Added Value: Marketing Basics?

Added value is a concept which is commonly used in marketing teaching and practice, yet a student seeking clarification of the concept and term, cannot easily find it by looking it up in the index of marketing textbooks. Of 80 texts surveyed, only 5% defined the term. However 100% of the sample of texts, used the concept of added value.

Several issues emerged from the survey. First, there were variations in the use in marketing textbooks, of the term added value. Second, where the term was used, often it was not defined. Finally, textbooks used the underlying concept (for which there is also some variation) of added value without necessarily using the term.

This paper reviews the various approaches to the concept of added value, and draws together some key themes in the form of a working model. The model developed recognises the accounting origins of the concept of added value, but arguments are developed within a marketing framework.

A key principle of the model developed, is the quantifiable nature of added value. This is viewed as being important, though difficult, where a sales transaction has not taken place. From a marketing perspective, it is recognised that products which have yet to be sold, have potential added value which marketing activity can help to realize.

Introduction

The term added value may be ubiquitous in marketing teaching and practice, yet a student seeking clarification of the concept and term, cannot easily find it by looking it up in the index of marketing textbooks. Appendix 1 outlines research, in which books were surveyed for the use of the term and principles of added value. Twenty-four percent of the texts in the sample (a total of 80 texts) had added value (or a variant of added value) in the index. One-hundred percent used the term or the principles of added value, yet only 5% of the texts provided a definition.

There are several key emergent issues. First, there were variations in the use in marketing textbooks, of the term added value. Second, where the term was used, often it was not defined. Finally, textbooks used the underlying concept (for which there is also some variation) of added value without necessarily using the term.

This paper seeks to clarify the issues for marketers and students of marketing. It is recognised that marketing, as a discipline, sometimes uses and adapts concepts derived from other disciplines. The concept of added value most notably can be found in economics, accounting and marketing literature, and there is a distinct
integration of ideas among the three disciplines. As far as marketing is concerned, the greatest degree of alignment is with the accounting literature.

Although the concept of added value has evolved over time in the marketing literature, to be marketing oriented in interpretation, many texts still use the accounting model as the underlying approach. This paper also takes that approach, as it acknowledges the derivation of the concept, yet allows for a marketing emphasis. Furthermore, as added value is a contemporary concept and term in the accounting function, it would be inappropriate to refer to it without at least citing the accounting basis.

The following briefly explores economics and accounting definitions in order to acknowledge the roots of the concept, and provide underpinning to subsequent ideas. Next the approaches in marketing textbooks are explored, compared and contrasted with each other, and with the accounting/economics approaches. Finally, the paper seeks to produce a working model for added value which mostly draws upon ideas and concepts found in the marketing and accounting literature. The terms added value, and value added are used interchangeably throughout the paper, as they are in many textbooks.

**Accounting and Economics Perspectives**

The definitions of added value in economics and accounting texts are broadly similar. Variations in definitions are usually subtle differences in use of language. Exemplifying the economics approach, Begg, Fischer and Dornbusch (1984), define value added as:

"...the increase in the value of goods as a result of the production process"

Value added is calculated by deducting from the value of the firm's output, the cost of the input goods that were used up in the act of producing that good. The emphasis of the definition is tangible goods, and the quantification of value added to those goods. The definition may be limited in that it does not consider service organizations. Lipsey and Harbury (1988) provide a broader definition of added value as:

"...the output of the firm, minus all the inputs that it buys from other firms. It is thus the amount added to the value of the product in question by the firm's own activities."

The focus of this definition is "output", which may refer to revenue from goods or services. The term "product" may also refer to goods or services, or a combination of the two. This may be a more useful definition to industries where organizations are not solely suppliers of tangible goods. As with the definition from Begg, Fischer and Dornbusch (1984), added value is presented as something which is quantified.

Similar in approach to the economists' view of value added, is the accounting approach, which is typified by Lucey (1985), who defines added value as:

"...the difference between sales income and bought in
goods and services...Value added is the wealth that a
firm creates by its own efforts."

The focus of this definition is sales revenue as evidence of output. The output is
not specifically attributed to either goods or services.

The economics approach and accounting approaches have one main theme in
common. That is, added value is a quantifiable measure. Although some definitions
refer to tangible goods as generators of added value, later definitions tend to refer to
both goods and services, or generalize with the term "output". There is a greater
variety in the use of the term added value in the marketing literature, some of which
is outlined below.

