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# STRATEGIC GROWTH OF INDUSTRIAL DESIGN CONSULTANCY

## A STUDY OF CHANGES IN ID CONSULTANCY IN A POST-INDUSTRIAL SOCIETY

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### ABSTRACT

Based on a study of Swedish and Finnish industrial design consultancies (IDCs) we discuss how changes in industry have affected id-consultancies cope with growth, organizational and management issues. The traditional industrial designer worked in a small consultancy mainly with clients focusing on mass-produced products. The clients were basically domestic even if they operated worldwide. Investment in technology, for instance CAD and rapid prototyping, required larger investments and many id-consultancies saw a need to expand in order to afford these investments. The growth trend will probably continue, with further demands on management skills and this will also, most likely, affect also the small design firms. The design maturity of the client firms is increasing which will put a higher demand on the professionalization of the design firms. Although design has received more attention and is recognized as a valuable tool for competitiveness, the knowledge about what IDCs do and the value of their work is still mainly restricted to those who have experience working with designers. Many designers still argue that their clients do not see how design and strategies are interconnected. The question is whether the IDCs know how to communicate their competence and contribution to business development and strategy creation. The strategic role of design is not always clear to the client firm, but the question is also if the IDCs are clear about what strategy means in a corporate perspective.

*Keywords: Industrial design consultancy, Organization, Change, Management, Strategy*

### 1 INTRODUCTION

With the recognition in the last decade of design as an important strategic tool for increased competition by many different industrial sectors, we have seen a change in the way the Industrial Design Consultancies (IDCs) organize themselves. If the IDCs are supposed to achieve the strategic role they often argue for this is probably a change that is needed. The IDC is usually a very small, so called micro-company with a handful of employees – or a shared brand where each designer has his/her own legal company but shares an office and other facilities with fellow designers. In Sweden the largest one has about 60 employees. Being so small, they rarely have had sufficient resources to acquire global clients, so these IDCs have traditionally worked domestically, even locally. In recent years, the typical Swedish IDC, however, has changed due to changes in the industrial context, as well as to a general globalization of education and society. There is also a new desire to grow and to act in a more business-like fashion with professional managing directors, internationalization and expansion of the field of operations. The questions we wanted to investigate were how the Swedish IDCs have changed regarding organization and management, strategic competence, relationships and alliances with clients. Our interest is not in the change of the industrial design profession, but of the development of the industrial design consultancy firm, although changes in the firm are also influenced by changes in the profession. In this paper we discuss how the IDCs reasoned about and viewed these issues and the consequences for the future design consultancy.

#### 1.1 Method

The analysis in this paper is based on interviews with nine of the largest IDCs and six client companies (CF) in Sweden and Finland, and one workshop where we compared the development of the IDCs in Sweden, Finland and the U.S. The interviews were carried out in preparation for the workshop. They were analyzed by the researchers and presented as a subject for discussion by the

IDCs during the workshop. These discussions were then summarized and analyzed. The workshop was organized with six discussion groups, each consisting of representatives from all three countries and different consultancies. In total there were thirteen Swedes from nine consultancies, ten Finns from five consultancies and eight Americans from eight consultancies. A majority of the participants had been among those interviewed by the researchers. The results of the initial interviews were categorized into four issues with some propositions. These propositions were then discussed, compared and further developed by the participants. After each discussion the groups reported and a further discussion and comparison among all participants took place. We participated in the group discussions, took notes and video filmed the presentations and the following discussion.

## **2 CHANGES IN THE BUSINESS OF INDUSTRIAL DESIGN**

Researchers and practitioners conclude that the role of the industrial designer has changed (cf. Valtonen, 2007; Eckersley et al, 2003) due to new demands and changes in the marketplace. Valtonen (2007) concludes that the role of the industrial designer has changed from a product-development oriented practice to also include strategy work, thus defining themselves as strategic designers. The aim of this re-orientation is aligned with an aspiration to move from an operative role towards work of greater strategic impact. This is especially related to the increased importance of brands.

Buchanan (2001) describes the change of focus in the design discipline through four orders of design in the twentieth century. Industrial design grew out of a concern for symbols and tangible, physical artifacts which were the focus of the first- and second-order of design. Instead of focusing on symbols and things, designers have turned to reflect on the value of design in our lives. They have turned toward the actual action, which is the third-order of design. Designers are appreciated for their visualization skills, innovative viewpoints and skills in communicating ideas. However, the challenge lies in analyzing, interpreting and operationalizing the results from a customer perspective. The idea or thought that organizes a system or environment is, according to Buchanan, expected to be the focus of the fourth-order of design. Industrial designers have always been knowledge workers and consequently would fit in the post-industrial economy. During the industrial paradigm, knowledge was “frozen” in products. At the same time paradoxically the term “design” has a focus on the future. It would be fair to say that industrial design has become more of a mature business phenomenon that fits well in the boardrooms as well as on the factory floor, testing the possibility for new ideas.

