

2015 dmi:Design Value Index Results and Commentary

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THE POWER AND VALUE OF DESIGN CONTINUES TO GROW ACROSS THE S&P 500 dmi:Design Value Index Exemplars Outperform the S&P 500 Index (Again) and a New Crop of Design Leaders Emerge

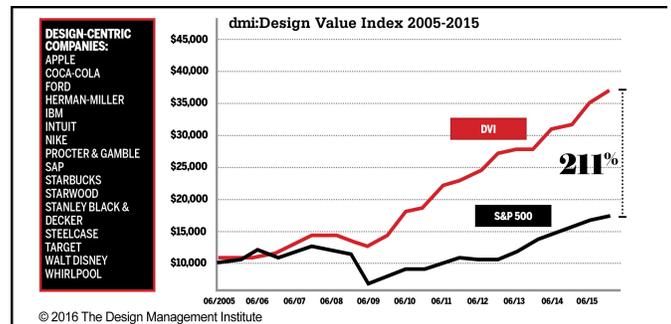
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“ **The Design Value Index Study shows 10 year returns yielding 2.11 times (211%) that of the S&P 500.** ”

The Design Management Institute's 2015 Design Value Index (DVI), based on a portfolio of 16 publicly traded stocks from companies considered to be “design-centric” contingent on a set of criteria that reflects best practices in design management, shows a 211% return over the S&P 500. This marks the third year in a row we have seen such results in excess of 200% over the S&P.

Seeing the accomplishments of this year's exemplars and studying the new companies to watch has opened my eyes on a number of fronts. First, I no longer think that it takes 10 years to build a highly-functional design organization. With the right leadership and senior level support, an enterprise-wide design function that produces results can be built in less and less time. Second, the widespread use of design as a strategic capability is unlikely to go away anytime soon.



“ In fact, today there may be more nontraditional organizations : services, non-profit, management consulting firms, and governments- trying to build design capabilities than ever before.

Third, design thinking and co-creation isn't a fad, but rather a new way for all problem solvers to put the user at the center of a problem to develop solutions from the outside in rather than the inside out. As a result, we see design not as a pure factor that makes our DVI company's stocks perform better on the stock market, but rather as a highly integrated and influential force that enables the organization to achieve outsized results.

The Design Management Institute and Motiv Strategies created the Design Value Index* as a means to measure the value of implementing best-in-class design management practices. Companies in the Index meet a set of six criteria for inclusion that includes the following:

1. Design operates at scale across the enterprise.
2. Design holds a prominent place on the company org chart, and either sits on the leadership team or directly reports to a leadership team member.
3. Experienced executives manage the Design function.
4. Design sees a growing level of investment to support its growing influence.
5. Design enjoys senior leadership support from the top tier of the organization.
6. The company has been publicly-traded on a U.S. exchange for the last ten years and thereby adheres to GAAP accounting rules.

SAP Joins the dmi:Design Value Index

Joining the group this year is SAP. Headquartered in Germany with global operations, it has worked tirelessly in the last ten years to infuse design into everything it does. Upon reading a BusinessWeek cover story written by Bruce Nussbaum about IDEO in 2004, SAP's Co-founder, Hasso Plattner, became convinced that human-centered design was the way to tackle complex challenges and make its software more intuitive and easier to use. He founded its SAP's Design Services Team as an organizational transformation incubator and followed it by making a \$35 million personal donation to found the Hasso Plattner Institute of Design at Stanford,

continuing to learn to empty the classroom. To reinforce its commitment to design, SAP has proceeded to train thousands of design thinking coaches, offer SAP design services to enable customers in experience design, and established co-creation centers in four locations around the world, called AppHouses, including its newest in South Korea.

Like many companies on the journey to become design-centric, it went to work integrating design into its product development processes and fought the common battle to drive design thinking and innovation into a then 40,000 person, now nearly 80,000 person, engineering-driven company. Led by Stanford-trained Chief Design Officer, Sam Yen, SAP has built a staff of over 500 people working in its world-wide design function and won over 27 awards, including 7 Red Dot awards. Also notable is SAP's extreme generosity in helping everyone in its path get better at understanding design through numerous educational platforms such as massive open online courses (MOOCs) to train software engineering teams, co-innovating with its customers through its AppHouses centers, and collaborating with universities such as Stanford, the Hasso Plattner Institute outside of Berlin, and the University of California, San Diego's Design Lab, as well as authoring and making publicly available a plethora of useful design tools on its website, www.build.me.