The Marketing Perspectives

Exploring the term Added Value

Among the authors who do define added value there is some variation in the
interpretation of the term. The following seeks to give a flavour of the level of
variation.¹ The definitions are compared and contrasted with each other, and to
those in the accounting and economics literature. A model is developed subse-
quently, which brings together some of the ideas, to provide a context from which to
view the breadth of approaches.

Added value has a long standing pedigree in the marketing literature. Beckman
(1957) cited by Halbert (1965) uses the term "value added" to represent the
difference between the selling price of a good and the costs of its manufacture, e.g.
raw materials, energy use, etc. Value added referred to what was added by the
process of manufacture. It is important to note that the value added concept was
viewed, in the late 1950s as largely restricted to the field of manufacturing. Beckman
sought to build a defence for its use in other areas of the economy, such as
marketing. By focusing on tangible goods, the concept was closely aligned to that
used by accountants and economists.

More recently, Linneman and Stanton (1991), indicate that added value equates to
the selling price of a good less cost of goods sold. Hence, added value includes
expenses, administration, labour and profit. This is similar to the accounting model
and is quantifiable.

Kinnear and Bernhardt (1986) define added value as:

"...the change in the product characteristics from the
time the ingredients enter the organization to the time
the product is sold by the organization..."

Initially this definition looks rather like those in the accounting and economics
literature. However, they adopt a distinctly marketing framework when they add:

"...many companies make their product more conven-
tient to use, thus adding value for the consumer"

¹Some of the authors and works cited do not come from the sample frame in Appendix 1. This is because
the sample frame is post 1990, and it was necessary for the paper to look at texts predating that time.
Added value is translated as a consumer benefit rather than a sum of money. This is important as it expresses added value as something which is offered to the consumer, rather than something which is gained for the organization. de Chernatony and McDonald (1992) approach the subject from a branding perspective. They say:

"The difference between a brand and a commodity can be summed up in the phrase ‘added values’.”

This suggests that there is synonymy between brands and added value. Added value is further explained by the authors in terms of branding when they say:

"A brand is more than just the sum of its component parts. It embodies, for the purchaser or user, additional attributes which, whilst they may be considered to be intangible, are still of real value”

This would seem to suggest that it is the additional intangible attributes that create added value, and effect synergy. There is also the notion of “real value” which implies a monetary value which consumers are willing to pay to gain added values related to brands.

Wolfe (1993) focuses on the theme of premium pricing of brands as a result of added value. Specifically, he refers to brand differentiation as a viable, profitable strategic alternative to becoming the dominant brand in a market. He asserts that:

"...added values can be tangible or intangible and can relate to the core product itself, to essential related services, or to the image attached to the product, the suppliers or its users.”

Of particular significance is the attribution of the added values to both the product core, and surround features. This provides an important difference to the previous definition, where added value is attributed to the intangible features of a product, often referred to as the product surround.

Wolfe (1993) continues:

"the higher the premium that can be charged the narrower the size of the segment needed to generate a given profit requirement.”

This states that profitability can be achieved by adding value to create premium priced brands for niche markets.

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2 A benefit is a perceived or stated relationship between a product feature and the need the feature is designed to satisfy. (McDonald, 1984)

3 Synergy is sometimes known as the 2 + 2 = 5 concept or the whole is greater than the sum of its parts. (Ansoff, 1968) The in-text definition of added value refers to the conversion of raw materials into finished products. There is implied synergy in that the ingredients have changed and grown into something else.

4 Products are viewed as having a core and surround. The core identifies the basic features of the product such as functional performance. This is said to be responsible for about 20% of the impact of a product (in consumer marketing). The surround focuses those features/benefits that are less tangible, and more subjective, such as image. These features are said to be responsible for about 80% of the impact of the product. (de Chernatony, L. and McDonald, M., 1992)
Doyle (1994) also deals with added value in the context of brands. He distinguishes between a product, a brand and a successful brand. He says:

"A product is anything that meets the functional needs of customers"

Both physical products and service products are subsumed within this definition. A brand is defined as:

"... a specific name, symbol, design or, more usually some combination of these, which is used to distinguish a particular seller’s product."