Design has reached a higher status in industry compared to the situation ten, maybe even five years ago. This change has occurred at the same time as the manufacturing industry has been changing at an accelerating pace. More and more manufacturing has closed down in the domestic market and moved to Asia. The logic behind this is reduced costs and increased margins. This, of course, also affects the business of industrial design consultancies.

## **3 THE RESULTS OF THE RESEARCH**

### **3.1 Growth**

Many designers are in the business because of its creativity, because it is fun. Hence, one reason for growth is because it can lead to more interesting projects and it is easier to attract employees. But growth can mean different things.

### **3.2**

#### **3.2.1 Growth in turnover**

The turnover/employee ratio in Swedish IDCs has increased. The average for Swedish industrial design firms shows a lower turnover/employee ratio (approximately € 85000) compared to the interviewed IDCs (approximately € 103000) which leads us to believe that larger IDCs have a higher turnover per employee compared to smaller ones. With a strategic approach and a differentiation of the service into technical/ engineering, design and strategies, it is also possible to differentiate the price tag. The IDC that only focuses on strategic design shows a higher turnover/employee than those selling more traditional design, which could be explained by the higher price tag on strategic design in all companies that offer it.

Growth in income/sales means that you have to deliver more value. But it could also mean that the IDC can charge for things that are sometimes hard to put on the invoice today, for instance, idea generation.

### **3.2.2 Growth in number of employees**

In the U.K. and the U.S. there have been a number of large industrial design consultancies for many years. These have grown not only in size but also in terms of operations and strategy. Countries like Sweden and Finland with small design consultancies are now seeing a similar trend and we can find several industrial design based firms with more than 10 employees, the largest with more than 50. Several of the interviewed companies have increased the number of employees in the last couple of years. In some cases it has even doubled. The employees are not only industrial designers but come from other disciplines as well; other design disciplines, e.g. interaction design, but also business disciplines, e.g. marketing and branding. These consultancies also work with foreign clients and establish subsidiaries abroad. This growth is a response both to a need for change to manage a changing market, but also a desire to grow with better business skills. The growth and transition of the industrial design firm is, however, not an easy journey. In general there is a lack of business skills and of strategic thinking for their own firms in many of these design consultancies.

### **3.3 Management and organization**

Some fifteen years ago one of the largest Swedish industrial design firms, IDC A, selected its managing director among the partners in the company. A somewhat reluctant industrial designer took the role and tried to make the best out of it by, for instance, still trying to find some time to do design. Some ten years ago this firm decided to hire a professional managing director and advertised for this. This was the first time in Sweden that an industrial design firm sought a professional management director and was willing to be led by someone who was not an industrial designer. The person recruited had an engineering design background, but more importantly, he had held management positions in the industry. Ten years later, the company has more than doubled in size. It no longer only recruits industrial designers but also engineers, web designers, graphic designers, business administrators, marketers, and strategists. Other IDCs have chosen to continue with one of the partners/owners as managing director. The IDCs are genuinely flat organizations. Furthermore, they are typical project organizations – projects are the DNA of the firms and each project has a manager, but managers shift between projects.

### **3.4 Competences in the IDC**

Besides outstanding design skills, customers require additional competences and practices to ensure smooth cooperation, such as project management. Many IDCs were the product of friends who got together and formed a company. In the professionalization of the IDCs and with a growing design industry there is a need to have a professional recruiting process, including human resource development. Additionally, IDCs seem to benefit from having professional managers, marketing functions, etc.

A broad range of competences can make the design firm less vulnerable to defections or other disturbances. IDCs, as most consultancies, are highly dependent on business cycles. A response from one of the IDCs was to work with their market strategy and specify a number of target companies that they continuously analyze to be able to get them as client firms (CFs). In this way they try to flatten out the cycles with a constant flow of orders. The conscious work with a targeted market started after the recruitment of business people into the organization. This has also led to increased knowledge in how they communicate with their client firms.

### **3.5 Market focus**

Most IDCs have a broad horizontal offering. This means that they work across many different industries with one – or a slightly adapted process. The claim is that the offerings (processes and methods) are relevant for all industries. One advantage is clearly that through experience from different industries the IDC can act as a broker, transferring (technical) solutions from one industry to another and in that way contributing to innovations. This broad approach could be a disadvantage if the CF needs specialized knowledge of the conditions and constraints in the operations. Specialization in, for example, material or customer contexts could be an advantage in this case.

Vertical broadening for an IDC could mean that it focuses on one or a few industries and broadens its offering (i.e., the whole process from idea generation to launch). It could also mean that the IDC offers several different design services such as industrial design, packaging design, retail design, interaction design, etc. IDCs are also expanding to include service products (i.e., a service without any physical product), although the cases are still few. Packaging design is to some extent a new field. Traditionally in Sweden, the 3D packaging design is a technical and economic issue carried

out by large global companies, e.g Tetra Pak. Advertising agencies take care of the graphic design. There is a trend to change this and industrial designers, with their three-dimensional design, are getting more involved. Visionary products, scenarios or concept products are other types of projects that are involving more industrial designers. This could also be linked to strategy process services since visionary thinking often affects the long term strategy of the CF. Some IDCs offer design manager services that, for example, hire out design managers to the CF for shorter or longer periods. Engineering design is quite common among the larger IDCs today, which means that they can deliver more detailed specifications for the production. Some of these engineers have a background as engineering designers from technical universities or colleges, which mean that they are capable of understanding technical issues, but need not be experts.

