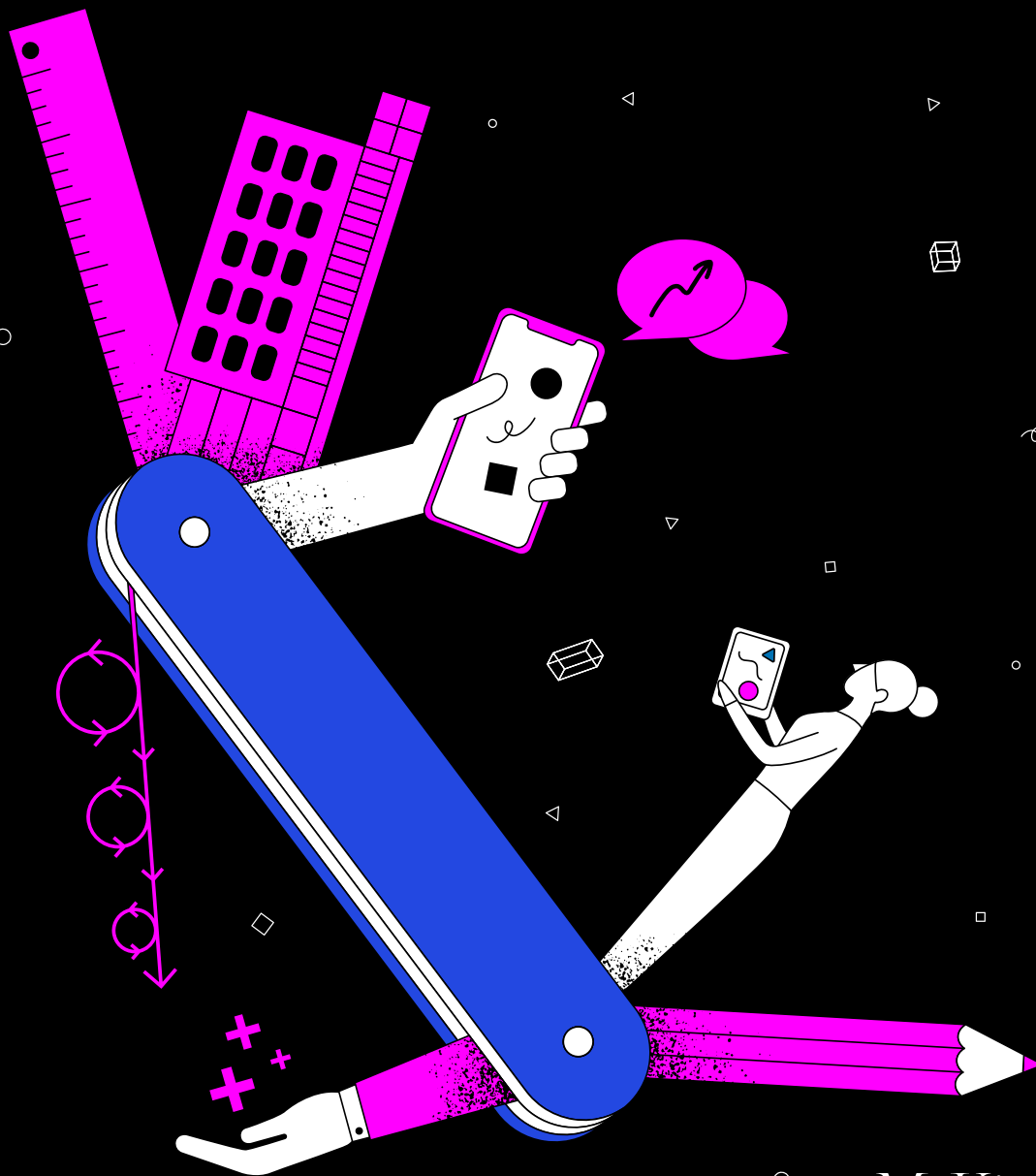


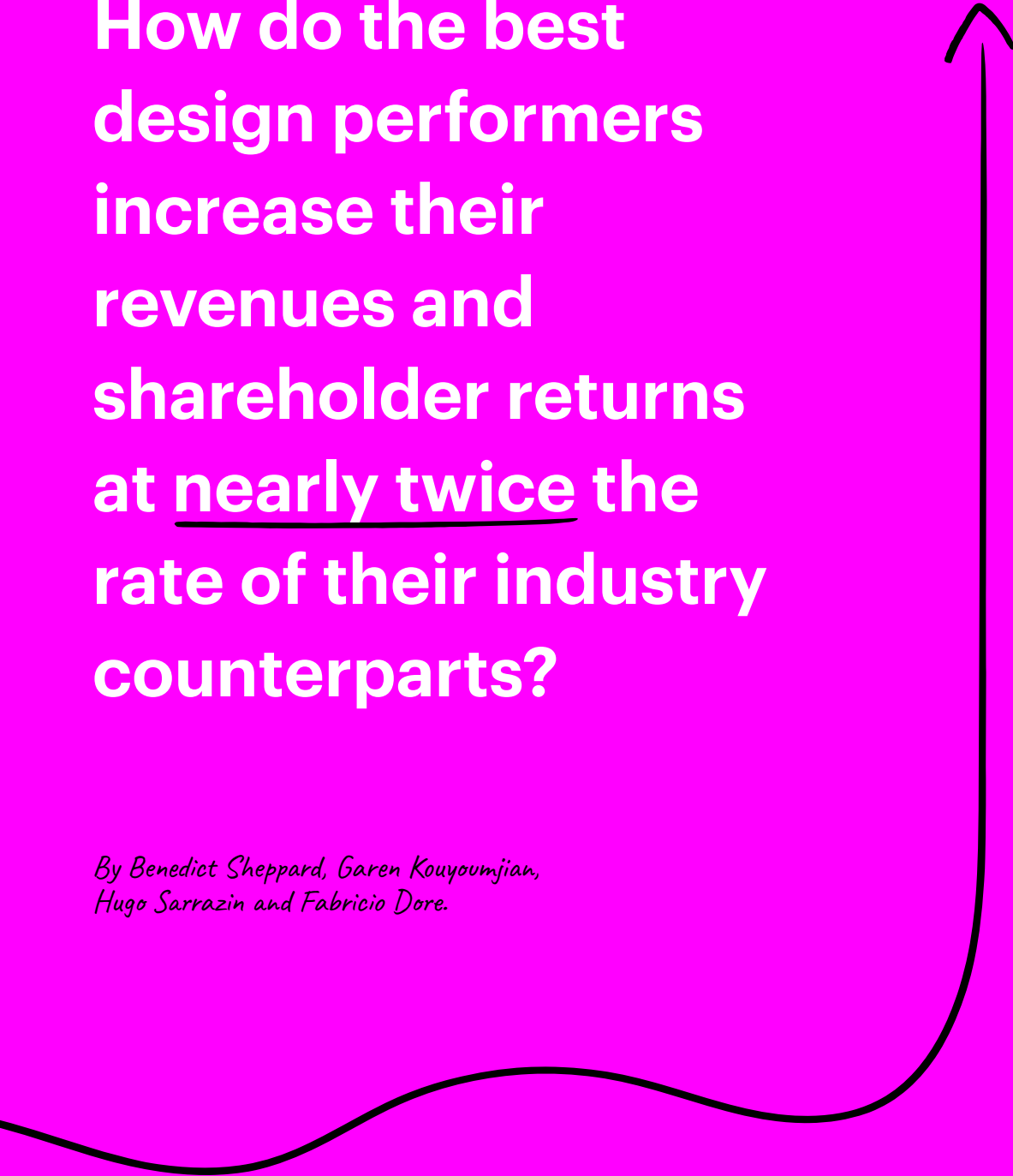
The Business Value of Design



McKinsey
Quarterly

**How do the best
design performers
increase their
revenues and
shareholder returns
at nearly twice the
rate of their industry
counterparts?**

*By Benedict Sheppard, Garen Kouyoumjian,
Hugo Sarrazin and Fabricio Dore.*



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The Business Value of Design

We all know examples of bad product and service design. The USB plug (always lucky on the third try). The experience of rushing to make your connecting flight at many airports. The exhaust port on the Death Star in *Star Wars*.

