

Tapping into the business value of design

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Design, whether it's of products or experiences, is not only about aesthetics but also about specific actions taken to boost revenues and customer engagement.

In this episode of the *McKinsey Podcast*, Simon London speaks with McKinsey partners Ben Sheppard and Hyo Yeon about new research that demonstrates the dramatic impact that specific design actions have on the revenue growth of companies that are considered top performers in design.

Podcast transcript

Hello, and welcome to this edition of the *McKinsey Podcast*, with me, Simon London. Today we're going to be talking about one of the fuzziest words in the business dictionary: "design." Perhaps it's clear to designers, but for the benefit of the rest of us, what actually is design? As an executive, when and how much should you invest in it? And if you do, how should you organize, measure, and manage your design capability? To discuss the issues, I caught up with Benedict Sheppard, a London-based McKinsey partner who has led some recent research into the business value of design. We were joined by Hyo Yeon, a New York-based McKinsey partner and also a practicing designer.

Simon London: Hyo and Ben, thanks so much. Welcome to the podcast. Thanks for doing this.

Hyo Yeon: Thank you.

Ben Sheppard: Delighted to be here. Thank you.

Simon London: I'm going to start with a very simple question. When we're talking about design, Hyo, what are we talking about?

Hyo Yeon: There are three core elements to design. One, obviously, is the craft, the doing of design, which is closer to artisanal, beautiful, creating artifacts, creating experiences. The next is the end product, a product or a service, or, in my world, a digital experience. All of those things are actually design. The third, which is design thinking, many people are familiar with,

is the method by which we tackle problems or challenges. And it's not just design problems. It's any kind of problem that we can crack with a design-thinking methodology. So those three things come together.

Simon London: So it's like a craft, a process, and then an end product, but it doesn't have to be a physical product. It could be a service or something like that. Would you agree with that, Ben? Is that a good summation?

Ben Sheppard: Absolutely. Those three come together in that they're all trying to do one thing. They're all trying to get under the skin of understanding users and then create or design something to meet their needs. I do think design is one of those terms which means many things to many people. It's one of those terms that's abused and misused like agile and big data. One of the things that we are very keen to make sure is that design isn't boxed in as being seen just about physical products or just about a material finished aesthetic.

Simon London: It's often asserted, I think, implicitly by us as well, that design is more important today. Is that true? And if so, why is it true?

Ben Sheppard: We would argue that design has always been important. If your company isn't making great products or services, then frankly, what is it doing? What I do think has changed over the last few years is that it's getting harder to do great design and stand out from the crowd.

There are a couple of reasons for that, some of them internal, some of them external. Externally, you've got rising consumer expectations set by the likes of companies such as Amazon that leak into every field of life, whether it be consumer or business. You've got a world where marketplaces are evermore global and therefore companies are being compared to more competitors than ever before, making it hard to stand out.

Then, of course, you've got the internal piece, which is design used to be seen as a very discrete field. As design has evolved, it's become more cross-functional. Physical, digital, service design have all converged. And that's great for the end user. But from an organizational point of view, that's very challenging, indeed, to manage. And because all these different forces have come together at once, it means that that act of making stand-out products and services that really delight customers is harder than ever before for many companies out there.

Hyo Yeon: I think all of this points to something that is important to talk about, which is design is not one product or one touchpoint or one channel, even. It's the whole end-to-end journey of a user or a customer. All of that needs to be looked at in one holistic way in order to solve for any point in that journey, including all of the players in the ecosystem and looking at the beginning, middle, and end of how they experience a particular service or brand or product is the way to solve for and create really awesome design.

Simon London: Let's get to the meat of the research. Ben, if you don't mind, describe what we did.

Ben Sheppard: What we did is look at the performance of 300 publicly listed companies over a five-year period. In that five-year period, we were interested in two things about those companies. First, their financial performance: How did they do in terms of revenue, in terms of profit, in terms of shareholder return?

The second thing we were interested in is, "What are the design actions that those companies took over that same period?" The design action could be putting someone in the executive board who has a responsibility for design or it could be changing people's bonus structure to tie to design metrics, not just financial metrics. What we ended up with was a database which we believe to be truly unique. It contains two million financial data points, 110,000 design actions. And, of course, the question we then had is, "Well, is there any correlation between those two?"

Simon London: Now, how much of the information about design actions came from publicly available data like earning statements, these kind of things? Or how much of it came from getting real access to the guts of what the companies have done?