Clearly, not all brands are differentiated for positive reasons. So, successful brands are distinguished by Doyle by their specific characteristics. He considers that in addition to having a product that meets the functional requirements of consumers, it also has added values that meet certain of their psychological needs. He defines successful brands as:

"A successful brand (S) can be seen as a combination of an effective product (P), distinctive identity (D) and added values (AV): S = P × D × AV"

The elements of the equation are inextricably linked. For example, a good product is needed to support an expectation created as a result of, for example media promotion. Media hype may create the initial sale, but without a good product there will be no repeat purchase. It is unclear as to why the relationship between the elements of the equation is represented as multiplicative, rather than S having a functional relationship with P, D, and AV as might be expected.

Doyle also refers to added value as, "the subjective beliefs of consumers". Implicit to the definition is that these beliefs are positive. Clearly this is an important assumption because negative subjective beliefs of consumers, would decrease the perceived value of a good or service. In addition, a barrier to purchase would be created and hence added value would not be realized. The issue of the realization of added value is explored in a paper by Ecroyd and Lyons (1979), the arguments of which are outlined later in this paper.

Summarised below are several (not necessarily totally compatible) emergent themes from the economics, accounting and marketing perspectives:

**Emergent Themes**

(1) Added value is related to the transformation processes (both tangible and intangible) that create saleable finished products.
(2) Added value equates to the transformations between commodity products and brands.
(3) Adding value reflects a process of synergy.
(4) Added value is related to premium pricing.
(5) Added value is related to surround features of a product or brand.
(6) Added value may be related to features which are core or surround.

Although the emergent themes above cover many aspects of added value, they
can be classified into two broad interpretations of added value, as detailed in Appendix 2, and discussed in the following section.

**Exploring the concept of Added Value**

There are many texts which use what have been termed above emergent themes, without using the term added value. In doing so, they may be thought of as using the added value concept.

Levitt (1962), expressed the concept of added value, when talking of the success of a company. He said:

"The thing that really mattered was the whole cluster of non-product benefits with which the company surrounded its generic product."

He further explained that success was due to a "complex bundle of value satisfactions" offered to customers, of which the generic product was only a part.

Important to note is that the generic product is considered to be part of the bundle of satisfactions, even though in this case the emphasis was on non-product features. It can be seen from more recent texts that added value has been interpreted by some authors as those attributes over and above the basic product, rather than the product itself being a value adding input.

Levitt's work has been much used and adapted by marketing authors particularly in the context of added value. Doyle, in his chapter on Branding in *The Marketing Book* (1994), does not use the term added value. However, he does adapt the framework by Levitt (1983) for explaining how successful brands are created, in which added value is an underlying principle.

Levitt's model is of particular interest because it may be used to categorize issues, referred to above as emergent themes. The model has been outlined briefly in Figure 1. for students of marketing. Figure 1. What is a brand? (adapted from Levitt, 1983), essentially shows levels of added value, although it does not use the term. At the core there is a tangible product, i.e. the commodity which meets the basic customer need, e.g. water meeting the basic customer need, thirst. To generate sales in a competitive environment, this tangible core is put in the form of the basic brand, i.e. the tangible product, conveniently packaged where the customer knows the product quality, brand name, features, etc. The augmented brand refers to aspects which are part of the package the customer buys that are over and above the basic brand, e.g. after sales service, credit facilities, delivery and so on. Finally, there is the potential brand, which consists of anything that could conceivably be done in order to build in customer preference and loyalty. It should be noted that earlier reference to core and surround product features seems to be a simplified version of Levitt's model i.e. surround equating to basic, augmented and potential brand, and core equating to the tangible product.

Levitt's model can be used to highlight the dichotomy of thinking amongst marketers. One school of thought is that added value is a function of the product surround and stems from the Basic, Augmented and Potential levels of branding. This approach incorporates emergent themes (2), (3), (4) and (5):
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Figure 1. What is a brand?

(2) Added value equates to the transformations between commodity products and brands.
(3) Adding value reflects a process of synergy.
(4) Added value is related to premium pricing.
(5) Added value is related to surround features of a product or brand.

Another school of thought is that added value is a function of the total 'product' i.e. value is added through all levels, including the core. This approach acknowledges that the proportion of added value attributable to the different levels may change over time. For instance, in mature, competitive markets, where few technological innovations in core product may occur, the emphasis will tend to be on adding value to the surround features. This approach (the approach of this paper\textsuperscript{5}) incorporates emergent themes (1), (3), (4) and (6), which are:

(1) Added value is related to the transformation processes (both tangible and intangible) that create saleable finished products.
(3) Adding value reflects a process of synergy.
(4) Added value is related to premium pricing.
(6) Added value may be related to features which are core or surround.

