

# Lube/Kline lubricants industry sustainability survey

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## BACKGROUND

LUBE Magazine, in collaboration with Kline & Company, recently commissioned a B2B survey to help bring clarity to its readers and other industry participants on several key areas related to sustainability. An online survey was conducted over the second half of 2021, with questions designed to help assess drivers, priorities and challenges associated with defining and actioning sustainability-related policies for the lubricants and base oils industries. Almost 300 responses were received, which provided a solid cross-section of industry participants, both in terms of scale, scope and geography of business across the lubricant value chain.

In this article, we would like to share some highlights from the survey results combined with Kline's perspective of what this data is telling us. Over the past few years, there has been a shift in what we aim to learn from sustainability surveys. The earlier work led by associations and industry researchers was primarily focused on gauging the sense of urgency, understanding perceptions of importance and

defining the meaning of sustainability. More recently, there has been a broader consensus on "WHAT" sustainability is and "IF" it matters, rendering generic questions less revealing. However, there is still a lack of clarity in terms of identifying "HOW" to action it, which is where this survey aims to shed further light. Let's examine 3 key areas covered by the survey.

## FINDINGS

### Commitment Gap

As shown on Chart 1 below, a vast majority of respondents from all types of companies stated that sustainability is important. The differences emerge in the first steps towards actioning, namely, in goal-setting and making those goals clear to internal and external stakeholders. While over 90% of the respondents confirmed the importance of sustainability, the share of those with clearly articulated sustainability goals went down to 64-78%.

**Chart 1 Commitment to Sustainability**

Question	How important is sustainability to organisation?	Does your company have stated sustainability goals?	Does your company publish a sustainability report?	Does your company have a full-time sustainability person or team?	Is your company pursuing third-party sustainability certification?
Interpretation of question		<i>Does pro sustainability stance translate into commitment?</i>	<i>Are you willing to make your commitment public?</i>	<i>Are you willing to put resources behind the commitment?</i>	<i>Are you willing to benchmark your efforts to a third party standard?</i>
	% of respondents selecting "Very important" or "Fairly important"	% of respondents selecting "YES"	% of respondents selecting "YES"	% of respondents selecting "YES"	% of respondents selecting "YES"
<b>Company role in industry supply chain</b>					
Baseoil manufacturer / marketer	95%	78%	60%	57%	57%
Additive companies	92%	75%	59%	54%	34%
Lub blender / marketer	89%	77%	47%	50%	26%
Distributor	97%	71%	35%	41%	24%
Packaging	100%	64%	36%	64%	27%
<b>Company size</b>					
Small (under 250 employees)	86%	55%	1%	22%	19%
Mid-sized (250 to 999 employees)	87%	71%	29%	50%	40%
Large (1000 and more employees)	96%	90%	81%	74%	38%
<b>Company ownership</b>					
Private	90%	65%	32%	41%	28%
Public	93%	90%	78%	67%	34%

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When we examine what drives the differences, several patterns emerge:

- **Size:** Companies having a sustainability goal increases from 55% for small to 71% for mid-size and 90% for large. The same trend is reflected for publishing a sustainability report, having a dedicated sustainability team, and pursuing third-party certification.
  - SMEs lag behind larger companies, and private companies are considerably behind public ones when it comes to defining the goals and reporting.
  - Smaller companies likely have lower resources to fund sustainability initiatives that will not have immediate payback; they are also not facing as much scrutiny as their larger competitors.
  - This situation is expected to change rapidly, and smaller companies should use this period to define their sustainability strategy.
- **Ownership:** Public companies are further along in their sustainability journey. In our view, this correlates with the visible rise in use of sustainability-related metrics by financial and institutional investors as a tangible performance KPI alongside more traditional criteria. Such scrutiny, to which public companies are exposed more than their private peers, will drive the need to understand and credibly document companies' current state, aspirations and strategies.
- **Type of company/Value chain position:** Although there is a less consistent pattern in responses, baseoil companies are edging ahead in terms of committing to specific goals, reporting and having dedicated teams.
  - One of the explanations could be the fact that base oil companies tend to be larger, hence more exposed to scrutiny from regulators and investors. But this is also a reflection of an objective reality that base oils are a key raw material for formulated products. Hence, any lifecycle assessment and impact mitigation across the lubricant value chain will require solving for the footprint of basestocks and other major raw materials. Another view is that the base oil industry has significant surplus supply, including supply of high quality/high performance basestocks. As a result, performance no longer offers product

differentiation as it did 5 or 10 years ago. In its place, low/net-zero carbon footprint or renewable sourcing of feedstocks is emerging as the key product differentiation factor.

- Packaging companies are an interesting case to this point: there is a strong commitment expressed by the respondents, as well as the highest share of responses, indicating the availability of dedicated resources vs. other types of lube value chain players. This could be down to the fact that packaging is a value chain step that is easier to diagnose and control. A bonus point for packaging efforts is the end-customer interface. Packaging is a "touchpoint" with both B2B and B2C customers, giving it a special significance as means of telling a sustainability story which customers can "touch and feel".

### Measurement Gap

Third-party certification matters for two main reasons:

- Firstly, one needs to measure before starting to manage (e.g. product and corporate footprint).
- Secondly, having certification from reputable sources is key for creating a credible communication and marketing strategy for customers, suppliers and other stakeholders, like investors and regulators.

