Design ROI Re-envisioned

BY ROB WALLACE

A NEW SET OF DESIGN ADVOCATES IS NEEDED: INDIVIDUALS & ORGANIZATIONS WHO AREN'T AFRAID TO WEIGH THE COSTS OF DESIGN AGAINST MARKETPLACE RESULTS.

THE DESIGN AGE

We are currently experiencing the onset of design's golden age. Thanks in large part to the successes of design-driven brands and the companies that have built them, design is now gaining the awareness and respect it rightly deserves as a strategic and profit-building business tool. Design-driven brands like Apple, Virgin, Starbucks and Target have proven design's paramount value in driving every moment of consumer engagement, and propelling profits as a result.

We also live in a burgeoning age of corporate design heroes, many of whom work within global consumer packaged goods (CPG), a field that is elevating and promoting design's value. Senior VPs of Design, once a rarity, are becoming more prominent and more powerful players within the executive suite. Several forward-acting organizations have invested in the worthy position of CDO—Chief Design Officer. As a result, design is no longer viewed as a "marketing service," but as a true and equal partner with marketing in effecting change and generating value.

THE AGE OF ACCOUNTABILITY

While we live in the design age, we also live in the age of information and accountability. Today every business decision is supported by accurate and timely data. Every effort is scrutinized for its direct impact on the bottom line. The new corporate mantra is, "If you can't measure it, you can't manage it." In the vernacular, management is saying, "Show me the money."

If you are a design manager, my goal in writing this article is to help you do just that.

THE PROOF

In June of 2001, I wrote an article for the *Design Management Journal* that has been described as providing "groundbreaking thought leadership" on quantifying design's return on investment. This article represented the culmination of nearly five years of independent research on empirically calculating design's value. It was built on an ROI methodology created by statisticians, and used data from Wallace Church's brand identity/package design assignments plus a handful of additional case studies supplied by major corporate package design departments. The methodology is outlined in the book *Measuring Brand Communications ROI* by Don E. Schulz and Jeffrey Walters (Association of National Advertisers).

This Design Management Institute article concluded that, on average, every dollar invested in advertising and package design resulted in over $7 in incremental value for the brand. Great news! But even more interesting is the data from case studies where there was no advertising, and package design was the only element that changed. In these cases every dollar spent in brand identity/package design generated over $400 of incremental profit.

The chart at the conclusion of this article outlines how the figure was determined. This process is reviewed in detail in the book by Schultz and Walters, but I'll highlight how it works. Begin by establishing your base market share and profit prior to launching a new communications initiative. Then calculate all your current marketing communications expenses. In this case, the brands tested were losing an average of 4 percent share per year. Now measure sales and expenses *after* the new communications initiative. Again, in this data set, the only element that changed was new packaging design. Sales increased by 5.3 percent, resulting in an average ROI of $415+ for every dollar spent on design.

This data was based exclusively on package design assignments done for major CPG brands. However, I'm passionately confident that all forms of design can be quantified, and that when this is done, the results will also prove that design generates the greatest ROI of any marketing tool.

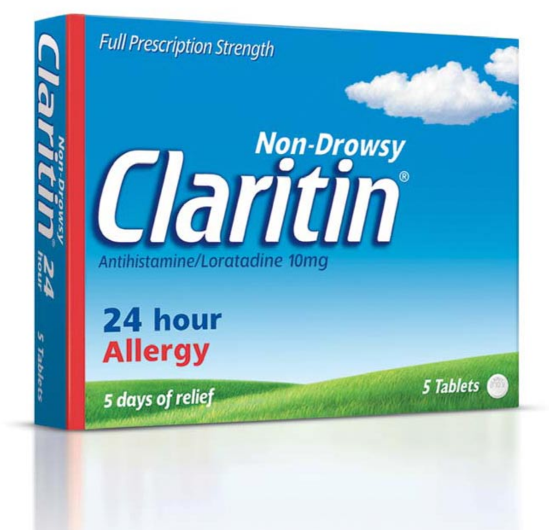
NEW INSIGHTS FROM THE FOREFRONT OF DESIGN ROI

It has been more than six years since my article's first publication, and I am happy to report that the additional data we have gathered further supports design's high ROI. I'm also happy to report that the greater business community has begun to recognize design's paramount value in brand building. I am, however, disappointed to report that we as an industry have yet to embrace a standardized method for measuring design's direct financial impact. And, as a result, many design managers still have to fight hard to justify the resources required to fund and manage the design process.