The following section outlines a working model for added value, which draws upon some of the themes already outlined.

\textsuperscript{5}This was also Levitt's approach — although Levitt (1962) introduced the importance of the surround features, he did so in conjunction with the core product.
Added Value Model

A Working Definition

As stated at the beginning of the paper, marketing as a discipline has tended to use and adapt concepts from other disciplines. In the case of added value, the source of the concept has largely not been recognised. The result is many different interpretations of the concept, some of which conflict. The model developed below recognises the accounting origins of added value, but is interpreted within a marketing framework. Before detailing the principles of the model, it is useful to give a broad working definition.

Added value may be defined as:

"A sum of money which represents the transformation of a product's characteristics as a result of an organization's activities."

Many marketing texts focus upon the factors which effect the transformation of a product. Some authors suggest that factors, such as branding, which help create added value, actually equate to added value. The model below acknowledges that marketing has a crucial role in the creation and realization of added value. However it is suggested that branding, for example, is one of many processes which create added value. The factors which create and help realize added value may be thought of as added value agents.6

The model

The model is essentially the integration of Levitt's model detailed in Figure 1, and the computation in Table 1 (detailed later). The computation emphasises the quantifiable nature of added value, and Levitt's model illustrates the levels at which value may be added to goods and services. The combined model is robust, in that it may provide useful insights into a variety of consumer-oriented offerings.7 The model acknowledges the evolving nature of consumer markets, in that increasingly the emphasis is to add value to the intangible features of products. Ecroyd and Lyons (1979), detailed in Figure 2, help reconcile the accounting and marketing perspectives, by classifying added value in a way which recognises the "worth" of products yet to be sold.

The assumptions of the model developed in this paper are that:

1. added value is quantifiable
2. all goods and services, branded or otherwise have an element of added value
3. although the emphasis of the two disciplines of accounting and marketing is different, the interpretation of added value need not be incompatible
4. added value is associated with the profit motive
5. added value is closely related to the concept of quality

6 An agent is the means by which something has occurred or is achieved.
7 The model is also applicable to industrial marketing but this is not explored in this paper
The principles and assumptions of the model are explored in the remainder of the paper.

**Added Value is Quantifiable**

Norgen (1994), argues that business is really about the creation of wealth for the benefit of stakeholders including customers, employees, the providers of capital, and society in general. This applies not just to industry and commerce, but to all organisations whether public corporations, educational establishments, hospitals, charitable institutions or social clubs. All of them exist to meet the needs of their customers/consumers, employees and investors. All of them are in the business of the creation of wealth.

If the purpose is wealth creation, how should the wealth created be measured? It cannot be expressed in terms of sales turnover because that includes the wealth generated by suppliers. It cannot be measured in terms of profit because that excludes the wealth paid out to employees. The best available measure of wealth created is *added value*. It is far from a perfect measure but it may well be the best available.

One of the limitations of added value is that it is not easily (though not impossibly) applied to (traditionally) non-marketed services such as health and education. Nor is it convenient for non-monetary transactions such as voluntary work. However, the same limitations apply to sales and profit. At least added value can be applied to non-profit seeking bodies, as well as profit seeking ones. As the working definition points out, although the factors which create added value may be non-monetary, added value itself is a monetary measure.

The calculation of added value is shown in Table 1. The computation is an accounting model, the rules of which are well established, and briefly explained. It is not possible to give great detail on the calculation of added value without making this an accounting paper.

At first sight, added value can be measured very easily in terms of the difference between sales and purchases. However, there are many complicating factors. The following provides a brief discussion on some of the issues, focusing on those which are most applicable to the marketing function.

*Revenue* is probably one of the more straightforward aspects of the added value calculation. In many firms there is no difficulty in the assessment of revenue. The matter becomes more difficult where firms receive royalties on patents, dividends

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from associated companies, income from investment, rent from lease of buildings and other miscellaneous items. In practice these are often small in relation to sales derived from the main trading activities of the firm. The important issue is that when added value is to be computed year on year the method of calculation should be consistent.