Ben Sheppard: This is really going behind the curtain with these organizations. Therefore, one of the things that we're not able to do is release the names of those companies because they've given us this privileged access, which has allowed this data to happen for the first time.

There have been other reports, which have been done with outside information before. However, I don't think, speaking with our own clients, they've been granular enough or rigorous enough to actually lead to different behavior by senior management. What we're hoping we've done for the first time is create a quantitative analytical look at what truly drives business performance from a design perspective.

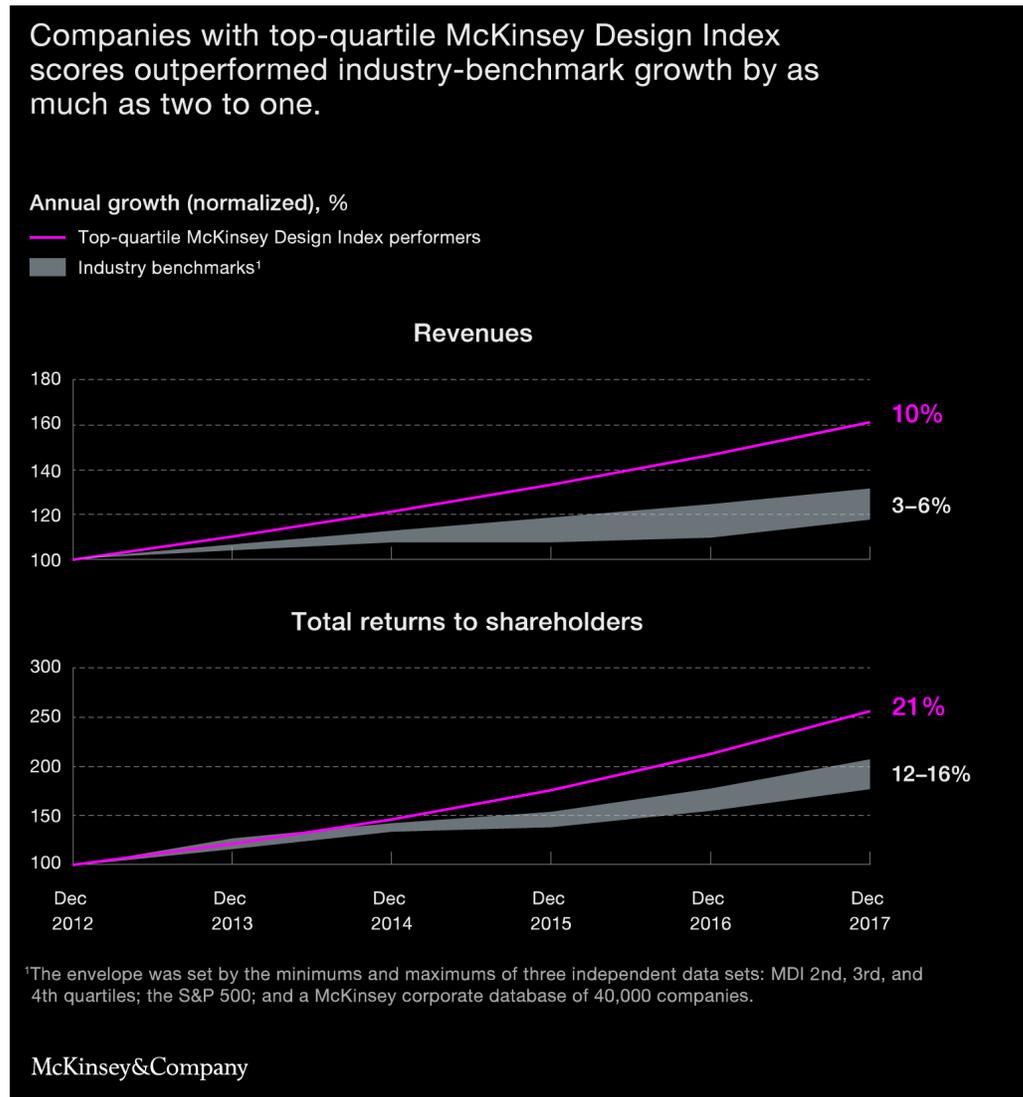
Simon London: And just give us the top-line results?

Ben Sheppard: If you only remember one thing, it's that good design is good business. The numbers are dramatic here. The revenue growth of top design performers was almost double that of their industry peers. The shareholder return growth of top design performers was 70 percent higher than their industry peers [Exhibit 1].

These are dramatic numbers. McKinsey does a lot of social-science work, looking for correlation between organizational actions and financial performance. This is some of the most dramatic that we've seen in the last decade. So that's the top-line message.

