THE CHARACTERISTICS OF DESIGN CONSULTING CORPORATIONS

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ABSTRACT:

The 21st century is known as the renaissance of design consulting since its importance has been increasing recently. This trend is shown in the competitive environment by the increasing number of comprehensive design consulting firms rather than general design companies in design advanced countries such as America, Germany, and Japan.

Therefore, current professional design companies in South Korea will also be transformed into design consulting firms, and the need for these transformations will be on the rise.

Professional design companies cannot fill the role of authentic design consulting firms at this point. This lack of authenticity arises not from manufacturer's from lack of appreciation of design or the methodologies adopted in the design industry, but rather from the perceived unimportance of the development of interdependent relationship between manufacturers and design consultants.

Therefore, this study clarifies the distinction between professional design companies and design consulting firms in terms of five characteristics: long-term relationship, organization of the design consulting corporation

Remuneration problems, proposal of active design and design development of a corporate strategic nature

aspect; and suggests a basic framework that design companies can apply in order to transform into consulting firms. The perception of those who work in the design field has to be changed to allow for comprehensive design management consulting so that, when professional design companies are transformed into comprehensive design consulting firms, these firms will be able to perform as strategic entities.

Academic areas in design will be expanded and segmented because of needs. The objective of this study is to create an applicable methodology and a guidebook for prospective design professionals that wish to consult.

1. INTRODUCTION

1-1. BACKGROUND OF THE STUDY

The number of expert design companies is increasing along side corporate downsizing. For the effective operation of to design companies, this study is intended to be a proposal to expert design companies change to design consulting corporations. Also, this study look at expert design companies playing an outsourcing role, presents the reasons for an expansion of the design consulting industry, and describes the differences between design consulting corporations and expert design companies and as well as the features design consulting corporations should have.

According to the report "Results of Present Situation of 2005 Design Industry" conducted by the Ministry of Commerce, Industry and Energy and The Korea Institute of Design Promotion(KIDP), the number and sales of ordinary domestic companies and expert design companies are as follows [Table 1].

Table 1: The number of design-related domestic companies and their financial scope

	A budget for design investment of ordinary companies where design business occurred	Sakes of expert design companies
Number of companies	38,384	2,245
Average sales of companies	148,740$	58,260$

The average sale of ordinary companies where design business is conducted is predicted to be about 365,690$. On the basis of the above figures, it can be seen that the economic and financial situation of expert design companies is very poor.

Why? What is the problem? According to information from the Korea National Statistical Office, the number of domestic design companies has continuously increased from 754 in 1998 to 2,245 in 2005. If the number of expert design companies continues to increase, and foreign domestic expert design companies continues to flow into Korea, there will be keen competition among the excessive number of expert design companies. Realizing that it is time expert design companies should change into design consulting corporations providing comprehensive corporate-design consulting services as one way to differentiate themselves from competitors, this study is intended to examine the conditions and features that enable change in design consulting corporations.

1-2. PURPOSE OF THE STUDY

Today, many companies demand design consulting services, not for simple design development, but for strategy development. Therefore, export design companies, to respond to such a demand, need to change into design consulting corporations providing comprehensive design consulting services. Now, on the basis of such a change, expert design companies should cope with steady improvement upwards. Most expert design companies in advanced countries are changing into design consulting corporations.

It can be seen that most expert design companies develop design in the short term and perform their business only at the request of customers. In the future, the numbers of design consulting corporations able to play the role of advisors to many clients are expected to increase. This study compares design consulting corporations with expert design companies, and identifies the features and conditions that design consulting corporations must have so that expert design companies can be converted into design consulting corporations.