Another issue in calculating added value is that of deciding exactly which purchases should be \textit{subtracted} from sales. In accounting, there is no doubt that the cost of raw materials, bought-in components, packaging materials and items which form part of the finished product must be deducted, after stock change adjustment. More controversial is the purchase of services. The costs of transport, whether for raw materials in, or finished goods out should be deducted. However, if the company operates its own transport fleet, only the costs of fuel and spare parts should be deducted. Other costs of transport, for example wages come out of the added value of the whole enterprise.

The costs of bought-in advertising are also deducted from sales to calculate added value. If the company has an in-house advertising department, then only consumed items, e.g. display stand costs, are deducted. Marketers may feel that it is counter-intuitive to deduct from added value, advertising which, as part of promotional strategy, has been used to brand build. Yet, the costs of bought-in advertising can, and should be deducted from sales in the calculation of added value. Bought-in advertising appears as an expense in the profit and loss account, and as such it is the accounting convention to deduct it from revenue when calculating added value. However, the impact of advertising is \textit{reflected} in added value.

The impact (successful or otherwise) of promotion may be reflected in total sales revenue, created through volume sales, or premium pricing. It is also important to remember that \textit{profit}, which also may be affected by promotional strategy, is considered to be \textit{part} of added value. Wood (1979), pointed out that:

"You cannot make a profit without generating added value but you can create added value without generating a profit"

All aspects of brand strategy (of which promotion is merely a part) are key to the creation of added value. The brand strategies adopted will affect the demand for a product. The effectiveness of brand strategy is measured in terms of revenue and profit in the calculation of added value. The territory only becomes difficult when it is attempted to tie a specific figure to the impact of branding. Then the territory is that of brand equity,\footnote{Brand equity is the value on the balance sheet attributed to intangible assets known as brands. N.B. Marketers may consider brands to have a value irrespective of balance sheet inclusion.} which is fraught with complications.

There has been considerable debate around brand equity, but no universally accepted method of valuing brands has been found. In addition, there are conflicts as to whether or not a brand should be assigned a value at all. Wood (1995) when commenting on brands, suggested that their value may only really be determined once buyers are identified, and even then their value may be specific to a point in time. The accounting debate suggested that it is inappropriate to value brands for the purpose of capitalisation in the balance sheet (as has been the practice of companies such as Grand Metropolitan plc). The marketing debate has largely centred on \textit{how} to value a brand, not \textit{whether} a brand should be valued. The issues...
surrounding brands and their value, are simple in the context of added value. When added value is calculated brands are not given a specific figure separate from revenue and profit. Although brand equity is an important area and affects the creation of added value, it does not impact on the calculation of added value. It is, therefore a separate discussion which is covered in a paper by Wood (1995).

In accounting there is an interesting area of parallel between added value and brand equity, in that neither is recognised until a sales transaction has taken place. This is discussed below.

**The Recognition of Unrealized Added Value**

Traditionally, added value (and similar may be true of brand equity) is considered to be measurable only when a sales transaction has taken place. Ecroyd and Lyons (1979) pointed out the flaw in the traditional accounting view of added value. They said:

"It is that the accountant does not recognise added value until there is revenue, i.e. until a sale is made. Yet work in progress, and finished goods have intuitively a different, and hopefully uplifted value from their direct materials cost (cost of goods sold)."

For example, a gateau on a restaurant sweet trolley, if fresh is intuitively worth more than its ingredients cost. However, if stale the gateau is likely to be worth less!

Ecroyd and Lyons (1979) go on to consider how the added value approach may be extended to unrealized stocks. The answer chosen was to recognise the unrealized stocks as having an element of added value, but one that was qualitatively different from the established view. They used terminology from the physical sciences to develop the concepts of potential and kinetic added value. They explained,

"Kinetic added value corresponds to the extant accounts view of realized added value, whilst potential added value is that of unrealized stocks. The goal of marketing therefore becomes expressible as a transformation function."

Ecroyd and Lyons model is shown below in Figure 2:

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    POTENTIAL
  ADDED VALUE ----> KINETIC
                    ADDED VALUE
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*In accounting, brand equity is a balance sheet issue, and added value relates to the profit and loss account.*
This can be abbreviated to:

\[ V^A_P \rightarrow V^A_K \]

The transformation process is brought about by marketing. In the long run, the objective of the business is likely to be the maximization of both potential and kinetic (realized) added value. This may be achieved through the management of a set of inter-connecting portfolios; the portfolios of products (need satisfiers) targeted to a portfolio of specific markets, using the portfolio of available tools, namely the marketing mix, i.e. the marketing mix is used to maximise the potential added value of products (often by emphasising intangible attributes). By understanding what consumers really want, marketers can help realize added value for the firm.