DVI Best Practices: Senior leadership support, design executive leadership, increasing investment, 10 year history of design management, working at enterprise scale, reporting into a member of its board.

Newell Rubbermaid Leaves the Index

As many of us have seen over the years, business conditions and decisions can impact how a corporation is able to keep pace with best practices in design management. DMI's Design Value Index companies will go through changes as well, including staff reductions, cost cutting and mergers and acquisitions that may severely impact a firm's ability to maintain the criteria we have set to be part of the index.

One such company this year is Newell Brands, Inc., formerly known as Newell Rubbermaid. In 2015 Newell bought Jardin Brands, which added about 120 brands such as Mr. Coffee, Oster, and Sunbeam to Newell's portfolio of 30 brands which are managed out of its new design center in Kalamazoo, MI. While this acquisition added over \$11 billion in revenue to Newell's \$5 billion thereby tripling its size, the design management practices used by Jardin, who now make up the majority of Newell Brands revenue, do not meet the criteria set for the Design Value Index. Hence with the business decision to maintain 1/3rd of the company in adherence with the Design Value Index criteria, and 2/3rds out of adherence, this gap in practice requires us to remove Newell from the Index.

DVI Gap Practice: Design management not operating at scale across the enterprise; design does not have a prominent role in the company.

Corporate Design Thrives – Our Ones to Watch (OTW)

“In the last several years we have seen an unprecedented level of S&P 500 corporations building large design functions.”

In addition to SAP, few corporations are busier building enterprise-wide design functions than Honeywell, 3M, Pepsico, Capital One and GE. Individually, these companies have made huge strides in becoming design exemplars. One strong reason why we believe that the OTW companies are meeting with a high level of achievement so quickly is because they are largely following the best practices criteria set by the DMI for companies that are eligible to belong in the Design Value Index.

Here are short profiles of these firms featuring examples of the type of progress they have made, most within the past 5 years.

Honeywell Invests in User Experience With HUE

In 2011, David Cote, chairman and CEO of Honeywell, noticed that many things in his personal life as a consumer were getting easier and more convenient to accomplish but this had not translated into the industrial sector where Honeywell does most of its business. It was then he decided that he wanted Honeywell to become the “Apple of the industrial sector.”

Of course, we've heard this battle cry before. When the iPhone was taking off every company wanted to be the Apple of their sector. But this particular CEO has been driving the organizational change required to actually make it happen, especially in the industrial sector where he believed taking a human-centered design approach to everything touched by its customers would be a real differentiator. To lead the effort, Honeywell hired Doug Beaudet as vice president, Global Experience Design, who brought decades of user experience design from Whirlpool and Eastman Kodak.

Since 2012, Honeywell has hired more than 300 designers and built 10 studios around the world. The initiative was branded the Honeywell User Experience (HUE) and was integrated into the company's innovation and new product development processes. The HUE team is driving end-to-end customer-centered design on hundreds of projects. Their early efforts are already delivering strong business results with customers and winning design and industry awards. Additionally, the HUE team took on the Herculean task of creating a brand identity and design language system to align Honeywell's brand across its large, diverse portfolio of businesses in aerospace, homes, buildings, industrial safety, chemical products, productivity solutions and transportation systems.

Cote knew that to achieve a real transformation quickly, he would have to get his general managers (GMs) to lead and own HUE in their business. He and his direct reports went through the first of what became dozens of HUE workshops that ultimately trained all of Honeywell GMs. Not only does Honeywell CTO Krishna Mikkilineni host every workshop, but Mr. Cote made sure his schedule allowed him to drop into these workshops to discuss the importance of HUE and directly answer any questions about the effort. Additionally, all Honeywell leaders are required to complete an introductory HUE online course for general awareness.

For Honeywell, HUE is now part of its DNA and culture. Honeywell recently announced Darius Adamczyk, President and Chief Operating Office, will succeed Cote as CEO in March, 2017. Adamczyk has already picked up the HUE mantle and highlighted it as critical growth enabler. “We have fundamentally changed how we operate as a company to make it easier to do business with and within Honeywell. We look forward to continuing to evolve and build on our technology and software leadership.”

DVI Best Practices: Senior leadership commitment, design executive leadership, increasing investment, design support applied across the enterprise, prominent position for design in the organization.

