FINISHED LUBRICANTS | NORTH AMERICA

Concerning Quality

The dynamics in the lubricants business are on what appears to be an accelerating path toward commoditization.

Marketers say that buyers, particularly in the DIFM segment, are increasingly making purchasing decisions based on two essential criteria: Does it meet the specifications, and what is the price? They show a marked decline in interest in such factors as brand reputation, relationships, and the overall features and benefits commonly promoted in lubricant sales. Although the economy, technological advancements and the rising sophistication of buyers are significant factors in the commoditization of lubricants, declining demand and specifications stand out as the most critical drivers of this trend.

Past experiences demonstrate that products sold based on specifications are vulnerable to commoditization. They often lose differentiation over time as more competitors meet or exceed readily accessible specifications. This leaves little room for uniqueness, leading to intense competition, price erosion and diminishing brand loyalty. It's a natural outcome of market evolution, driven by technological advancements, consumer preferences and competitive forces. But the shift toward commoditization, particularly in the declining PCMO market, presents serious issues that can have negative consequences for lubricant suppliers and buyers.

The drive for cost efficiency can lead to a notable decline in product quality as blenders and marketers prioritize lower prices to maintain competitiveness as demand retreats. Furthermore, it can endanger customers' equipment and create an uneven competitive environment for suppliers, disadvantaging those who adhere to standards and ethical practices. Many blenders and marketers I've engaged with indicate that this is precisely what's happening, and there is a lack of substantial action to address these challenges.

The heightened competition observed since the COVID pandemic, characterized by a decline in demand, is reportedly hastening the commoditization of the lubricants industry and leading many companies into a detrimental "race to the bottom" regarding pricing. Because of this, quality is suffering, and it's becoming increasingly difficult to compete when you play by the rules. Further, it's all too common for me to receive inquiries from blenders regarding how some of their competitors manage to sell products that claim to meet identical specifications at significantly lower prices that they consider below the cost of goods. They allege it can't be done.

While some grumblings may be dismissed as sour grapes, it's apparent the industry is grappling with a significant issue. In March 2024 during the ALIA Annual Meeting, Dennis Bachelder, a senior engineer at API, Engine Oil Licensing and Certifi-

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cation System (EOLCS), presented an API Report. He revealed that nearly 50% of the engine oil samples tested under the API After Market Audit Program (AMAP) failed to comply with EOLCS licensing standards. Further, 15% of sample oils were categorized as "questionable additives" whose composition did not match the chemical fingerprint established in initial licensing.

This API report is based on examining roughly 1,000 samples from a pool of 27,000 products licensed globally by API. API is commendable for the number of samples it processes; however, this represents a minuscule sampling of the total products in the market. The report pertains exclusively to API-licensed motor oil, omitting unlicensed products that assert compliance with API criteria and those advertised as suitable for use. Considering that motor oils account for less than 50% of lubricants sold in the U.S., the scrutiny regarding quality is limited.

The data from API reveals that there are valid concerns regarding non-compliance by some blenders, which threaten equipment operation and durability and create an inequitable playing field for suppliers.

In reality, aside from the integrity of the blender, there are minimal barriers preventing them from cutting costs by ignoring base oil read-across guidelines, labeling products as synthetic despite lacking Group III content, downgrading additives, marketing flush oil as a finished product, licensing one formulation while actually producing another, acquiring API licenses for select products, promoting others as API licensed or eligible for licensing, and relying on self-identified "engineering judgment" to modify formulations after approvals. These are just a few ways a blender can compromise product integrity to reduce costs.

Beyond revoking a blender's API license due to non-compliant motor oil, the only legal authority preventing a blender from flouting API and other specifications is the testing performed by state weights and measures departments. Although states' efforts to assess motor oil quality deserve recognition, not all states test motor oil, and the total number of samples tested on a national scale is quite limited due to limited resources.

Crucially, regulatory bodies' relatively recent engagement in monitoring motor oil quality indicates that the industry's self-regulatory measures have not effectively protected consumers. Further, the continuing presence of poor-quality motor oil in the market has disadvantaged businesses that adhere to established rules.

The data provided by API underscores persistent and significant challenges concerning the quality of motor oils available in the market despite the diligent efforts of API and regulatory bodies. To safeguard equipment and foster fair competition, industry participants must adopt proactive measures and enhance self-regulatory practices. Some marketers suggest that a practical initial step would be to refine the parameters of synthetic base oils and establish clear, verifiable definitions for synthetic and synthetic blend motor oils. This approach is seen as a cost-effective strategy that could deliver considerable benefits, particularly in the expanding high-value synthetic motor oil market, where gaps in oversight may encourage unethical behavior.

However, if some in the self-regulation process are inclined to take shortcuts, it may prompt one to consider whether the industry will seek meaningful change.