The long-term implication of this simple modelling exercise is that it brings together the accounting and marketing approaches, facilitating the application of contemporary techniques, such as current cost accounting.

**Characteristics of Goods and Services with Added Value**

*All products have a level of Added Value*

This paper has suggested that branding does not equate to added value, but is an added value agent. It follows therefore that a product may have a level of added value irrespective of branding. In their most basic form, potatoes may be sold by retailers, loose and dirty. Although the level of added value is low, it still exists. At the very least the potato had to be sown, grown, harvested and distributed (reflected as expenses) to a place of convenience to the consumer. The goods will be sold to the retailer at a price over and above the cost of seeds, fertiliser and other materials used. The retailer will include a profit margin, (itself an added value input) in addition to that of the grower or intermediary. The retailer buys goods, stores them, displays them and sells them to the consumer at a convenient location, thus adding value. The value added to even the most basic of goods can be seen to increase through the chain of distribution.

Further value can be added to the potato. It can be cleaned, graded for size and quality, weighed and bagged. Again, there are expenses that can be associated with these 'processes', but it is *customer satisfaction* that is measured by added value, not the costs of manufacturing or supplying a product, i.e. the customer has made the decision to buy the product based on its utility to them. The added value agents (in this case cleaning, grading, bagging etc.) not only increase the level of *potential* added value, but also help to transform it to *kinetic* added value, i.e. realized added value. The retailer could further add value to the potatoes by branding with their name. Branding may also be related to the potato variety some of which are particularly prized, e.g. Jersey Royals.

*Added Value is Associated with both the Product Core and Surround*

Levitt's model (Figure 1) represents the levels at which value may be added to goods
and services. Although it is acknowledged that increasingly added value agents are associated with the product surround, the product core is also important. For example, there can be little doubt that when consumers purchase Rolex watches they are paying for the prestige associated with the brand, which is reflected in the premium price. However, the consumer probably will have certain expectations which must be fulfilled as they are paying such a high price. The core product itself must be of a high quality. A Rolex watch has to do more than tell the time. It must tell the time, without losing or gaining time, consistently, day after day, possibly even for a lifetime! The brand image is itself partly a function of the core product, i.e. the intangible is linked to the tangible. The added value related to the surround, such as that associated with premium pricing of prestige goods, has to be sustained by the core product. It is the rather elusive notion of quality which seems to unite the core product and the surround, with quality, branding and added value being inextricably linked.

Quality as a concept is difficult to define. As is shown in the example above, quality may be related to the core product and/or to the product surround. In addition, quality positioning of products, is related to brand positioning and establishing brand identity. Furthermore, quality may be thought of as another added value agent. Clearly, therefore, quality is an important concept in its varying facets, and worthy of exploration.

Quality in the Context of Added Value

As mentioned, quality is important with regard to added value. It is a concept which unites the product core and surround, and may be used to explain the relationship between the two. Some definitions below\textsuperscript{10} explore key factors of quality where they can be related to added value.

Kraft (1981) defines quality as:

"...a multicomponent measure of the extent to which the units of a product, which a seller is willing and able to offer at a price, consistently meet the requirements and expectations of the group of buyers willing and able to buy that product at that price"

Here quality is defined by, and contingent upon the needs and wants of customers. That is, quality is established as a relative measure. It is not that products either have quality or do not have quality, but that products may be located along the quality continuum. Where a product is positioned is partly related to the customer perspective. It is the challenge for marketers to establish the customer perspective of the quality positioning of products, as this in part determines the level of added value achievable.

Also highlighted by the definition as the idea that quality is the act of being consistent. Many brand personalities use this as their central proposition. For example, conforming to a standard is a major factor in the brand identity of the McDonald's fast food chain. Whatever else the brand may signify, the customer knows what to expect when they enter a McDonald's outlet. Within an outlet, the

\textsuperscript{10}The definitions are from a variety of disciplines, but nonetheless provide useful insights.
product(s) must conform to a standard, time and again. In addition, there must be a level of uniformity between outlets within, and between regional locations. Everything from the livery and layout of the outlets, to the formulation of the food products must have a standard against which to be gauged. In this context, quality may be viewed as an *absolute* measure. That is, a standard has either been met, or not (within tolerance levels typically), and therefore quality either achieved or not. This aspect of quality is important in determining the degree of repeat purchase, and hence the level of added value.

