

The new oil: castrol



Castrol was originally an oil company set up by Charles Cheers in the year 1899. Within 10-years, he managed to develop a new lubricant named 'The new oil Castrol' which significantly benefits the transportation industry in the twentieth century (Castrol, 2011). The internationalized of Castrol of as a motor oil lubricant brand began in 1966 when Burmah Oil bought over to it become renamed Burmah Castrol, (BP , 2012) and their success in Thailand encouraged them to venture Vietnam in 1991 through a joint venture Saigon Petro (Dodd, 2005) which had a large motorcycle population. They were also the very first foreign lubricant joint-venture operating in Vietnam (NA, 2001). Later in 2000, British Petroleum (BP) acquired Burmah Castrol merging all operations with BP. However, BP still continued to retain Castrol's identity as the company had long established brand reputation as a premiere motor oil lubricant.

As an international business, Castrol, like any other international firm, were faced with key issues surrounding both formal and informal framework, and they tackled these issues by adopting, adapting and diffusing institutional elements in their strategies to succeed in the Vietnamese market.

Vietnam: Key Issues for Castrol

Cultural Environment

Hostede's Cultural Dimensions (1980) shows the Vietnamese's culture (Asia-Pacific) and Castrol's native cultures (Anglo-American) are on opposing ends, which means that in order to succeed in Vietnam Castrol had to overcome these cultural barriers.

Vietnam is heavily influenced by the Confucian values and ideals, beliefs in a high hierarchal structure, which means they have high power distance, are collective decision making and focus on the relationship element rather than a business transaction (Dong, Liem, & Grossman, 2010). “ Face saving” is a core concept practiced, as such maintaining relational harmony is more important than integrating and domination confrontations, which are deemed inappropriate (Oetzel & Ting-Toomey, 2000). The Vietnamese tradition strongly emphasizes trust, which can be only obtained through earning people’s respect and affection (Dana & Dana, 1999), in other words established through relationships.

The relationship emphasis is clearly illustrated in dealing with the government bureaucratic system in which a request can have a long turnaround time and to expedite, an international manager would have to have a strong local network which helps reduce the government’s uncertainty about your intentions (Smith & Pham, 1996). Relationship also value is vital for Vietnamese manufacturers and distributors as it can enhance product quality, information, and smoother delivery processes (Nguyen & Nguyen, 2011).

In addition, the ability to grasp language could somehow ease communications as language influences people’s view of the world (Sapir-Whorf Hypothesis, as cited by Kay, P & Kempton 1984). And because linguistically, Vietnam largely differs from Castrol’s native home, Britain, as such; Castrol had to overcome the language barriers in their business negotiations with Vietnamese who prefer to have an interpreter even though

if the Vietnamese can converse in the foreign language that was used (Bouchart & Swierczek, 1994).

Hall's (1976) polychronic and monochronic concept of time is another significant difference between Castrol's home practice and traditionally Vietnamese who see time more seasonal rather than by the clock (Smith & Pham, 1996). This perception of time may be changing in today's environment, but Vietnamese can take longer to weigh decisions (Smith & Pham, 1996), and because they are collective and have high power distance, it is customary for them to get consent from their superiors beforehand.

While, Vietnam was once colonized by the French and Americans, Vietnam's socio-cultural orientation substantially varies from their colonizers. Clearly, cultural differences can pose the underlying cause conflict. After all, culture is "the collective programming of the mind, which distinguishes one human group (Asia) from another (US)", (Hofstede, 1980, as cited by Beaman, 2008) and Castrol had to take these variations into account from the very beginning of market entry in to Vietnam.

Ethical standard

There is no clear definition of ethics, as the great divide between universalism and relativism explains. Universalists believe that ethical moral standards are universally the same throughout with no regards to culture and moving time; whereas relativists argue that perceptions of right and wrong differ from culture and individuals and tend to evolve with time (Bigambo, 2011). As such, in favor of the relativism approach, the ethical and moral perceptions are perceived differently, in regards of corruption.

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According to the Corruption Perception Index (CPI) assessment, pre National Strategy for Preventing and Combating Corruption toward 2020 introduction, World Bank's Worldwide Governance Indicators rank Vietnam CPI level at 22.9 in 2004 and post the policy, in 2010, the country ranked 33 (Martini, 2012). Castrol had entered Vietnam pre-government policy, as such the Company had to ensure they adhered to policies at all times, to perhaps like Intel who actively cooperated with the government to combat corruption and improper business conduct (Deresky, 2011)

Because Castrol had entered the country before establishment of formalized policies, the Company was forced to successfully adopt and adapt to Vietnam's standards at the time, while still trying to hold on to its own corporate culture. As such, beyond the reasons of initial foreign direct investment (FDI) required a local state owned company (Schaumburg-Müller, 2002) it was only rationale for Castrol to enter Vietnam with joint-venture with a local player, Saigon Petro in 1991.

