

Case Study for Distribution Channel of Lubricants and Franchise Network of Korea

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In modern society the Lubricants is widely used everyday life such as transportation and industrial plant. This study aims to provide an overview of the distribution channel of Lubricant and it's history of development in Korea. For this purpose, this study explores the basic knowledge and it's characteristics of lubricant which is essential goods for all transportation including cars and for all industrial facilities to produce their own products. According to development of industry and economic grow, the distribution channel also expended and become more complicated. Especially as Lubricants has both characteristics of consumer products and industrial products, the distribution channel is also developed different ways. I will attempt to summarize the differences between each distribution channels including franchise network of automotive repair shop and issues on role and responsibility of manufacturer and distributor. And then I hope to suggest the improvement of distribution channel.

Key Words : Lubricants, Distribution Channel, Consumer Products, Industrial Products. Manufacturer and Distributor, Franchise Network of Repair shop

I. Introduction

Technology of Lubricants is improved from the 18th century Industrial Revolution with invention of steam engine and it had been the important role for development of industry(Pirro & Wessol.2001). Lubricants is essential expendable supplies of all machinery and equipment for ordinary operation in industry and the basic necessities for all transportations including the automotive, train, aircraft and ships. So the Lubricants has both

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characteristics of industrial materials and consumer goods.

In domestic market, by 1997 the lubricants market show an higher annual growth rate over 8% in the last 10 years but in 1998 ,in the beginning of economic crisis, the lubricants consumption is sharply decreased by 24% than precious year(KLOIA, 2012). Since 2000 until 2003 an annual consumption is reduced 1.2% level every year and after that the market is recovered slowly. It was a big turning point in Lubricants market as the purchasing behavior of buyer is changed for considering the cost more seriously. In recent years, factory operation rate is decreased and extended drain intervals of automotive lubricants according to improvement of product quality(John, 2010) and saving mind of consumer influenced by dull economic situation. So the annual growth rate of market is expected 2.0 to 4.0 % level for the time being.

In Korea from late 90s when ZIC brand launched by SK, consumer select the Lubricants brand by themselves before that mechanician of seller choose the brand for customer's vehicle(KPC, 2005). As ZIC brand was advertised and held promotion aggressively consumer recognized Lubricants brand and then market is divided by local product and imported product market and market competition became more severe.

Distribution channel of Lubricants is classified its application as automotive lubricants, industrial lubricants and marine & aviation lubricants market(Mang & Dresel, 2007) as need of each market user is different and distribution channel is customized according to this need. For example industrial Lubricants distribution has B2B structure and automotive Lubricants distribution normally has B2C structure except the case which car manufacturers purchase products. Another extraordinary distribution channel is marine and aviation market because vessel and aircraft have to be supplied through the worldwide distribution network wherever they land. In this study we focus on industrial and automotive Lubricants distribution channel as mentioned reason above.

The role of distribution industry is to increase the competitiveness of the manufacturer between the production and consumption and enhance the benefit of consumers(Han, 2006). Additionally it plays an important role in creating and promoting the demand of product and initiate the manufacturer's technical innovation for new product. The current distribution system is more diverse compared to traditional distribution channels in the past, as like e-Business and MRO. Furthermore in recent years, including distributor and manufacturer, front-to-back related industry develop the B2B networking and SCM based on advanced IT system. So, aim of this study is to understand the market of lubricants and distribution system for more effective and valuable factor of distribution system in the future.

II. Lubricants

1. Characteristic of Lubricants

A Lubricant is a substance introduced to reduce friction between moving surfaces(Lim & Lee, 1996). It may also have the function of transporting foreign particles. The most important function of lubricants is the reduction of friction and wear and in some cases, the relative movement of two bearing surfaces is only possible if a lubricant is present. Thus it contribute to saving the energy and resources. Besides internal combustion engines, the main application of lubricants are vehicle, industrial gearboxes, compressors, turbines and hydraulic systems.