Clearly, individual customers will have their own views on what constitutes a quality product. This may well be influenced by promotional activity on the part of a company. However, it is important that the *relative* view of quality is supported by some more tangible measure of quality. The successful branding of a commodity such as water, may be viewed as somewhat of a marketing triumph. Few would argue that the major basis for the success has been due to the positive subjective beliefs of consumers. For some customers branded water may offer them an image for which it is worth paying. Although in this example, the core product itself may have little to do with the image of the brand, it still has a role to play. Consumers still expect that the core product meets a consistent, absolute level of "quality". The image of the brand is the major added value agent, which not only increases the level of potential added value, but also makes it realizable. After all the core product is fundamentally similar to water from the tap. Nonetheless, the core product itself has added value agents, i.e. it has been "harvested", processed and distributed to a point of consumption, and a profit margin included in the price.

Blanchfield (1981) defines quality as:

"...a peculiar and essential character of the product. It has distinctive properties or characteristics, it is a degree of excellence, it is fitness for use".

*Fitness for use* may be one extreme of the quality continuum, i.e. the most basic level a customer can expect. *Excellence* may be the other extreme of the continuum, i.e. a higher level of expectation. Although a product may have fitness for use without excellence, it is unlikely to have excellence without fitness for use. It might be expected that the higher the level of excellence the higher the level of added value. The location of products/services on the quality continuum is important, as this in part defines the brand identity, the nature of added nature agents available to the customer, and the added value realized by the company.

Bauman and Taubert (1984) focus the excellence extreme of the continuum, when they define quality as:

"Quality is that extra component that distinguishes a product in its field."

Increasingly, in mature markets the focus is shifting from the core product to less tangible factors such image, and surround services to differentiate products. However, the core product itself may be of a higher quality. Marks and Spencer's food products are generally perceived to fit into this category. That is, they do not just set standards for their products, but *high* standards which must be adhered to. Furthermore, these standards may be expected to be consistently maintained. As Greenlees (1984) puts it "Quality is *conformance* to standards..."
To summarize the quality issues related to added value:

1. added value is generally higher toward the excellence extreme of the quality continuum.
2. added value is generally higher the greater the relative/subjective aspects of quality rather than emphasis on absolutes.
3. aspects of quality, related to the product core and/or surround may increase both potential and kinetic/realized added value.

Conclusions

The working definition provided by this paper crystallizes some of the key issues surrounding added value. Added value was given the working definition:

A sum of money which represents the transformation of a product's characteristics as a result of an organization's activities.

The definition brings together the (sometimes divergent) themes outlined in both the accounting and marketing literature.

There is slight variation in the wording of accounting definitions of added value, but they tend to emphasize its quantifiable nature. The working definition also emphasizes the quantifiable nature of added value by defining it as "a sum of money...". The marketing literature tended not to define the term added value, but the concept was widely used. Some marketing literature was closely aligned to the accounting approach. However, many marketing texts focused upon the factors which create added value, often without defining the term itself. This paper referred to the factors which create and help realize added value, as added value agents. Much marketing activity is based around managing added value agents, the efforts of which are represented by added value itself. This is also recognised by the working definition.

Having acknowledged that added value is quantifiable, it is also acknowledged that added value is difficult to quantify where a sales transaction has not taken place. From a marketing perspective, it is recognised that products which have yet to be sold have potential added value which marketing activity can help to realize. Although added value can be attributed to products and services, both core and surround, increasingly added value agents, such as brand image, are derived from the less tangible aspects. Added value tends to be greater when emphasis is placed on the less tangible, more subjective aspects of products and services.

Added value agents are many and various, but branding is of major importance, and gets significant coverage in the marketing literature. Closely related to the concept of branding, is the concept of quality. The concept of quality has many facets, and only those directly related to added value have been covered in this paper. One significant aspect of quality is that it unites the product core and surround, and may be used to explain the relationship between the two. Furthermore, quality may be viewed as an added value agent in its own right.