Political Environment

As a result of the fall of the Soviet, Vietnam was forced to undergo an economic reform in the 1980s (Speece, Quang, & Huong, 2003). In 1986, the Economic Reform Policy, " Doi Moi", removed trading barriers including liberalization of the domestic market and encouraged foreign investments and foreign privatizations of firms (Nguyen & Bryant, 2004), an open economy. Through " Doi Moi", the country gradually progressed from a command- economy toward a market economy (Van Arkadie and Mallon, 2003), through tax incentives to foreign firms. However; this increased,

competition within the nation; hence, Castrol had to up their game to succeed in the country.

In many aspects, like China and Laos, the Vietnamese government is communist in only name sense, as they tend to be more inclined toward market-based economic reform practices. Vietnam; however, remain as totalitarian state that deny many basic civil liberties to the people (Hill, 2007). Meaning, the government remains communism, but in reality, the market is similar to capitalism. Only, key industries such as water, electricity communication, logistics (road system, ports, and aviation), are owned by the government. In general, the communist political ideology governs every aspect of the country by holding key industries while maintaining its market-based economy. The country also introduced a new state constitution in 1992 that introduced a more formalized legal system and increased economic freedom (Costello, Nash, Kavanagh, Smyth, & Boyce, 2010). The government also offered more tax incentives to attract more foreign oil companies.

Castrol benefited from these practices as they took advantage of the first-mover as they entered the Vietnam market in 1991, after seeing great success in Thailand and they also benefitted from local insight with their partnership with Saigon Petro.

Competition

Castrol entered Vietnam prior to the establishment of the Competition Law, in which there were no formalized practices to regulate domestic competition (Freshfields Bruckhaus Deringer, 2005). In this sense, Castrol

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could be vulnerable to being dominated by stronger players and fair trade was unheard of.

As the country moved toward a market-oriented economy, the Vietnam Law on Competition 2005 established fairground for all types of enterprises and offered legal protection for fair competition (Harvie, 2001), leaving types and pricing to be determined by the market. The law controlled any potential market monopolies and offered a leveled playing field for market access and fair competition as it encourages consumer choices (Le, 2003); hence; giving Castrol's competitors such as Shell, Caltex and Vietlube a better chance to succeed.

While Castrol has the first-moved advantage as an already a well-established brand, with Vietnam's formalized policies and the country joining the World Trade Organization (WTO) in 2007, to sustain its success, Castrol would have seek ways to reposition itself and use its premium quality against the growing price sensitive and quality conscious Vietnamese consumer behavior.

Vietnam: Castrol Succeeds

It can be inferred that Castrol's success is related to their strategic market entry in Vietnam along with their ability to systematically create marketing mix that customized an advertising and branding, distribution, pricing strategy to fit in the Vietnamese economic landscape.

Market Entry

Castrol's rationale for entering Vietnam was clearly for the purpose of market seeking and strategic asset seeking to which they intended to capitalize on Vietnam's Doi Moi policies rather than lose out to their competitors. One of the key advantages Castrol had above everyone else was its first mover advantage in Vietnam and how the company had taken advantage of Dunning's OLI framework (1980). The OLI framework provides great insight on factors that affect a company's ability to enter a foreign market. In Castrol's case, the company benefitted largely from ownership and location advantage, through which the company leveraged on its firm specific advantage in lubricant oil knowledge and exploited Vietnam's already established motorcycle market. To reduce transaction costs relating cost of negotiating, contract enforcement while gaining a strong foothold in the domestic market it is likely the reason Castrol chose to partner Saigon Petro, illustrated by in Burmah's profits in 1996, to which more than 20 percent of its profits came from India and Vietnam, even in an era where car ownership was growing (Stevenson, 1996). The Company internalized its distribution through establishing its own transportation channels to reach its distribution points (NA, 1998). While this is a costlier route, this help Castrol closely monitor and manage its distribution.

Marketing Mix

Globally, Castrol offers its consumers one homogenous product – lubricant oil. However, the Company varies its product strategy to reach its market segment, motorists who want quality lubricants for long-lasting care of their motorcycles. Coming off their success in Thailand, Castrol wished to establish brand loyalty in Vietnam's motorcycle segment in hopes, the

loyalty will continue on upon upgrading to a car. The Company reinforced the fundamental need for a reliable mode of transport – motorcycle, as Castrol's Asia Director, Ian Pringle states the Company focused on turning 'near haves' into 'have somes' (NA, 2010).

Being a premium lubricant, Castrol's prices was significantly higher than most, and the Company adopted that same strategy in Vietnam, three times the cost of cheaper oil imports from Taiwan and Thailand, while aiming to maintain its strong brand image of superior quality, "Dau nhot tot nhat".

In terms of promotion, Castrol supported its premium pricing strategy by utilizing the push communications strategy in traditional media such as billboards, bumper stickers and roadside garages and motorcycle cleaning shops signs to establish initial consumer awareness. And as Castrol's position in Vietnam strengthened, the company leveraged on its global marketing campaign, which featured David Beckham. One reason for this is perhaps the Vietnamese are the second biggest football fan-following in the Asian region (NA, 2010), and in 2008, Castrol also went on to sponsor the UEFA's European Championships in Vietnam in hopes to drive revenues through brand recognition and recall in Asia (NA, 2008).

