

WHAT IS THE REAL VALUE OF DESIGN?

Jeanne Rae



WHAT IS THE REAL VALUE OF DESIGN?

An exploration into why companies that lead with design outperform the market.

by **JENNEANNE RAE**

*This article has been modified from its original publication in **DMI:Review**, 24:4, February 2014*

Skeptics always want to know why they should invest in design.

Even today, when the business landscape is teeming with success stories that celebrate design as a powerful strategic tool, the answer to this question is not well understood by the average businessperson—and understandably so. After all, design is notoriously difficult to define, tough to measure, hard to isolate as a function, and tricky to manage, making it challenging for many non-designers to comprehend.

Over the years, many organizations have attempted to tackle this issue, eager to make a hard case that will make design-unconscious managers take notice. In 2005, the UK's Design Council discovered that every £1 spent on design led to more than £20 in increased revenue, £4 in increased profit and £5 in increased exports.¹ An even earlier study, by Julie Hertenstein and Marjorie Platt, examined 51 firms in four industries, using 12 different measures of financial performance across five years, and concluded that firms rated as having good design were stronger on virtually all measures.²

Several years ago, Motiv Strategies began conducting studies on companies that were consciously using design as an integral part of their business strategy. While tracking the

financial performance of these design-centric companies, we found they outperformed the S&P 500 by a significant margin.³ It quickly became clear that there is a correlation between investing in design and extraordinary stock performance.

Seeing this work, DMI president Michael Westcott asked us to revisit the creation of an index that could be used to track how design-centric companies perform relative to the S&P 500 over time. Partnering with DMI on this effort, we devised a portfolio of 15 publicly traded US companies that made the cut for inclusion: Apple, Coca-Cola, Ford, Herman-Miller, IBM, Intuit, Newell-Rubbermaid, Nike, Procter & Gamble, Starbucks, Starwood, Steelcase, Target, Walt Disney, and Whirlpool. The results supported our previous findings. While the S&P grew 75 percent from 2003 to 2013, our Design Value Index grew an astonishing 299 percent.

The fact remains that although these results show a powerful return on investing in design, the index does little to explain the *how* of this phenomenon. This article seeks to explain the various ways design can add significant value to large and small enterprises alike.

DESIGN-DRIVEN VALUE

The diverse companies comprising the DMI Design Value Index all understand the power of design, how to use it as a tool, and how to scale it in a way that will drive success for their

© 2014 The Design Management Institute.

*This is the author's version of the work. It is posted here by permission of the Design Management Institute for personal use, not for redistribution. The definitive version was published in *Design Management Review*, 24:4, dmi.org/review*

Figure 1

Design Value Index Selection Criteria

What constitutes good design can be viewed as highly subjective; therefore, the selection criteria developed for inclusion in our index focus on the following:

1 Publicly traded in the U.S. for 10+ years

Only public companies were eligible for selection to ensure access to financial data surrounding share prices and stock performance. The 10-year timeframe was used to select for companies that have maintained a consistent, long-term focus on design.

2 Scale of design organization and deployment is an integrated function and organizational catalyst for change

The strategic use of design is employed in the organization, both within business units and as a centrally managed function with a high degree of influence with its senior leadership team. The use of design can have outsized influences on a company's bottom line that multiply as it is assimilated into the organization and its culture.

3 Growth in design-related investments and influence have increased over time

Design has been well resourced through talent acquisition, appropriate facilities, competitive technologies, and the application of design research as a tool, among other investments. Design cannot be expected to thrive when proper resourcing is neglected.

4 Design is embedded within the organizational structure

It is well understood where and how design fits within the organization. While there are several precedents set for successful operating models that can be used, the common theme is that design is clearly built into the structure and processes of the organization (org charts, process maps, RACI charts, and so forth).