The trend among IDCs seems to be broad both horizontally and vertically. This means that the IDCs operate in many different industries and have a broad offering both from a process perspective and in different design fields, such as concept, packaging and service design. From the interviews with Swedish and Finnish CFs, it is obvious that there is no straight answer if the IDC should be broad horizontally or vertically. Some general conclusions were that SMEs want an IDC that is broad vertically and sometimes horizontally. On the other hand large, global companies want a horizontally broad IDC, with experience from different industries to make them more creative. The IDC should understand the strategies of the client but not interfere with them.

### **3.6 The strategic role of the IDC**

Designers are – mostly – known as visionary people (Lawson, 1998; Stolterman, 2007). It is therefore natural to link design thinking to strategic thinking (Brown, 2008). In other words, the term “design” has to do with ideas about the future. But also with value-creation in terms of “how things ought to be” (Simon, 1969). The same is argued when it comes to the term “strategy”. A strategy is about value creation (Normann, 2001) and a long-term plan of action designed to achieve a particular goal (Mintzberg, 1994).

According to Buchanan, the idea or thought that organizes a system or environment is expected to be the focus of the fourth-order of design. The designer as facilitator of the process of business development and strategy creation can be seen as a movement towards the fourth-order of design. This is also in line with the third paradigm of business that, according to Normann (2001), is the reconfiguration of value-creating systems. Strategy creation is not a top-down process and cannot be separated from the operation of the organization (Mintzberg, 1994; Hamel and Prahalad, 1989 in Seidel, 2000). The consequence of this is a need to involve people with very different skills and specialist knowledge in the creation of strategies. This in turn can cause communication problems. Tacit knowledge resides in people and the knowledge can only be shared in social interaction. The visualization tools of the designer could enhance communication and interaction between different disciplines in the process of strategy creation and business innovation.

## **4 CONCLUSIONS**

A domain is a cultural system bounded by training, practice and shared knowledge. Domains like all cultural systems change and when that happens, people see the world differently. Things taken for granted are no longer assumed and relationships among parts change (Robinson and Hackett, 1997). It is obvious that there are several changes in the way industrial designers view their own role and how they see their businesses. This is related to growth, a broadening of the field of operations and a new self-confidence about the role of the IDCs. There is a great interest in growth and in raising the profitability of the IDCs. There is a high awareness that this would make the IDC as a company less vulnerable and provide better margins for development, for investing in new technologies, for following clients also globally. But it is also a change in attitude towards seeing the value of design from a systemic level, and as part of developing industry in the post-modern society as discussed by Buchanan. This leads the IDCs into the service industry with a focus not on the physical products but on the offerings of their clients from a systematic perspective and, with the terminology of Normann, from a value-creation perspective.

This study has shown that industrial design firms are going through a strategic development that will affect their services and relations to clients. The growth trend will probably continue, with further demands on management skills and this will also, most likely, affect also the small design firms. The design maturity of the client firms is increasing which will put a higher demand on the professionalization of the design firms. There are many designers who still want to focus on designing and one way of solving this is to hire or employ people with management skills, not necessarily with a

design background. Another trend that is noticeable is the internationalization of the Swedish design firms, especially the large ones that receive commissions from foreign MNEs. American and Japanese companies, for instance, are seeking collaboration with Swedish design firms. This is to some degree based on the fact that many Swedish design firms have won international design awards and Swedish industrial design has a good reputation. Furthermore, some Swedish design firms have also established offices in Asia, other European countries and created alliances with US IDCs.

One obvious contribution by IDCs to business development and strategy creation is the one of acting as a facilitator of the process in their client firms. They have integration skills and in addition to this, through the design tools, good visual communication skills. The integration skills are related to brand and product integration, technology brokering and bridging of competences. The communication skills are connected to visualizing problems, opportunities and ideas. Prototypes, sketches, etc., are powerful tools that enable communication between different disciplines and are fruitful to use in abstract problem solving activities. Related to this we can notice a new self-confidence among the IDCs in respect to their skills of integration, strategic thinking and communication skills. As a consequence of this it is today more common that the IDCs demand the participation of people with a technical and marketing background from the CF, and sometimes also top management when a new project starts.

Although design has received more attention and is recognized as a valuable tool for competitiveness, the knowledge about what IDCs do and the value of their work is still mainly restricted to those who have experience working with designers. Many designers still argue that their clients do not see how design and strategies are interconnected. The question is whether the IDCs know how to communicate their competence and contribution to business development and strategy creation. The strategic role of design is not always clear to the client firm, but the question is also if the IDCs are clear about what strategy means in a corporate perspective?

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