

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 Enterprise Connect program, 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 1000 creative enterprises (2009-2013).

Talking point

How can Australian industrial designers and manufacturers draw more revenue from their Intellectual Property (IP)?

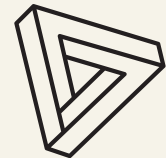
Taking a product to market is new ground for many industrial design business owners.

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 Intellectual Property (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 two groups, which share the desire to earn greater income from original design and innovation: industrial designers and manufacturers.



Industrial Design

\$1.25m

Annual turnover

7%

Profit before interest & tax

10

Employees

10

Years in business

The CIIC has worked with over 30 \$1m+ industrial designers and related consultancies. A typical client (based on median values) has an annual turnover of \$1.25m, with profit before interest and tax of 7%. It employs 10 people and has been in operation for 10 years.

The transition is not an easy one, but this Forensic Report reveals ways to make the journey more effective.

Pressure points

Challenges specifically impacting industrial design businesses:

362

Businesses in the Industrial Design Services sector



1,725

Employees



\$207m

Total Revenue

According to IBISWorld there are 362 businesses in the Industrial Design Services sector employing 1,725 people, with total revenue of \$207m and \$122.1m in industry value added in 2012/13. ** The sector is predicted to grow at an annualized 1.3% over the five years through 2013-2018

Source: IBIS World

** NB: IBIS World figures do not include manufacturing firms. If manufacturers are included, the sector is much larger given Australian manufacturing generates over \$100b in Gross Value Add (GVA) per annum.

Fee-for-service treadmill

Many industrial design firms get stuck in a 'pitch, win, do' cycle without developing a longer term connection to the client market. This means they 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.

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.

Limited access to capital

Commercial loans are harder to secure in an uncertain economic climate, leaving industrial design firms without sufficient funds to resource external expertise and personnel.

Weak internal processes

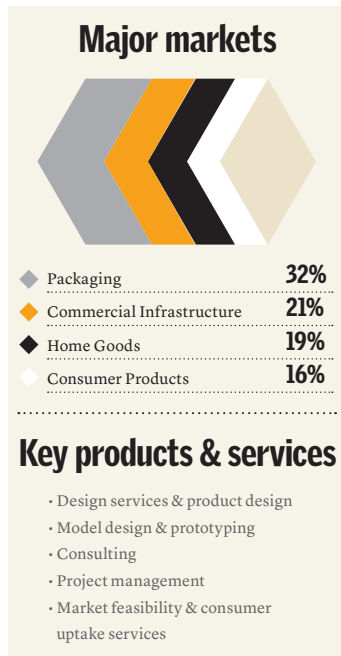
Business often get 'stuck' in the journey of taking new products to market due to weak internal processes, leading to cost blow-outs, lack of quality control and bottlenecks at various stages in the production cycle.

Branding, positioning and pricing

Many industrial design-related businesses neglect to communicate the benefits of using their product/design, failing to distinguish themselves from cheaper competition. Others fail to fully understand and integrate a client's brand and positioning into the design. Similarly manufacturers often fail to align their products with brand promises.

Steps towards sustainable growth

The CIIC has identified the following steps to help industrial designers exploit market opportunities and achieve sustainable growth:



Summary

T: 02 8217 5000
 creativeinnovation.net.au
 facebook.com/creativeinnovation
 twitter.com/c_innovation

Step 1 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 2 Explore new revenue streams & 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 3 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 4 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 5 Form strategic partnerships

Developing strategic partnerships between designers, suppliers, manufacturers and distributors is vital for cash-strapped, small-to-medium sized enterprises (SMEs).

Step 6 Design integration

Leverage your knowledge of the supply chain to offer consulting services to manufacturers, helping them understand the needs of end users. The CIIC's Design Integration Program helps industrial design firms and manufacturers work together to deliver world-class services and products and explore IP-sharing arrangements.

Step 7 Government grants & concessions

Take advantage of government concessions such as Research and Development (R&D) tax incentives and Tailored Advisory Service (TAS) funding, which is available through the CIIC Business Review service for business coaching, process improvement expertise, market research and other business development services.

Step 8 Target niche markets

Your technical and design expertise may be transferrable to other markets. Potential niche markets to consider include a movement towards technology led services; defence; medical; clean energy and sustainability; resources and mining.

Taking a product from inception to market involves many complex stages, from production and distribution to promotions, sales and quality control. Keeping abreast of structural change caused by emerging technologies, such as 3D printing and cloud computing, is also important.

For the industrial design consultancy that draws most of its revenue from fee-for-service work, the key challenge is to manage manufacturing processes more closely. This requires a healthy dose

of entrepreneurialism; harnessing of own IP; and reliable and replicable business processes.

For manufacturing businesses, it means developing design capabilities or partnering successfully with those that do to improve the viability of the product in the market.

Despite the high Australian dollar, businesses that improve their ability to commercialise their designs are well situated to flourish, demonstrating the global appeal of Australian design and manufacturing.

Enterprise Connect Hotline 131 791
 enterpriseconnect.gov.au

© CIIC 2013
 Disclaimer: The views and opinions expressed in this publication do not necessarily reflect those of Enterprise Connect, the Department of Industry, or the University of Technology Sydney (UTS). Enterprise Connect, the Department of Industry and UTS cannot accept any responsibility for any use of or reliance on the contents of this publication by any party.