

# **Instant Oil Change Strategic Evolution: How Can Valvoline Balance Maintaining Growth and Profitability with Market Adaptation?**

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## **Introduction**

By 2022, the Valvoline Instant Oil Change chain had exploded to become the second largest company in the automotive oil change and lubrication industry in the United States and the third largest in Canada. The rapid growth of the chain was attributed to Valvoline's strategy of convenient locations, the ability for customers to stay in their car, services completed in about 15 minutes, well-trained and friendly staff, and store cleanliness (Valvoline-About Us, 2022). Yet, just as the chain had vaulted to the top of the industry, the impending automobile market conversion to electric power trains, the increasing connectivity of the automobile, and the potential for mobile service solutions threatened Valvoline's future unless it could adequately balance traditional offerings with innovation.

The coming change in automotive technology was forcing Valvoline to determine if and how the firm could position itself to serve multiple markets. The electric vehicle (EV) market and connected car technology were growing rapidly and Valvoline needed to address these new opportunities while still maintaining existing market share in the traditional, internal combustion focused car market. What is more, the company was experimenting with a new mobile service, where a technician would actually drive to the customer's vehicle and provide maintenance onsite rather than require the customer to come to the store (Valvoline-Motor On, 2022). In a time of immense uncertainty, Valvoline faced strategic decisions that threatened its market position and, potentially, its viability.

## **Company Overview**

In 1886, Dr. John Ellis determined the lubricating potential of distilled crude oil, leading to the creation of Valvoline, the world's first trademarked motor oil, in 1873. First used in steam engines, Valvoline's products had been continuously developed over the last 150-plus years to include different chemicals and lubricants used in vehicles ranging from the Model T in the early 1900s to modern electric vehicles (see Company Milestones in the Appendix for a broad overview of key events in Valvoline's history). The firm's key value proposition had always been innovative lubricant products, including the first motor oil in 1866, the first all-climate motor oil, synthetic blend motor oil, high mileage motor oil, and innovative lubricants for electric vehicles (Valvoline-Press Release, 2021).

Valvoline was comprised of two divisions, the Global Products division, which specialized in the development and sale of its varied chemicals and lubrication products, and the Retail Services division, which focused on its customer facing oil change service centers (Valvoline-Press Release, 2021). Valvoline launched its line of instant oil change service centers in 1985 centered around customer service. The store chain had successfully positioned itself as a differentiated offering, emphasizing factors such as store cleanliness, staff knowledge, customer experience, and an 18-point safety check. This approach paid off as the Retail Services division grew to 1,600 stores, making Valvoline Instant Oil Change service centers the second-largest chain in the United States and the third-largest chain in Canada. The instant oil chain stores accounted for 54% of Valvoline's 2021 adjusted EBITDA (earnings before interest, taxes, depreciation, and amortization) (Valvoline-10K, 2021).

The Global Products division also continued to grow: Valvoline chemicals, lubricants, and motor oils were available in 140 countries and territories through a network of 80,000 retailers for use in internal combustion engines (ICE), as well as electric and hybrid automobiles. The global lubricant and chemical line included electric vehicle fluids, synthetic motor oil for both hybrids and internal combustion engines, motor oil with MaxLife Technology (a proprietary formula used in high mileage engines), transmission fluids, antifreeze, and oils for heavy-duty vehicles such as semi trucks (Valvoline-Overview, 2022).

The Retail Services division was a high-profit, growth-oriented division, while the Global Products division was generating significant cash via steady growth. However, despite its profitability and growth, the Retail Services division was expected to face difficult business decisions as the market adapted to electric vehicles, self-driving technology became more common, vehicles became more connected, and mobile service options became more prevalent.

### **Market Factors**

The global demand for lubricants, which stabilized in fiscal year (FY) 2021 after a period of decline, was projected to be around 12 billion gallons in FY 2022. Car and motorcycle engine oil made up approximately 20% of global lubricant needs, heavy fuel oils and other transport lubricants made up 40%, and non-transport lubricants made up the remaining 40% (Valvoline-10K, 2021).

Notably, China had recently become the biggest market for lubricants, creating significant growth opportunities for Valvoline. In contrast, the North American transportation lubricant market was relatively stable in terms of volume of sales but was increasingly demanding oil with longer change intervals. Sales of passenger vehicle lubricants had also increased in developing regions due to the steady increase in vehicles on the road (Valvoline-10K, 2021).

Valvoline operated in highly competitive markets and competed with several international companies such as Shell/Pennzoil, BP/Castrol, and Exxon. These competitors had more diverse product and service portfolios, providing them with more operational and financial flexibility. Valvoline remained concerned that competitors' pricing decisions could force the company to

lower prices, potentially reducing margins and profitability. Valvoline competed with its competitors along the following criteria: brand identity, product performance/quality, pricing, availability, reliable delivery, customer service, innovation, and the ability to develop products in collaboration with customers. Valvoline also continued to face increasing competition from private-label competitors (e.g., Walmart's Super Tech), negatively impacting retail sales of branded lubricants (Valvoline-10K, 2021).

### **Performance**

In FY 2021, the firm reported a net profit of \$420 million, an increase of 32% over the previous year. While sales improved in each segment since FY 2020, Retail Services sales were a major part of FY 2021 sales growth, illustrated by the fact that they acquired and opened 132 new company-operated and franchised stores in FY 2021, including 69 organically grown stores. Total sales increased 27% to \$3 billion, while Retail Services sales increased 38% and Global Product sales increased 20%. System-wide same-store sales (SSS) for Retail Services increased by 21.1% (Valvoline-Press Release, 2021).