Pepsico Builds Design Thinking and Innovation Capacity at Scale

If you've followed best practices in design management for a while you would know that a design function has met a fairly deep level of maturity when its leader can say, “It is impossible to isolate the design function to claim credit for anything as it is totally integrate

into the business. From design in that company to the new business network, leaders from the former Chief Design Officer and Indra Nooyi, its CEO, seem joined at the hip in explaining how they are building design thinking and design innovation into the entire enterprise at PepsiCo. Over the last 4 years Porcini has built a team of 160 designers in 11 locations around the world, most of whom are funded by the businesses they support.

We can all agree that achieving a high level of business integration, getting support from senior leadership, and building a big team to make a large corporation design centric is admirable but not without its challenges. For Porcini, one of the biggest challenges he has been building a team that can make a consumer brand in a highly competitive environment supremely relevant around the globe.

Says Porcini, "We've had challenges in career pathing for designers, measuring people, and getting them to be leaders in the organization. Also, in today's environment it is hard to find the type of people who can operate fantastically well at the level just below the senior design executive. In terms of the qualities of successful leaders, they must know all facets of design and its disciplines because you need to be able to jump from one design problem to another all day. You need a great degree of business savvy – a deep understanding of the business and how design can deliver the most value. You also need empathy for your internal partners and be able to evangelize their contributions."

DVI Best Practices: Senior level support, design executive management, increasing investment, prominent place for design in the organization, and operating at scale across the enterprise.

At 3M Company – Alignment and Co-Creation Drives Innovation

3M Chief Design Officer, Eric Quint, has been in the position for almost 4 years, coming from Philips Design where he was head of design management and consulting. Quint's vast experience working in a large corporation and for other large corporations through Philips Design Consultancy clearly gave him in-depth learnings about what is most important when creating a design excellence organization.

"Speaking the language of business makes it easier to connect and demonstrate the value of design," he says. Yet he knows well that transforming a \$32 billion global company with 89,000 employees and 24 divisions across 70 countries is of high complexity and will be a marathon not a sprint. His executive design leadership role is to elevate the role of design and creativity as a global competitive platform across the enterprise. Not only is the purpose of his job to drive innovation and create relevant brand experiences beyond B2C, but also for B2B, which is the majority (around 85%) of 3M's business. After his appointment as Chief Design Officer, one of the first things Quint initiated was the definition and consolidation of the governance of design followed by getting the processes and infrastructure in place to support design scale across the organization. This included creating a taxonomy of design, defining a talent development program, and fostering a collaborative approach to creativity for 3M Design teams. Echoing a theme found in most design-driven companies, Quint says "a critical success factor for design is the level of integration and engagement across multiple business functions."

To facilitate a high level of integration, Quint collaborated with business partners and colleagues in strategy, marketing and R&D, but also aligned ongoing support for design with legal, human resources, finance and communications. Design is reporting as part of the portfolio of Marketing & Sales, Strategy and New Business directly into the Board of Management rather than into another function such as Research & Development or Marketing and Sales.

Other major accomplishments during his tenure include a global alignment of the design organization, a substantial growth of its design staff and the establishment of multiple studio locations around the globe including a new, state-of-the-art design center at the headquarters on the 3M campus in St. Paul. He also initiated the development of a new corporate identity, as part of a refresh of the company new brand platform in which the design team was intimately involved in great partnership with Marketing & Sales. This work has grown the company's brand value according to Interbrand's Best Global Brands top-100 list by 2 billion dollars over the last two years. 3M Design has elevated their role in the company around the world applying design and creativity to co-create directly with customers. The work of the 3M Design team has been recognized by over 70 international design awards by peers in the design world since Quint started in 2013.

DVI Best Practices: Senior executive commitment, design executive leadership, increasing investment and infrastructure in design, consolidated design governance and reporting into the Board of Management.

At GE Design Thinking + Agile Transform Development

Bob Schwartz, long-time General Manager of Global Design at GE Healthcare (and Vice Chairman of DMI's Board of Directors), has been working diligently since his arrival nine years ago to not only transform his division, but also help anyone at GE interested in design to get access to what they were seeking. At times this has included having a designer create a new locomotive design for the president of Kazakhstan, engineering an event designed to make front page news for GE's Healthymagination campaign, or giving his time to teach design thinking to a GE customer at a moment's notice.