We also all know iconic designs, such as the Swiss Army Knife, the humble Google home page, or the Disneyland visitor experience. All of these are constant reminders of the way strong design can be at the heart of both disruptive and sustained commercial success in physical, service, and digital settings.

Despite the obvious commercial benefits of designing great products and services, consistently realizing this goal is notoriously hard—and getting harder. Only the very best designs now stand out from the crowd, given the rapid rise in consumer expectations driven by the likes of Amazon; instant access to global information and reviews; and the blurring of lines between hardware, software, and services. Companies need stronger design capabilities than ever before. **So how do companies deliver exceptional designs, launch after launch?**
What is design worth?

To answer these questions, we have conducted what we believe to be (at the time of writing) the most extensive and rigorous research undertaken anywhere to study the design actions that leaders can make to unlock business value. Our intent was to build upon, and strengthen, previous studies and indices, such as those from the Design Management Institute.

We tracked the design practices of 300 publicly listed companies over a five-year period in multiple countries and industries. Their senior business and design leaders were interviewed or surveyed. Our team collected more than two million pieces of financial data and recorded more than 100,000 design actions.¹

Advanced regression analysis uncovered the 12 actions showing the greatest correlation with improved financial performance and clustered these actions into four broad themes.

The four themes of good design described below form the basis of the McKinsey Design Index (MDI), which rates companies by how strong they are at design and—for the first time—how that links up with the financial performance of each company (Exhibit 1).

"The most extensive and rigorous research undertaken anywhere to study the design actions that leaders can make to unlock business value."

Our research yielded several striking findings:

- 1.** We found a strong correlation between high MDI scores and superior business performance. Top-quartile MDI scorers increased their revenues and total returns to shareholders (TRS) substantially faster than their industry counterparts did over a five-year period—32 percentage points higher revenue growth and 56 percentage points higher TRS growth for the period as a whole.
- 2.** The results held true in all three of the industries we looked at: medical technology, consumer goods, and retail banking. This suggests that good design matters whether your company focuses on physical goods, digital products, services, or some combination of these.
- 3.** TRS and revenue differences between the fourth, third, and second quartiles were marginal. In other words, the market disproportionately rewarded companies that truly stood out from the crowd (Exhibit 2).

5

year period.

300

publicly listed companies tracked.

>100k

design actions recorded.

>2m

pieces of financial data collected.

¹ An example of a design action would be putting someone on the executive board with a responsibility for design, user experience, or both. Another would be tying management bonuses to design quality or customer-satisfaction metrics.

Blended teams at work in a McKinsey Design Studio, Stockholm



Exhibit 1 / 5

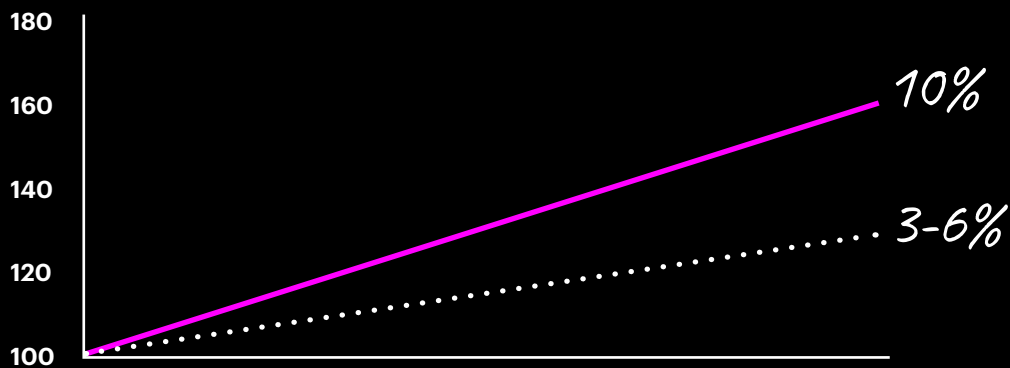
Companies with top-quartile McKinsey Design Index scores outperformed industry-benchmark growth by as much as two to one.

Annual growth (normalized) %

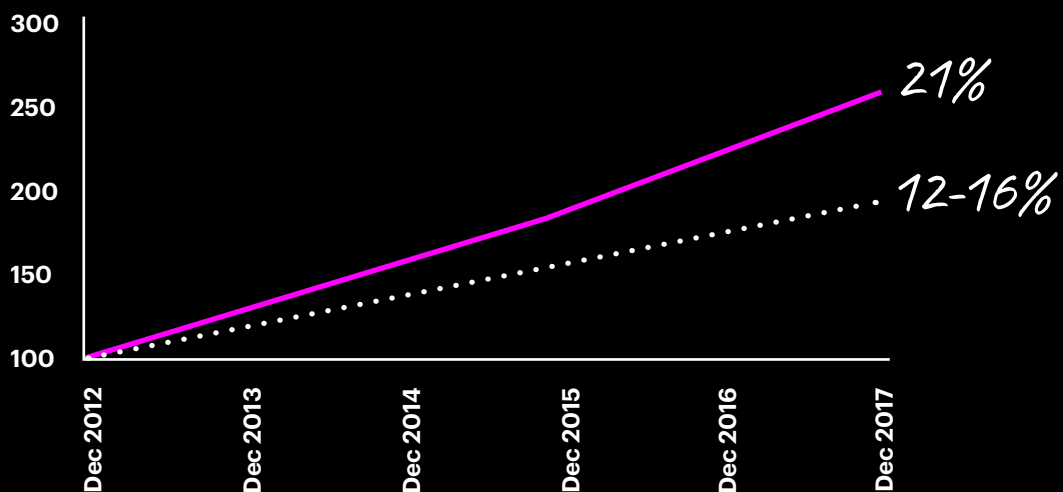
■ Top-quartile McKinsey Design Index performers

⋯ Industry benchmarks¹

Revenues



Total returns to shareholders



¹ The envelope was set by the minimums and maximums of three independent data sets: MDI 2nd, 3rd, and 4th quartiles; the S&P 500; and a McKinsey corporate database of 40,000 companies.

Higher McKinsey Design Index scores correlated with higher revenue growth and, for the top quartile, higher returns to shareholders.

