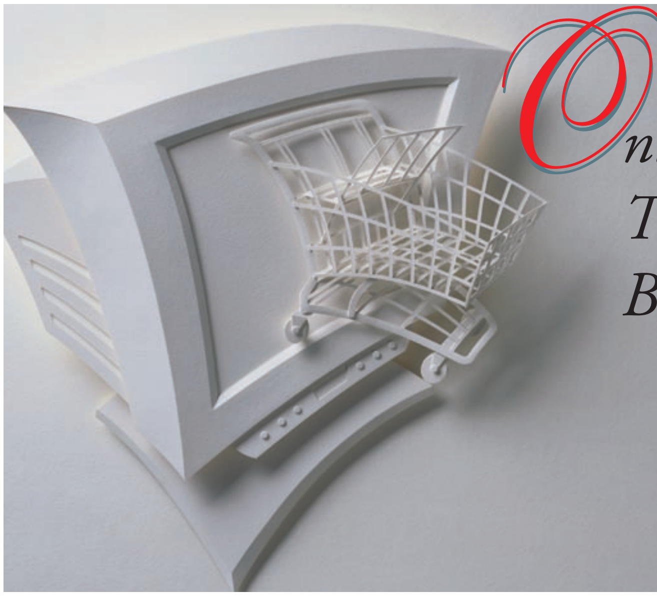


# Online Sales Steadily Transform the Lubricants Business

**Minus the hype of a couple of years back, many of those in and watching the lubricants industry are convinced that online sales are poised to mean big business in the near future.**

*By Kathryn Carnes*

E-commerce and online selling and ordering have become critical to the success of many industry sectors over the past few years. But according to a study issued in April by international business consulting firm Kline & Company (Little Falls, NJ), in the lubricants business, selling product online still remains a challenging prospect due to significant cultural and technological barriers. However, the study, "Selling Lubricants Online 2001," also notes that despite a relatively low adoption rate thus far, online lubricant sales are poised to become a significant factor in the near future.

Online purchasing of lubricants is forecast to grow more than sixfold, says the Kline report, from 6% of all lubricant sales transactions in 2001 to an estimated 33% in 2005, and is expected to continue to increase as a percentage of overall sales thereafter. This equates to growth from 185 million gallons for online transactions of lubricants in 2001 to 540 million gallons in 2003. By 2005, the total U.S. market for online transactions of lubricants is forecast to reach more than 1 billion gallons, representing an average annual increase of 52% from 2001.

"Much of this growth early on is expected to come from such industrial markets as oil and gas extraction, transportation, construction, electrical equipment and power generation, and fabricated metals," says Geeta Agashe, a director at Kline. "Such commercial automotive and industrial markets as primary metals, printing, transportation equipment, food processing, machinery, and mining are also forecast to join the online transaction bandwagon in a big way during this period."

According to Kline's study, most major oil companies have made significant investments in e-commerce and have implemented a variety of supply-chain-enhancing initiatives. These investments range from building sophisticated private Web sites to participating in public e-marketplaces. The leaders in e-business initiatives include such stalwarts as ChevronTexaco and ExxonMobil, although most of the other major oil companies have made significant investments as well. In addition, many third-party players have helped drive development in this market channel.

"The drive is mostly from inside the industry by the larger players, " says Patrick McClear, a senior associate at Kline. "However, third-party providers are also playing an important role in driving the industry toward online sales. They are showing customers that the cost of online sales per gallon is lower than sales of lubes through traditional channels. So, we feel that there is a push-and-pull dynamic."

Many of the e-marketplaces started up at the height of the hype of a couple of years ago have gone out of business, the report notes, leaving a smaller number of stronger competitors, such as FuelQuest, Pantellos, and W.W. Granger. In addition, despite the promise of good return on investment by optimization of the supply chain, thus far it has been a challenge for lube companies to convert most of their sales transactions to e-initiatives, say Agashe and McClear. In many cases, this difficulty arises because the companies' distributors and end-users claim to see no clear cost benefit, lack the technology on their end, or have a limited education about selling online. And according to Agashe, "Many end-users simply prefer the old-fashioned way of doing business."

## Making Online Sales Work

Despite this lingering reluctance, several driving forces should provide a wealth of opportunities to astute online lubricant marketers, the Kline report says. These include new electronic standards that will make data exchange far easier, widely available open-source software, and the continuing proliferation of broadband Internet connections.

