

A guide to running a business in the Industrial Design sector.

The Creative Industries Innovation Centre (CIIC) supports the business of creative enterprise. The CIIC is part of the Australian Government's Entrepreneurs' Infrastructure Programme, and is supported by the

University of Technology, Sydney. This Forensic Report summarises the insights drawn from our interactions with this sector. Overall, the CIIC has worked with more than 1,500 creative enterprises (2009-2014).

Talking point

How can Australian industrial designers prosper in an environment where manufacturing is under constant pressure?

The challenges facing Australian manufacturers are having a flow-on effect on industrial designers.

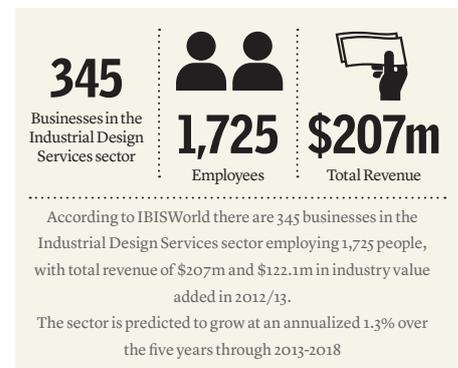
In the past, industrial designers worked predominantly for manufacturing firms on a fee-for-service basis. But as local manufacturers battle the high Australian dollar and a rise in offshore competition, industrial designers face a shrinking customer base.

Many industrial designers are combating a decline in manufacturing clients by investing in their own Intellectual Property (IP). However, the path to commercialisation often begins with the strategic decision to forego fee-for-service revenue, representing an opportunity cost. Considerable upfront investment is required for prototyping and tooling, employing quality control and project management staff, and developing sales and marketing capabilities.

The end product is generally entering a competitive marketplace, placing further pressure on margins.

In order to earn a sustainable income from IP, the above process needs to be managed through numerous product lines. Otherwise, commercialising each new design can be like climbing an enormous, nearly insurmountable mountain.

This Forensic Report analyses how industrial design firms can broaden their customer base and revenue streams. Survival may require a complete shift in your business model or service offering.



Pressure points

The challenges impacting manufacturing firms have decreased demand for industrial design businesses.

Challenges facing Australian manufacturers:

Commoditisation

Many manufacturers provide little unique value to customers and are caught in a grind towards commoditisation, price wars and diminishing profit margins.

Globalisation

A high Australian dollar encourages offshore manufacturing and increases competition for local players.

Branding, positioning and pricing

Many manufacturing businesses neglect to communicate the benefits of using their product/design, failing to distinguish themselves from cheaper competition. Others fail to fully integrate their brand and positioning into the design, or fail to align their products with brand promises.

Lack of design thinking

Many manufacturers are yet to embrace world-class design practices (such as understanding end users; or designing services and experiences).

Ripple effect on industrial design businesses:

Shrinking client base; shrinking studios

Demand for industrial design is shrinking in line with a decline in Australian manufacturing. Many smaller-scale industrial design studios have closed their doors for business, while larger studios are downsizing.

Fee-for-service treadmill

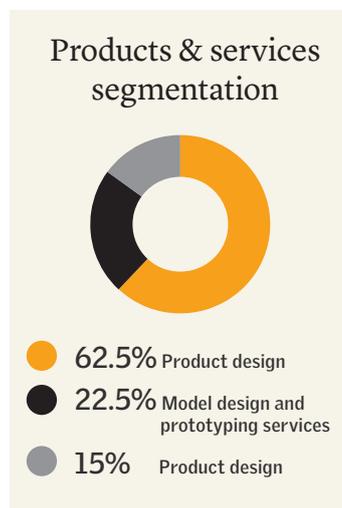
Many industrial design firms are stuck in a 'pitch, win, do' cycle and do not receive further revenue from their designs beyond an initial design fee, regardless of a product's success in the marketplace.

Lack of entrepreneurialism

Directors are 'too busy' performing day-to-day aspects of the business to develop their own IP portfolio.

Weak internal processes

Business often get 'stuck' in the journey of taking new products to market due to weak internal processes, leading to cost blow-outs, lack of quality control and bottlenecks at various stages in the production cycle.



Steps towards sustainable growth

The CIIC has identified seven critical steps towards exploiting market opportunities:



Industrial Design

\$1.36m Annual turnover
5.87% Profit before interest & tax

10 Employees
15 Years in business

A typical CIIC client in the Industrial Design sector has an annual turnover of \$1.36m, with profit before interest & tax of 5.87%. It employs 10 people and has been in business for 15 years.

The insights highlighted in this Forensic Report reflect the challenges and opportunities faced by businesses of this size.

Step 1 Explore new business models

Alternative business models include vertical integration (where the design consultancy is also the producer, or is aligned with production or distribution partners); shared IP and co-investment options; or providing consulting services to manufacturing businesses. The CIIC uses the Business Model Canvas (developed by Alexander Osterwalder and Professor Yves Pigneur) to help firms implement the right business model for their product or service offering.

Step 2 Broaden your offering

Many large industrial design firms are evolving into multi-disciplinary design firms. Others are broadening their skillsets to include service design, which means earning fees for strategy as opposed to simply executing designs. Others are transferring their skills to other industries: niche markets to consider include technology led services; defence; medical; clean energy and sustainability; resources and mining.

Step 3 Develop in-house IP

Industrial design-related consultancies commonly have a growing folder of designs sitting in their bottom draw. Commercialising these designs is a natural (albeit complex) step, but one that enables these firms to step off the fee-for-service treadmill.

Step 4 Refine internal processes

Systemise the stages involved in taking an original design to market to maximise the size and speed of return on investment. Small improvements to customer service feedback loops, quality assurance, process mapping and benchmarking

can be the difference between success and failure across multiple product launches. Protection of the IP needs to be considered including types of protection, territories and costs associated with each option.

Step 5 Sales, marketing & communications

Improved sales and marketing, PR and branding, and e-commerce strategies can help differentiate from competitors and improve product positioning and pricing. Consider developing 'channel' sales for distributors, retail, online, apps, social media and business-to-business. Employing someone in a dedicated sales and marketing role can also help with capital raising.

Step 6 Form strategic partnerships

Developing strategic partnerships between designers, suppliers, manufacturers and distributors is vital for cash-strapped, small-to-medium sized enterprises (SMEs). Forming partnerships or joint ventures with other design disciplines is a good way of offering multi-disciplinary design.

Step 7 Design integration

Leverage your knowledge of the supply chain to offer consulting services to manufacturers, helping them understand the needs of end users. Enterprise Connect's Design Integration Program helps industrial design firms and manufacturers work together to deliver world-class services and products and explore IP-sharing arrangements. It aims to increase demand for industrial designers by demonstrating how world-class design practices help manufacturers compete.

Summary

This Forensic Report reflects the CIIC's work with over 1,500 creative enterprises in Australia. To register for a free Biztro session or an Entrepreneurs' Infrastructure Programme Business Evaluation, visit www.creativeinnovation.net.au

Industrial design principals should build and structure their business to be part of a strategic conversation with clients sooner. How can you research and inform the design brief from its inception, as opposed to coming in halfway down the food chain where it is very hard to add value?

Migrating towards service design or evolving into a multi-disciplinary design studio are opportunities worth exploring. Consider

providing consultancy services to manufacturing firms.

Creating your own products and IP is another strategy for growth, however taking a product from inception to market involves many complex stages. Keeping abreast of structural change caused by emerging technologies, such as 3D printing and cloud computing, is also important.