ROI ROADBLOCKS: RELUCTANCE, FEAR & DISBELIEF

While most design managers believe that proving our value would greatly benefit the design process, some remain skeptical. To them, it's wrong to extract design from all the other tools that

THESE ARE JUST A FEW OF THE NATIONALLY KNOWN BRANDS WALLACE CHURCH HAS WORKED WITH TO PROVE THE VALUE OF ITS DESIGN SERVICES.



drive purchase behavior. One individual articulately commented, "I have spent so much of my energy convincing marketing to consider design as an integral part of a synthesized branding effort, why would I want to separate it now? Even if we can, we shouldn't measure design in a vacuum, but as part of an integrated whole."

There are also those who consider the $415+ ROI result shockingly high and therefore not believable. This result seems hyperbolic and, therefore, is an easy target for "too good to be true" skepticism.

To these I say: Try it. Prove or disprove it for yourself before abandoning the concept. Until we can segment each marketing effort's specific impact on the bottom line, we'll never know how to dedicate limited resources in the best way.

There are a number of prominent design practitioners who are reluctant to be quantified. I remember well a discussion with design evangelist Tom Peters, and how he emphatically stated that design must never be "relegated to the province of the bean counter." I understand his point. Still, I'm convinced senior management will no longer allow design to fly below the accountability radar. To those who are reluctant to be quantified, I suggest that we designers initiate our own accountability process. We need to set our own standards and develop our own best practices. Otherwise, a process will surely be thrust upon us.

There are those who are concerned about setting the bar and having to continually raise it. They expect to hear, "Congratulations! The last design project resulted in a $400 ROI. On future projects I expect $500, then $750 and then $1000." To those who fear this upward spiral of expectations, I suggest that we first establish our own base standard and then embrace a process of constant improvement. We need to continually hone our best practices for determining design's ultimate profit potential.

Then there are those who are concerned that the methodology is not universally extendable to all design disciplines. Most, if not all, design disciplines result in a "before and after" that can be measured and compared against costs. Disciplines such as product design, merchandising and promotion all have measurable variables. Some design disciplines have success criteria built in, such as the "click through" in web design. Even "soft-measure" design disciplines such as corporate identity or environmental design can be analyzed against stock price or productivity. While there may be no magic bullet, I am passionately convinced that all design initiatives can and should be quantified in financial terms.

Lastly, there is perhaps the largest group of naysayers—those who flatly state, "It can't be done." These folks say, "How can you pinpoint design's specific impact? How can you control the competition, or the market dynamics, or Wall Street, or the rainy Tuesday that discourages shoppers from leaving home? Until we can isolate design from all these uncontrollable elements, we simply can't measure it."

THE MOMENT OF TRUTH

In the last few years, we've discovered there's a moment in time when ancillary influences can be metered out, and package design (for example) can be isolated as the only variable. This golden opportunity occurs when launching a major brand redesign effort.

During a redesign initiative, there is always a transitional phase where the new design architecture is phased-in to the existing shelf set. New design gradually replaces the old as the product is sold through. This transition often takes a number of months and can be a critical time to measure design's impact. Here's how to take advantage of this moment of truth:

Select one retailer to sponsor the new design. Launch the new identity in its entirety into selected stores in a specific geographic market. Divert the old packaging to the same retailer's stores in a nearby geographic area with the same consumer dynamics. Keep the pricing and merchandising efforts identical. Then, simply measure sales between the test and control stores for a period of several weeks.

During this test period, the brand's offerings are consistent, the ad campaign and its frequency are the same, and all of the intangible and uncontrollable social and economic aspects are identical. The same Wall Street dynamics and the same rainy Tuesdays preside. Design is the only variable, and the incremental sales that it generates are irrefutable.

THE GOOD & BAD NEWS

For us, these research results have been remarkably higher than expected. Our latest data is now showing an average of more than $500 of incremental sales for each dollar invested in design. In fact, in one recent case study for a leading national CPG brand, design's ROI was nearly twice that. So what's the bad news? The bad news is that the results are almost too high to be believed. Lower rates would actually seem more credible. Again, high rates seem too good to be true.

PROVING THE IMPOSSIBLE

The numbers may seem overbalanced because the cost of a package design assignment is so small when compared to other marketing initiatives. The investment in a new identity for a multi-SKU major CPG brand might require $200,000 in design fees, while this same brand might commonly invest millions or tens of millions in advertising.

If done well, a package design architecture can outlive two or three ad campaigns. Imagine the media cost if you were required to run an ad that would be seen by all of your possible consumers. In the cases studied, research indicated that only 7 percent of consumers see an ad before experiencing the product at the shelf. Now consider how many possible consumers see your package design—virtually 100 percent of your current and potential consumers see your brand's identity at retail. With up to 70 percent of brands in high-turn selling environments being purchased on impulse, design is the last and most critical opportunity to influence the sale. Considering all these factors, design's high ROI can be explained.