Given these results, aggressive growth targets were set for FY 2022 as the firm sought to become a more service-oriented business through Retail Services division development and Global Product division sales. While attracting and retaining qualified employees throughout the company was viewed as critically important to the firm's performance, the tight labor market posed a particular challenge for the firm's more than 1,600 instant oil change locations. However, even with the challenge of finding labor, Valvoline experienced significant growth and was able to sustain increased sales during the latest reporting period (Valvoline-10K, 2021).

### **The Transition from Internal Combustion to EV**

Electric vehicle (EV) adoption was likely imminent for a significant portion of the car market due to rapid investments by Tesla and legacy automakers in EV production capacity, 2022 U.S. EV sales outpacing industry expectations, and the U.S. government's passage of a large tax incentive for purchasing EVs. Adding urgency, Jiffy Lube had recently begun piloting EV service packages, which could provide them a strong first-mover advantage if Valvoline failed to act (Bluss, 2021).

In early 2022, Valvoline began piloting EV service packages in its lube shops to prepare for the potential EV transition (Valvoline-Press Release, 2022). Although many large manufacturers (e.g., Ford, GM) had invested heavily in developing EV technology, there was some doubt about how quickly this transition would occur. The availability of battery materials for manufacturing, consumer concerns about range, the future cost of electricity, the availability and reliability of the charging network, and the high cost of EVs could delay this transition (Exro, 2022; Krishna, 2021). Accordingly, Valvoline and its franchisees stood to lose greatly if they invested heavily in training staff and providing equipment to allow its lube stores to provide EV service packages should the EV transition go slowly or not materialize. However, if they did not prepare quickly enough, they could lose market share to competitors.

## **Right to Repair**

With new internet and app connected technologies being added to vehicles, aftermarket service providers' (e.g., Valvoline) concerns about the right to repair these emerging technologies had risen significantly. Connected vehicles connect to a network to enable bi-directional communications between vehicles and their Original Equipment Manufacturer (OEM), other vehicles, mobile devices, etc. The automotive aftermarket industry, to which Valvoline Instant Oil Change belonged, needed to maintain the right to repair vehicles because not doing so would greatly harm its ability to add value for consumers. Connected vehicle technologies allowed manufacturers to monitor a vehicle's health remotely, diagnose problems, and predict future maintenance needs, resulting in significant debate on how much data manufacturers should be expected to share with other, independent service shops such as Valvoline. As such, some manufacturers had worked to shut out independent repair shops from getting access to car data, thereby ensuring that customers could only get their car serviced by the manufacturer. The outcome of the right-to-repair debate could influence local employment opportunities, automotive servicing companies, and consumer pocketbooks (iFixit, 2022). At the same time, emerging legislation forced manufacturers to create more repairable products (BSR, 2022).

While there had been a push from both aftermarket providers and OEMs to protect each of their interests, there was also a combined effort by aftermarket service providers, carmaker associations, parts manufacturers, and suppliers to compel OEMs to be more open regarding issues of right-to-repair (Seyfer, 2017).

Valvoline needed to determine how to approach the right-to-repair battle because its chain of instant oil change stores needed continued access to vehicle data. Access to such data allowed Valvoline to provide additional services and maintenance via these connected technologies. Conversely, if OEMs gained more control over repairs, a chain as large as Valvoline Instant Oil Change could work with OEMs to become a preferred aftermarket service provider.

## **Strategic Adaptation**

While the instant oil change chain was highly profitable, had been growing rapidly, and was better positioned than its price-focused competitors, significant market volatility lurked on the horizon. The EV transition had been recently boosted by a huge government tax incentive, connected car technology's emergence threatened its right to repair, and new service models could soon enable the business to go to the customer instead of the customer coming to the store (Valvoline-Media Room, 2022).

Given these potential changes, Valvoline needed to develop a strategic plan and act decisively to adapt to a changing automobile market while still maintaining and growing market share with the traditional, internal combustion-based car market. As such, the firm must determine the timetable and scale with which it needs to deploy services for electric vehicles. It also needs to prepare itself for entering the mobile auto service market, both to be prepared to gain market share in that novel type of service business but also to monitor how such services could supplant business in its physical stores. At the same time, Valvoline needed to identify how to leverage its strong market position in the right-to-repair fight to become a preferred provider for OEMs.

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## Appendix

### Valvoline Company Milestones

- 1866 Founded as a result of Dr. John Ellis discovering the lubrication properties of crude oil.
- 1910 Became a household name because of its use in the Model T Car, and because the company created one of the first airplane engine oils.
- 1939 Created the X-18 single-grade oil that supplanted the need for 18 existing automobile lubricants.
- 1942 Valvoline Oil was widely used by armed forces vehicles in World War II, creating tremendous legitimacy for the firm (Valvoline-Our History, 2022).
- 1954 Introduced an all-climate oil product that was popular with the hot-rod cars of the day and worked well in V8 engines.
- 1965 Introduced racing oil VR1.
- 1985 Entered the quick lube market by purchasing the “Rapid Oil Change” chain and renaming it “Valvoline Instant Oil change.”
- 1996 DuraBlend synthetic oil was introduced to meet the challenge of increasing automobile engine heat.
- 2000 MaxLife oil was introduced to help restore horsepower and increase engine life for cars with over 75,000 miles.
- 2007 Valvoline Instant Oil change chain opened its 500th store.
- 2011 NextGen Oil was introduced to combat climate change by using 50% re-refined oil.
- 2018 Valvoline Instant Oil change launched the CarCam BayTracker camera system, enabling customers to watch mechanics in real time.
- 2020 A new formula was created which extended the life of the motor and surpassed industry standards for oil quality.
- 2022 Announced that they had started a new pilot program for adding electric vehicle services into its retail stores (Valvoline-Our History, 2022).