New Business Models
chris conley

I'm going to talk about moving from design philosophies to business models. The people I really want to talk to are not the business people in the audience, but the designers. I know we're always trying to get business people to understand design philosophies, but I'm trying to turn that around and have us think about it in a different way. Also listening to the presentations this morning, especially Peter's, I think there's some value there in that presentation that will come up again in this one and I'll try to make those connections.

I've only been at Motorola for two weeks. And you notice that their stock price fell terribly once I joined. Not my fault. What I've really been doing for the past eight years is I founded and have been running a company called Design Research Associates. We're very small. I think we made it up to six people. Now we're down to five because I left. They're going to continue and they've merged with the other company I founded called Gravity Tank. But let me just tell you a little bit about these two companies.

At Design Research we believe there's tremendous value in spending time with people who actually use the products that the company is building them for. We think great research can be and must be translated into actionable insights. We believe there is a gap between great research and implementation. We place special emphasis on the balance between business, design and user needs. You have to balance all three to come up with strong solutions. So, at Design Research, we spend time in the field videotaping, doing ethnographic interviews, just spending time in the same places, using the same products. Understanding the language and the jargon that the people use in a particular area. We do it around the world. These are clips from Stockholm of people using our advanced cellular communication devices. This type of work leads to practical innovation. It's not about going and asking people what they want. It's about going and seeing what they do and using that as inspiration for innovation.

We use our design skills to organize complexities. We pride ourselves on having reports that are 15 pages instead of 60. Compared against the reports of another consultancy, ours are completely different. Our reports are visual with short snippets of text and lots of images. We also show video to get ideas across. Structuring complexity is an important part of helping a company move from where they are today to where they should go next. And we envision strategy. The end result of all of our research, whether it's user-centred or business-centred, we embody in ei-

ther visualizations or real prototypes. We make that translation from research to something real.

Gravity Tank is a company we founded to get out of the consulting game. Gravity Tank just designs and either contracts or manufactures simple household and office products. We believe that even with all the excitement of the Internet, physical products can still delight. Materials should be used in ways that express their characteristics and properties and every design must be based on a strong idea. It's not that it just looks good, it's that it has an idea that it's expressing. We feel very strongly about that. Some examples of our design work include an advanced adjustable arm that moves in five ways, simple lamps and desks. We even do simple interactive things like user guides for technology. However, our design philosophy, what we believe about what makes a great design, has little to do with whether we're going to be successful.

Good design is good business. Everybody knows Thomas Watson, CEO of IBM, made this a fundamental check of his company. There aren't many Thomas Watsons in the world. There aren't many enlightened CEOs. Designers cannot rely on enlightened clients to hire you to do design. That's not what we should be asking of the marketplace. Designers have been lax in articulating the relevance of design to organizational performance. Sure, we are seeing a boom in the use of design services. With the Internet, with information technology, communication designers have experienced a boom. Product development firms have as well. When I graduated, in undergrad engineering, there were probably one or two companies such as Frog, one or two big product development firms. The rest were small studios of industrial designers who would do control drawings which had little to do with how the product was actually manufactured or assembled and all the details associated with that. Today if you open up something like *ID Magazine*, you come across hundreds of high quality product development firms. Even product design has seen an amazing boom, but they're still getting hired by what I would call enlightened

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large companies. Every year *Business Week* comes out with the best designs. More and more leading companies are realizing that design can be used to develop competitive advantage. You hear the term design in strategy bandied about all the time now. Brand strategy, brand identity. But you know what, financial strategy, offshore manufacturing and restructuring can also be used to develop competitive advantage. The real question is how does design develop competitive advantage or value for these corporations. If you can articulate that and bring that to your clients, they will pay you for that value. It's not a matter of convincing them that your work is worth something. It's convincing them that the work you do will be of value to them. It's how they run their businesses.

So, for many years, I took part in conferences to talk about how the world didn't take us seriously and how they should use our services because it would be better for their business. De-

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sign consultants often feel uninvolved, under-valued and frustrated with selling their services. We aren't being asked to work on the more important issues which we know we could contribute to. How do you get clients to allow you to take the time you need to develop really powerful solutions? Does anybody feel that in the audience?