Vietnam was a strategic decision on Castrol's part as not only did the country closely resemble its neighboring Thailand in terms of motorcyclist population, it was a less risky decision for Castrol, as similar successful strategies could easily and inexpensively be exported to Vietnam. In terms of distribution, given Vietnam's political divide, Castrol's distribution strategy focused on two distinct distributors- stated owned customers, primarily

Communist in practices and private customers. While this was costly, this method gave Castrol more control in terms of managing their distributors in terms of corporate practices – reduce the risk of illegal practices or other such brand tarnishing practices (NA, 1998), though in the long term Castrol should consider more viable inexpensive measures.

Opportunities and Challenges

SWOT Matrix

As first movers, Castrol's strength lays in their success in developing a solid brand strategy that effectively captured a large market share. Today, the Company offers lubricants for the purpose of motorcycles, cars, commercial vehicles, industrial and even professional car repairs. In looking at Vietnam as a fast growing economy, the country is taking major measures to liberalize trade, through which can be seen by the country's admission to WTO and even trade agreements such as Association of Southeast Asian Nations (ASEAN) Free Trade Area (AFTA) and U. S.- Vietnam Bilateral Trade Agreement (BTA). Clearly, Vietnam is on its way toward a more transparent, less corrupted in its practices, which will largely benefit foreign companies like Castrol in their dealings in the country. The setback would be these liberalization practices will eventually increase competition for Castrol as Vietnam becomes a more attractive FDI destination.

In terms of weakness, Castrol's pricing strategy could be seen as a weakness as Vietnam's urban market becomes more price- sensitive toward consumer goods (Speece & Nguyen, 2005). Furthermore, Vietnam's lack of domestic infrastructure capacity as well as enforced regulations (Pham, 1998), forces

Castrol to internalize its distribution strategy, which is less risky; however, the line cost may be transferred to the end customer.

In 2000, BP had acquired Burmah Castrol, and this in turn gives Castrol the ability to leverage on its parent company's core competencies from oil and gas production to distribution and supply chain management. Furthermore, the establishment of two refineries provide local source for petro products as well as increase interaction between the northern and southern Vietnam.

Despite being a first-mover, Castrol may have already established its competitive edge; however, with the introduction of more structured open-market policies and trade agreements, Castrol will be faced with competition such as Shell and ExxonMobil. While, the country rapidly increased with an average 5.9% GDP growth in 2011, the inflation rate based on consumer prices was extremely high at 18.7% versus China's 9.2% GDP growth and 5.5% inflation rate (CIA, 2012). And in recent times, Vietnam has incurred international debt as high as USD12billion which could result in the collapse of the country's banking system (Nyuen, 2012), and create a ripple effect for Castrol who already operate in the country and region.

Recommendations

As a dominant player, Castrol has an ample of opportunities to exploit and continue being a leader in Vietnam. Castrol could seek growth through expanding its current offerings in the automobile industry and relying on the existing Vietnam market. Castrol can seek to broaden its product base beyond offering light and heavy automotive lubricants and so forth by offering automobile batteries. While diversification could pose a threat to

economies of scales and even increase marketing costs of the new product, by introducing a complimentary and complementary product, Castrol would not face such an issue.

Castrol could also extend their strategic global partnership with leading automobile manufacturers such as Honda in Vietnam as they had in the United Kingdom (Castrol, UK and Ireland, 2012). By doing so, the automobile manufacturer can benefit from the tangible value of the ingredient brand which in this case is Castrol to enhance the customer experience. Similarly, Castrol can build a more efficient distribution network by collaborating with partners to share distribution channels and establish value chains as they had intended to with local tire manufacturer, Casumina and local battery manufacturer Pinaco (Phi, 2011). However, a much rationale route would be to leverage off parent company BP's resources including financial, logistics and research and development (R&D). Castrol could also choose to adopt its loyalty program from Malaysia as regional strategy in Vietnam, by rewarding returning customers (Castrol, Malaysia 2012).

With the establishment of the Ministry of Environment and Natural Resources (MONRE) in 2002, the country has intensified its environmental practices. In 2007, Environmental Protection Agency (EPA) worked with MONRE to train southern, central and northern Vietnam environmental inspectors (EPA, 2012). In being a responsible corporate citizen, Castrol should adhere not only to Law on Environmental Protection; the Company should also consider measures to create a sustainable environment. For example, Castrol could offer consumers incentives to return their bottled packaging to distributors

rather than self-disposing or offer refill-packaging options at a cheaper rate than purchasing the entire bottled package.

Conclusion

Even though globalization does reduce barriers, it's not always as simple as Friedman's (2005) "flat world" as illustrated by Castrol in Vietnam. While, globalization may standardize selected practices such as consumer product needs; however, in going deeper, motivators tend to differ. In Castrol's case, the variation of Vietnam's norms both formal and informal from its home country resulted in the Company customizing practices to fit the national culture, and proactively streamlining processes and operations to sustainably grow within its host country.