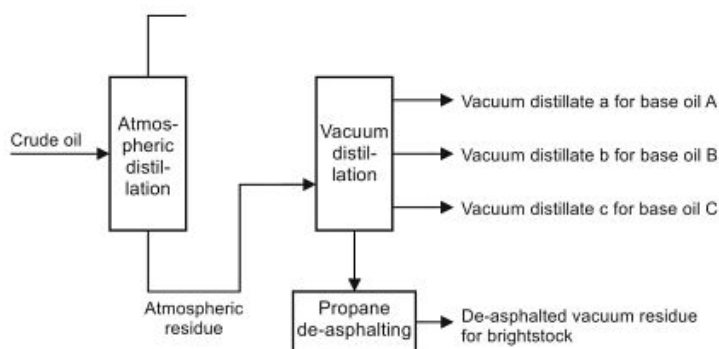
Besides the main function which reducing the friction and wear of moving part of the machine which increasing the efficiency of the machine and extend the life of equipment(Pirro & Wessol, 2001). And it transfer the heat thus cooling and enable the continuous movement of the machine. Another role is protecting against wear and preventing corrosion. For hydraulic machine lubricants transmit the power very efficiently and it also prevent the rust. Lubricants forms oil film between the piston and the cylinder which perform sealing action to prevent the leakage of compressed gas. Summarized key function of lubricants are 1) Reduce friction 2) Transfer heat 3) Carry away contaminants and debris 4) Transit power 5) Protect against wear 6) Prevent corrosion 7) Seal for gases 8) Stop the risk of smoke and fire of objects 9) Prevent rust.

2. Production of Lubricants

Primary raw material of lubricants is base oil which converted from crude oil. The process of converting crude oil into a finished base oil is referred to as refining(Chitnis et al., 2010). For manufacturing base oil, the actual refining process begins only after the distillation stage. First step of typical manufacturing is distillation of gasoline, kerosene and diesel etc from crude oil. After impurities are removed from the remaining residue by atmospheric distillation, base oil is produced. Finished product of lubricants is blended with some additives for different types of lubricants according to the intended purpose.

The production of simple lubricants normally involves blending processes but specialties often require the use of chemical processes such as saponification for grease, esterification

for ester base oil and amidation for metalworking lubricants. Further manufacturing processes include drying, filtration, homogenizing, dispersion or distillation.



[Fig. 1] Process of Lubricants Production

Source : Girish Chitnis, Simon Hacker, Tim Hilbert (2010) "Technology for high-quality lubricants production" ExxonMobil research and Engineering, March, 2010

<Table 1> Domestic Production Capacity of Base Oil

(Unit : Barrel Per Calendar Day)

Company	2011	2012
S-Oil TOTAL	35,000	35,000
SK Lubricants	21,000	26,000
GS Caltex	26,000	26,000
Total	82,000	87,000

Source : Korea Lubricating Oil Industries Association

Classification of lubricants is different according to by base oil, by application, by performance standard etc. It can be classified by base oil type as mineral lubricants which traditionally used and synthetic lube which including less impurities than mineral lubricants. According to application, it can be classified as Automotive, Industrial and Marine & Aviation(Singh, 2002). In automotive group, there are engine oil, transmission oil, gearbox oil and fluid oil by usage. In case of industrial group there are more detail classification such as hydraulic, compressor, bearing, circulation, turbine, gear and etc. as each industrial necessity.

3. Lubricants Industry

Lubricants industry is related across the wide range of other industries and directly affected because this industry can be increased through the other industry developments. Lubricants make the mass production possible and improve the growth of machinery industry and by return it improve productivity and technical progress of the re-foundation of the lubricants industry(Lee, 1996). In addition, this industry promote the development of tertiary industry in connection with the sales and logistics of lubricants.

Lubricants industry is mechanism industry and capital-intensive industries which large investment and accumulation of refining technology is required for mass production(KPA, 1986). From the end of the nineties, the petroleum industry was affected by a wave of mergers. These created new and larger lubricant structures at the merged companies. The principal reasons for these mergers were economic factors in crude oil extraction and refining which resulted in lower refining margins

There are about 1400 lubricant manufacturers ranging from large to small. On one hand there are vertically-integrated petroleum companies whose main business objective is the discovery, extraction and refining of crude oil. Lubricants account for only a very small part of their oil business and around 200 such national and multinational oil companies are involved this manufacturing group. On the other hand about 1200 independent lubricant companies mainly concentrate on the manufacturing and marketing of lubricants and view lubricants as their core business. While the large, integrated companies focus on high-volume lubricants such as engine, gear and hydraulic oils, many independent lube companies concentrate on specialties and niche business, where apart from some tailor-made lubricants, comprehensive and expert customer service is part of the package(Gosalia, 2010)

4. History of Domestic Market

The root of the domestic lubricants industry share history of petroleum and refining business. It was started in the early not by indigenous technology by foreign brand and technology affiliated. It's not clear from when petroleum was used in Korea but estimated from 1880 according to several historical records. Before this people used vegetable oil or animal fat for lighting. In 1880s the petroleum was introduced but for industrial purpose it supplied from the Japanese colonial era as their circumstance necessity(KNOC,1999).

After Japanese annexation of Korea in 1910, foreign oil companies such as Standard Oil, Texaco and Shell began in earnest and Standard Vacuum oil established first gas station, Yeokjun Station. Each foreign oil company found the distribution company and sold the product via distributor with brand as below.