The second thing that came out of the research was that good design is good business, across a very broad set of industries. We looked at three. We looked at consumer packaged goods. We looked at medical devices. And we looked at retail banking. We chose those quite purposefully because we were interested to understand, "Is product design different from

Exhibit 1

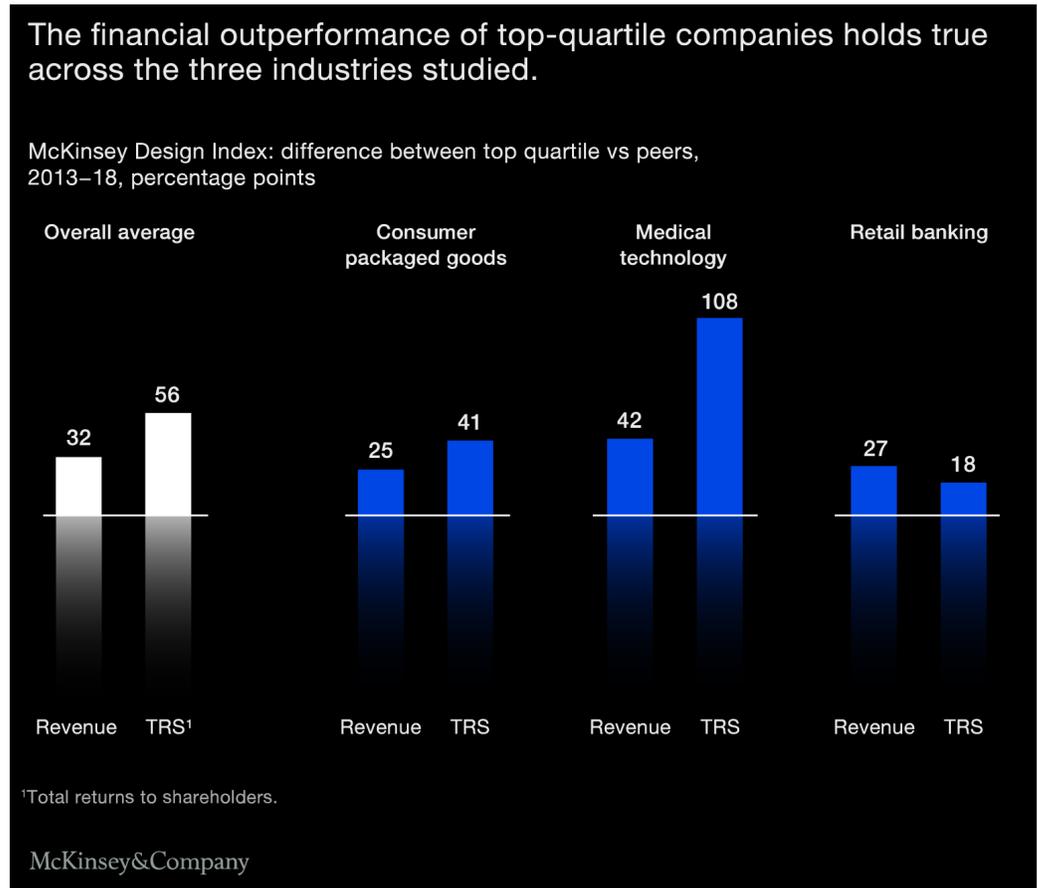


service design? Is that different from digital design? Is only one of these tied to improved business performance?" [Exhibit 2].

The results categorically say, "No, this is about design overall. It's about understanding your customers. It's about creating a great solution for them. And it doesn't matter whether that's physical, digital, or service." The third and final insight was that this is a game of disproportionate rewards. An extra dollar spent on design doesn't necessarily mean an extra dollar of output. This was really a case where, if you do design fantastically well, you stand out from the competition, then you are disproportionately rewarded in terms of revenue and certainly disproportionately rewarded in terms of the market.

And that makes sense from a user perspective. Frankly, no one cares if your product is the 32nd best or the 31st best. The user's going to be looking at the top two or three and comparing them. If you're not in that space, then you're out of the game.

Exhibit 2



Simon London: Now the question is for top-performing companies that are really good at design, what do they do differently?

Ben Sheppard: We looked at hundreds of design actions that these companies were taking. Time after time, four themes kept on rising to the surface as the design actions with the best correlation with improved performance [Exhibit 3]. The first one was around design being more than a feeling. It was about analytical leadership, making sure that you treated design with the same level of rigor that you might treat revenue or cost when discussing it in the boardroom.