2. ADVENT OF A DESIGN CONSULTING ERA

Thomas Walton, chairman of the Editorial Committee of the American Design Management Journal, suggests three reasons for the increase in the number of design consulting corporations. First, companies use more down-sizing strategies that reduce the scope of a company in order to reduce potential risks in an uncertain management environment, and thus remove in-house design departments and place orders with outside sources.
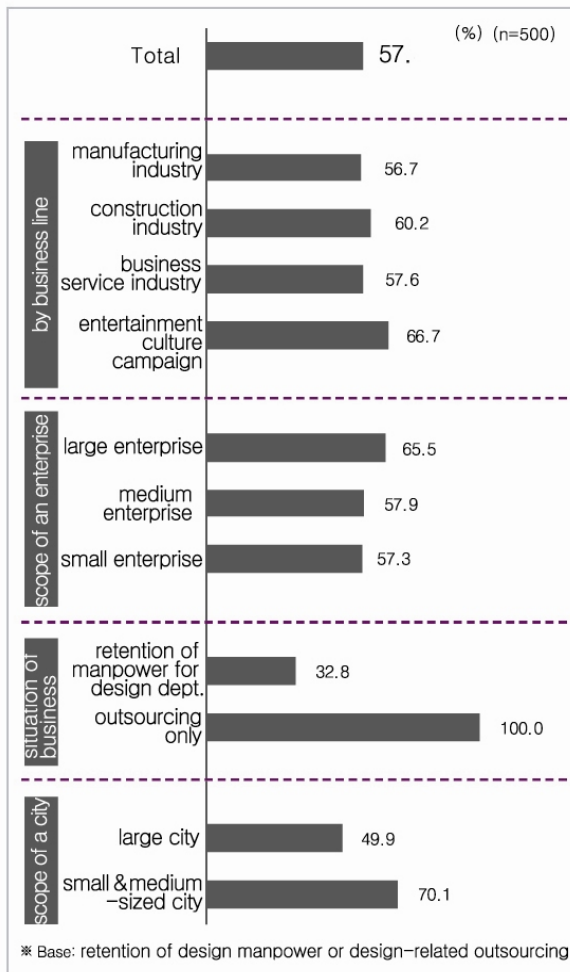
Second, because efficient design involves diverse fields, including not only design, but also marketing, consumer investigation, engineering, and a production and blending strategy, it is too restrictive for in-house design departments to take charge of all such businesses. Therefore, there is growing awareness that an external company can handle such roles more efficiently.

Third, design does not have so many technical and engineering elements and so companies tend to believe more and more that design need no long-term investment and accumulation of know-how and can be managed more efficiently by an external expert company. As such, present expert design companies, no longer asked to take up simple design work as they were in the past, are required to be in charge of comprehensive design consulting business as if they were design departments within corporations.

Owing to the reduction or removal of design departments from companies as a part of corporate down-sizing, design professionals began to look for new jobs or to start their own small-sized personal businesses, which can be said to be the main reason for an increase in the number of expert design companies. Such a situation seems to have followed the Japanese business recession in the 1990s. The scope of the 'Results of Investigation of 2005 Design Industry' conducted by the Ministry of Commerce, Industry and Energy and KIDP are shown in [Fig. 2].

The proportion of companies which outsourced design among those companies where design activities took place was found to be an average of 57.5%. As regards the proportions by business line, 56.7% of the companies in the manufacturing industry, 60.2% of those in the construction industry, 57.6% of those in the business service industry, and 66.7% of those in the entertainment/culture/sports industry outsourced their design work. The fact that the proportion of companies which conducted outsourcing through their design departments or design staff was found to be 32.8% means that the proportion of outsourcing due to corporate downsizing is high.

Figure 2: Ratio of design outsourcing

(%) (n=500)

Total		57.

by business line
- manufacturing industry — 56.7
- construction industry — 60.2
- business service industry — 57.6
- entertainment culture campaign — 66.7

scope of an enterprise
- large enterprise — 65.5
- medium enterprise — 57.9
- small enterprise — 57.3

situation of business
- retention of manpower for design dept. — 32.8
- outsourcing only — 100.0

scope of a city
- large city — 49.9
- small & medium-sized city — 70.1

※ Base: retention of design manpower or design-related outsourcing

This implies it is time that expert design companies should not remain as simple subcontractors and should instead transform into design consulting corporations.