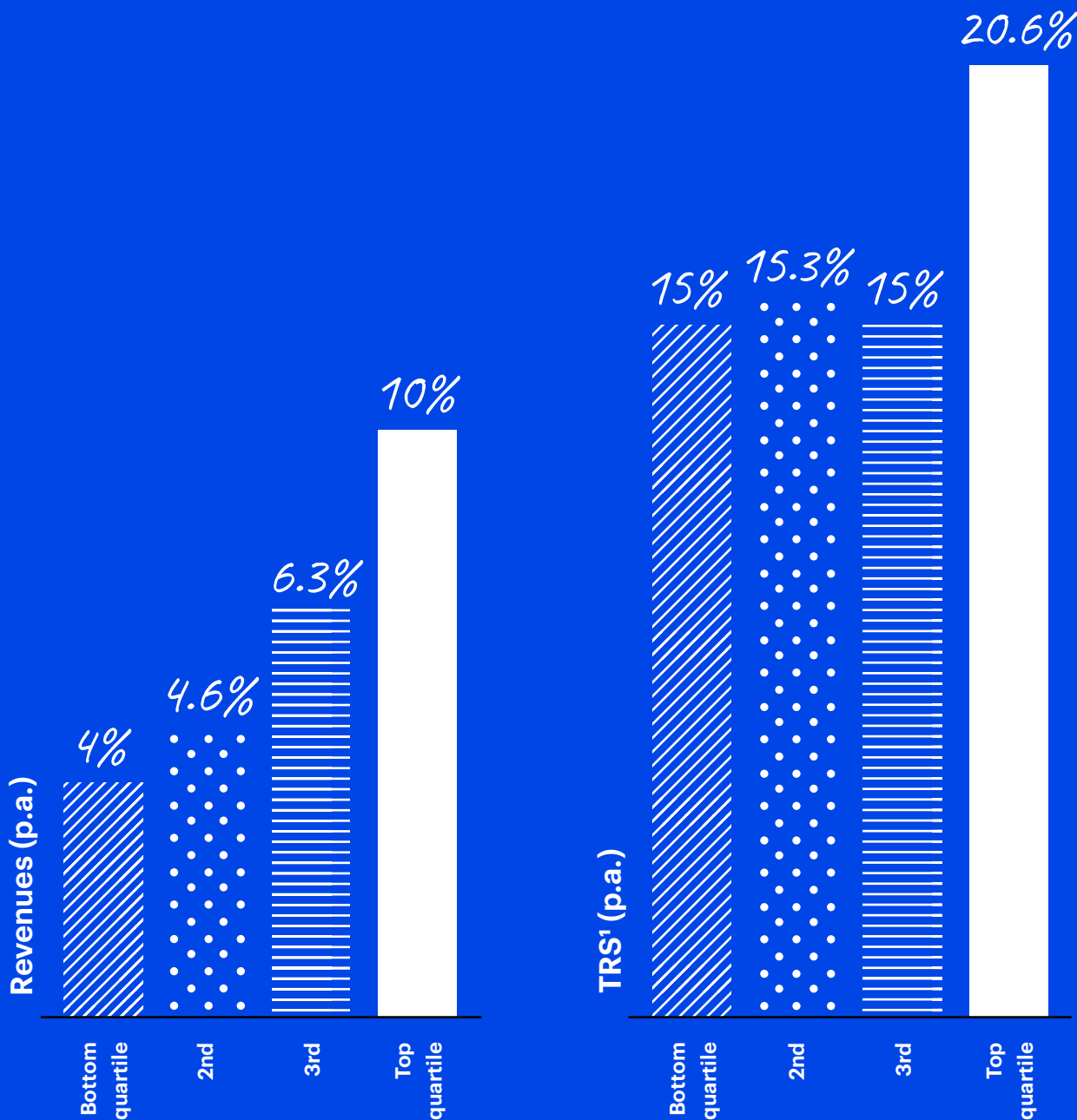
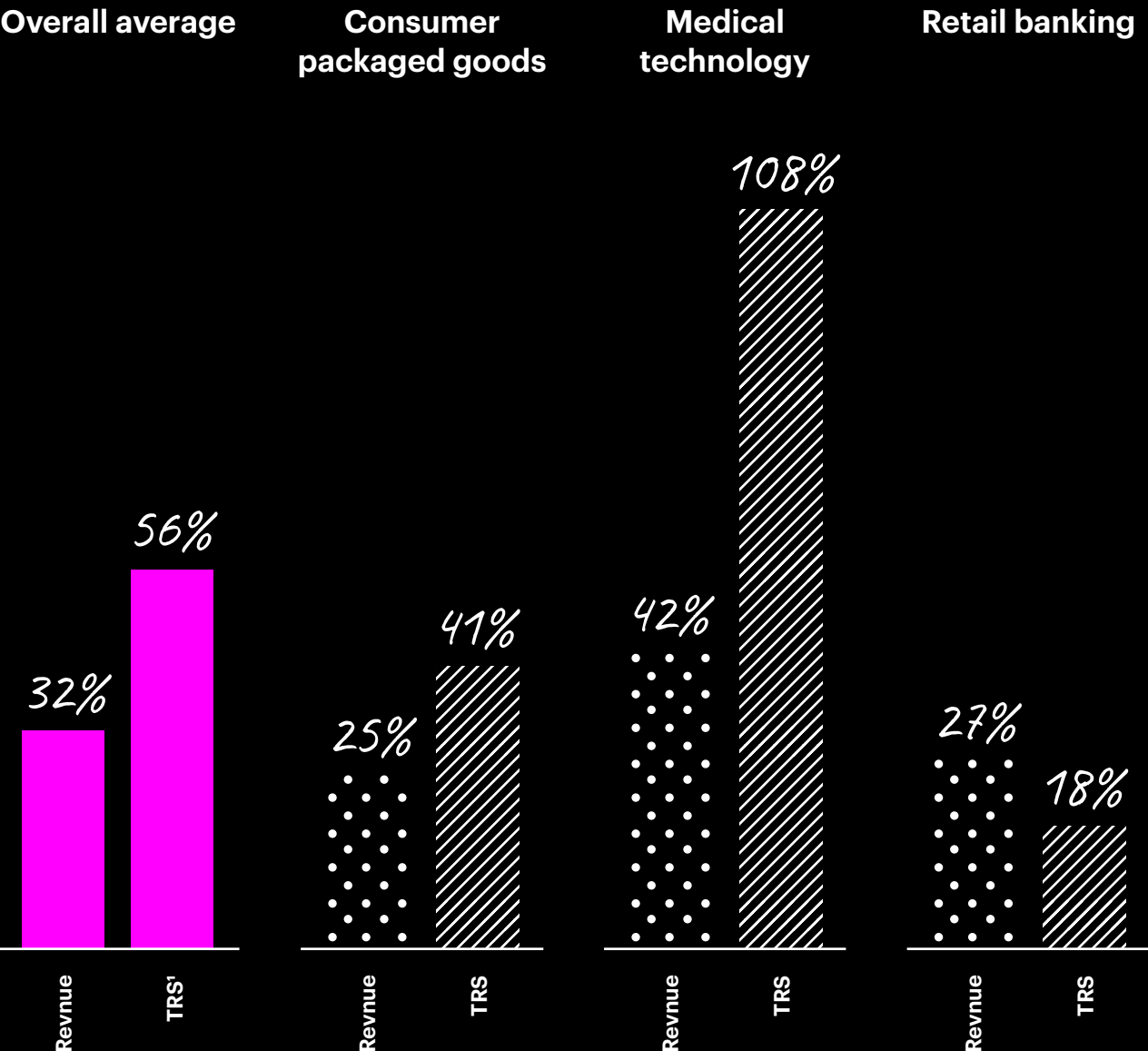


Exhibit 3 / 5

The financial outperformance of top-quartile companies holds true across the three industries studied.