Added value is important in developing marketing strategies. In addition it is recognised as a sound basis for measuring the performance of a company. It offers a powerful tool of communication in explaining what a business is about, and for
presenting accounting information. The term added value has a clear basis in accounting. The rules, or conventions for the calculation of added value are well established, and may seem illogical, alien or not applicable to the marketer. However, if the term is to be used by marketers the accounting perspective of added value should be acknowledged. It is not absolutely necessary for the marketer to have an intimate knowledge of the accounting conventions surrounding the concept, but a broad appreciation is important. If marketers are not willing to recognise the accounting origins of the concept of added value then an alternative term should be considered.

References


Greenlees, J. (1984), "Quality is the biggest profit maker we have", Hospitality, July–August 1984, pp.16–17.


Appendix 1. Analysis of Literature

Aim
The aim was to identify marketing books that used the term added value, and books that defined the term added value.

The literature survey was primarily concerned with attaining a definition for the term added value. It is not an evaluation of the texts included in the sample frame. The paper that resulted from this survey, evolved as a result of the level of variation of uses of the term added value. The paper aims to outline the various interpretations of added value, and to provide a context from which to view them.

Rationale
The concept of added value is used widely in marketing. In particular the concept is often related to branding in marketing textbooks. As the author is undertaking research in the area of branding, it was logical step to focus on added value.

On initial viewing of marketing textbooks, it became clear that although many books used the term added value, very few seemed to define it. Some texts used the concept of added value but not the term.
Methodology The sample frame for the investigation was texts which had been published (including revised editions) post 1990, held in a large university library. The sample was selected in this way because it would include texts which would be included on student reading lists. Therefore, the sample would include some of the key texts to which students would refer when looking for clarification of marketing terms and concepts.

A computer search using the search key term marketing listed publications post 1990, which included textbooks, journal papers, etc. Everything other than textbooks was eliminated from the investigation. The majority of the texts surveyed were British and European (this reflects the bias of the library), which may have influenced the findings.

Texts which had not been published as revised editions post 1990 were not included in the sample. This would account for some well-known marketing authors not being included in the sample.

The sample includes a variety of texts from introductory, undergraduate marketing texts, to advanced, masters level texts. There are generic marketing texts, as well as texts which focus an aspect of marketing such as branding.
The search was focused as follows:

(1) the index was checked for the terms *added value* and *value added*
(2) if either of the terms indicated in (1) were found, the pages referenced were
    checked for a definition of the term.
(3) if *added value*, or *value added*, were not found in the index, the sections on
    brands/branding and pricing were checked for the use of the term added value.
    These were chosen as it was expected that they would be likely to cover aspects
    of added value.

Texts were categorized according to the following:

(1) contained an *index* reference for the terms *added value* or *value added*
(2) contained a definition (a concise statement of the meaning) of the term(s)
(3) contained a *description* (not a definition, but sufficient explanation given which
    showed how the term was being used) of the term(s)
(4) did not use, or mention added value

It should be noted that it was subjective as to which of the categories (1)—(4) a text
was placed. The main focus was the *definition* of the term added value. Finally, if the
term had been used elsewhere in the text it would not have been noted.

**Results**

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No./% that indexed added value or value added$^{11}$

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No./% that defined added value$^{12}$

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No./% that described added value$^{13}$

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**Sample**


$^{11}$There was some variation in indexing. All variations included in the figures including such terms as
    *added value services*, *added value resellers* etc.
$^{12}$Also some variation in interpretation of the term(s). See paper.
$^{13}$Some texts used the term added value and *described* it, but did not define it.
    Some texts used the *concept* or principle of added value, but did not use the term.

**Appendix 2. A Classification of Added Value**

1. \(AV = f(\text{Surround})\) Added value is a function of the surround features of a product.
   The main themes of this approach are:
   (1) Added value equates to the transformation between commodity products and brands
   (2) Adding value reflects a process of synergy
   (3) Added value is related to premium pricing
   (4) Added value is related to surround features of a product or brand

2. \(AV = f(\text{Core} + \text{Surround})\) Added Value is a function of the total "product" both core and surround features.
   The main themes to this approach are:
   (1) Added value is related to the transformation processes(both tangible and intangible) that create saleable finished products
   (2) Adding value reflects a process of synergy
   (3) Added value is related to premium pricing
   (4) Added value may be related to features which are core or surround.