In the process, Schwartz and his team have made design converts across the enterprise. He has been able to grow his team significantly to include not just industrial but also interaction designers, and to build studios in the far corners of the world, now five studios in four countries.

One of the things Schwartz is proudest of, however, doesn't typically even produce products or services. This is Menlo, GE's design thinking engine named for the industrial park in New Jersey where GE's founder, Thomas Edison, invented so many of the conveniences we take for granted today. Menlo is a place attached to many of its studios with full time staff and scores of coaches that provides design thinking facilitation not only for GE teams seeking breakthroughs, but also for GE customers and even community members.

Outside of GE Healthcare, Schwartz says "GE is now investing billions in the Internet of Things (IOT) and design is playing a big role in plans for that success." He speaks of GE's multi-billion-dollar investment in GE Digital, its San Ramon-headquartered software development center, where design thinking has become an integral end to end part of its agile process. Fellow GE design executives Greg Petroff and David Cronin are leading over 100 designers now on staff and still growing globally. This is the newest place to watch design transform the reputation and future success of this industrial giant that has positioned itself recently as "The world's premier digital industrial company."

DVI Best Practice: Senior level commitment, design executive leadership, and increasing investment in design infrastructure and methods.

Five Other Trends That Set the "Ones to Watch" Apart

TRAINING AT SCALE

All of the companies mentioned are working very hard to train hundreds of their employees about the value of design and how design thinking works in practice.

“Along with this commitment, many are turning design thinking inward to help the organization itself get better at its own internal issues that may include functional strategies and tackling vexing departmental problems.”

CUSTOMER CO-CREATION

We've seen co-creating with customers as a trend for quite a while now, but it is worth noting that the OTW companies have taken this practice to the next level by using tangible and somewhat costly structures (e.g., SAP's co-innovation labs; GE's Menlo; and 3M's innovation centers) to formally promote co-creation with their customers using design thinking methods and mindsets as well as hiring staff and devoting employee time to drive these types of efforts.

SAVVY USE OF SENIOR AND SUPPORT MANAGEMENT

Long ago when designers and business people weren't so good at understanding design and how it needs to operate, design managers were often left to their own devices with meager budgets to grow their design functions in staff and influence all by themselves. Talk about pushing a boulder up a hill. Today it's different. Virtually all of the OTW companies enjoy a seat at the table with their leadership team members as well as in getting enabling support to run design operations from legal, HR, and finance departments. This is a clear indication that the status and perception for the value of design is permanently shifting in a positive and more influential direction.

INFUSING THE BRAND

“In a world that is moving from TV-centric to one where we are a topic in the conversation, we need to earn the right to be part of the conversation. And you earn that right by being relevant,” reflects Pepsico Chief Design Officer Mauro Porcini. Corporate brand management has never been more challenged to maintain relevancy. For this reason, many of the OTW companies are playing a very big role in the look, feel, application and evolution of how their corporate brands are used and displayed across the globe.

ACKNOWLEDGE. PRAISE. REPEAT.

It was remarkable to me how, without prodding, many of the OTW design managers brought up the practice of lavishly acknowledging and praising their internal functional partners such as engineering, marketing and supply chain for the work they do bringing designs to life and launch. Are we seeing a new, largely unspoken, design best practice emerging? Yes, and that's because design can do many things, but in the end it is a team sport.

In my twenty plus years working with the design profession I can't recall a time when corporate design functions were more influential in helping their sponsors achieve and maintain leadership positions in their industries. What the DVI and OTW companies show us is that there is real management science behind making the creative force that design represents an integral factor in business success. Those interested in also achieving outsized results whether business or mission-oriented, should certainly take a page from the playbook of examples represented here.

*The dmi:Design Value Index, begun in 2013, tracks the value of a portfolio of publicly traded companies that meet specific design management criteria. It monitors the impact of their investments in design on their stock value over a ten-year period, relative to the overall S&P Index.

By Jeneanne Rae
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NOTES

The dmi:Design Value Index (DVI) is not currently an index fund and is not licensed by any regulatory body or index fund operator. As a result, the index is a theoretical construction of various equity securities deemed by experts in the field to have placed a significant emphasis on investing in design and design thinking and meet best-in-class design management practices that comprise the selection criteria.

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

While DMI is an organization with an international membership base, the basis for comparison for the Index is composed of US 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. All corporations must adhere to GAAP accounting rules that allow all of the companies in the index to be held to the same financial standards.

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