McKinsey Design Index: Difference between top quartile vs peers, 2013–18



¹ Total Returns to Shareholder.
Source: Financial statements for consumer durables/apparel; S&P 500; McKinsey Value of Design survey of 300 global companies, July 2018.

An Elusive Prize

In short, the potential for design-driven growth is enormous in both product and service-based sectors (Exhibit 3). The good news is that there are more opportunities than ever to pursue user-centric, analytically informed design today. Customers can feed opinions back to companies (and to each other) in real time, allowing design to be measured by customers themselves—whether or not companies want to listen.

Lean start-ups have demonstrated how to make better decisions through prototyping and iterative learning. Vast repositories of user data and the advance of artificial intelligence (AI) have created powerful new sources of insights and unlocked the door for new techniques, such as computational design and analytics to value. Fast access to real customers is readily available through multiple channels, notably social media and smart devices. All of these developments should place the user at the heart of business decisions in a way that design leaders have long craved.

What our research demonstrates, however, is that many companies have been slow to catch up. Over 40 percent of the companies surveyed still aren't talking to their end users during development.

Just over 50 percent admitted that they have no objective way to assess or set targets for the output of their design teams. With no clear way to link design to business health, senior leaders are often reluctant to divert scarce resources to design functions.

"The good news is that there are more opportunities than ever to pursue user-centric, analytically informed design today."

That is problematic because many of the key drivers of the strong and consistent design environment identified in our research call for company-level decisions and investments. While many designers are acutely aware of some or all of the four MDI themes, these typically can't be tackled by designers alone and often take years of leadership commitment to establish.

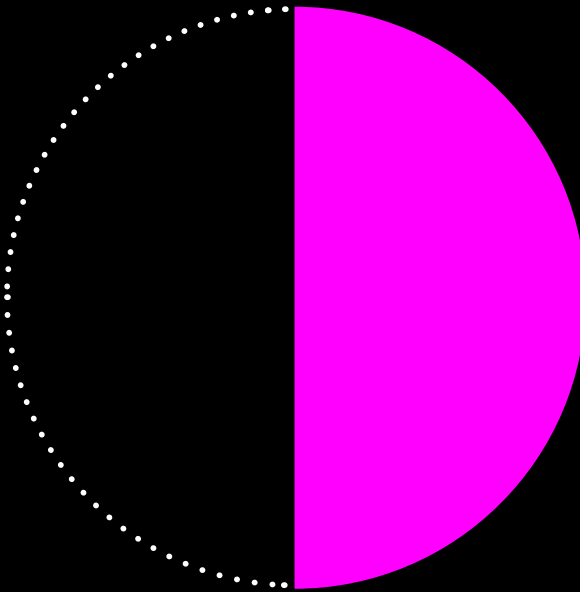
Top-quartile companies in design—and leading financial performers—excelled in all four areas. What's more, leaders appear to have an implicit understanding of the MDI themes. When senior executives were asked to name their organizations' single greatest design weakness, 98 percent of the responses mapped to the four themes of the MDI (Exhibit 4a and 4b).

Unpacking the MDI

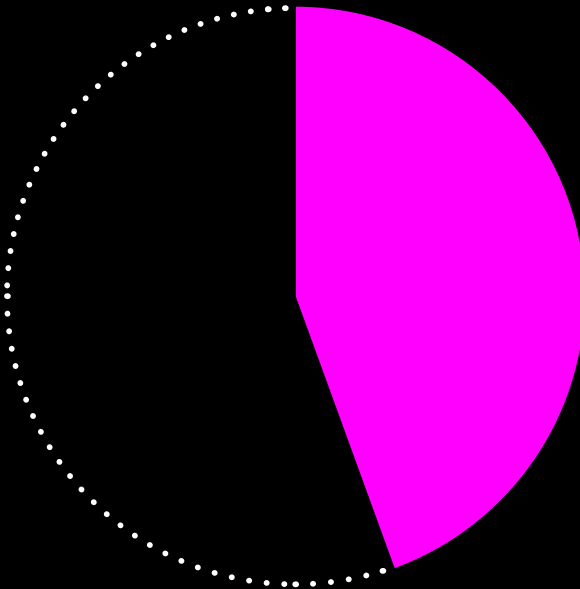
In the remainder of this article, we'll describe the four clusters of design actions that showed the most correlation with improved financial performance:

- > Measuring and driving design performance with the same rigor as revenues and costs.
- > Breaking down internal walls between physical, digital, and service design.
- > Making user-centric design everyone's responsibility.
- > De-risking development by continually listening, testing, and iterating with end-users.





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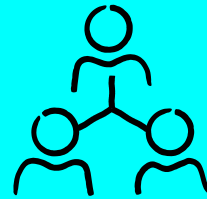


Over 40 percent of the companies surveyed still aren't talking to their end users during development.



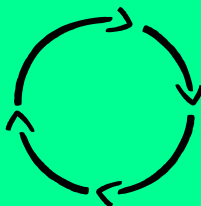
Analytical leadership

Measure and drive design performance with the same rigor as revenues and costs.



Cross-functional talent

Make user-centric design everyone's responsibility, not a siloed function.



Continuous iteration

De-risk development by continually listening, testing, and iterating with end-users.



User experience

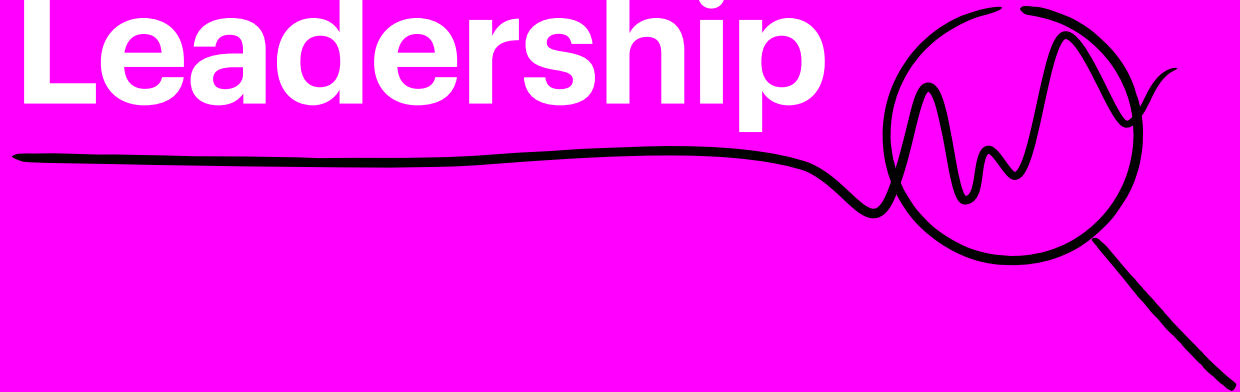
Break down internal walls between physical, digital, and service design.

When senior executives were asked to name their organizations' single greatest design weakness, their unprompted responses indicated an implicit understanding of the four themes.



Note: The 2% of leaders who provided answers outside the MDI four themes are not shown.
Source: McKinsey Value of Design survey of 300 global companies, July 2018.