A NEW DESIGN ADVOCACY

If we as an industry are going to prove design's ROI, then this message cannot come from design consultants, but from corporate design management and independent, impartial and credible associations. Organizations like the DMI and the American Marketing Association need to take up the cause. In the U.K., the British Design Council has maintained a well-respected program called the Design Effectiveness Awards, where design is awarded merit based not on arbitrary aesthetics but on marketplace performance. We need its complement here in the U.S.

I am calling for a new breed of design advocates to join the fray. I'm looking for a number of passionate professionals to build upon the initial data. I am seeking new advocates to apply this or other methodologies across the entire spectrum of design disciplines. Together, let's speed the process of empirically proving design's value. S

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THE ROI OF DESIGN: A TRUE ACCOUNTING

COMPONENT	DETAILS ON COMPONENT	EXISTING BUYERS	POTENTIAL NEW BUYERS
CATEGORY REQUIREMENT ASSUMPTIONS			
1. ESTIMATED CATEGORY DEMAND	TOTAL CATEGORY DOLLARS (ESTIMATED OR HISTORICAL DATA)		$4.2 BILLION
BASE INCOME FLOW ASSUMPTIONS			
2. BASE SHARE	BRAND'S SHARE OF THE CATEGORY	19.00%	0.0%
3. BASE INCOME FLOW FROM CUSTOMERS	BASE SHARE x ESTIMATED CATEGORY DEMAND	$714,000,000	
4. NONCOMMUNICATIONS COST	PRODUCT, FIXED COSTS, ETC. (OPERATING ESTIMATE)	75.2%	75.2%
SCENARIO A: NO COMMUNICATIONS INVESTMENT			
5. CHANGE IN SHARE	ESTIMATE (OFTEN A DECLINING SHARE)	-4.0%	0.0%
6. RESULTING SHARE	BASE SHARE (LINE 2 + LINE 5)	15%	0.0%
7. RESULTING INCOME FLOW FROM CUSTOMERS	RESULTING SHARE (LINE 6) x ESTIMATED CATEGORY DEMAND (LINE 1)	$630,000,000	$0
8. LESS NONCOMMUNICATIONS COST	LINE 7 x LINE 4	($473,760,000)	$0
9. LESS BRAND COMMUNICATIONS COSTS	ZERO, SINCE NO INVESTMENT IS BEING MADE	$0	$0
10. NET CONTRIBUTION	LINE 7 + LINE 8 + LINE 9	$156,240,000	$0
SCENARIO B: COMMUNICATIONS INVESTMENT			
11. BRAND COMMUNICATIONS EFFORTS (MULTIPLE LINES DEPENDING ON THE NUMBER OF EFFORTS)	A SEPARATE LINE FOR ANY EFFORT SUCH AS PUBLIC RELATIONS, ADVERTISING, TRADE PROMOTION, PACKAGING		
11a. ADVERTISING		$0	
11b. PACKAGING		$315,000	
12. BRAND CONTACT POINTS	ESTIMATE OF THE TOTAL NUMBER OF BRAND CONTACTS EACH TARGET CONSUMER GROUP WOULD RECEIVE		
12a. ADVERTISING		0%	0.0%
12b. PACKAGING		100%	100.0%
13. TOTAL BRAND COMMUNICATIONS INVESTMENT	ESTIMATED SUM OF ALL BRAND COMMUNICATIONS EFFORTS	$315,000	
14. CHANGE IN SHARE	FOLLOWING NEW BRAND IDENTITY	5.3%	1.7%
15. RESULTING SHARE	BASE SHARE (LINE 2 + LINE 14)	24.3%	1.7%
16. RESULTING INCOME FLOW FROM CUSTOMERS	RESULTING SHARE (LINE 15) x ESTIMATED CATEGORY DEMAND (LINE 1)	$1,020,600,000	138,000,000
16a. COMBINED INCOME FLOW			$1,158,600,000
17. LESS NON COMMUNICATIONS COSTS	(LINE 16a x 4)	($871,267,200)	COMBINED DATA FOR BOTH CLASSES OF CUSTOMERS
18. LESS BRAND COMMUNICATION COSTS	LINE 13	($315,000)	
19. NET CONTRIBUTION	LINE16a + LINE 17 + LINE 18	$287,017,800	
ROI CALCULATION			
20. INCREMENTAL GAIN OR LOSS VS. NO INVESTMENT	LINE 19 + LINE 10	$130,777,800	
INCREMENTAL ROI	LINE 20 / LINE 13	**$415.17**	

COMMENTS: THIS CASE HISTORY REPRESENTS A LEADING BRAND WHICH HAD NO MAJOR ADVERTISING OR CONSUMER PROMOTION ACTIVITY. THE $130 MILLION INCREASE IN SALES IS EXCLUSIVELY THE RESULT OF THE NEW PACKAGE/BRAND IDENTITY DESIGN.