



GOOD DESIGN DRIVES SHAREHOLDER VALUE

2015 Design Value Index

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by JENEANNE RAE

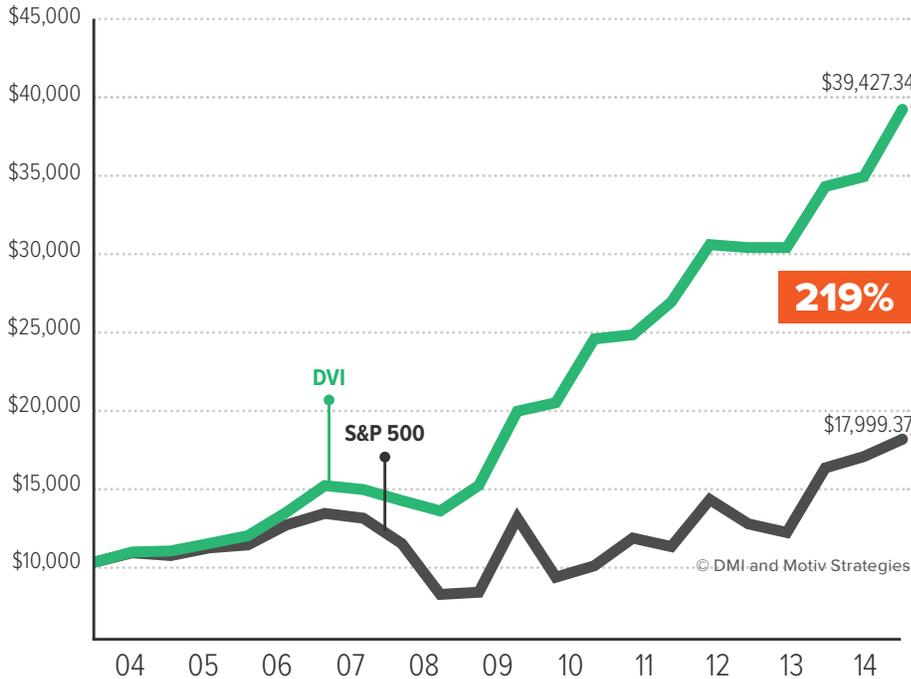


Figure 1
A \$10,000 investment in our index of diverse design-centric companies would have yielded returns 219% that of the same investment in the S&P over the same period of time.

The ability to create compelling products and services that resonate with customers, consistently produce financial rewards, and build brand loyalty has become the Holy Grail for many companies. In today’s consumer-savvy world, design has unequivocally become a critical element towards meeting such goals. In fact, 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 2004-2014.¹

¹ 2013 was the first year that the Design Management Institute sponsored the DVI. The 2014 index was down about 4% compared to 2013 results of 228%.

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: ²

- To ensure consistency of financial reporting standards, corporations must be publically traded in the U.S. over the last 10 years.³
- 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.

The Design Management Institute and Motiv Strategies developed this criteria based on principles, structures, and activities commonly practiced by corporate design exemplars worldwide.

As of the end of 2014, sixteen U.S. companies were included in the DVI: 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.⁴

It should be noted that due to the size of its market capitalization, Apple presents considerable weight in the index.⁵ This being the case, no one would argue that Apple's success over the last decade has been earned in large part due to the popular products and services conceived and designed under the leadership of its SVP of design, Jonathan Ive. Apple

² The Design Management Institute (DMI) in partnership with consulting firm Motiv Strategies sponsors this Design Value Index (DVI) study. 2013 was the first year that the Design Management Institute sponsored the DVI.

³ While the DMI is an organization with an international membership base, the basis for comparison for this report is composed of U.S. companies only. An analysis comparing stock market performance of all global design leaders is impractical, because corporate reporting standards vary widely from country to country.

⁴ Stanley Black & Decker is new to the DVI this year.

⁵ This year's results excluding Apple are 138% above the S&P 500, and for 2013, 157% above the S&P 500.

is therefore not considered an outlier, but rather an example of what good design combined with good business strategy can achieve.

Corporate Design Trends to Watch

Our continued research uncovered three noteworthy design trends to watch, both within companies in the DVI, as well as the broader corporate design community:

Trend 1: UX Design Dominating Growth Of The Design Profession

Given the proliferation of software, apps, games, web design, and other types of digital interfaces that support every imaginable product, service, and solution being created today, user experience (UX) design is now a dominant and growing force in the design profession, outpacing the growth seen in other design disciplines. This trend is also leading to the development of more extensive in-house design capabilities in industries such as financial services, where design-embedded initiatives were unheard of prior to the age of the omni-channel experience.

CPG giant Procter & Gamble has gotten into the act with its new Oral-B Smart Series 7000, an award-winning Bluetooth-enabled toothbrush that links to a free app that helps customers track their brushing habits and technique. “Years ago, we would have never thought that P&G’s design function would include interaction designers,” says P.J. Mason, Principal Design Manager – Oral Care Innovation and Oral-B Industrial Design. “But I can see much opportunity to include this discipline in our future work.”

Despite the fact that the profession is relatively new compared to other design disciplines, the number of UX-related training and education programs around the world is booming. However, dealing with a nascent yet rapidly expanding field is not without its challenges: “Digital design doesn’t have the maturity it needs as a competency just yet,” says Intuit VP Design Kurt Walecki. “The range of how people practice it is very diverse, and the communities are very spread out between art, cognitive science, and technology.” We predict that in the next few years, companies (and especially design-driven ones) will work towards improving and standardizing hiring and management processes within their design functions in order to systemically produce great design.