The second theme was around design being more than a phase. It's about continuous iteration, making sure that from strategy to launch you continue to optimize your design by testing it with users time after time after time. Those companies that have a single discrete design phase and then never change the design after that point are much more likely to have a product that flops at launch as opposed to those companies that continue to iterate from strategy to launch to keep on improving, refining, optimizing.

And sometimes people think that means more cost. It doesn't necessarily. In fact, it can mean the opposite. If you prototype cheaply enough and early enough, you can avoid a big, costly mistake later down the line.

Exhibit 3



The third piece was around design being more than a department. Those companies that siloed the designers and didn't see them as part of the organization, didn't perform anywhere near as well financially as those who embedded them in cross-functional teams and made design everyone's responsibility. If you create an artificial silo of designers and don't allow them to integrate with the rest of the business, that usually leads to a decrease in business performance.

The final theme was around design being more than a product. No user wakes up and says, "It's brilliant that the designers on hardware and software in that company had clearly

never spoken to each other.” We are living in a world where experience matters, and you need to create a seamless experience between physical, digital, and service design. Take the automotive industry. They don’t want just a physical car anymore. They want that to connect with their smartphone. They want that to connect with their lives in a way that they wouldn’t have expected five years ago. That means a new form of convergent design. And the companies who have understood that are reaping the financial rewards.

Simon London: I’m just going to be a methodological devil’s advocate because somebody will be listening to this at home or in the car and is going to say, “Well, that’s all very well, Ben. But presumably you do just have correlation here. You don’t have causation.”

Ben Sheppard: Back to the comment around social science, yes, many things affect something like shareholder value. You could never claim that as only driven by design. It would be wrong of us to in any way suggest it. However, the 300 companies, 110,000 design actions, two million financial data points, to take that information and still through all the noise of other things happening in the world, see such strong correlation, that really suggests something quite powerful here. And it’s certainly enough to make us stand up and say, “We think this is something quite remarkable.”

Simon London: So it’s the strength of the correlation as much as anything. If it was a really weak signal, it might be more of a valid objection. But on this one, there’s something going on here.

Ben Sheppard: The strength, and it’s happening multiple times. So, absolutely, if you look at the overall performance from a design perspective, that correlates. But if you look at the individual themes of best performance, all of those correlate as well. That would be extraordinary coincidence.

Simon London: Hyo, let’s bring you in here. Of those four themes that Ben just went through, are any of those surprising to you?

Hyo Yeon: As a designer, it’s clear that a beautifully designed, well-thought-out product involves people from all disciplines of an organization. As a designer, you also know that you need to have real data and real information to inform you about how a user behaves or what the shortcomings or the opportunity areas are.

And as designers, we’ve been trained to iterate very quickly, so to involve the user throughout a design process, prototype, get stuff out there, and respond to how users work with those prototypes to refine over time. All of those principles have been our bread and butter for many, many years. I think, for as long as I can remember, I have wished that we could have an ROI [return-on-investment] conversation after a design presentation. And I think that finally we might be able to do that.

Ben Sheppard: That was one of the most stark findings in the research, was to say, “If you look at these actions, while they may be commonsense, they’re not common practice, because they need senior management to orchestrate. They can’t be done by designers alone. And

therefore, if you want to really make a shift change, you need all of your senior management onboard to make this possible.”

Simon London: So just to double click on one of the themes that you mentioned, which is more than a department. This idea that you cannot silo design, that it has to be integrated. As somebody who works with designers, slightly tongue in cheek, I must say that field’s challenging, because designers are different, right? Wouldn’t you agree, Hyo? I mean, designers do need slightly different treatment and have slightly different expectations about how they’re going to work in an organization.

Hyo Yeon: Yes. To a degree, they are different. We need space to be inspired, to think about things in a slightly different way, to learn from other designs that we come across. But I think that’s evolving. There are these—I don’t know if I should I call it “new”—but a new generation of designers that is much more T-shaped, not just experts in the field of design but also very savvy about technology, very savvy about business impact, very interested in working across the organization with many different functional areas to make sure that the end product that comes out of a design process makes absolute business sense, is absolutely usable, and is absolutely feasible.

Ben Sheppard: Once you’ve got those rare T-shaped hybrid designers inside your organization, you can then do a lot to help them integrate with the rest of the organization. You put them with people from engineering, from marketing, from finance, from project management. Aligned incentives goes an awful long way to make sure everyone’s singing from the same hymn sheet, making sure that everyone feels a responsibility for understanding the user, everyone feels a responsibility for the overall success of the product or service, can break down a lot of the internal barriers between different departments.