3. DIFFERENCES BETWEEN AN EXPERT DESIGN COMPANY AND DESIGN CONSULTING CORPORATIONS

The differences between expert design companies and design consulting corporations will be described in terms of three aspects, and the conditions and features of design consulting corporations will be introduced. First, the differences between design consulting and design outsourcing are summarized in [Fig.3].

Figure 3: Differences between design outsourcing and design consulting
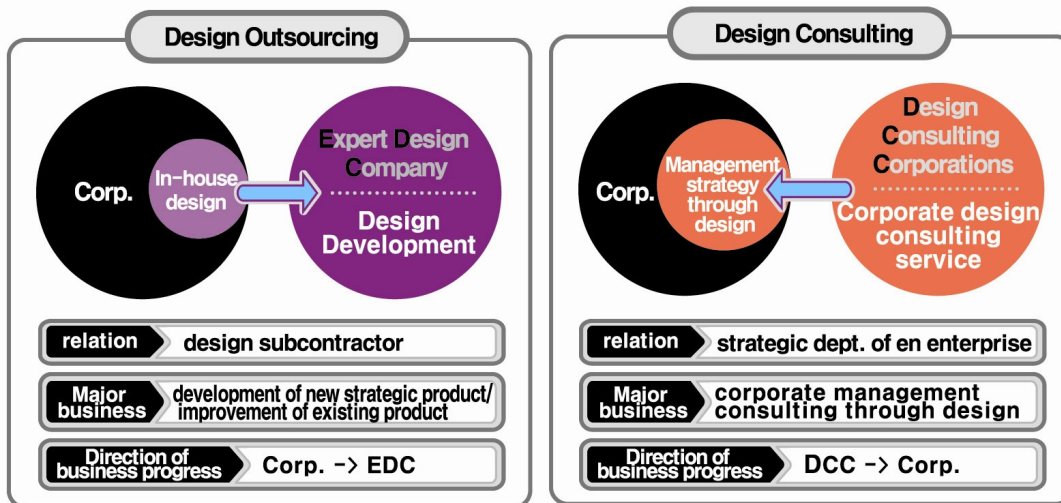
First, relatively speaking, the expert design company is fully in charge of its subcontracts, and can be regarded as a design subcontracting corporation in charge of only design for customers. But the design consulting corporation exists outside the client corporation and plays the role of a strategic department in it.

Second, design outsourcing is likely to be project-based(project by project) and simply supporting design activities for the improvement of existing products. Generally a client corporation comes to be dissatisfied with an expert design company if the good ideas can not be generated any more by the expert design company, and they tend to entrust another expert design company with the project. The design consulting corporation, however, performs integrated management consulting by inspecting and adjusting the client corporation's design, diagnosing whether or not such inspection and adjustment accords with the direction pursued by the client corporation, and providing it with integrated management such as branding, advertising, and etc.

In conclusion, Design Outsourcing usually involves design work entrusted to an expert design company through an in-house design department or another department in need of design. Design consulting, however, materializes a design management strategy suitable to the situation, which can be said to be the biggest difference from design outsourcing. In the case of the design consulting corporation, a long-term business relation can be established and it can propose designs created to the client corporation's branding, with the consumers having been considered before design development, so that corporate management consultation is possible through

design. The role of the design consulting corporation can be briefly defined as a long-term relationship with the client corporation as if it were a strategic department of the client corporation materializing corporate management through design and ensuring consensus on a corporate image by inspecting and adjusting the internal and external images of the client corporation.

4. FEATURES OF DESIGN CONSULTING CORPORATIONS

To become a design consulting corporation, five conditions apply: long-term relationships, organization of corporations, remuneration problems, active design proposals, and design development of a corporate strategic nature, which will be discussed below.

