and abundant raw materials, Lukoil's product line and technological capabilities have matured."

Regarding Lukoil's history in China, he stated:

"Lukoil officially entered the Chinese market in the first half of 2017, and established a wholly-owned subsidiary. It is mainly responsible for sales promotions in China. However, Lukoil's origin in China goes back to 2013, when it became working with Chinese dealers."

As a lubricants company in the international market, Lukoil is committed to meeting the highest quality standards for its products, including for passenger vehicle lubricants, energy-saving engine lubricants, and new products being developed, all of which meet the strictest standards mandated by the E.U. As Mr. Fedorov noted:

"The vehicle and equipment manufacturing technology in the Chinese market largely comes from Europe and the United States. Due to this, we believe that Lukoil products, through their consistently high standards, can completely meet the needs of most Chinese manufacturers and users."

Lukoil's status as one of the ten leading lubricants brands, Lukoil intends for its high-quality

products to deliver more and better choices for Chinese consumers.

Multi-Faceted Collaboration, Winning Trust through Quality

Lukoil is one of the largest lubricants brands in the world, and its quality has been certified by a number of leading global auto manufacturers. Notably, Lukoil's development and production of lubricants and special-use oils has been certified as meeting the ISO 9001 and ISO/TS 16949 standards.

In an effort to expand the market, Lukoil has worked with most prominent automotive and equipment manufacturers, including Mercedes-Benz, BMW, Porsche, Volkswagen, GM, Renault, Cummings, Danieli, Siemens, and ABB, on the provision of machine oil for factories and engine oils for maintenance services. Mr. Fedorov emphasized that "At present Lukoil's Vienna, Austria factory has passed the German VDA6.3 quality management certification to supply German automakers with assembly oils."

He further explained that the diversity of options on the market has made it so that the "quality sells itself era" has already passed. In facing increasingly fierce competition, Mr. Fedorov noted:

"Lukoil is, in addition to developing conventional sales channels, at work developing other sales channels, such as, agent networks, collaborations with repair shops, OEM manufacturers, and other enterprises. Considering that oil consumption at vehicle repair plants is substantial, direct cooperation with OEMs can effectively drive other sales channels."

In addition, he introduced Lukoil's industrial oils:

"Industrial lubricants differ from vehicle lubricants in that they are sold directly or through agent networks, in order to cater to the e-commerce boom. Lukoil has flagship stores on Tmall and JD, and is looking into other internet platforms. For the purposes of customer convenience and marketing strategy, we will maintain this development."

At the same time, he also mentioned the need to be cautious in the wake of the sector's rapid growth, as offline sales could be affected by a too-heavy reliance on e-commerce, stating that development strategy needs to be considered in its full context.

Environmental Protection and Intelligence: Two Sides of the Same Coin

Lukoil has consistently paid close attention to environmental policies, with regard to product and market management, and given first priority to solving environmental issues. Mr. Fedorov explained: "As a multinational enterprise, Lukoil takes into consideration the different environmental standards around the world, in order to ensure full compliance environmental protection requirements."

He then proceeded to cover differing purchasing models for automotive oils:

“In Europe, consumers generally only buy automotive oil in gas stations, and only a liter at a time. Very few people will store a large amount of oil in their car, and then find a repair shop. So it seems that the market in China is different from that in Europe and the United States, but similar to our native Russian market.”

In accordance with consumption habits of Chinese car owners, the lubricants sector within the automotive aftermarket, should take the repair industry into account. He continued:

“Later, when repair shops are purchasing oil, they will buy in greater and greater bulk, which will reduce the cost of packaging, improve efficiency, and be beneficial for the environment.”

According to Mr. Fedorov, Lukoil’s has developed an IoT purchasing strategy for Europe:

“Our system covers repair shops’ use of copperware and storage tanks. Storage tanks are installed with intelligent equipment, relieving repair shops from having to control their own lubricant reserves. Instead we provide comprehensive service for customers and repair shops. Once remaining lubricant decreases to a certain level, the system automatically sets an alarm. We will then arrange a new supply. This not only optimizes supply routes and service efficiency, but also reduces carbon emissions.”

Near the end of the interview, Mr. Fedorov mentioned that Lukoil, having achieved widespread recognition already in the global lubricants market, strives to continue to improve its services and support for automakers in China, and in doing so help develop the Chinese market.