〈Table 2〉 First Distribution Channel and brand of Petroleum

Foreign Oil Company	Standard Vacuum Oil	Texas Oil	Shell Oil
Origin	USA	USA	UK
Distributor	Chosun Jungang Miyu North Chosun Miyu South Chosun Miyu	Jeil company	
Gas Station	Yeokjun Station		Jongro Station
Brand	Yongma-Pyo (Pegasus/Gssoline) Sol-Pyo (Pinetree/Carosene) Sengri-Pyo (Victory/Carosene)	Byul-Pyo (Star)	Jeok-sak Jogae-Pyo (Red Shell)

Source : 100 year of Korea Petroleum Industry

In the 1930s, as Japan invaded other countries, circumstances of petroleum distribution was changed. In 1935 for more stable supply Chosun Petroleum Co., Ltd. founded and the first refinery plant annual capacity of 30 million tons was constructed in Wonsan. Wonsan plant was expanded as annual capacity of 40 million tons and in 1940 started to produce Lubricants and supplied machine oil. It was the premium level of Lubricants and new step for domestic lubricants distribution.

After the liberation in 1946, US Military government established Petroleum Distribution Agency (PDA) for the import and distribution of petroleum products and sold military products to the public through the PDA. Chosun Petroleum Co was also subject to the management of military and their distribution channel was absorbed on the PDA and additionally petroleum distribution combination which is responsible in each region was formed. Before Korean war, in 1949 Korea Oil Storage Co., (KOSCO) which joint venture of 3 major oil company was established for the storage and sale of all petroleum operations and this time almost all of Lubricants was U.S. military's and reproduction of used one. In 1950 due to Korean War, foreign oil company such as Standard, Caltex and Shell pulled out the business from Korea and KOSCO was dedicated to direct sales.

In the 1960s government schemed a 5-year economic development plan for economic

independence and improvement. To achieve the goal government carried forward a plan to build industrial production facility and to develop the import substitution industries support. Construction of refinery plant was the core plan for infra structure of economic development. One of these strategy was localization of Lubricants and then Kukdong Petroleum Co., Ltd which was specialized lubricants sales company was launched in 1960.

In 1962 according to Korea National Oil Corporation Act, KNOC was established and in 1964 daily production capacity 35,000 bbl of Ulsan refinery plant was operated. In 1965, Kukdong Shell Refinery Co., obtained first KS approval on Lubricants product and in 1968 Kukdong Petroleum produced base oil.

The 1970s it was the growing period of joint venture with foreign oil major and rapid expansion time of Lubricants industry.

(Table 3) Lubricants Manufacturer and Foreign Partner in 1960 & 1970

Joint Venture Company	Foreign Partner	Partner Origin	Established
KNOC	Gulf	USA	1962
Honam refinery	Caltex	USA	1967
Kukdong Shell refinery	Shell	UK & Holand	1969
Kyungin Energy	Union oil	USA	1969
Mobil Korea	Mobil Lubricants	USA	1973
Bumwoo Chemical	Yushiro Chemical	Japan	1973
Korea Houghton	Houghton	USA	1974
HanYee Petroleum	NIOC	Iran	1976
Kluber Lubrication Korea	Kluber	German	1979

Source : KNOC, SK, Mobil

As Lubricants industry was growing and lots of product including domestic and foreign brands was supplied, it was necessary to prevent circulation of similar trademarks and substandard products and as a result Korea Petroleum Quality Inspection Institute was established for prohibition of production or sales of illegal petroleum products and mandatory quality inspection in 1969. Currently name of institute was changed to Korea Petroleum Quality & Distribution Authority and perform the extended roles related petroleum works.

Government enforced the localization policy of base oil for the purpose of stable supply of lubricant from 1976 and as a result Ssangyong Refinery operated the facilities of

capacity 3,000 BPCD in 1981 and Kukdong Petroleum Co., produced 1,085 BPCD of base oil in 1983(Kong, S. S., 1991). On behalf of government's encourage policy, domestic base oil market was settled in 1980s and free trade of base oil allowed in 1989. From then Lubricants industry in earnest entered into a free market economic system, and the Lubricants manufacturing was anchored to three category as first petroleum refinery, second petroleum refinery and lubricants manufacturing, third lubricants manufacturing.

5. Market Consumption

5.1. Market Size

The consumption of Lubricants is closely related to overall economic situations as mentioned. According to development of public and private transportation and industry the consumption is increased(Kang, D. K., 1986). It means Lubricants consumption is growing with the size of the economy and national income.

The market size of domestic lubricants is 996 Million Liter and amount 1.5 Trillion Won in 2012. Before IMF crisis in 1998, the domestic lubricants market grow highly annual growth rate of 9.2% but in 1998 the lubricants consumption is sharply decreased by 24% than precious year(SBC, 2009).