Figure 4-1: Design Consulting Characteristics
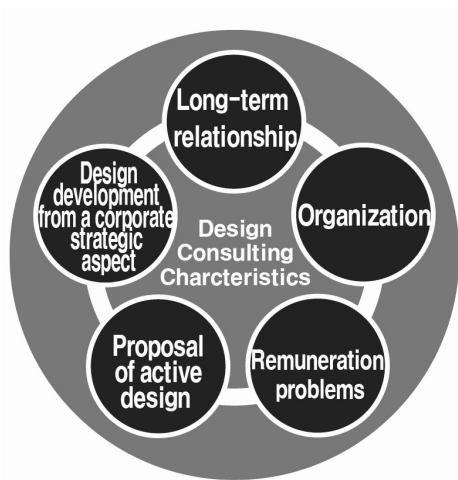
4-1. LONG-TERM RELATIONSHIPS

A prerequisite for operating a role as design consulting corporations is the formation of long-term relationships with client corporations. Today, corporate design should be utilized as a communication tool in forming a corporate image and identity, not in terms of the success of an individual new product but from a long-term perspective. This implies that today's consumer products have to be marketed not on the basis of 4P (products, price, place, promotion), but on the basis of the image and identity of the long-term corporation-consumer relationship. But, an understanding of the corporate image and identity as a long term communication tool cannot be

established on the basis of a short-term relationship with client corporations. Such an understanding cannot materialize unless you completely understand the vision, culture and identity of a corporation through a long-term relationship with it. Accordingly, a design company, through the establishment of a long-term relation with a corporation, must understand the unique features of the corporation not by cognition, but by emotion, and, on the basis of that, play an essential role as if it were a strategic department which exists in the corporation, though it exists outside.

The points a corporation must follow in order to develop such a long-term relationships can be summarized as follows.

Figure 4-2: Roles of a client enterprise for long-term relationship
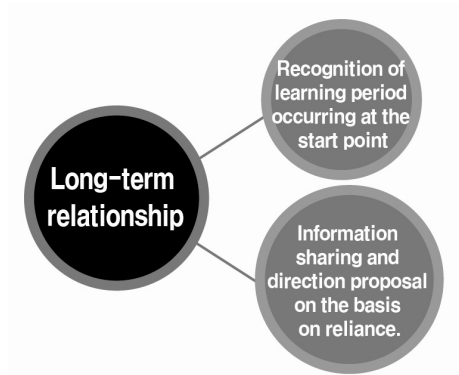
First, client corporations can obtain better results if they recognize the need for a learning period.

Recognition of the need for a learning period in the process of progress is necessary. It can be said that the need for a learning process in the market is recognized in technical development, but such recognition is limited in design. Most publicized corporate design cases are successful ones, but learning is obtained more from failure. In fact, most corporate design work is likely to end in failure. Failure is a necessary part of organizational learning, though it may be a problem for designers who must be provided with the opportunity to benefit from a learning period, but if they see the learning period as an investment rather then cost, they will obtain more results than expected.

Second, it is necessary to share enough information to build a basis for enhanced mutual understanding. Inexact or insufficient information on client corporations makes it impossible to guarantee the completeness of the results. Unless the client corporation participates in and

progresses together with the design consulting corporation through a project, better results cannot be expected. Jack Williamson, Professor of the Art Department of Michigan University, said that the success or failure of a design cannot be determined with just one transaction. He maintained that a One by One Project cannot create a corporate strategy. He published his paper together with James Tischler, a customer who provided an example of the good and ready customer and participated in an actual project. He was the chairman of the Michigan Right & Interest Committee, and committee members only had an interest in pending projects, but had to organize a committee consisting of administrators win leadership skills and willing to spend time, not to invest money for the development of one organization. He also had to transmit messages through lifelong programs and publications and promote the rights & interests of private organizations. To develop a logo at that time was the last method that came across his mind and, in those days, he had no idea of the diverse tasks involved in making a well designed logo. What he felt most was a well-designed logo created a sense of reliability and interest. A logo makes people feel pride in participating in an organization and strongly focuses their attention on its messages and missions through memory. They said that during operations, good results could be obtained because the Right & Interest Committee of Michigan participated in fully and the direction intended was indicated in a definite manner. When requesting a logo, if the company had just requested that it should be made in a good shape, much time would have been spent, and there would have been many amendments and undesirable results obtained, until successful results could be obtained. But, the Michigan Right & Interest Committee was a ready customer. The committee members explained in detail all the things they did in society, shared all the required materials and data, participated in the meetings for making logo, and worked with the understanding that they designed the logo together. Design consulting corporations will obtain satisfactory results when information interchange and proposals of direction based on the understanding obtained in a learning period and mutual reliance are smoothly proposed, and when this is proven, the establishment of long-term relationships will be possible.

