Production and Adding Value

Adding value is the process of production by which a product becomes of higher value to the purchaser.

Take a pen—how is value created? The simplified adding value process in the making of the pen, is the combination of ink and plastics to make the finished product—the pen. You the customer are of course willing to pay more for the finished product then you would be for the component parts.

As a part made product (work-in-progress) moves through the chain of production, each process applied, will add value, until finally there is a finished product.

Chain of Production

The chain of production is the different stages of production through which a good or service passes before being sold to the buyer. For example a loaf of bread will have stages that include planting of wheat, harvesting, milling, mixing, baking, packaging etc.

The chain of production is a clear way of making products with value added (as long as quality is achieved), but this is on its own often not enough, firms are always looking for methods to increase the worth or value of the product in the eyes of the customer, ie give a higher level of value added.

Firms looking to achieve a higher level of value added through the production process need to create a unique selling point which has resulted from some aspect of the value added chain.

Unique selling point (USP)

By unique selling point, we mean that the product or service has a feature or features that can be used to separate it from the competition. This USP, can be the result of a technological advantage. A good example of this is the Dyson range of vacuum cleaners - Dyson is now the market leader, with vacuums selling at around £180-£250 Before Dyson, with its bag less system, and bright colours came along, the market leader was priced at £90. It is likely that Dyson's profit margins are a great deal higher than those of the previous market leaders. Other examples of products with technological advantage include the iPad, Wii, and the Toyota Prius.

Design Feature

USP can also result from features of the product, i.e, the way the product is made or designed. Examples of design features which help create a Unique Selling Point include, the hole in the Polo mint, the ease of use of the iPod, and the shape of the Coca-Cola bottle.

Both technological advantage and design features that give a product added value, must be protected if the added value is to survive in the long run.. Dyson through the courts, vigorously fights any perceived infringement of his patents. When distinctive design features are copied then large manufacturers react. Two recent examples demonstrate this. Action was taken by Coca-Cola when they saw that Sainsbury's own label cola was using packaging very similar to their own and French Connection UK, took action against Young Conservatives for devaluing their distinctive logo, (FCUK).

The Product Mix.

An alternative way of creating value is by use of the right product mix. By product mix we mean how the product is designed, how its image is portrayed, how it satisfies consumer needs, and the service provided with the product. From this product mix, added value is achieved.

The right product mix can lead to a product or service the customer is willing to pay more for. Tesco has used a product mix that has allowed it to capture a larger market share and increase profitability. We can also include strong international brands as examples of how to effectively use product mix, e.g. Coca-Cola, or Disney, or BMW cars, (these are sometimes called mega-brands.) In all of these cases the image is carefully developed and evolved over time to meet market needs. But if the needs of the customer are misjudged, then the brand falls out of favour - Marks and Spencer's current problems are a result of failing to satisfy customer needs. In this case the market has changed and the firm misjudged or failed to react to this change.

Where Added Value depends upon the right mix of design, function, image and service the firm must be customer orientated. This implies a great deal of effective market research and a management and workforce able to adapt to and react to change.

Notes