5 Design leadership is present at senior and divisional levels

Design is given a seat at the table with an experienced executive or executive-level head of design who can interface with senior leadership. Typically, this head of design has 15 to 20 years of experience managing design-related functions (strategy, organizational development, budgets, talent management, and so forth) that drive the company forward with design goals.

6 There is a senior-level commitment to design's use as an innovation resource and integrative force for positive change

A corporation's commitment to design shows up in many ways, including the level of interaction the design executives and function have with other parts of the organization, how the CEO and other leadership team members represent the importance of design in their day-to-day work and public relations efforts, and the extent to which the organization participates in and wins design awards, sponsors contests, fosters university affiliations, and other design-related activities such as encouraging its designers to speak publicly about their work, etc.

The Design Value Index is value-weighted according to market capitalization data from the close of business on the last trading day of June and December in the years 2003 through 2013.

businesses. So what is the value that broad deployment of design principles and methods brings to these companies? The following are eight ways in which design is helping these companies win big.

1. THE WOW FACTOR

Great design helps make products and services more aesthetically pleasing, more compelling to use, and more relevant in a world that seems to change at an ever-increasing pace. This is one reason the world is currently in love with Tesla Motors, which has given us drop-dead gorgeous cars that help save the planet and get 200 miles on one charge. Or think about how much of the public has been completely enamored with Apple products over the last decade.

The wow factor can also draw consumers into supporting certain companies over time. In the 1990s, for example, discount retailer Target faced increasing competition from similar stores such as Wal-Mart and K-Mart and realized it faced three options: "to specialize, to become the low-cost producer, or to differentiate," remembers Gerald Storch, Target's vice chairman at the time. The first choice would have crippled future growth; the second was already a battleground. So, the company decided to go with the third: differentiate through design.

That decision led to Target's domination of the mass merchandising market as *Tar-zhay*, the mass purveyor of stylish yet affordable goods. It didn't miss the mark—thanks to its design ethos, which can be found in everything from

its product offerings to its store layouts to its commitment to innovation. Indeed, companies like Apple and Target have raised the bar so high in their use of design that the public is more aware than ever of what good design looks like and what design-led companies are capable of producing. There is no doubt that this factor is showing up in company growth trajectories, as well as in their stock market results.

2. BRAND EXPRESSION

People today want to connect with brands as extensions of themselves. We see them, hear them, and interact with them in more ways than ever before. Some of the most valuable work designers can perform lies in the interpretation of a company's brand elements and how customers connect with them.

"Connecting used to be, 'Here's some product, and here's some advertising. We hope you like it,'" says Nike CEO Mark Parker. "Connecting today is a dialogue." And Nike has put its money where its mouth is. Its spending on TV and print advertising has dropped about 40 percent in the past three years at the same time that its sales have increased to more than \$25 billion—more than 30 percent greater than closest rival Adidas. How? Nike is going straight to where the customer is—the digital world.

Nike has carefully crafted a multichannel digital presence that not only fosters open communication with customers, but also encourages those customers to connect with each other. In 2010, the company launched Nike Digital Sport, a new division in charge of developing devices and technologies that help users track their personal statistics in whatever sport they pursue. By deepening relationships with (and among) its customers, Nike enables customers to amplify its signature "*just do it*" attitude. The result? Before, Nike could count its biggest brand audience as the 200 million people who tune in to the Super Bowl. Now, across all its sites and social media communities, it can match that figure any day.⁴ Nike continues to communicate the aspirational, active, can-do spirit that its customers crave across its product lines, and promotes it with platforms designed to amplify that energy.

3. SOLVING UNMET USER NEEDS

Design research emphasizes the use of empathy, an instrument for encountering the world as others might. The importance of this tool cannot be overstated. After all, no matter whether one designs products, services, or processes, consciously keeping the end users in mind helps to reveal inspiration for category-killing products, as well as lower the risk of failure.

Further, being the first to find and develop solutions to latent needs, which one can uncover by studying what people do, think, and feel, provides the opportunity for first-mover advantage, provided the company can commercialize and scale the insight uncovered.

