

WHITE PAPER

The ROI of Design for U.S. Mid-Size Manufacturing Companies

by **Ed Holme**

READ ALL ABOUT IT!

• DAILY NEWS •

**DESIGN BOOSTS
MARKET VALUATIONS!**

Improves the bottom line!

DELIVERS OVER 100% BETTER RETURNS THAN S&P 500!!

Bold headlines indeed. And something every senior executive would jump on, investigate, and drive into their process ... if only they were true.

But wait. They are—for some companies.

“The Design Value Index (DVI), a market capitalization-weighted index comprised of design-driven companies, shows 10-year returns of a remarkable 219% over that of the Standard & Poor’s 500 index (“S&P 500”) from 2004-2014.”

– “Good Design Drives Shareholder Value” by Jeneanne Rae, Motiv Strategies, May 2015

Who Are These Design-Driven Companies?

And what do they have in common? As of the end of 2014, the companies in the Design Value Index (DVI) are: Apple, Ford, Herman-Miller, IBM, Intuit, Newell Rubbermaid, Nike, Procter & Gamble, Stanley Black & Decker, Starbucks, Starwood, Steelcase, Target, The Coca-Cola Company, Walt Disney, and Whirlpool Corporation. Did you get a visual image or feeling of each as you read through? There’s a reason for that.

We’re going to explore what these companies have in common. And, more important, attempt to relate the commonalities to U.S. mid-market manufacturers who want this degree of performance, but don’t have the seemingly endless resources of these “industry giants.”

According to the article referenced above, “Qualifying to be part of DMI’s Design Value Index isn’t easy. The following criteria must have been met over the 10-year research period:

- To ensure consistency of financial reporting standards, corporations must be publicly traded in the U.S. over the last 10 years.
- Design must have been represented in the corporate hierarchy for the period through a central design function led by an executive, as well as in the broad deployment of design staff and practices over all major business units.
- Over time, these companies have increased design-related investments in the form of head count, infrastructure investments, and volume of projects.
- There must be a distinct and recognized operating model for design that promotes cooperation and integration with other corporate functions such as marketing, R&D, and operations.
- Design leadership must be present at the senior and divisional levels.
- Finally, the senior management of the corporation must show a deep commitment to design as a key strategic enabler and a resource for innovation and change.”

[For the purposes of this discussion we can ignore the first bullet, as that purely relates to publicly traded companies. However, if you do decide to embrace design and instill it into your business and culture, you will want to track its ROI. It’s a good exercise and always advised.]

The big takeaways from the above list of criteria are that in each company:

- Design is a commitment at the top of the organization
- Design is used as a strategic resource to drive innovation
- Design has a defined role across all business functions
- Design has a senior executive leader
- Design is funded, just like marketing, sales, or R&D

This is a list to which we can all relate, and if we squint a little, might even see in our company and manufacturing setting. But first, let’s get a better understanding of what “design” is, and what it is not.



Design Revealed

In many conversations with senior executives over the years, we’ve learned that design is considered icing on the cake. Something to make the product aesthetically pleasing, to make the packaging “jump off the shelf” to capture the attention of busy shoppers. Design is the final process of packaging up the technology to make it look attractive.

Yet this is nothing like how our “design-driven” companies treat design. To them design is a strategic resource to drive innovation and has a described role across all business functions. This shows us that design, in their world, isn’t just about appeal, and shape, and color, and style. It is far more substantive than that.

So, what is design? And why is it so important? How can mid-size U.S. manufacturers harness it to propel their success? The first thing to get straight is that design is NOT an end result. It is an all-pervading and ongoing activity. Design is a process. A discipline. It is a systematic way of thinking and doing that collects the output of thoughtful research and creative thinking, and turns those insights and ideas into meaningful innovation through a human-centered approach.

Sure, design is most often associated with new product development. But consider the definition above and think about areas in your business where innovation could apply. Do you see that the process of design can be relevant across many business functions? As is the case with our “design-driven” companies. Let’s examine this a little more closely through an extraordinary example.

It's Just Good Business

In 2005 in the UK, The Cox Review of Creativity in Business was commissioned by the Chancellor of the Exchequer because “there is evidence that UK business is not realising the full potential of applying creativity more widely.”

Sir George Cox, Chairman of the Design Council, led the review, the purpose of which was “to look at how best to enhance UK business productivity by drawing on our world-leading creative capabilities.”

The extraordinary aspect of this is that the government was applying its resources to better understand how small- to medium-sized UK enterprises (SMEs) could harness the latent creative talent of the working population. The goal was to increase productivity, create better products and services, and thus compete more successfully in a burgeoning, increasingly competitive, global marketplace. And, in addition, to discover ways the government could help! As I say, quite extraordinary.

The highly relevant point for this discussion is the link Sir George describes between these important elements of the review:

Creativity is the generation of new ideas—either new ways of looking at existing problems, or of seeing new opportunities, perhaps by exploiting emerging technologies or changes in markets.