〈Table 4〉 : Economic Growth and Lubricants increase rate

FY	2007	2008	2009	2010	2011	2012
Economic Growth (%)	5.1	2.3	0.3	6.3	3.7	2.0
GDP (Trillion Won)	975.0	1,026.5	1,065.0	1,173.2	1,235.1	1,272,5
Lube Consumption (KL)	970,123	968,557	863,446	991,732	1,010,515	997,335
Increase Rate (%)	4.66	-0.16	-10.9	14.86	1.9	-1.3

Source : Korea Lubricating Oil Industries Association / Statistics Korea

After 2000 the consumption was recovered slowly and market picked up same as before IMF crisis. But once again due to global financial crisis in 2008, the consumption was shrunken again by 20% and it was equivalent level of reduction with IMF crisis. During those period machinery industry which is high lubricants and energy consumption industry was recessed and it was one of main factor of reduction. From 2010 the consumption is increased slightly according to recovery of economy. But last year consumption was also

decreased compare to previous year and current global economic downturn and decline in exports is a negative effect of its consumption. Due to tardy growth of in economy this level will be kept for the time being.

5.2. Market Segment

There are several ways to classify the Lubricants market by application or material or performance etc. Korea Lubricating Oil Industries Association classified 5 categories as Automotive, Marine, Industrial, Metal Working Fluid and Others for the statistics of Lubricant sales same as Japan statistics.

The biggest segment is automotive and its demand is directly related to the number of vehicles and consumption of lubricating oil per vehicle(Song, M .K. 2009). Recent the number of registered vehicles are increasing annually 2~3% each but according to the survey of automotive mileage by Korea Transportation Safety Authority current average mileage is 46.2km which reduced by more than 50% comparing to 20 years ago. It comes from the less driving of private car due to fuel price increasing and improved public transportation service. Also annual lubricants consumption per vehicle is decreasing from 22.0 Liter in 2005 to 19.2 Liter in 2011 by less mileage and longer interval of lubricants change resulted from quality improvement of lubricants and cars(John Martin, 2010). As a result overall consumption of automotive is stagnant.

〈Table 5〉 : Lubricants Consumption (unit : thousand KL)

Category	2007	2008	2009	2010	2011	2012	M/S	Increase '12 vs.'11
Automotive	352	342	323	350	354	348	34.9%	-1.7 %
Industrial	229	214	185	209	206	210	21.1%	1.9 %
Marine	131	135	107	117	119	111	11.1%	-6.7 %
Metal Working	104	103	94	121	129	129	12.9%	0.0 %
Others	154	172	154	195	202	199	20.0%	-1.5 %
Total	970	969	863	992	1,010	996	100%	-1.3 %

Source : Korea Lubricating Oil Industries Association

The second is industrial lubricants of m/s 21.1% which all kind of industry involved such as general manufacturing, energy, steel and paper industry etc. Among general manufacturing its consumption is influenced mainly by the automotive industry and

machinery industry as these industries wield strong influence on other sub-industry and operation rate of many individual factories. Steel industry is one of the huge consumption sector and nowadays energy industry consumption is increasing owing to big investment in power plant.

Marine section is normally contains the consumption of aviation due to small portion compare to marine and other group. Marine and aviation consumption is naturally close relation with local ship building and vessel operation status which is indicator of import and export business.

Metal working sector is a kind of lubricants related to cutting and machining of metals, rolling of steels, heat treatment and rust preventing. Cutting and machining is influenced by operation rate of general manufacturing industry such as automotive part manufacturing and machine manufacturing. Rolling oil is mainly subjected to operation fluctuation and investment of steel industry. Heat treatment and rust preventing is one of important role of lubricants and also affected overall manufacturing prosperity and adversity.

Others include Grease, insulating oil and process oil which is a kind of specialties for their usage. Insulating oil is related with electric equipment like oil-filled transformers, high voltage capacitors and circuit breakers mainly for electrical insulating and coolant. Process is a kind of raw material in process of plasticizers for the rubber industry like tire manufacturer. Grease is a soft solid at room temperature and consists of soap emulsified with mineral. It is applied to mechanisms that can only be lubricated infrequently and where a lubricating oil would not stay in position. It act as sealants to prevent ingress of water and incompressible materials.