One example that came out of the research was for a global furniture manufacturer. They decided to close a design center, which they felt had siloed many of their best creative thinkers. They integrated those people into cross-functional teams. Fast-forward three years, not only were they getting products to market 10 percent faster because they’d reduced the internal friction, but they were generating 30 percent more revenue. That was because everyone felt that design was their responsibility, not just a small group of designers.

Simon London: Another interesting theme is this idea that bringing data to bear on design is an important set of practices. I did wonder, Hyo, as a practicing designer, does that feel a little bit like design by numbers? What’s the role of the craft that you mentioned earlier, the creative spark?

Hyo Yeon: Well, first of all, I think the data that we have access to now is incredible. The kind of very specific nuances that we can get from data and analytics is amazing, and it really contributes to great, great design. That said, I think there’s still the qualitative, the intuitive, that

special piece of inspiration that really takes it to the next level that I think is the magic of an amazing designer.

Empathizing with a user or customer is the key method or the key activity in great design that I don't think is really translatable to data or analytics or any of those things. Design brings empathy into the problem-solving process. That's the qualitative intangible.

Ben Sheppard: I completely agree. And I think there's a piece around order here. Data is a great place to start for sources of insight. There is still absolutely room for that moment of inspiration, that moment of human connection to work at how to make a product or service stand out. I think what the research shows, though, is once you've got that great idea, do check it's a great idea. Go back to the users. Test with them. Iterate. The best iteration is when you're doing it using qualitative and quantitative techniques.

If you really want to understand your users when you're designing something new, you can't just rely on ethnographic research. You need to make use of new analytic tools to understand payment data, understand click-through data, understand warranty analysis to get under the skin of users, and frankly, find out things they might not even know themselves.

Simon London: Put yourself in the shoes of a general manager, an executive committee member who's maybe not responsible for design function, has no particular design background. Are there some takeaways, Monday morning actions, things I can do differently to help raise design thinking, design process in the organization?

Ben Sheppard: Absolutely. If you want to start, don't try to do all four themes at an organizational level all at once. That is a path to ruin. It makes much more sense to choose an individual product or service which is really important and use that as your pilot for these four themes.

If you don't even have time for that, if you want to start something on Monday, there are actions you can take before even doing this on a product or service. One of the examples that we loved from the research we saw was from a consumer-packaged-goods company. The CEO really wanted to accelerate the focus on users. He felt that they'd lost touch with the users and they were just talking about financial metrics.

He walked into the room and said, "This Christmas, half of your bonus is going to be tied to how many stars out of five our products get on Amazon." Is that a perfect metric? Absolutely not. It's very crude. But instead of creating a cottage industry in design metrics, it fundamentally changed the discussion in the boardroom to say, "How will this affect our users," and had exactly the cultural effect he wanted to kick-start the discussion.

Simon London: So look for ways that you can promote user centricity, customer centricity in your organization. And where next for the research?

Ben Sheppard: The research is a start rather than the finish. We're excited about putting it out into the world. It brings with it world firsts. However, many people are going to be asking themselves the question, "How do we stack up in terms of design?"

We'll be putting out the data from this research in a form that's useful for business leaders. They'll be able to go online, test their own design actions over the past years. And that will be consolidated into a single number, a single score on their design performance. That will be their McKinsey Design Index score.

They'll be able to see how that score compares to the other 300 companies who were compared here. They'll be able to see where they're strong, where they may have capabilities that they can focus on, and crucially, "What's the value at stake here?" If they decide to go for this, if they decide, "We want to be top-quartile design performers," what could the financial benefits be?

Simon London: So there's going to be a diagnostic. There's going to be an instrument out there, so to speak, that is going to be available to all comers.

Ben Sheppard: That's the plan. We want to make this widely available. I think this is an important way to kick-start the conversations between design leaders and business leaders.

Simon London: I'm afraid we're out of time for today. But a big thank you to Ben and to Hyo for being with us today.

Hyo Yeon: It's a pleasure.

Ben Sheppard: Thank you.

Simon London: And as always, a big thank you to you, our listeners. To learn more about the research, the McKinsey Design Index, and the work of McKinsey Design, please visit us on [McKinsey.com](https://www.mckinsey.com). 

Ben Sheppard is a partner in McKinsey's London office, and **Hyo Yeon** is a partner in the New York office. **Simon London**, a member of McKinsey Publishing, is based in McKinsey's Silicon Valley office.