Trend 2: Significant Investments In Design Transform Business As Usual

Developing internal design capabilities is moving higher on the strategic agendas of companies across corporate America. The integrative thinking, creative, and empathy-based skills designers bring are increasingly sought after for cracking new markets as well as providing a competitive

advantage in customer experience. Although the investment in developing design capabilities can be costly, many companies believe it is well worth the effort.

Among companies in the DVI, IBM is an excellent example of the significant investment in people, facilities, and change management efforts that are required at key points in the development of internal capabilities. IBM announced in 2013 that it would spend \$100 million over the next five years to support staffing, programs, and facilities to “put design into the founding vision of a reimagined IBM,” says Phil Gilbert, the company’s General Manager of Design. This effort includes building the largest design team in the world by hiring experienced corporate talent as well as hundreds of new grads, developing training and programs, and deploying technology and tools to support IBM’s highest growth initiatives from numerous global locations. This includes its cloud computing, analytics, mobile, social, and security businesses, areas in which revenue was up 16% last year to \$25 billion, representing some 27% of IBM’s total revenue.

“We spent six or seven months thoughtfully figuring out how to put together a newly envisioned function that would fit within IBM’s culture. The world is being rewritten in code. We had a very strong design heritage, very much in the marketing and communications areas and in industrial design, but never in software. And that is where we are concentrating our [investments in design]: on the high-growth areas,” says Gilbert.

Newell Rubbermaid is another company in the DVI that made large strides in ramping up its design efforts during 2014. It not only opened a new 40,000-square-foot state-of-the-art design center in Kalamazoo, Michigan to house its existing design team, but it also hired and relocated an additional 70 designers to staff it within nine months. Mark Tarchetti, Newell Rubbermaid’s Chief Development Officer, says, “Having a purpose-built center of excellence will place us in an exclusive club of design-driven companies that recognize great design is a competitive advantage.”

Trend 3: New Design Exemplars On The Horizon

Worth noting is a new band of companies that are emerging as the next generation of design leaders. While their current design operations do not meet the criteria laid out for entry to the Design Value Index, companies such as 3M, Amazon, Capital One, GE, Google, Honeywell, eBay, Fidelity, Pepsi, and SAP (among others) should be recognized for the significant progress each has made in building internal design capabilities in recent years.

The Path To Design Maturity

What's the big deal about adding new skill sets and staff to address corporate goals? one might ask. Doesn't that happen all the time? Yes, however, retrofitting a mature company to include designers presents certain challenges that are different from, say, adding capacity to an accounting or IT function.

For many companies, the journey towards design capability maturity often begins in a fairly straightforward way: Seeking a competitive advantage, senior leadership recognizes that design can make significant strategic contributions towards driving industry leadership and decides to invest resources developing a credible design function. After an extensive search, a design executive is identified who is capable of establishing and driving design strategy and solutions to a range of business problems, building a team, and managing initiatives. Following these steps, support staff, design studios, and technology are deployed as budgets allow.

Two activities that require a significant investment in time and require careful change management are process integration and scaling design across the organization. Once design is recognized as a strategic asset and integrated into the corporate hierarchy, it must develop a consistent, accessible operating model so that it can collaborate with other corporate functions such as marketing, brand, R&D, IT, operations, and manufacturing to extend and implement design work.

Given the challenges of opening up existing processes as well as assigning roles and responsibilities to accommodate design work and measures, this is an area that requires senior management commitment and consistent oversight to ensure adherence.

At the same time, consideration must be given to scaling design across the enterprise. Some companies actively support the importance of embedding design across the organization, others might see design as a key enabler for consumer-facing business units only. Further, even if senior leadership recognizes the value of design, it may still take years to get divisional management teams on board. Stumbling blocks may include fear of change and perceived risk to existing operating margins. Finding experienced design leadership can also be a challenge in scaling – staffing leadership roles across any enterprise can be difficult. While there are many graduate programs in design management and integrated design programs, they are relatively new and should bear results over time. While process integration and scaling are challenging to organizations wishing to utilize design as a competitive advantage, they constitute the primary gaps that were identified between the companies represented in the DVI and

those firms that are beginning to emerge as design leaders.

These are just a few of the challenges that are certainly being experienced by any company attempting to build design into its DNA. However, as our research shows, committing to design as a differentiator pays off.

What This Tells Us About The Design Advantage

The 2014 Design Value Index shows us for a second year that corporations that put an emphasis on design as a strategic asset perform significantly better than those that do not. As corporate design capabilities mature, executives are able to direct this power towards their companies' most challenging problems. This, in turn, allows design-driven companies to grow faster, and often with higher margins, due to the exceptional customer experiences they are uniquely positioned to create.

Key trends identified through this work include

- The rise of user-experience (UX) design as a sub-discipline whose growth is expected to outpace all other design disciplines as the number of digital interfaces expand.
- The significant investment in internal design capabilities under way in many large U.S. companies today, as we see from DVI companies Newell Rubbermaid and IBM .

Firms that put design resources at the forefront of their growth strategies are moving from a focus solely on operational excellence to include customer experience excellence and can be expected to reap unique competitive advantages for doing so. ■

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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.

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



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