Other factors include more sophisticated but user-friendly trading platforms and the gradual elimination of cultural barriers to online transactions.

And although most current online lube sales seem to be taking place in the industrial markets noted above, Kline predicts that it is in the commercial automotive and industrial markets that a majority of the opportunities would lie for astute marketers.

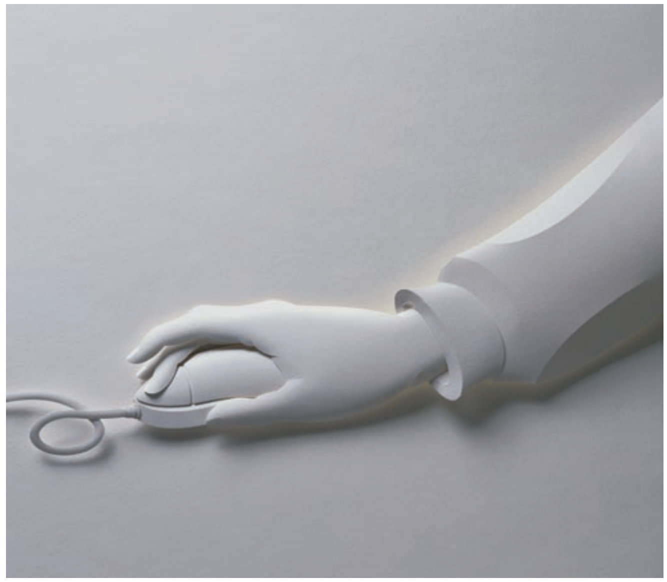
Also critical will be correctly identifying the customer and clearly defining the supply chain, Kline notes. For instance, distributors—which are involved in a whopping 80% of lubricant sales, by some measures—are critical customers for the lubricant marketer.

"Most distributors are still struggling to find the benefits of e-commerce and many are either forced to participate by their supplier or participating to 'appear technologically advanced,'" says McClear. "This is changing, but only very gradually."

The current market reality of essentially steady lube demand and consolidation of lube marketers will also have an effect on the trend toward online sales, say Agashe and McClear. "As the lube marketers consolidate, and thereby become larger players, they will be in a better position to take advantage of e-business opportunities due to economies of scale," McClear emphasizes. "A larger company has more sales volume, more resources to devote to e-business enabling their organizations, and more at stake by cutting out a percentage of the costs."

## *Making Online Lube Sales Work: A Supermajor's Story*

One of the large companies to which McClear refers, ChevronTexaco Global Lubricants (CTGL), has been active in the e-business community since 1994, Dennis Mores, manager of global e-business, tells *Lubricants World*. The effort began with "automating a few business process for our customers….At that point, a few high-end customers were asking, but certainly not the masses yet," he says. "Other industries were moving toward Internet ordering and we wanted to be an innovator and lead the pack for lubricants."



This effort is a global one, Mores says, with online sales in the United States, the United Kingdom, Australia, South Africa, Italy, Brazil, and Malaysia (Singapore). It also includes several target audiences: distributors, direct, and even retail customers. About 40% of the business is in the U.S., where the company's initial efforts began. However, Mores says, overseas "adoption rates are already exceeding our expectations, and we are confident they will continue to do so."

This rapid rate of adoption has led CTGL to set a goal of increasing adoption of online sales among its customers by 15% annually. "While we believe this is an aggressive goal, we also believe by continued focus on customer needs, we can achieve this growth rate," Mores says.

If they do, Mores says, then just about all of its transactions would be online within 5 years. Realistically, though, CTGL expects that no more than 75%–80% of sales will be conducted this way. "We predict customers will always need to do business with us through a variety of ways, and we are always planning to accommodate that need," Mores says.

Mores also points to the variety of lubricant types, formulations, and packaging options as complicating factors in conducting online sales. "Our product lines are diverse than fuels, for example," he says. "For instance, it is common to have multiple packages (drums, jugs, and bottles) of the same products. Plus the diversity of our product lines and an international customer base adds a challenge to managing business online. [Also] delivery mechanisms are more complex compared to traditional consumer products….All these subtleties of our business do make it more challenging to conduct online transactions."

In CTGL's case, the complexities of this effort have been compounded by the merger of Chevron, Texaco, and Caltex into a single entity. Mores emphasizes that continuing to effectively serve the three companies' individual customer bases has meant considering "three different business models, different channel strategies, and different back-office systems. The integration is an ongoing effort and will happen slowly over time in order to minimize disruption to our business," he says.

