

1. Adding value

1. Missing words

Adding value allows businesses to increase the _____ consumers are willing to pay for a good or service. It can be created by high levels of product design and quality, greater convenience, or a highly _____ brand. Value added is measured by the difference between a product's sales price and the _____ of bought-in materials. If a customer is happy to pay £3 for a cup of coffee whose ingredients only cost a few pence, the value added is very high indeed. Any business attempting to sell products that have little or no added value is unlikely to make any profit.

Hint: words from – cost, differentiated, price

2. Adding value Choose two ways to add value to each business (draw lines to show your choice):

Business	Method of adding value
2.1 Dry cleaning business	a) Express, one-hour service b) Personal consultations and advice
2.2 Exclusive hairdressers	c) Wide choice of organic products
2.3 Health food supermarket	d) Prime location in a trendy part of the city e) Home delivery f) An in-store café

3. Adding value – Data Response: Tangg is a chain of smoothie bars with a number of outlets in south-west England. Drinks are produced fresh in-store in response to customer orders. On average, each 250 ml smoothie contains 10p of bought-in fruit and vegetables. The drinks are sold in recyclable cups, which the business buys from a supplier at a cost of £2.00 per hundred. The drinks are sold to customers for £3.50 each. The business has estimated its sales volume to be around 1 million in 2009. Answer the following questions:

3.1 What is the value added by each smoothie produced and sold?

3.2 What is the estimated total value added for the business in 2009?

3.3 Outline one way in which Tangg could add further value to the business, allowing it to push the price up by 50p.

4. Adding value – multiple choice questions

4.1 Which three of the following statements about added value are true?

- a) Added value is always equal to the level of profit made by a firm
- b) Whether a product's feature adds value or not depends on what the customer thinks
- c) The Ryanair brand adds value because it tells consumers that flight costs are always low.
- d) A product's added value is equal to the difference between its sales price and the cost of the bought-in materials used to produce it.
- e) For a product to be successful, it should generate enough added value to cover a firm's internal costs and generate a profit
- f) Manufactured goods add value but services do not.

4.2 Which two of the following are not examples of a sports goods manufacturer adding value to a brand of trainers?

- a) Improving design to increase comfort
- b) Offer an on-line service where customers can personalize designs
- c) Switching to using cheaper materials so that the shoes do not last as long
- d) Reducing the number of styles chosen and concentrate on producing those with the highest sales
- e) Creating an innovative feature that tones muscles when they are worn

1. ANSWERS – Adding value

1. price ... unique ... differentiated ... cost ... internal ... investment

2.1. a) and e)

2.2 b) and d)

2.3 c) and f)

3.1 £3.38

3.2 £3,380,000

3.3 Tailor-make the smoothies to individuals' tastes – that'll keep them returning.

4.1 b) d) e)

4.2 c) d)

Franchise Classroom Exercise

In this exercise, the subject focus is franchising; the classroom scenario should be interactive and lively; the skills focus is on the ability to build an argument to support a decision.

The Idea:

- Organise your students into groups (of around 4). Copy sheets 2 & 3 back to back.
- Give your students sheet 2. below which has details on 3 franchises. You ask different students to compare different ones, e.g

Group 1: A and B

Group 2: A and C

Group 3: B and C ...

... and again

This will ensure that, at the feedback stage, everyone knows at least one of the businesses.

- Each group must look at the Pros and Cons of each of the two franchise offers they're looking at. Then must make a judgement (backed by logic) as to which they think would be the better bet
- When each group feeds back, get your other students to judge the presenters on one basis only – how well have they justified the argument they put forward? See sheet 3.
- You might bother to run off 1 set of numbers (0-6) for each group, so that they've got something to hold up (but only if photocopying isn't charged to your budget!)

Fancy a franchise?

Discuss the strengths and weaknesses of each of the two franchises you're asked to look at. Decide which you'd prefer and why.

Franchise A. Totally Dynamic.

To make an impact, more and more businesses are advertising by car or taxi wraparounds. Natwest does it; so does Cadbury's to promote its Cadbury World attraction. But who wraps the image around the car? Totally Dynamic.

For an initial fee of £12,000 you'll have sole rights to supply wraparound advertising using the Totally Dynamic method. Your initial fee entitles you to a full training course to learn exactly how to do it.

This is a fantastic opportunity for an enthusiastic, hard-working entrepreneur.

Franchise B. Burger King.

This global business can offer a limited number of franchises to talented businesspeople. All are located in new or re-built premises such as motorway service stations, shopping centres or railway stations.