In 2007, Intuit founder Scott Cook decided that his company wasn't innovating fast enough. He kicked off Design for Delight, a design thinking-based internal program intended to help Intuit development teams better understand customers' frustrations and desires so that Intuit could design solutions to meet them. This deep customer understanding eventually led to the development of SnapTax, a mobile app that allows users to complete their taxes in 10 minutes or less. Within three weeks of its launch, the app saw more than 350,000 downloads and remains wildly popular on the iOS App Store and the Google Play Store.

Identifying and capitalizing on the discovery of unmet needs leads to the perception of market leadership. If a company can do this systematically, that perception will become reality.

4. DEVELOPING BETTER CUSTOMER EXPERIENCES

In every relationship we have with providers of goods and services in our society, there is an inherent end-to-end experience. When designers get involved in creating experiences, they use techniques involving empathy to uncover and optimize for both functional and emotional customer needs. Different types of designers (interaction, brand, package, product, service, graphic, and so on) contribute at various stages of the process to, in the best cases, build a seamless, branded, and differentiated experience. By definition, this work connects various parts of the company

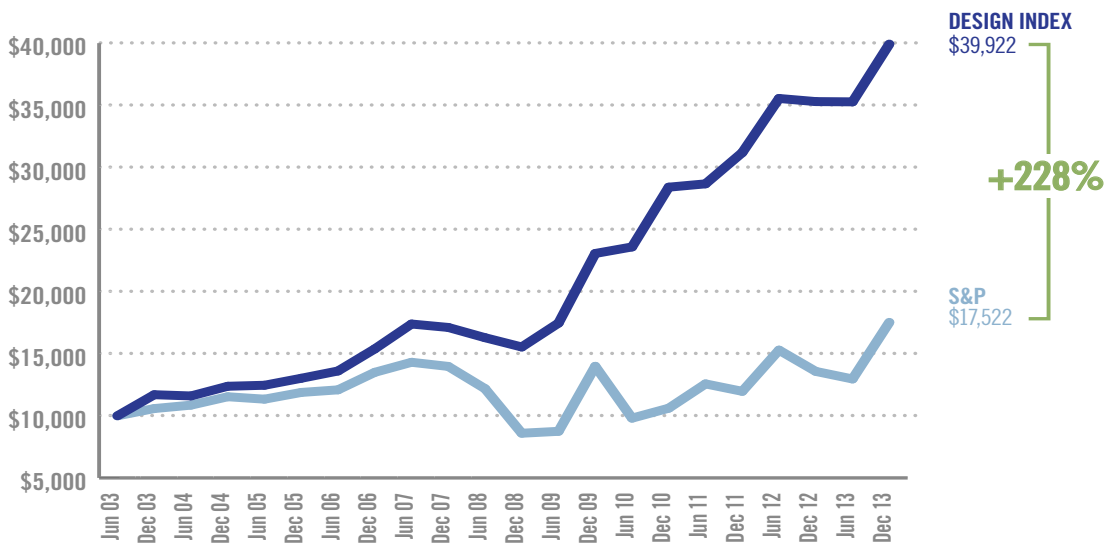


Figure 2

A \$10,000 investment in our index of diverse design-centric companies would have yielded returns 228% greater than the same investment in the S&P over the same period of time.

that in many cases had not previously even met. This is a critical byproduct of the top design-driven companies and a key value-added secret that best-practice companies in the Design Value Index share.

Disney is one company that has built a successful business ecosystem around delighting customers. In particular, its park and resorts unit—which includes iconic attractions Disneyland and Disney World—has gained attention by pioneering the field of experience design. Disney’s Imagineers, the creative force responsible for creating and developing its entertainment venues, include illustrators,

ignored, either: the ambient sounds along walking paths and the scent of cookies that wafts through the park help immerse visitors in a fantasyland determined to deliver on its promise of being “the happiest place on earth.”