Business models. The term business model has gained tremendous recognition in the past several years because of the information technology revolution. Because of the Internet. I don't think you've ever seen a time in our history where so many magazines and so many people were nvolved with coming up with new ideas and trying to build a business around them. Internet start-ups—people not being able to do something at Sun Microsystems, so they branch off and build their technology on their own. The amount of companies starting now based on new ideas has really brought up the notion of having a business model and that it can be different from one company to the next. And what you're about as a company is way more important and way more top of mind.

Well what is a business model? One simple view is that you have a product or service you want to sell. You have a value proposition which is different than the product or service. There's a revenue model—how do you make money. And there's an operational strategy—how do you execute.

How would you characterize these for a typical design firm? What's the product or service of a design firm? What's the product or service? Audience: Ideas! Solutions! Facilitate international trading. I want you to contrast that answer with the first two answers, ideas and solutions. I facilitate international transactions. Ok. What is the product or service of a design firm? More ideas. Visual thinking. Increased client sales. One more. Communication. Ok. We help people go from where they are to where they want to go. Design firms sell designs.

This is why the design field makes no money. It's too abstract. We are so comfortable with abstractions that we make huge and glorious statements like we sell ideas. We sell solutions. You're no different from 3M or GE. You bring good things to life? Our product or service has to be, unfortunately, what we are really able to do. This isn't the result. Somebody said increased sales. This is not what we're selling because if it is and they paid you money and their sales didn't go up, you've got a lawsuit on your hands. It's a possible result and we'll talk about that in terms of value. What do we sell? We sell design services. We create a variety of communication pieces such as brochures or web sites, posters, media pieces, motion graphics in order to better position you. But what we're doing is making those things. Right. And selling that service. Now don't throw tomatoes. You know, we go to a service bureau and they also want to say they also sell ideas, but we really go to them to get some fiery output or some lino. We get our pictures developed there.

What's a design firm's value proposition? Which is different than the product or service. Help you achieve your goals. Good, you're starting to get it there. Your value proposition has to be something about the value they get for the service that they are buying. So, save time, save money, minimize risk. It's a hard one and that's why it's not easy to just come up with them, but

it's something that I think each individual firm has to look very strongly at and ask. What is the value we're bringing to this relationship?

Comment: I think though that, if you compare a design firm to a service bureau, a service bureau might produce a hard product like a brochure, but a design firm really is selling ideas because they might not even produce the physical product. They might just come up with the idea that some production person down the road will do. Sometimes design firms do just come up with an idea and that idea might be what sells that idea.

CC: Well let's go one step further than that rather than the full distance than the impact. You're really organizing type, image. You're designing something physical or digital.

Comment: Sometimes, but not always. Sometimes it's just a communication strategy.

CC: And how is that manifest?

Comment: It may eventually manifest itself in brochures or whatever, but a design firm can come up with a communication strategy which is just really ideas. You're talking about your client communicating with their client and you are that bridge.

CC: Ok. So a product or service could be developing a brand strategy, but you better be able to articulate what the elements of that brand strategy are without saying it's really just an idea, because all your clients know how to come up with ideas. There's got to be something real about what we do well and different than other people who come up with ideas.

Comment: There is the amount of talent you bring with you.

CC: Right, because you don't get much talent from any other service or organization?

Comment: There's an artistic element.

CC: Ok. Ok. I would argue that the best engineers, the best doctors, the best lawyers, the best accountants are also creative and bring ideas to the table. And need to be talented.

Peter Dixon: We say that propositionally we help companies be better known and better understood.

CC: Ok, using our product or service, your company will become better known. People will be more widely aware and better understood. People will know what you do. Ok. What's the revenue model? Or what are some of the revenue models? Fee for hourly service. Right. Make a budget estimate. Project based. Estimate a project…the amount of work that has to go into that. Multiply that by the different people working on it, etc. Menu pricing. Offering some clear-cut services. If you do this module, it will cost $50,000 and if you do this module it'll cost $25,000. Charging for specific tasks or execution of things. But the fee for service is the common one.

Retainer. This is a little bit different. This involves an expectation to use your services at the rate of about $150,000 of value a month and we want you to bill against that. It gives you a little bit more flexibility to work with the client than trying to define a project that halfway into it was the wrong project to be working on right. The retainer really sets up a relationship with the client where you are partners moving forward. And it requires trust and managing that relationship.