Burger King franchise holders benefit from regular, nationwide TV advertising and an outstanding programme of product innovation backed by promotions. Initial investment outlays would always be in excess of £100,000. We can arrange bank finance for 60% of the total outlay. The annual franchise fee is 3% of sales revenue and the marketing contribution is 5% of revenue.

Franchise C. A1 Window Cleaners

Need a business opportunity that will quickly pay its way? A1 Window Cleaners is Britain's most important window cleaning franchise. It takes months to build up your own round. Our database of keen customers plus our telesales staff ensure that you can start a window cleaning round with a full order book. That means a good income from week 1.

The initial franchise fee of £20,000 includes 12 months of telesales customer recruitment.

Score Card

Use this to score the presentations done by others.

Mark	Reasons
6	A decision is backed by a carefully considered justification covering the strengths and weaknesses of both franchises. The argument is fluent, convincing and makes full use of the information
5	A decision is backed by a well considered justification, covering the strengths and weaknesses of the franchises. The argument is fluent, but has occasional weaknesses that stop it being totally convincing.
4	The strengths and weaknesses of both franchises are looked into with thoroughness and a decision is made and explained. But it may not be quite clear how the decision emerged from the evidence.
3	The strengths and weaknesses of one of the franchises is impressive, though the second franchise was dealt with quite weakly; the decision is explained, but undermined by the patchy argument
2	Quite good coverage of both franchises, but without any clear decision over which franchise is preferred
1	Quite good coverage of one of the franchises, with no attempt to decide which is the preferred choice
0	No real understanding of either franchise.

Compare these two Franchise Businesses - Which would you go for?

Petpals (UK) Ltd*	Charisnack*
<p>Petpals started in 1998 and began its franchise operation three years later. It is the UK's first, original and leading mobile professional pet care services company.</p> <p>With over 40 franchises now established across the UK, Petpals boasts a 100 per cent growth record for franchisees after two years of operation. Petpals offers owners a wide range of services, such as at home pet visits, dog walking and "pet sitting".</p> <p>With 18 million pets in the UK, Petpals benefits from the increasing demand for pet services for owners on holiday or who work long hours.</p> <p>Financial Details</p> <p>The company promises to not collect any royalty payments in the first three months of trading, and offers discounts on a wide range of equipment.</p> <p>Petpals has also reached an agreement with several high street banks in order for franchisees to raise finance for their businesses.</p> <p>What Investment payment will be required to establish a single area operation?</p> <p>Typically, from:</p> <ul style="list-style-type: none"> • £12,500 + VAT investment payment to Petpals; this is inclusive of everything you need to launch. • Other costs for consideration are the purchase or lease and fitting of a Petpals pet friendly vehicle and additionally a home office setup. You should budget around £5000 + VAT for these. • The total investment is typically under £20,000. You should also allow enough cash to last you while establishing your franchise in Year 1. 	<p>Our franchisees provide delicious snacks, which retail at just £1 each, from attractive, self-service display boxes, to people at their place of work.</p> <p>The ChariSnack range offers healthy snack options including fruits, nuts, seeds and mixes such as Caribbean Mix, Jungle Mix and Bombay Mix. The snacks are sold in well-branded, attractive packets that allow customers to see what they are buying.</p> <p>Our franchisees, working from distinctive ChariSnack branded vehicles, collect the takings and restock the boxes at regular intervals. Every size and type of business or organization is a potential customer.</p> <p>Financial Details</p> <p>The ChariSnack package is designed to enable you to achieve a long-term, profitable business in this much needed service industry. At just £17,995 + Vat (reclaimable), the franchise package comprises:</p> <ul style="list-style-type: none"> • 8,000 packets of snacks to launch your business. • Licence to trade using the ChariSnack brand name. • Sole rights to an protected trading area. • Comprehensive training and on-going support. • The ChariSnack business start-up package inc. stationery and marketing materials. • Your initial 150 customers sited and stocked by ChariSnack. <p>ChariSnack does not charge royalties, only a small, weekly management service fee. Should financial assistance be required we can put you in touch with our bankers who are prepared to consider a business loan of up to 70% of the overall funding required.</p>

*Source: adapted from www.startups.co.uk

Discussion Points

1. Build the strongest argument you can for either Petpals or Charisnack.
2. Decide which three extra questions you would want to ask the franchise owner before risking your own money.
3. On a scale of 1 to 10, with 10 being extremely risky, how risky do you think it would be to start up the franchise business you have been focusing on? Explain why you say that.