5.3. Industrial Lubricants vs. Automotive Lubricants

Industrial lubricants are used for all kind of industry which have production and so have different characteristics from automotive lubricants. The process of purchasing industrial lubricants is more complicated and takes longer time (Kong, S. S., 1991). The demand for industrial lubricants is influenced by overall economic situation but the condition of each industry is more important to the consumption of each company. For example, when the boom in shipbuilding that one is to increase the quantity supplied to the shipyard, and if steel industry is slump the consumption of steel manufacturer is reduced. In recent years, the demand for energy industry is increased owing to construction of new power plants caused by instability of the electric power supply. Conversely, due to recession of general

construction, manufacturer of construction materials including elevator manufacturer's demand is markedly reduced circumstances. Thus the fluctuation of industrial lubricants demand is in accordance with the atmosphere of each industry.

In case of automotive lubricants which is close to consumer goods is directly affected by driving mileage of car. For the passenger car, the consumption of lubricants is connected to the economic situation as income of individuals is closely depend on the economic conditions. For commercial vehicles, the consumption of lubricants is affected by the logistics demand which is connected to the economic up and down.

Demand of industrial goods affected by consumer goods and derived demand change is greater than the consumer product change (Lee, S. H. et al, 2007), and consumer goods also influenced by general economic situation. The consumption of industrial lubricants is deeply connected of each industrial economic condition and automotive lubricants is also affected by surroundings, so both are mutually influenced in long term perspective.

6. Distribution Channel

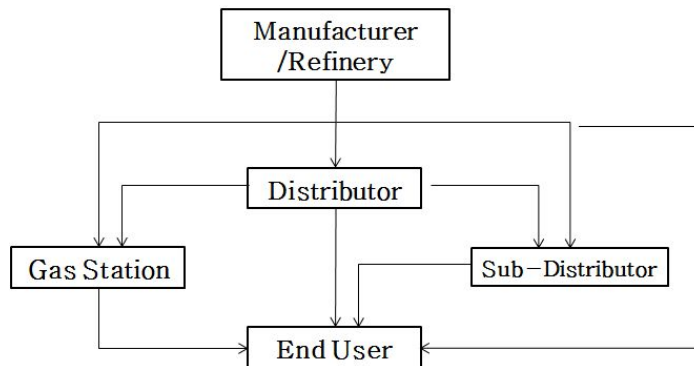
6.1. Channel Members

American Marketing Association define the distribution channels as "any firms or individuals who participate in the flow goods and services as they move from a producer to an ultimate or industrial user"(Committee on Definitions AMA, 1960). In case of product distribution appropriate number of middleman can increase the efficiency of time, place and storage between the producer and consumer or end user (Han, J. k., 2006)

As most manufacturers sell their products not directly to consumers but distribution channel, Lubricants manufacturer have similar distribution channel in Korea. Distribution structure of the domestic Lubricants market is very close with that of gasoline and other fuel business because it was started with gas station industry

Distribution channel of Lubricants is different according to the brand. It means local brand and imported global brands have different distribution structure. And also it is distinguished by application, automotive and industrial(Lee, U. H., 1996).

Distribution channels of fuel gas is simple and well-rounded structure as the refinery companies sells the products to distributor and distributor reselling to the gas station(Bae, B. R. et al., 1999) but Lubricants have one or two more channel member than fuel business. General roll and characteristic of each members of Lubricants distribution channels are as follows.



[Fig. 2] Distribution Channel of Petroleum and Lubricants

Source : Understanding of Petroleum Industry / Korea National Oil Corporation

Direct sales from Lubricant manufacturer to end user is the shortest and limited in case to equipment builder or huge consumer of lubricants. It happens more in imported brand channel than local brand.

The official Distributor is subject who contract with manufacturer and supply Lubricants to end user, retailer or sub-distributor(dealer). Distributor is most important channel member and conduct the roll of purchasing, stocking, ensuring all sales and other business activities performed. In the case of domestic brand, there are limited number of distributor and they sell mainly to sub-dealer. In contrast, global brand manufacturer contract with more distributor who sell the lubricants mainly to end user or retailer than sub-distributor. Distributor scale of local brand is larger than its global brand as manufacturer of local brand confer the distributorship of fuel oil like gasoline and diesel.

Sub-distributor(Dealer) is one of specialized sales channel member and called as 'Bupanjum' means sub sales representative in Lubricants industry to distinguish from limited number of official distributor of domestic refinery(Lee, U. H., 1996). They usually sell multi brand to retailer or end user on the contrary distributor trade single brand contracted. Sub-distributor locate in close proximity to the consumer and perform the business on the basis of expertise, experience and the relationship with consumers.

Retailer is the last distribution channel to end user and in case of automotive lubricants it may be the auto maintenance shop, auto accessory shop and large discount stores. In Korea auto maintenance shop is major representative and discount store is insignificant among retailer(Brand Management Center). They offer the customer various services to manage customer and secure new accounts.

