

# USING VALUE ANALYSIS TO DETERMINE THE PRICE FOR A NEW PRODUCT

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**QUESTION:** *How can I determine the value of my new paint product to develop a pricing structure?*

**ANSWER:**

As a member of the coatings industry, I get my share of questions from neighbors and friends regarding paint. Most typically they are seeking technical advice about trim paint for their house, or my opinion on the best basecoat/clearcoat for their restored Ford Thunderbird. Mixed in with these conversations are comments and questions about the value of the paint.

I will elaborate on the rationale I use with friends when explaining (and sometime defending) the value of paint. It is a simple process I call “identify and quantify” and can be applied to paint as well as raw materials and services

Let me first answer the question this way – regardless of the industry, the only value that matters is that perceived by the customer. Therefore, a first step in determining value is to identify your customer – the person making the final choice to use your paint.

Second, the value of paint may not be (and is often not) related to the cost-of-manufacture or the final selling price. Once you have identified your customer, you need to quantify the paint’s benefits as seen by the customer. Without clear advantages over the incumbent product, the customer will base the value of challenger and incumbent products very simply on price. However, with clear perceived advantages, the customer may go through a logical thought process to determine if the challenger advantage is more valuable and justifies a price premium. Perhaps the best example of this is in the protective coatings market where end-users routinely measure value using scientific exposure tests and economics. Corrosion engineers know the correlation between the corrosion protection a coating can provide and the economic benefit, usually in terms of repaint cycle (time between repaints). Knowing the total cost of a repaint, it is a relatively easy exercise to make an economic comparison between alternative paint systems, thus placing value on each. Table 1 shows a simple hypothetical comparison of two paint systems. Brand A and Brand B have quite different prices and



applied costs, yet a simple analysis of value shows comparable value when the *initial* repaint cycle is considered. But, a more in-depth analysis shows Brand A has substantially more value when *lifetime* costs are considered. With sufficient analysis, it is even possible to break this value down into the individual paint formula ingredients (pigment, resin, additive).

**Table 1-Example of Value in the Protective Coatings Market**

System	Initial Painting		Lifetime			
	Paint price (\$/gal)	Installed Cost (\$/ft2)	Initial Life Expectancy (years)	Cost/year/ft2	Number of paintings (including touch-up)	Total Lifetime Cost (\$/ft2)
Epoxy mastic-Brand A	\$26.00	\$3.10	7	\$0.44	5	\$9.35
Epoxy mastic-Brand B	\$19.00	\$2.22	5	\$0.44	7	\$12.72

The ability to quantify value gets quite complicated in most enduse segments – especially those driven by esthetic values. In these segments, a proxy for value can be a comparison to other alternatives. In the case of interior wall paint, the total applied cost of wallcovering could be used as one measure of esthetic value. Or, the value could be quantified for a benefit such as scrubability. Much like corrosion, scrubability has impact on the repaint cycle for interior walls. A latex system formulated to withstand repeated scrubbing should last longer thus increasing the time between repaints. That increased time can be quantified based on the cost of the repaint.

Our experience shows that with time, value “flows” down the value chain to the customer. Innovations, and the competitive advantages paint companies bring, are quickly matched by all competitors giving customers increasingly greater value at a constant price. This “value flow” is strongest in the most competitive value chains and is a sad artifact of our very mature industry. Value-in-use pricing is very difficult, but there is always hope that creative use of branding, enhanced product performance and totally new features to position paint as a surface modifier can help us to retain more value upstream. Just remember “IQ” – *identify* your customer and then *quantify* the value he perceives and you will be able to determine the value of your product.



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