Q: Have you seen many examples of design bureaus or design firms coming in and taking shares, shares for work or taking some of the revenue?
CC: Six months ago yes, but it doesn't happen anymore. It was all the rage about a year to six months ago right. I'm going to take stock instead of fees for my service. A lot of people got burned. Some people made great money in the early days, and that is a model. That's when you start to put your worth on the table and I would argue it can work if done in a more thoughtful way rather than, "hurry up and get some stock from a start-up." It is a revenue model that puts your value on the line because you're taking a reduced set of fees, maybe just covering your expenses in order to profit when that company does well. Becoming a stakeholder. It's very hard to do with some bigger companies, but that notion of putting your service into the value of that company is a very strong one.

Comment: A strong selling point from the design firm's point of view. It's a good tool to walk in the door saying I'm good enough that you're not going to have to pay me until I increase your business.
CC: You have to, as a consultant, make sure that the payoff taken on that risk means the payoff is going to be bigger. When that client sees that the payoff is really big in the end, if the deal really works out, even though their near-term costs are minimized, they're not so sure about it anymore. I don't know if I want you to be making a million bucks. Even though you're taking on risk with them. It's not as easy as it sounds.

What's a design firms operational strategy? Operational model, if you will. How does it get its work done? How is it organized? First you have a founder or leader. Then a senior manager, managing director. A secondary level of art directors or people who know how to manage projects and then people who actually get the real work done.

That's the business model without being too tongue in cheek. Product or service, design and artifacts of things, or value propositions. We embody ideas to benefit the company. Fee for time or per cent of the cost. Operational strategy. Staff. Most design firms are comprised of a principal and a small staff, 5 to 50 people. The infrastructure on the operations is an office, design and mock-up tools, Adobe software. You do brand and marketing.

How do you promote yourself? See that whole concept's going to change right. Self promotion is absolutely built into the design profession. It's about promoting yourself but self promotion has got to go. It's not about promoting you. It's about promoting the benefit of your work to the client. Sales or cold call referral and build a reputation.

So the challenges that design has is that are business model is fairly shallow. We're creative. We have aesethic sensibility. It's an artistic thing. We empower the client. It's not very robust. Design isn't based on science, math, law or business, but it shouldn't limit our definition or growth or credibility in the field. Design also lacks a healthy relationship between academia. A few ideas for new design processes, approaches, emanate from universities in a way that are tried and adopted by business and then fed back to academia for trial again. Think of the amazing evolution that marketing, business strategy, these different disciplines went through in the same timeframe that in the early 50s, 40s. These fields were new. Advertising, design, all started to come into practice then. All of those other disciplines have built very strong academic bases for writing, experimentation, studies. They feed that out into the field through *Harvard Business Review*, even *Fast Company*, lots of journals, lots of different ways of saying, "here try this." Here's a new theory about how people purchase things or how people become aware of products. The diffusion of innovation. How do products get adopted by cultures or groups? It's very rare in design. We have a strong design history component but our productive theory and practice…designers tend to shun those. It's part of the culture. Methods or process. Uh, Uh. You're going to stifle my creativity. It has hurt our discipline. Methods and processes and approaches or principles are not something to be feared. They're something to be adopted, tried and fed back. Adopted tried and fed back. We just don't have that in design on a broad enough basis. Neither economics nor business principles are really taught in most design programs. Business is bad. Design is good.

As an engineer I probably got 2 or 3 classes in engineering economics. Understanding how the choices you make and what role your discipline has in the economic cycle. Understanding how to value work. If you're going to invest in this tool, how many things do you have to make to get it to pay off. As business owners, you have to make decisions whether to invest in this and what you need to do to make it pay off. All those principles and concepts really aren't taught in universities. Even at the graduate level. You move into the graduate level it's usually more of a personal project that you end up doing. Maybe a deeper study, but it doesn't have to do with advanced principles. It's very design-centered rather than design in the context of a broader area. So I'm asking us to think different. Design actually has a vast marketplace with an endless array of different needs and possible ways of serving those needs. Design hasn't fragmented enough and the Internet has allowed us to fragment. Everybody now talks about information design, interaction design. Front-end designers are now separated from information designers. There's an information architect who thinks about the structure of a web site. This has allowed an amazing clarity or clarification between these roles. And traditionally we think, well a designer solves problems and has visual skills. But there's a vast array of things, different types of problems you could be solving, and your business should be thinking about very specific markets or things to go after.