Gas station is associated with local refineries brand of lubricants but minor distribution channel in Korea.

Domestic Lubricants distribution channel is different between automotive lubricants and industrial lubricants as user purchasing behavior is different. Automotive distribution have both B2B and B2C trade on the contrary industrial distribution is B2B trade.

6.2. Channel Features of Global Brand & Local Brand

As well as the difference of distribution structure between automotive and Industrial Lubricants, there are some difference between local brand and global brand. SK is a typical local company which have refinery plant and naturally have fuel business in domestic market. GS Caltex and S-oil Total, they are similar with SK but not independent but joint venture with global brand. In case of Kukdong Oil & Chem and MIchang Oil Industry, they are local company without refinery. Another group is imported global brand such as Mobil, Shell, Castrol and Fuch which they have no refinery and no fuel business in Korea.

The manufacturing company of SK Lubricants brand ZIC is SK Lubricants Co., Ltd. and they have limited number of official distributor including SK Networks who is subsidiary of SK. Official distributor of SK trade the fuel and Lubricants both. In case of Lubricants they sell the product to sub-distributor and big end user. GS is similar to SK as GS contract several official distributor and they distribute Lubricants to sub-distributor and end user. But S-oil is different as they have more number of distributor on a nationwide scale. The others including local specialized Lubricants manufacturer and global brand which have no refinery and no fuel business construct distribution network by contract with distributor according to regional criteria. It means business territory which distributor can conduct sales and distribute. They can sell also sub-distributor but mainly target to secure end user.

6.3. Channel Features of Industrial Lubricants

Distribution channel of industrial lubricants are divided as 1) Direct sales from the manufacturer to industry 2) from the manufacturer to the customer via distributor 3) Distributor sell to sub-distributor and sub-distributor supply to the customer

Direct sales from the manufacturer to customer in the industry is limited to the large scale of consumer as they have purchasing power and buy in low price. In this case, the manufacturer is responsible for industry sales representatives and sometimes they run the branch offices to suggest direct support.

Manufacturers cannot sell the entire amount by direct transaction so they secure the exclusive distribution network for stable sales and it is most common channel. For this purpose, distributors are required to establish the proper facility like warehouse and sufficient transportation. They also requested to set up the organization to provide ongoing technical support and sufficient financial ability to support all of these necessity.

The other case is also common in local refinery brand. They contract with a small number of distributors and let them to provide to sub-distributor for end user. Sub-distributors are not contractual relationship with manufacturer and purchase several different brands from other distributor or dealer. It allow them to supply multi brand to customer according their need but they have disadvantage of not supported from manufacturer directly in technical and marketing.

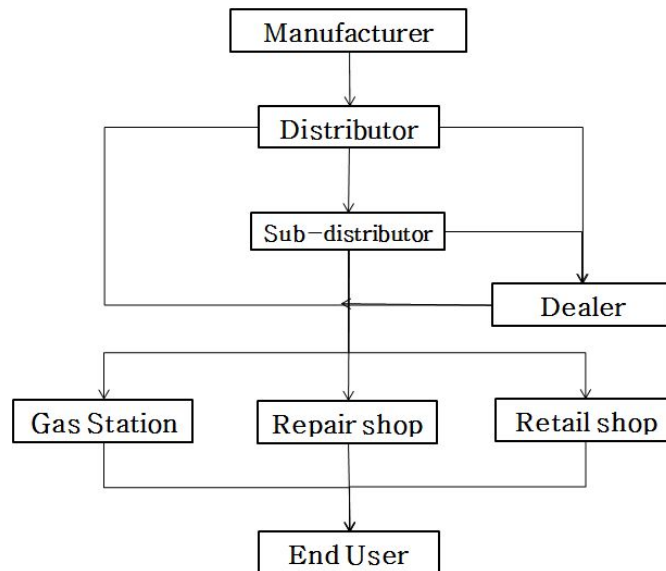
Such as significant characteristics of industrial goods, industrial lubricants supply channel keep more longer relationship with customer compare to the automotive lubricants channel. However, it takes a longer time to decide the provider and a large number of internal members participate in decision-making.

6.4. Channel Features of Auto Lubricants

The difference of automotive lubricant distribution is there are one or more intermediate stage than industrial distribution. It's mainly caused as car owners do not change the lubricants by themselves but visit maintenance shop for lubricants change. That is to say maintenance shop, car wash shop and garage can classified as retailer in automotive Lubricants distribution. Nowadays purchasing from discount store and internet is increasing but still minor portion. Automotive lubricants distributed similar like general commodity and it means price and amicable logistics is more effective than technical service or long term A/S.

Distribution channel of automotive lubricants is more complicated than industrial as above <Fig. 3> because end user is ordinary driver except car manufacturer and transportation company and they purchase from retailer including repair shop.

