Adding Value & the Transformation Process

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Benefits of adding value

- Charge a higher price
- Create a point of difference with competitors
- Protection against competitors offering lower prices
- Focuses business on its target market segment

Signs that a start-up is adding value

- **Strong gross profit margins**
  - Gross profit / Total Sales
  - A strong signal
- **Repeat custom**
  - Sign of satisfied customers
  - Suggests customers feel they are getting value for money
- **Brand or name recognition**
  - Important for word-of-mouth recommendation

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Inputs and Outputs

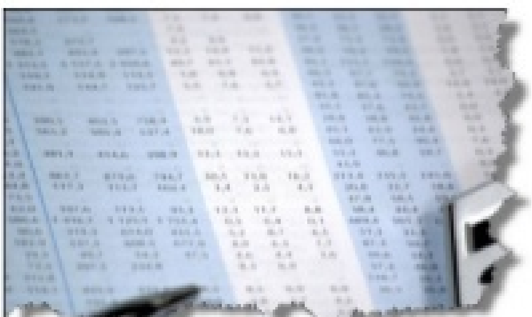
The transformation process describes what happens **inside the business**. This is where **value is added** to inputs to create outputs

Key Inputs

Land

Labour

Capital



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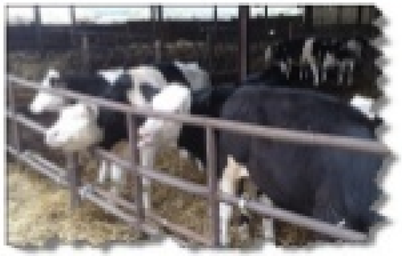
Outputs – the main sectors

Sector	Description	Examples
Primary	Extraction of natural resources	Mining, farming, energy extraction
Secondary	Production of finished goods and components	Manufacturing, food processing, component assembly, raw material processing
Tertiary	Providing services to consumers and businesses	Personal services (e.g. beauticians), retailing, household franchises
Quaternary	Providing information & ICT	Software development, financial services, data processing

Businesses can operate in more than one sector

Many farms in Britain (farming = **primary sector**) also offer holiday accommodation (**tertiary sector**) and produce processed foods such as cheese and ice-cream from farm supplies (**secondary sector**).



What is meant by "adding value"?

Adding value = the difference between the price of the finished product/service and the cost of the inputs involved in making it.

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Example of value added calculation

Sales revenue

1,000 units sold for £20 each

= £20,000 revenue

Costs

To make 1,000 units:

Raw materials - £7,500

Labour - £5,000

Other production costs - £2,500

Total costs = £15,000

Added value

£20,000 less £15,000

= £5,000

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Example of value added

- Tyrrells Potato Chips
  - Will Chase had been farming potatoes for 20 years (loss-making)
  - Wanted to produce something with more added value
  - Came up with idea to make hand-fried chips with distinctive flavours and packaging
  - Successfully created a premium product and turned Tyrrells into a profitable business
- www.tyrrellspotatochips.co.uk

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Ways to add value

- Build a brand
- Deliver excellent customer service
- Add product features and benefits that customers want
- Operate efficiently

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