More Than a Feeling: It's Analytical Leadership



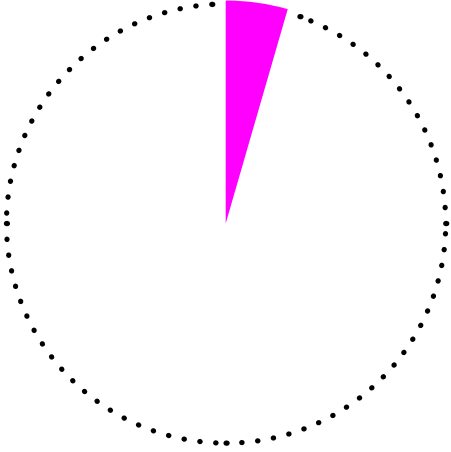
The companies in our index that performed best financially understood that design is a top-management issue, and assessed their design performance with the same rigor they used to track revenues and costs. In many other businesses, though, design leaders say they are treated as second-class citizens. Design issues remain stuck in middle management, rarely rising to the C-suite. When they do, senior executives make decisions based on gut feeling rather than concrete evidence.

"The CEO of one of the world's largest banks spends a day a month with the bank's clients and encourages all members of the C-suite to do the same."

Designers themselves have been partly to blame in the past: they have not always embraced design metrics or actively shown management how their designs tie to meeting business goals. What our survey unambiguously shows, however, is that the companies with the best financial returns have combined design and business leadership through a bold, design-centric vision clearly embedded in the deliberations of their top teams.

A strong vision that explicitly commits organizations to design for the sake of the customer acts as a constant reminder to the top team. The CEO of T-Mobile, for example, has a personal motto: "shut up and listen." IKEA works "to create a better everyday life for the many people." And as Pixar cofounder Ed Catmull told readers in a McKinsey Quarterly interview, to "wow" movie-goers continually, his company encourages its teams to take risks in their new projects: Pixar considers repeating the formulas of its past commercial successes a much greater threat to its long-term survival than the occasional commercial disappointment.

It's not enough, of course, to have fine words stapled to the C-suite walls. Companies that performed best in this area of our survey maintain a baseline level of customer understanding among all executives. These companies also have a leadership-level curiosity about what users need, as opposed to what they say they want. One top team we know invites customers to its regular monthly meeting solely to discuss the merits of its products and services. The CEO of one of the world's largest banks spends a day a month with the bank's clients and encourages all members of the C-suite to do the same. >

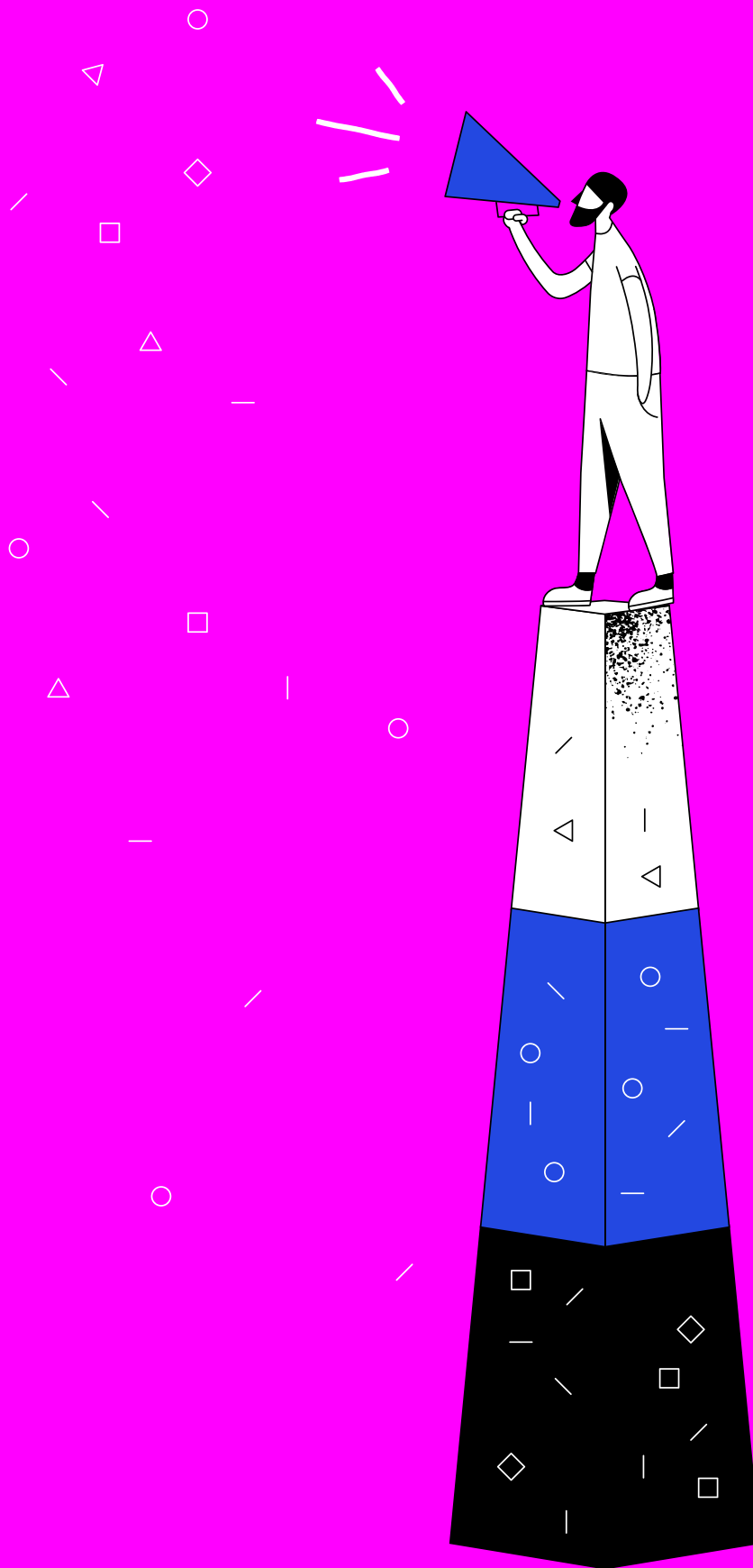


Less than 5 percent of the companies we surveyed reported that their leaders could make objective design decisions (for example, to develop new products or enter new sectors).