Its investments seem to be paying off. The park and resorts division has posted the fastest revenue growth of any of the company’s five business units in the past year.⁵

5. RETHINKING STRATEGY

Recently, design thinking has become popular with organizations that face murky, complex issues that are hard to solve using traditional business best practices. By employing such design tools as empathy, creativity, and rationality, organizations are able to reframe problems in ways that forge new pathways toward innovative solutions. In other words, designers don’t create solutions until they have determined the root issue, and even then, they pause first to consider the whole range of potential solutions.

IBM is working design thinking into its practices to build a new way of creating solutions for its customers. In addition to heavily recruiting designers and design experts, the technology giant recently launched an initiative to send product teams to Designcamp, a one-week design-thinking training camp at a brand-new studio in Austin, Texas, that was built for this purpose. Product managers, developers, and

Great design helps make products and services more aesthetically pleasing, more compelling to use, and more relevant in a world that seems to change at an ever-increasing pace.

architects, engineers, choreographers, lighting designers, show writers, graphic designers, and many more who are tasked with “making the magic.” Every aspect of a customer’s visit is thoughtfully designed to delight. Cast members (employees) are even trained on how to treat guests (customers) to the smallest details—for example, how to smile and wave. The intangible elements of the experience haven’t been

Good design is the difference between a complex, frustrating interaction and a delightful experience.

designers learn design-thinking techniques and put their new skills to use developing solutions for mobile, social, cloud, security, and big data.

What's so big about design thinking is that it allows all comers to tap the right/creative side of their brains to think in new ways, create new connections, derive new insights, and create innovative solutions. With creativity a lost commodity in many business settings these days, this practice builds that muscle.

6. HARDWARE/SOFTWARE INTERACTION

Good design is the difference between a complex, frustrating interaction and a delightful experience. It could be your car dashboard, your digital camera, or an app on your smartphone. Well-designed interactions can save us time, make us more productive, and even provide emotional support in practically everything we do. Think about this the next time you easily withdraw money from an ATM or, conversely, close a website in frustration because it is too hard to navigate. Clearly, customers are flocking to companies that have gained a reputation for well-crafted interactions.

Coca-Cola has mastered designing interactions that reinvent the way customers connect with its products, most recently evidenced by its recreation of the fountain drink machine. Marketed as “the refreshing new way to express yourself,” the Freestyle, a touchscreen soda fountain, allows users to customize their beverages by dispensing different flavor options along with their selected Coca-Cola product.

The revolutionary machine allows for more than 100 drinks, a far cry from the standard 8-option fountain soda machine it is quickly replacing across the country. The company even rolled out an app designed specifically to help customers locate nearby Freestyle machines and share favorite drink combinations, among other activities. Not only that, but each machine maintains a data connection to Coca-Cola headquarters and uploads information about each drink dispensed and all supplies used in real time, which creates critical conduits for

generating customer insights (not to mention managing inventory).

7. MARKET EXPANSION THROUGH PERSONA DEVELOPMENT AND USER UNDERSTANDING

With their special ability to understand and interpret people and cultures, designers are well suited to help their companies assimilate what is required to capture the hearts and minds of new types of customers, sometimes in new parts of the world.

Being in touch with both existing and potential customers has been an exceptionally successful tactic for Aloft, Starwood's newest hotel concept. Despite a tough market for the hospitality industry, Aloft has opened 75 locations in just over four years and plans to open more than 30 more within the next few years, thanks in large part to thorough understanding of its target customers.

Conceived as an interactive, trendy hotel for plugged-in young travelers, Aloft is designed to evoke an energetic atmosphere that encourages guests to socialize, rather than immediately retiring to their rooms. Its super-modern style and pioneering initiatives in music and technology have generated significant press—and business. The franchise's explosive growth since opening its first location in 2008 helped to fuel Starwood's 54 percent climb in stock prices emerging from the recession. Simply by using intimate customer knowledge, Starwood was able to identify and fill an unmet desire in younger travelers for a hotel experience that fit their lives, as well as broaden the entry point to its brand, making it possible to engage a wider variety of customers and cultivate long-term loyalty.