## *Making Online Sales Work: An Additive Company's Story*

R.T. Vanderbilt Company Inc., a small, independent manufacturer of industrial chemicals and additives (including lubricant additives), has no less a commitment to online sales than CTGL—at least that is how it sounds in a conversation with Doug Mort, manager of information technology. Spurred by some of its resale partners, R.T. Vanderbilt began looking at developing an online sales function in the summer of 1999, Mort says. After about 8 months of investigation, in April 2000, the company launched its online sales program to selected customers, gathering feedback and revising the system as they identified problems or incorporated their customers' suggestions. In June 2000, R.T. Vanderbilt opened the doors to all, and now about 9% of its customers are registered to buy from the company online. The goal, says Mort, is to have about 20% registered by the end of this year.

At first blush, it is surprising that R.T. Vanderbilt's effort has been an internal initiative.

"We already had a billboard-type of Web site," Mort says. "It was put together by an outside source and was hosted at one of our network providers." On the basis of this site, and a high level of internal skills that were already being applied to building and maintaining the company's networks, mainframes, and software, Mort says, R.T. Vanderbilt decided to pull the Web site in-house, give it "a good facelift," and turn it into a channel for online sales.

"We noticed that none of the standard packages really fit us," he adds. "Selling chemicals and lubricant additives is not a run-of-the-mill type of sale. It seemed to us that if we had to explain our business and our industry to a consulting group, we were going to spend a lot of time training someone on how to sell the package to someone else. So we decided that we would step up and take on the additional learning curve to do what we do on our mainframes in a Web environment."

Like CTGL, R.T. Vanderbilt does not envision that online sales will ever be the only form these transactions take. "The Web is just another way to communicate with your customers," he says, adding that to communicate effectively, the system works better without a lot of bells and whistles. "We're very careful that our software is going to run on all the major browsers and that it'll run over a standard 56K modem…Customers want the meat and potatoes. They want the information, they want their order, and you don't need a big Flash presentation to get you there."

Both Mort and CTGL's Mores emphasize that meeting the customer's needs in the online environment as important as it is in face-to-face meetings or over the telephone. At R.T. Vanderbilt, Mort says, that means that customers can repeat orders easily, set up regularly scheduled orders, get related information (like certificates of analysis and material data safety sheets), and more. Among the upcoming changes to the company's online sales function might be such options as customized pages, with customer-set preferences, or allowing their customers (resellers and distributors, for example) to piggyback onto the R.T. Vanderbilt site to enhance their own online sales functions.

Similar changes are envisioned at CTGL, says Mores. "We want to offer our customers a global online offering where their experience is consistent, manageable, and targeted to the specific services they require. We want to offer greater personalization and increase our ability to meet their needs dynamically."

## *Online Sales: What's in It for Me?*

In general, the benefits of online sales for those that provide the service are those that have always been touted by application service providers, consultants, and supply-chain experts: order accuracy, ready accessibility worldwide, the ability to better match supply with demand and to otherwise optimize the supply chain, and so on. But there are more intangible benefits as well, Mort and Mores say.

"By improving the information available online, sales and account management staff have been able to focus on creating more value for our customers," Mores says. "Also, e-business has opened up new sales channels for us. Online self-service for our customers gives us the flexibility to add services without adding staff typically required to support new programs. It has changed our thinking in that before building an organization to handle new lubricant services, we can look at self-service opportunities. We can offer a suite of services that allows us to do business with customers in their preferred channel, be it by phone, online, or in person."

R.T. Vanderbilt's Mort says, "We are hopefully also developing the next generation of customers, as we find that our site is becoming a bit of a go-to place for [people seeking] technical information. We're really proud that various university and college professors [send their students to our site]. We figure that someday those people are going to be building new applications, and it will be a natural thing for them to say, 'Well, why don't we just order from these people, too?'"

He adds that by being at the front of the trend, he feels R.T. Vanderbilt, though a small player, has some advantages over its competitors who are not providing such a service. "There's going to come a point in time when every company has got to be able to do this," he says. "And as long as we are there and are to some degree setting the stage for it, that gives us some clout and some credibility.

"There is a lot of pride in our Web site that helps us through these times, too," he continues. "I've heard through our technical sales staff that it is a good motivating factor that we do have a good informational Web site that is [also a] user-friendly order-entry application. Those kinds of things are really intangible, but they make the company more successful."