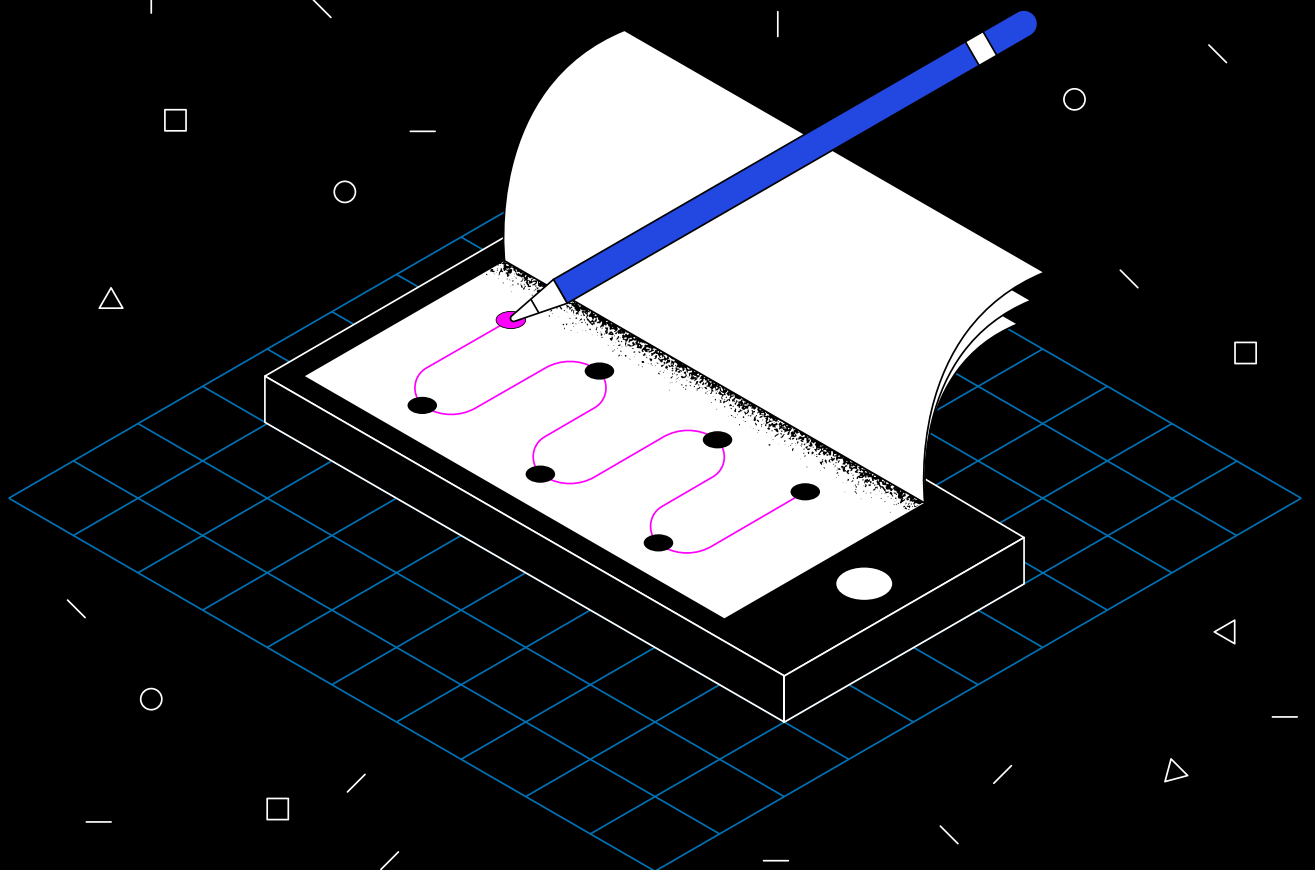
Through personal exposure or constant engagement with researchers, executives can act as role models for their businesses and learn firsthand what most frustrates and excites customers. Many companies, though, acknowledge a worrying gap in understanding at the top of their organizations. Less than 5 percent of those we surveyed reported that their leaders could make objective design decisions (for example, to develop new products or enter new sectors). In an age of ubiquitous online tools and data-driven customer feedback, it seems surprising that design still isn't measured with the same rigor as time or costs. Companies can now build design metrics (such as satisfaction ratings and usability assessments) into product specifications, just as they include requirements for grades of materials or target times to market.

"Through personal exposure or constant engagement with researchers, executives can act as role models for their businesses and learn firsthand what most frustrates and excites customers."

The value of such accurate insights is significant—one online gaming company discovered that a small increase in the usability of its home page was followed by a dramatic 25 percent increase in sales. Moreover, the company also discovered that improvements beyond these small tweaks had almost no additional impact on the users' value perceptions, so it avoided further effort that would have brought little additional reward.



More Than a Product: It's User Experience



Top-quartile companies embrace the full user experience; they break down internal barriers among physical, digital, and service design. The importance of user-centricity, demands a broad-based view of where design can make a difference. We live in a world where your smartphone can warn you to leave early for your next appointment because of traffic, and your house knows when you'll be home and therefore when to turn on the heat. The boundaries between products and services are merging into integrated experiences.

In practice, this often means mapping a customer journey (pain points and potential sources of delight) rather than starting with “copy and paste” technical specs from the last product. This design approach requires solid customer insights gathered firsthand by observing and—more importantly—understanding the underlying needs of potential users in their own environments. These insights must be championed at every meeting. Yet only around 50 percent of the companies we surveyed conducted user research before generating their first design ideas or specifications.

Combining physical products, digital tools, and “pure” services provides new opportunities for companies to capture this range of experience. A hotel, for example, might do more than just focus on the time between check-in and check-out (the service element) by promoting early engagement through social media or its own apps

(the digital dimension) and providing physical mementos aimed at encouraging customers to rebook. The reception team of one big hotel chain we know gives departing guests a rubber duck adorned with an image of their host city (such as clogs and tulips for Amsterdam). The team includes a note suggesting that guests might like to keep the duck at home as a reminder of their stay and could build a collection by visiting the group's other properties. This small touch led to a 3 percent improvement in retention over time.

“Only 50% of the companies we surveyed conducted user research before generating their first design ideas or specifications”

Design-driven companies shouldn't limit themselves to their own ecosystems. The best businesses we interviewed think more broadly. For example, ready-made meals are popular with the hard-working singles who grab them on their way home. A retailer of these meals has considered teaming up with Netflix to devise a one-click meal-ordering system, which would come into play two hours into an evening's binge viewing when the customer would receive a screen prompt. Mobile-payment services such as Google Pay and Apple Pay were the result of a willingness to think across boundaries to devise easier ways to access cash. A piece of plastic in your wallet is one solution, but how much easier is it to use a device you already carry in your pocket?

More Than a Department: It's ~~Cross-functional~~ Talent

Top-quartile companies make user-centric design everyone's responsibility, not a siloed function. In the tired caricature of traditional design departments, a group of tattooed and aloof people operate under the radar, cut off from the rest of the organization. Considered renegades or mavericks by their colleagues, these employees (in the caricature) guard access to their ideas, complaining that they have too often been burned by narrow-minded engineering or marketing heads unwilling to (or incapable of) realizing the designers' grand visions.

We are not suggesting that this stereotype is still common—or that other functions are necessarily to blame—but it can be surprisingly resilient.

One company we know, for example, unveiled a new flagship design studio to much jubilation from the design community. Before long, all the designers had moved their desks inside the studio, and had deactivated door access for the marketing, engineering, and quality teams. These moves drastically reduced the level of cooperative work and undermined the performance of the business as a whole.

Our research suggests that overcoming isolationist tendencies is extremely valuable. One of the strongest correlations we uncovered linked top financial performers and companies that said they could break down functional silos and integrate designers with other functions.

"One of the strongest correlations we uncovered linked top financial performers and companies that said they could break down functional silos and integrate designers with other functions."

This was particularly notable in consumer-packaged-goods (CPG) businesses, where respondents from companies that were top-quartile integrators reported compound annual growth rates some seven percentage points above those that were weakest in this respect.

Nurturing top design talent—the 2 percent of employees who make outsized contributions in every business—is another important dimension of team dynamics. Getting the basic incentives right is a part of this: in our survey, companies in the top quartile for design overall were almost three times more likely to have specific incentive programs for designers. These programs are tied to design outcomes, such as user-satisfaction metrics or major awards.

Crucially, though, retaining great design talent requires more than promising a big bonus or a career path as a top-flight manager. Carrots such as these are not enough to retain top design talent if not accompanied by the freedom to work on projects that stir their passion, time to speak at conferences attended by their peers, and opportunities to stay connected to the broader design community. >



Nurturing top design talent—the 2 percent of employees who make outsized contributions in every business—is another important dimension of team dynamics.



Talented designers at a CPG company well-respected for its design credentials started leaving because of the amount of time they had to spend styling slideshow packs for the marketing team. Conversely, Spotify's appeal to top designers is often attributed to its autonomy-with-connectivity culture and to a working environment characterized by diversity, fun, and speed to market.