Retailer of automotive lubricants distribution channel is much more sensitive to price than quality and service, and a small amount of short-term purchases primarily, and easily change the distribution channel. It's because the end user don't retain high knowledge for lubricants so they depend on the recommendation of the repair shop. Repair shop tend to change the distribution channel according to their own interests and convenience.



[Fig. 3] Distribution Channel of Automotive Lubricants

Source : Lee, W. H.(1996). Study of Strategy for Lubricants Distribution Channel. Kyungbook University. A Master' s Thesis

6.5. Auto Repair Shop and Franchise Channel

In automotive Lubricants sales channel, repair shop is the key channel to sell end user, private driver(KPC, 2005). The history of domestic auto repair shop started at the late period of Chosun dynasty and during Japan's colonial period Korea Motor Co., Ltd. was established and operate 4 service repair shop. According to economic growth and an increase in national income, domestic auto market became larger, and automotive repair market has also expanded.

The number of domestic car registration in 2011 was over 18 million and each year average 0.58 million units are increased. Total number of repair shop is 35,170 which cover 18 million cars. Repair shop is classified as General Repair Shop, Small Repair Shop and Partial Repair Shop. Among them General and Small Repair Shop can make repairs of damaged vehicles for insurer. The market size of auto repair industry is 7.6 trillion won and General Repair Shop have 49.6% of market, amount 3.8 trillion won by 3,486 shops. The number of Small and Partial Repair Shop is 31,500 and have market share 50.4% amount of 3.8 billion won (HRDSK, 2012).

There are several franchise car repair shop. In Korea number of car repair shop is around 35,000 and among them 30% is franchise of large company(weekly donga, 2013).

〈Table 6〉 : Franchise of Auto Repair Shop

Franchise Brand	No. of Franchisee	Revenue (Thousand Won per Franchisee,2009)	Remark
TwoTwo Repair Service	245	627,950	
Moden Oil	12	296,180	
Speedmate	686	194,550	SK
Engine Maul	41	130,560	
Ziebart	46	117,740	USA
Carzen	313	93,320	
Master	693	82,600	
AutoOasis	322	76,850	GS Caltex
Auto Q	829	31,480	KIA
Ready Car Service	171	22,270	Meritz
Oilbank Plus	64		Oilbank
Mynetkey&Econo Lube	2		
Bluehands	1,455		Hyundai Car

Source : Franchiseguide(www.fguide.co.kr)

6.6. Franchise and Branding

Auto repair franchise can be classified as car manufacturing group, automobile insurance group, gas station group and internet based franchise group. Beside above list T-Station of Hankook Tire and Tire Pro of Kumho Tire are also Franchise brand by tire manufacturer. Anycar, Promy, Hicar and Magic car are Franchise brand of automobile insurance company(Money Today, 2011).

As the economic downturn persists, the number of private repair shop is decreased but franchise network is active. For the continuous growth of franchise, strengthen their biggest advantage of the network through the connection of different sectors such as insurance, credit card, telematics and telecom etc.(Choi, S. H., 2005). Also new business initiatives and branding is necessity.

Lubricants distributor eager to contract to these franchise network as they are big consumer and influence to private driver to choose specific Lubricants brand. Until now these franchise of repair shop don't have PB product. In 1995 ZIC brand was launched and communicated to exposure lubricants brand to customer and succeed(BMC. 2005). Auto

repair franchise also can develop their own lubricants brand to strengthen their business. MOBIS is very strong brand in auto part and also they sell their OEM lubricants product. Leverage of franchise of repair shop is absolute to customer to select brand of auto part and lubricants is suitable item for PB product as customer know the importance of lubricants but don't have critical knowledge about product.

7. Necessity for Improvement of Distribution Channel

Lubricants industry has witnessed overall flat demand, sharp shifts in consumption, increased competition and greater pressure on profits in the past 10 years(Singh, 2002). As price and service competition intensifies between sellers in case of stagnant consumption (Sung, D. H. & Shin, K. Y., 2007), service quality price competitiveness influence sales directly and the distributor is more important than before.

The most important requirement of Lubricants distributor is the knowledge of products. For the other industry the knowledge is also important but in case of Lubricants the buyer have little information and knowledge about the products. So the Lubricants provider has to introduce the exact product and let them know how to use it. Nowadays the equipments and machines are faster and more complicated and consequently they require more severe performance of Lubricants. Also seller of Lubricants is need to have knowledge about machine or equipment of buyer because the buyer know more regarding their facilities or equipment but they have limited intelligence and experience of Lubricants so they request the seller to provide professional service for them. In this reason the manufacturer of Lubricants have to support distributor which have less knowledge and provide ongoing training and share of advanced technology for distributor and also end user.