In our recent recessionary environment, it is remarkable for a company to exhibit the leadership to develop and invest so heavily in an entire new category. Armed with the confidence of knowing its customer so well, one can see it would be less of a stretch for management to think boldly and take big risks in search of big returns.

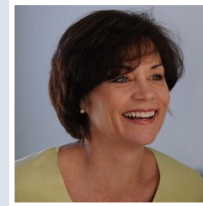
8. COST REDUCTION

Design can also make great strides to help get the cost out of manufactured goods through

rethinking the ways and means by which products come together. Procter & Gamble, best known for its household brands such as Tide and Pampers, has recently developed a process to develop plastics that are thinner, cheaper, and more environmentally friendly than the industry standard. It is estimated that this new technology could save the company up to \$1B a year. Companies that harness design to curb costs can thus double design's financial impacts by managing the bottom line while simultaneously growing the top line.

BEST-PRACTICE INNOVATORS USE DESIGN

These eight categories are just some of the many ways design can be used as a strategic business tool to increase sales and market share, build wider margins, and drive customer delight. But this list is not by any means exhaustive. Although the role of design within organizations can be difficult to define, it is clear that giving design a seat at the table adds significant value that helps differentiate and elevate companies beyond the norm and deliver tangible business results. ■



Jeneanne Rae is the founder and CEO of Motiv Strategies, an innovation strategy firm. For more than 20 years, she has served as a consultant to dozens of global

corporations, including Procter & Gamble, Johnson & Johnson, Microsoft, Pepsi, and AIG. Her expertise includes innovation, design integration, customer experience, and growth strategy.

In addition to writing articles for publications such as *Innovation Management* and *Fast Company*, Rae has written extensively for *Bloomberg Businessweek* and was named one of its Magnificent Seven Gurus of Innovation in its cover story on the creative corporation. She was later hailed one of *Bloomberg Businessweek's* Leaders of the Year for her ground-breaking work in service innovation. She also served as an adjunct professor teaching new product and services development at the graduate level through Georgetown University's McDonough School of Business for 10 years.

Rae holds a BS in commerce from the University of Virginia and an MBA from Harvard Business School.

jeneanne@motivstrategies.com
703.778.1051

Acknowledgments

Special thanks to Joy Thomas, Senior Strategist at Motiv Strategies, who provided the analytical support to develop the Design Value Index, in addition to case study research and other thought leadership for this article.

We also appreciate the support of Michael Westcott, president of the Design Management Institute, who provided inspiration, guidance, and other key contributions to this work.

For more information on the business value of design, please visit dmi.org/value

1. "Design Delivers for Business: A Summary of Evidence from the Design Council's Design Leadership Programme" (online at designcouncil.org.uk/publications).
2. Platt, Marjorie B., Hertenstein, Julie H., and Brown, David R. "Valuing Design: Enhancing Corporate Performance Through Design Effectiveness." *Design Management Review*, vol. 12, no. 3 (Summer 2001).
3. Rae, Jeneanne. "6 Keys for Turning Your Company into a Design Powerhouse," *Fast Company's Co.Design* blog (fastcodesign.com), April 2012.
4. Cedrowski, Scott. "Nike's New Marketing Mojo," *CNN Money*, February 13, 2012.
5. Kranz, Matt. "Disney Profits Flat, But Theme Parks Shine," *USA Today*, Aug. 6, 2013.

Motiv helps leading organizations create new strategies for growth. We combine business analysis with design strategy tools to help our clients discover new opportunity spaces, develop new services and better customer experiences, and drive the change management required to enable breakthrough innovation.

811 North Royal Street
Alexandria, Virginia 22314
motivstrategies.com
703.778.1051