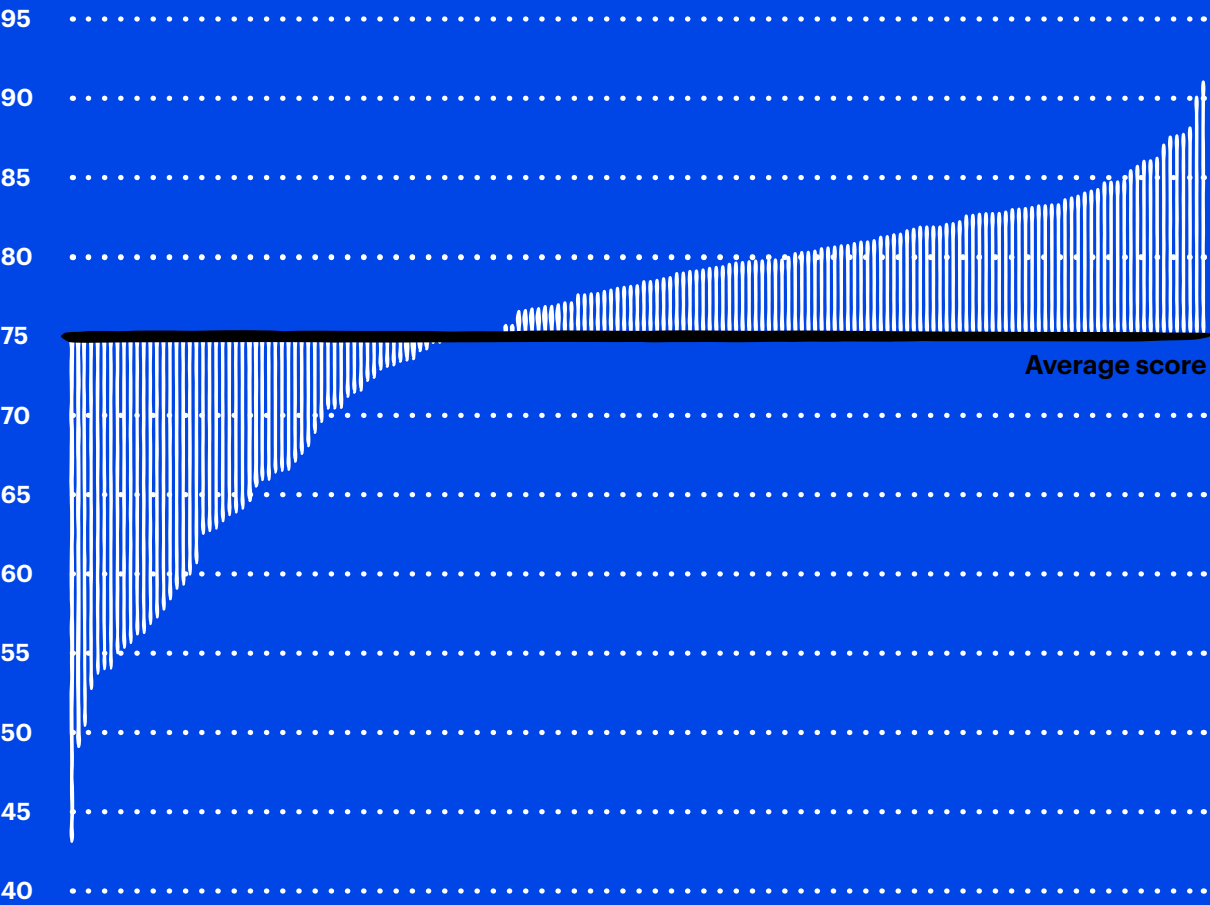
Design already touches many parts of a business: human-machine interactions, AI, behavioral economics, and engineering psychology, not to mention innovation and the development of new business models. While not a new concept, "T-shaped" hybrid designers, who work across functions while retaining their depth of design savvy, will be the employees most able to have a tangible impact through their work.

They will only be able to do so, though, if they have the right tools, capabilities, and infrastructure. That calls for the sort of design software, communication apps, deep data analytics, and prototyping technologies that drive productivity and accelerate design iterations.

All of this requires time and investment. We found a strong correlation between successful companies and companies that resisted the temptation to cut spending on research, prototyping, or concept generation at the first sign of trouble. Formal design allocations should be agreed to in partnership with design leaders instead of appearing (as they often do) as line items in the marketing or engineering budgets.

Initial survey results reveal a wide range of design performance.

McKinsey Design Index: companies' score vs the average (n = 173)



Source: McKinsey Value of Design survey of global companies, July 2018.

More Than a Phase: It's Continuous Iteration



Design flourishes best in environments that encourage learning, testing, and iterating with users—practices that boost the odds of creating breakthrough products and services while simultaneously reducing the risk of big, costly misses. That approach stands in contrast to the prevailing norms in many companies, which still emphasize discrete and irreversible design phases in product development. Compartmentalization of this sort increases the risk of losing the voice of the consumer or of relying too heavily on one iteration of that voice.

The best results come from constantly blending user research—quantitative (such as conjoint analysis) and qualitative (such as ethnographic interviews). This information should be combined with reports from the market-analytics group on the actions of competitors, patent scans to monitor emerging technologies, business concerns flagged by the finance team, and the like. Without these tensions and interactions, development functions may end up in a vacuum, producing otherwise excellent work that never sees the light of day or delights customers.

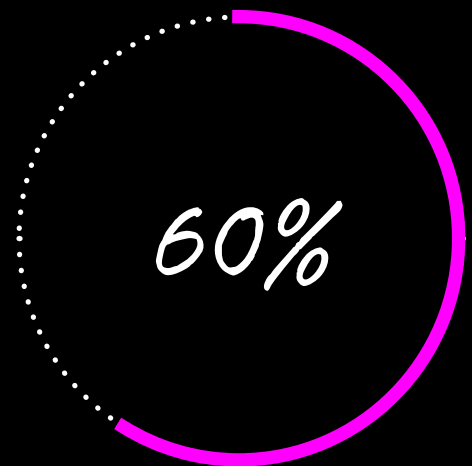
In a successful effort to improve the user experience, one cruise company we know talked directly to passengers, analyzed payment data to show which food and activities were most popular at different times, and used AI algorithms on security-camera feeds to identify inefficiencies in a ship's layout.

At a medical-technology company, blending sources of inspiration meant talking to a toy designer about physical ergonomics and to a dating-app designer about the design of digital interfaces. These moves helped the company to refine a device so that it appealed to customers with limited dexterity. The resulting product was not only safer and easier to use but also beat the market by more than four percentage points when launched.

"Design flourishes best in environments that encourage learning, testing, and iterating with users."

Despite the value of iteration, almost 60 percent of companies in our survey said they used prototypes only for internal-production testing, late in the development process. In contrast, the most successful companies consciously foster a culture of sharing early prototypes with outsiders and celebrating embryonic ideas. They also discourage management from driving designers to spend hours perfecting their early mock-ups or internal presentations.

Design-centric companies realize that a product launch isn't the end of iteration. Almost every commercial software publisher issues constant updates to improve its products postlaunch. And the Apple Watch is one among many products that have been tweaked to reflect how customers use them "in the wild."



