Added Value – what does it mean?

The enhancement a company gives its product or service before offering the product to customer.

Economically, added value is the increase in value that a business creates by undertaking the production process.

It is quite easy to think of some examples of how a production process can add value – e.g. taking a raw material and making products out of it – e.g. plastic turned into containers, aluminum turned into cans etc, but imagine a celebrity chef preparing a meal at his luxury restaurant. Once the cooking is complete, the meal is being served and sold for a high price, substantially more than the cost of buying the ingredients. Value has been added.

Businesses can add value by:

- **Building a brand** – a reputation for quality, value etc that customers are prepared to pay for. Nike trainers sell for much more than Hi-tech, even though the production costs per pair are probably pretty similar
- **Delivering excellent service** – high quality, attentive personal service can make the difference between achieving a high price or a medium one
- **Product features and benefits** – for example, additional functionality in different versions of software can enable a software seller to charge higher prices; different models of motor vehicles are designed to achieve the same effect.
- **Offering convenience** – customers will often pay a little more for a product that they can have straightaway, or which saves them time.

A business that successfully adds value should find that it is able to operate profitably. Why? Remember, adding value is where the selling price is greater than the costs of making the product. By definition, a business that is adding substantial value must also be operating profitably.

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