Besides technical knowledge, the distributors have to improve their sales skills because they have to meet the engineer and persuade also person in charge of purchasing department. Current market competition is more severe and severe and to avoid the price war with competitor the seller have to be accustomed with appropriate sales method.

To extend market share and satisfy end user, the manufacturer have to develop proper distribution channel and make them satisfied. One of the critical difficulties which small and medium sized distributor faced is financial matters(Cho, B. R., 1996). Lubricants manufacturer is bigger and more stable in financial status than distributor but the distributor have to pay before their bill collecting. If the manufacturer grants the credit for distributor, it must be great helpful to them and a good way to encourage their sales.

Another issue is logistics. As mentioned before the ordinary distributors have limited manpower and logistic facilities, it's not enough to provide sufficient logistic service. It does not mean only delivery but including proper level of inventory. So adequate ERP system of manufacturer can reduce the load of inventory of distributor and improve financial burden.

Also an important element is fair competition in the market(Kwak, H. S., 2002). The manufacturer have not force to distributor purchase excessive or unnecessary volume for their own purpose and not make the market confused due to price fluctuation. Eventually this will lead conflict increased between manufacturers and distribution channels and also will lead the customer confidence weaken.

Final suggestion is the consistency of policy. The conflict may be occurred between manufactured and distributor or between distributor and other distributor during the transaction. In this case consistency of policy is the most important solution to reduce unnecessary friction and keep long-term relationship as business partners each other.

All above suggestion is not only problem of lubricants distribution channel but may be common in other industry. Anyway to resolve the complications and improved the relationship between manufacturer and distributor, both side have to be effort.

III. Conclusion

In this study, a basic understanding of Lubricants and history of lubricants market was investigated. Lubricants history is closely related to petroleum development. Lubricants has both characteristics of industrial goods and consumer goods and it means it is widely used in our life. In case of automotive Lubricants, improved engine oil performance extend the oil change intervals and perform satisfactorily under severe conditions. In industrial Lubricants market, synthetic Lubricants consumption is increasing but overall market size is not expended as global economic depression. In domestic market, the consumption is about 996 million liter and it's decreased compare to previous year as our overall slow economic growth.

The distribution channel of Lubricants is different according to the brand origin, application and target customer. Recent channel strategy is reducing the stage of distribution channel for improving efficiency. Also they seek the economy of scale to increasing

competitiveness than competitor. To achieve the company goal, manufacturer make good use of proper channel member and potential customer like automotive repair franchisee.

Between big company, manufacturer, and small and medium-sized distributor, it is recognized conflict exist. It may caused from characteristic of Lubricants especially technical service is necessary and B2B and at the same time B2C process. For sustainability and win-win strategy, manufacturer have to reduce the financial difficulty like appropriate adjustments of payment term. Technical support is also very important factor to establish mutual trust. Providing proper and specific technical information and guarantee which customer request is necessary.

Additionally ongoing training and on the job training is requested for distributor to provide immediate technical support on the customer site. Seamless logistics which is basic function of distribution channel is also important via stable forecast of consumption. More fundamentally necessity is establishing the fair policies and implementation for all distribution channel. When the conflict occur between distribution channels, manufacturer have to settle down by applying the fair and consistent principle then customer and distributor can trust and raise loyalty to the brand.

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국내 윤활유 유통 현황과 프랜차이즈 채널 판매에 관한 사례 연구

감우균* · 이상윤**

국문초록

현대 생활에서 없어서는 안 될 자동차 등 모든 운송 수단과 생산 시설을 보유한 산업체에 서 필수 불가결하게 사용하고 있는 윤활유에 대한 기본적인 지식과 함께 각각의 특성을 살펴보고자 한다. 또한 산업재이며 소비재이기도 한 윤활유 유통과 관련하여 국내 시장의 발전 과정을 이해하고, 세분화된 시장과 그 용도의 차이점을 조명하여 각각의 특색을 고찰해 보고자 한다. 기본적으로 대규모 제조사와 중소기업인 대리점, 부판점, 소매상으로 이어지는 유통 채널의 특성에 대한 이해를 높이고, 자동차용 윤활유 판매와 관련하여 프랜차이즈 정비업체에 대한 현황을 이해하여 판매 확장 가능성을 알아본다. 그리고 윤활유 제조업체와 유통 채널의 역할과 필요한 요건을 확인하며, 채널에 존재하는 문제점에 대한 개선 방안에 대하여 살펴보고자 한다.

주제어 : 윤활유, 유통채널, 소비재, 산업재, 제조자와 판매자, 프랜차이즈 채널 판매

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