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A First Step Toward Great Design

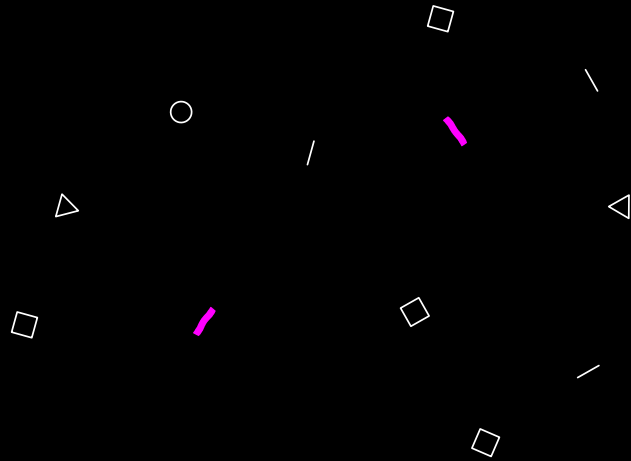
We realize that many companies apply some of these design practices—a strong voice in the C-suite, for example, or shared design spaces. Our results, however, show that excellence across all four dimensions, which is required to reach the top quartile, is relatively rare. We believe this helps account for the dramatic range of design performance reflected in the observed companies' MDI scores, which were as low as 43 and as high as 92 (Exhibit 5).

The diversity among companies achieving top-quartile MDI performance shows that design excellence is within the grasp of every business, whether product, service, or digitally oriented. Through interviews and our experience working with companies to transform their strength in design, we've also discovered that one of the most powerful first steps is to select an important upcoming product or service and make a commitment to using it as a pilot for getting the four elements right.

This approach showed far better financial results than trying to improve design as a theme across the whole company—for example, conducting trials of cross-functional work in isolation from real products or services.

"One of the most powerful first steps is to select an important upcoming product or service and make a commitment to using it as a pilot."

One medical-equipment group we know rallied around the design of a new surgical machine as it sought to head off a growing threat from competitors. The commitment of the CEO and senior executives was intense; executive bonuses were tied to the product's usability metrics and surgeon-satisfaction scores.



Cross-functional and co-located teams carried out more than two hundred user tests over two years, from the earliest concepts to the detailed design of features. In all, more than 110 concepts and prototypes were created and iterated. The final design's usability score—a measure of customer satisfaction—exceeded 90 percent, compared with less than 76 percent for the machines of its two main competitors. The ultimate solution combined a physical device, a digital data pad that could seamlessly connect with more than 40 third-party operating-theater devices, and a service contract.

In the past six months, the company's market share has jumped 40 percent, in part as investors understand the upcoming user-centric products and services that set the company apart from its competition and—even more importantly—that will improve patients' lives.

The McKinsey Design Index highlights four key areas of action companies must take to join the top quartile of design performers.

- > First, at the top of the organization, adopt an analytical approach to design by measuring and leading your company's performance in this area with the same rigor the company devotes to revenues and costs.
- > Second, put the user experience front and center in the company's culture by softening internal boundaries (between physical products, services, and digital interactions, for example) that don't exist for customers.
- > Third, nurture your top design people and empower them in cross-functional teams that take collective accountability for improving the user experience while retaining the functional connections of their members.
- > Finally, iterate, test, and learn rapidly, incorporating user insights from the first idea until long after the final launch.

Companies that tackle these four priorities boost their odds of becoming more creative organizations that consistently design great products and services. For companies that make it into the top quartile of MDI scorers, the prizes are as rich as doubling their revenue growth and shareholder returns over those of their industry counterparts ●

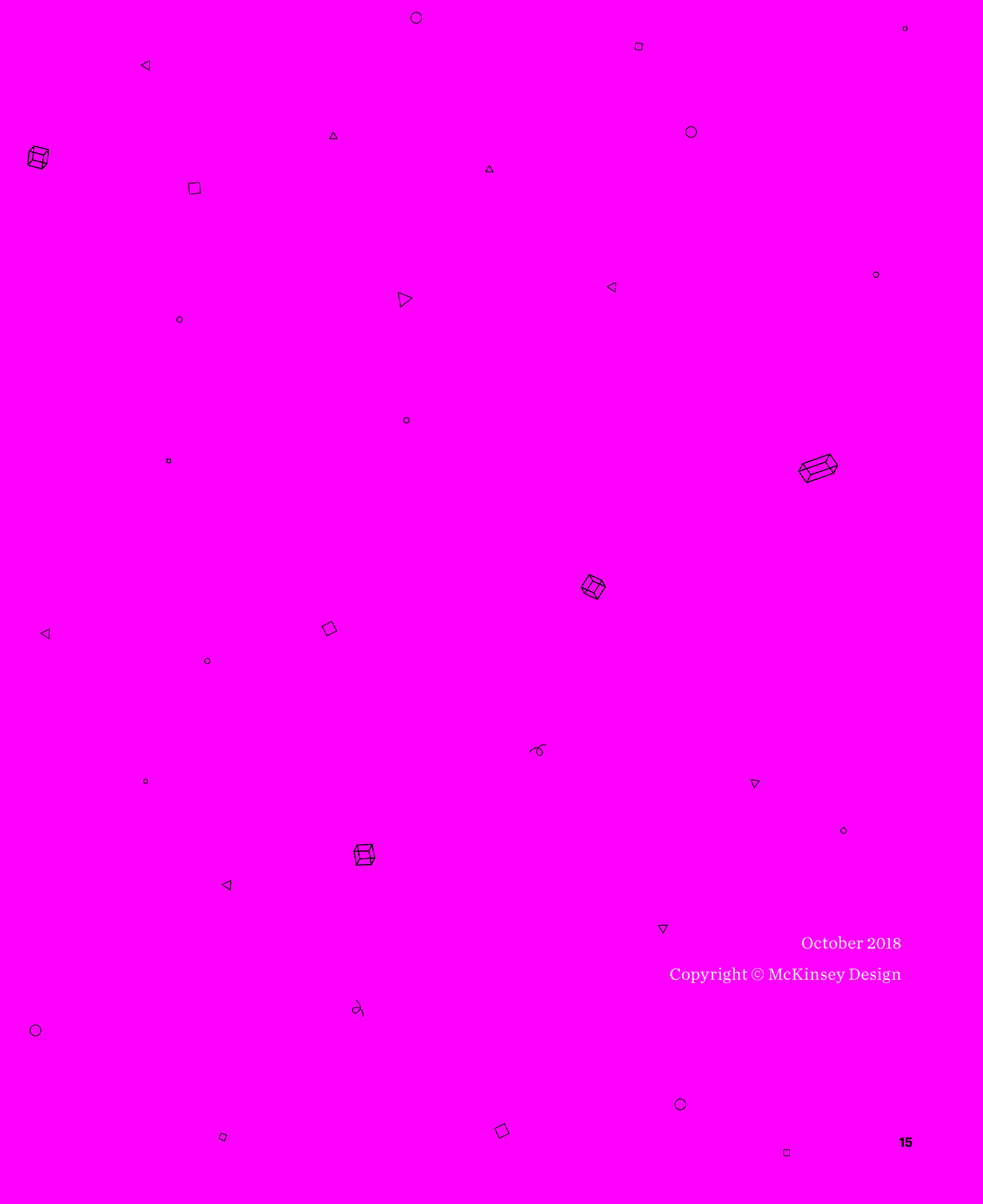
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Want to know how your organization compares? Take the 30-minute assessment at designindex.mckinsey.com to understand where your design strengths and opportunities lie, and the value at stake from further improvement.



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*"Design is more than a feeling:
it is a CEO-level priority for growth
and long-term performance."*