

Design for value and growth in a new world

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Customer choice has never been greater, so terrific design is essential for outstanding products and services — and to build lasting customer relationships.

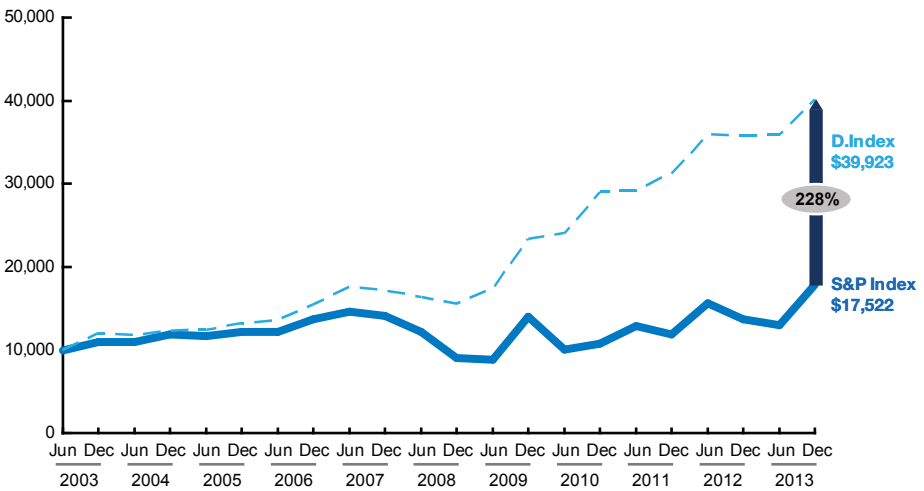
Because customers demand compelling experiences, successful companies create products with a “hook” — a certain look or unique features that meet customer desires and build brand loyalty. At a time when demand is restrained in many sectors and geographies, such products can be a source of differentiated growth. The most successful designs achieve this growth in a commercially viable way by juggling the trade-offs of maximizing customer value within constrained costs.

For many years, manufacturers have used the design-to-value (DTV) model to manufacture products at lower costs while retaining the features needed to compete. These principles have now evolved into design for value and growth (D4VG), a new way of creating products that provide exceptional customer experiences. Under D4VG, design not only creates value but also generates growth, through products with the features, form, and functionality that turn customers into loyal fans and leading to above-trend sales.

In addition to generating badly needed growth, well-designed products can also raise margins — even if, initially, D4VG products can cost more to build. That sounds counterintuitive, but makes sense if considering how a design can evolve over time. The upfront investment in a design that includes extra features or more costly materials pays off if those design choices are based on a clear understanding of a product’s core brand attributes, deep insights into consumer motivations, and innovative design thinking. These are the designs that hook customers. Once hooked, redesigns that focus on clever cost reduction lead to second- and third-generation products that are significantly more profitable. The impact of this approach is highlighted in research by the Design Management Institute. Over a 10-year period,

from 2003 to 2013, design-led firms delivered returns 228 percent above those of the Standard & Poor's 500 index (Exhibit 1). When we reviewed the institute's figures in May 2015, the outperformance was still at 219 percent.¹

Exhibit 1 Over a ten-year period, design-led firms outperformed the S&P by 228 percent.



Source: Design Management Institute; McKinsey analysis

Apple is the poster child for the D4VG-led approach. When the iPhone debuted in 2007, its sleek metal case, sharp screen resolution, and easy user interface set it apart from any other phone on the market and created a massive fan base. Since then, Apple has not only managed to increase customer value through each generation of iPhone, it has also steadily cut costs. The features of the iPhone 5, released in 2012, dramatically improved on those of the original 2007 model,² yet estimates suggest that bill-of-materials costs (including 26 percent lighter packaging with 41 percent less volume) were 8.6 percent lower (Exhibit 2). The iPhone 5 was followed by the iPhone 5S and 5C. The former, using a lower-cost polycarbonate casing instead of a metal one but offering similar functionality, was built to attract more cost-conscious customers.

Apple is not unique. Design-led value creation is being used across industries, including in CPG, by some of the largest global players. Still, most companies have not seized the D4VG opportunity. Despite the evolution of design-led product

- **MaxDiff surveys** help companies understand the relative importance of product features and attributes by asking participants to make trade-off choices.
- **Conjoint or other kinds of quantitative analysis** help identify which attributes are the most important to customers and how much value they attach to each attribute.

Organization for D4VG

To succeed at D4VG, however, companies need more than just new capabilities — they also need the organization and mind-set to use them fully. All too often, we see clients requiring help with problems that result from unresolved conflicts between different functions, such as marketing, R&D, and product design. Marketing wishes to please customers with a “gold standard” product at a competitive price, or want to avoid any impact on a successful brand; product design and R&D are under pressure to keep down costs. Despite the best intentions, these cross purposes can lead to a stalemate that delays new products. For example, at a leading fast-moving-consumer-goods company, the design team couldn’t make changes without explicit agreement from marketing, which meant that someone from senior management had to weigh in before design changes could be seriously considered.

D4VG counters these effects by relying on cross-functional teams that bring together the core stakeholders: purchasing, manufacturing, R&D, quality, marketing and sales, finance, and design. Team members hammer out their differences within the group, reaching alignment by focusing on the customer needs in question. For example, a European dairy producer set up an intensive, four- to five-month product category review process led by cross-functional working groups. Comprising about ten people, with expertise in product development, production, packaging, marketing, and distribution, the groups created a suite of product-redesign initiatives that were then validated and implemented, as appropriate, by the product-development team.

That approach needs strong leadership to bring together a diverse range of stakeholders. For example, when a global electronics manufacturer went through a two-year D4VG program to save more than \$1 billion while intensifying its products’ desirability, it set up a clear governance structure to oversee the work. A new global head of D4VG, reporting to the global chief procurement officer, led a team of D4VG project leaders who had a specific mandate to partner with stakeholders across the company’s markets and businesses to promote the development and implementation of ideas.

D4VG case study: ecobee

Toronto-based ecobee helped create a new thermostat category by being first to market, in 2009, with a Wi-Fi-enabled smart product. But it was overtaken in 2012, after competitors launched a thermostat that attracted a broader base of consumers. A design company, engaged with a remit to help ecobee regain market share, designed a program of qualitative research conducted with professional installers and homeowners to understand the ecosystem of selection, purchase, installation, and use. Following a development plan that included generating insights, prototyping concepts with users, and engineering solutions to technical challenges, the design team identified ecobee's "ownable" differences and unearthed crucial expectations that would set the new offering apart from its chief alternatives.

This design work led to the development of a new-to-market feature—remote sensors that help the system know where you are in your house and the temperature there—that gave the user greater control over all the spaces in the home, not only in the thermostat's front-hall location. The new "squircle" shape is a recognizable icon (Exhibit 3). Moreover, the user experience and interface have been tailored for each context: wall, mobile, and PC.

The ecobee3 has been recognized in multiple design competitions: a Spark Award in 2014, the PC Magazine Editors' Choice Award in 2015, and an iF Product Design Award in 2016. This design, which enabled ecobee to launch directly in several additional retailers, has driven significant growth, and it is the highest-rated smart thermostat in leading retailers' online stores.

Exhibit 3

A thermostat illustrates better design.