From the scores in Chart 1, we can clearly see that all the respondents still have much to do in certification. SMEs report the lowest engagement (19%) among all groups in pursuing certification. It is not entirely unexpected, as managing the certification process, developing data and choosing relevant and credible external partners require dedicated specialist resources, which less than a quarter of respondents from SMEs claim to possess.

**Metrics:** Measuring product carbon footprint and life-cycle have been consistently mentioned as the most important metrics to measure sustainability improvements. This may be because reducing carbon-footprint is seen as the most concrete step towards sustainability.

**Chart 2**

	Baseoil Co.	Additive Co.	Lube Co.	Dist.	Packaging	Small	Mid	Large	Private	Public
Org carbon footprint	1	1	1	1	1	1	1	1	1	1
Product life cycle	2	2	2	2	2	2	2	2	2	2
Impact on society	3	3	4	4	4	4	3	3	4	3
Product recycling	4	4	3	3	3	3	4	4	3	4
DK	5	6	5	5		5	5	5	5	5
Other	6	5	6	6		6	6	6	6	6

**Starting with “Why”**

**Understanding the drivers for action**

In the survey, we tested 14 influencing factors which can be broadly organised into 5 key categories as shown on the chart below. There does not appear to be much variation in responses based on type of company, size, and ownership. If we rank them by the order of stated importance from most to least important, leadership, company reputation, government regulations, customers, and shareholders top the list.

Finding Leadership in the number 1 position points to an important shift from “wait and see” position to a more proactive stance by many management teams, regardless of whether it is a push (conviction or anticipating) or pull (customer/partner requests). The contrast between the ranking for leadership and employees as drivers of sustainability could mean that in most companies, employees do not feel empowered enough to demand more action on sustainability and leadership buy-in is important to get a sustainability program started.

Shareholders as influencers of sustainability efforts get middling rating from respondents. This bears

watching. In a recent article in The Economist (Habeas Carbon, April 23, 2022) the role of shareholders to drive change is highlighted and it is likely to grow even more important in the future.

**Defining the benefits:**

As illustrated on Chart 4, future-proofing business topped the list as the most important benefit followed by innovation in sourcing, manufacturing, products, and services. Employee satisfaction / retention, saving money / improving efficiencies appear to have lower pull at this stage. We believe, however, that this hierarchy will evolve as the level of sophistication grows, and as companies learn from successes and challenges of the early movers, and their own experience.

Respondents from public companies list “doing good / doing right” (or possibly being seen to do so) as the most important benefit, also consistent with SME’s community-centered ethos.

In terms of finding the right balance between doing good and doing good business, a significant share of respondents from the large companies feel that they have found the right balance, with just over a

**Chart 3**

		Baseoil Co.	Additive Co.	Lube Co.	Dist.	Packaging	Small	Mid	Large	Private	Public
Leadership	Internal	1	1	1	1	1	1	2	1	1	1
Employees	pressure	12	7	7	6	5	7	7	9	7	8
Financial lenders	Pressure from	8	12	11	13	11	11	13	12	12	13
Rating agency	Financial	7	13	12	14		14	9		13	9
Shareholder	Sector	3	5	4	2	7	4	5	5	5	4
Customer		2	4	3	4	6	3	1	2	3	3
Suppliers	Pressure from	9	9	9	8	10	8	10	11	9	10
Competitors	supply chain	10	10	8	10	8	9	8	7	8	7
Outsourcing Cos		14	14	14	11		13	11	13	14	14
Industry trends		6	6	6	7	3	6	3	6	4	6
obsolesence	Industry	11	8	10	9	9	10	14	8	10	12
associations	enviroment	13	11	13	12	12	12	12	10	11	11
Govt regs		5	3	2	5	2	5	6	3	6	2
Reputation	Other	4	2	5	3	4	2	4	4	2	5

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**Chart 4 Sustainability Benefits**

		Baseoil Co.	Additive Co.	Lube Co.	Dist.	Packaging	Small	Mid	Large	Private	Public
Benefits to planet / future	External reputation	3	3	5	2	7	2	4	2	3	3
Doing good / doing right		4	4	3	3	5	3	3	3	4	1
Corporate reputation		5	5	4	4	1	5	5	5	5	5
Cust pressure / influence		7	8	8	7	6	7	7	8	7	6
Attracting / retaining investors		8	7	7	8		10	8	7	10	7
Employee satisfaction / retention	Internal reputation	9	10	10	9		9	9	9	9	9
Future proofing business	Financial benefits and business continuity	1	1	1	1	2	1	1	1	1	2
Innovation		2	2	2	6	4	4	2	4	2	4
Reducing risk / reg compliance		6	6	6	5	3	6	6	6	6	8
Saving money / efficiencies		10	9	9	10		8		10	8	10

quarter thinking that they can do more. For SMEs, the opinions are still divided – likely requiring further context and segmentation to establish clearer patterns.

**IN CONCLUSION...**

We wanted to offer some food-for-thought by venturing a view on what this data may be telling us, to help industry players and the industry-at-large prepare for the future. Based on these survey findings, we recommend:

- Setting measurable and meaningful goals, with supporting roadmaps of how to achieve those;

- Articulating “Lube Sustainability First Principles” based on shared fundamentals;
- Recognising the fact that sustainability is a capability, which requires dedicated, educated resources;
- Promoting collective action to create sustainability value pools across the lube value chain - to “grow the pie” before it is contested by market players;
- Engaging with leadership teams to catalyse action on sustainability.

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