Opportunities in design are no less numerous than what we've witnessed in the Internet over the past 5 years. Given your interest, your passion and skills, how do you design a business model that allows your business to develop and grow? How do you develop a business that is based on

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your design values or your design philosophy? Just having a strong design philosophy and doing great design, does not mean you're going to succeed.

Rather than defining your product in terms of design skills begin to focus on marketplace problems and the result your work provides. Somebody mentioned increase sales and information discemination. Improve the number of visits that close sales. Reduce the time people spend at the location. These are obviously somewhat removed from context. We're going to increase your annual sales through new product development. We'll reduce the time and cost of establishing new retail outlets. I come from the product development side of things and even at the world's great consultancies like IDEO and Frog, lots of times design is still sold as–"If you let us do this for you, it's going to be great." And IDEO and Frog and many other consultancies have lots of products that in the marketplace that have bombed. Even though they're good designs. It's not enough to do good design to have success. The value comes from a different area and the more you can understand how that value is generated in companies, and resulting stock price and valuation, the better you're going to be able to situate your skills and your professional role with your client and the question of fees will become less of an issue.

A value proposition simply makes it evident that what you'll be charging is less than the value of the result to the client. Amazon is going to offer a full selection of books in print and allow them to be searched, categorized, rated, through the comfort of your web browser. That's an amazing value proposition. I'm going to be able to order it, track it, send it to somebody else, gift wrap it. But they have a real value proposition and that's really what the net has enabled. There are a lot of these brand new value propositions to be offered in the marketplace but we'll have to wait and see whether they're going to work out. Lots of dot coms have bombed because the value proposition wasn't really there.

Another value proposition: We'll bring you improvements. We'll redesign your retail space and we'll (this is actually a revenue model and not a value proposition) take a percentage of the increase in sales that result. The value proposition would be our design work results in higher sales, more conversion of sales or traffic. There are many options for how one receives revenue provided to clients. Professional fee is the norm. Percentage of the value that you bring is something new and harder to do.

 I teach a design management course to MBA students and we went through each one of the design disciplines. Product design, information design, communication design, human factors and ergonomics. Different topics. And I had them do an exercise each week. And one of them on information design was to find a form in your company that currently gets used and circulated, find it, paste it in the middle of an 11 by 17 paper and do a quick analysis on that of the different principles we discussed in class from the flow of information to how it's organized to the routing through the corporation and why it does or doesn't make sense. Language used. Whether it's clear or not. It was the most amazing exercise to teach people the value of information design. They came back with all the ironies embodied in this form. The physical manifestation and why it cost the company money. Somebody redesigned their form and came back to the class and said

that they reduced the number of calls to the administrative assistant sending out these forms. She used to spend her whole day answering questions on how to fill out the form. They virtually stopped. And he just stood up there, a business person and said, "Reorganizing this form and thinking about how it actually works in the process completely changed the behaviour and improved sales." It was a very clear connection between the value of design, what you do and the result to the organization.

Maintenance contracts. Stock options or straight equity. Subscription which we really don't use. It's like a retainer. You subscribe. What I'm calling out here…you know these aren't the answers. These are dimensions of the area. You have to realize how broad the space is for designing your business and coming up with a business model that you tweaked to what you do specifically. So even in subscription I'm thinking what are some ways we could get people to subscribe to things we do. And designing that should be as exciting and creative as what you do when you're solving your clients' problems.

The operational strategy might be the most neglected aspect of design business models. The best firms in the world have uncompromising ways of executing their product or service offering. Most of these companies know how to scale what they do, teach people who come in the values of the corporation, the way they do things, how they solve problems. Because of that education the company grows and prospers. Design firms, mine included, are notorious for getting the next person in, trial by fire, do this project and osmosis, but never with clear training or clear discussions about how you do things. Hopefully that person will work out and rise to a level of leadership. It's very ad hoc. It's serendipitous rather than intentional. And you know lots of design

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firms have a hard time keeping track of accounting, accounts receivable, etc. That whole aspect of operation should be top notch. With all the tools that are available, you should understand that and institute it in your company and then figure out how to do it better.

Operational strategy also includes your approach to adopting technology for improving your performance. When do you buy that next generation of computers or final cut pro video software so that you can do what you do well, faster and still charge the same or more to a client for that service. How do you invest for leverage rather than buy the new computers just because people are complaining their computers are too slow. These are variables to think about for your company.