Innovation is the successful exploitation of new ideas. It is the process that carries them through to new products, new services, new ways of running the business, or even new ways of doing business.

Design is what links creativity and innovation. It shapes ideas to become practical and attractive propositions for users or customers. Design may be described as creativity deployed to a specific end.

Note that there is no specific focus on product design. Yes, it's in there, but so are new services, new ways of running the business, and new ways of doing business. Design is the process of molding and shaping ideas into practical and attractive propositions for people.

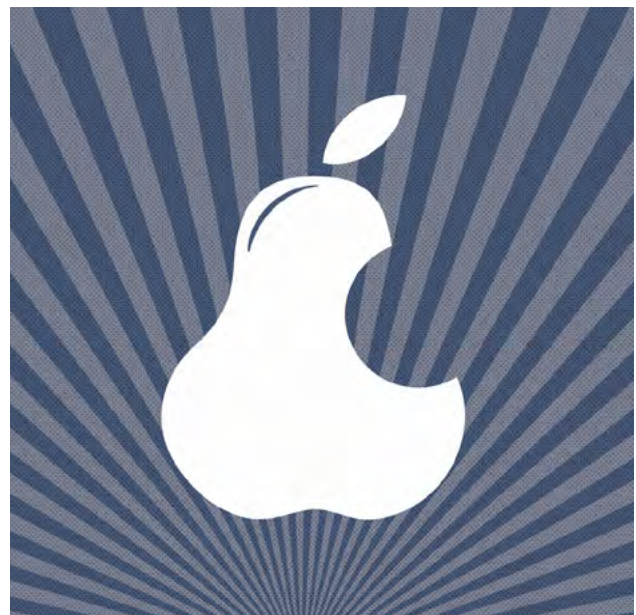
Design-driven companies know this and apply the discipline of design across all business functions in a planned approach. They apply design and the way of thinking associated with it (design thinking) to customer service, to their brand, and to the way they go to market with sales and

marketing. They also use design thinking in their product development process, and packaging and communications. They apply this thinking to their distribution and logistics, to finance, and most important, to the management of their company. It is how these giants face challenges and solve problems. It is how they evaluate and approach opportunities. It is the discipline they use to beat the market by 219%.

“But We’re Not Apple!”

We know—stay with us. Apple wasn't Apple either when it started out. But Steve Jobs had a way of doing things. A way of thinking that brought him to the point of embracing design. To “Think Different”, which is where design lived in those days. Whirlpool didn't always embrace design in the way it does today. The same with Rubbermaid and Stanley Black & Decker. Yet now they all have centers of design, encompassing everything from research and insight teams, to teams of industrial designers and engineers, to teams of graphic and environmental designers and marketers. All working within the framework and process of design. They wouldn't be doing this if it wasn't producing ROI in spades.

At some stage these powerhouses realized the overwhelming benefits of applying design throughout their entire business. Maybe they started with just product design, but they now embrace design as a way of thinking, and acting, and being. They have committed to it as an important differentiator in the way they do things and in the way it affects their performance.



The first thing to get straight is that design is NOT an end result. It is an all-pervading and ongoing activity. Design is a process.

So Now Back to Your Company

Let's get back to the beginning. How can U.S. mid-sized manufacturing companies harness the value of design? Specifically, how can you start?

The answer may not be what you expect. It doesn't involve a huge expense in people, property, or equipment. It doesn't involve radical changes to operations, manufacturing, sales, or marketing.

What it does require—initially—are just five steps:

1. **Belief** in design as a process and discipline to drive innovation across all functions of your business. This buy-in must come from the top.
2. **Understanding** of design. What it is. How it works. What the elements are and the steps that make up the design process.
3. **Evaluation** of where design can best be utilized, in a planned way, to impact your business the most. Note: you won't do this all at once.
4. **Commitment** to design. Of time, energy, and meaningful resources.
5. **Trust** in design. For what it can do when properly instilled into your company. Into your culture. Into your way of doing business every day.

The Final Rationale

Design is not an end result. However, the end results of design woven into the fabric of your company will most certainly produce:

- Better business practices derived from a new way of thinking and approaching problems, challenges, and opportunities
- Better customer service based on a deeper understanding and appreciation of your customers' needs, and how to bring service to them

- Better products for your end users, based on keen insights into their true needs and wants, and the design process that shapes those into superior solutions
- Better communications, based on design messages being central to your brand and marketing
- Better results, because you have designed a better company, with better experiences for all who are involved and have a stake in its future

Imagine the U.S. economy if every mid-sized manufacturer (America's growth engines) embraced this way of doing business. To design our future instead of just manufacturing it. To not just compete in, but lead, the global market.

We can't all be Apple, but you can take the first bite and see what happens. ■



MEET ED

Since joining BOLTGROUP in 1994, Ed's experience in brand strategy, research, and sales and marketing has been instrumental in building high-value client relationships through the strategic alignment of their needs and goals with BOLTGROUP's expertise to maximize our impact on their business.