4-2. ORGANIZATION OF A DESIGN CONSULTING CORPORATIONS

A human environment for changing into design consulting corporations should be provided. A proposal for the organization of corporations is summarized in terms of two aspects.

Figure 4-3: Organization of a design consulting enterprise

First, the organization of a corporation should contain an interdisciplinary sphere. The expert design company handles only design-centered business, but the design consulting corporation should include designers, marketers and engineers as if it were a small-sized design department of a regular corporation. This type of company would operate with a Task Force system which includes experts in diverse businesses. For example, of the staff members composing the Japanese 'GK Design Group', industrial designers accounts for 12%, office workers about 15%, and the remaining employees include experts in architecture, social psychology, lighting, philosophy, science and business administration. And 'IDEO', a typical design consulting corporation in America, started its business only with four employees at first; at present the talents staff include over 300 persons engaged in work related to various fields such as business strategy, marketing strategy and human resources management. Therefore design consulting corporations feel effective results may be expected when experts in various fields gather and promote a project by integrating the special skills of their own fields.

Second, the rigid structure of corporations should be improved on. Designers of a corporation usually make only visual proposals, which have to go through various report stages until approval for them is finally obtained. Therefore, many of these proposals do not reach the final decision-maker. If corporations are to decide one of the two choices, investing in technology or in design, most corporations would delay design development. So design development, brand improvement, and etc. in corporations would be naturally delayed. Because even if brand management is in more urgent need than the expansion of the production line, a budget is likely to be assigned to the department having stronger power. As a solution to this problem, the appointment of a 'design champion' may be considered. A design champion is a person occupying a position at director

level reporting to senior staff, controlling junior staff who establishes and adjusts the system for a project, giving his opinion for consideration in final decision-making, and exercising control as a whole. If a design champion exists in an organization, not only the development of a product, but also integrated management as well as speedy management would be possible. Cases can be frequently observed where prospective ideas are not proposed out of fear that such new ideas may end in failure. Such a failure, if any, must be recognized as one of the necessary processes for success. If the above proposals on organization can be utilized suitably to match the characteristics of a corporation, the corporation will have the organization power of a design consulting corporation. Two points were described about the internal structure of design consulting corporations and a suitable organizational structure suitable for corporations is required.

4-3. REMUNERATION PROBLEMS OF DESIGN CONSULTING CORPORATIONS

Entering the 1980s, the English design consulting industry made remarkable progress. Client corporations felt their relationship with design consulting corporations was to do with purchasing a product for money. That is, client corporations felt as if they had purchased a product from design consulting corporations when they ware provided with consulting services for money. A company in the past requested a design package. But the company needed an integrated solution rather than a packaged one. To solve the problems of a design project, first of all, it is necessary to have an outside corporation diagnose the problem of the company and look for design consulting suitable to the company. And it is better not to think that the design consulting corporation will at its discretion propose a good design. The client corporation and the design consulting corporation should think they are one team when carrying out a project. Unless they carry out a project as a joint one, with a joint sense of responsibility, and cooperate with each other, a successful result can not be expected. Pitch Company, a design consulting corporation, published a thesis on compensation in the Design Management Journal (DMJ). In the thesis, 7 models of consultant compensation are introduced.

① Employment based on fixed compensation: This method is widely used today and involves ownership transfer in exchange for a certain amount to be paid.

② Employment based on success compensation: This method involves giving compensation for the successful according to results of a client project and the amount stipulated in the contract is given regardless of the amount of contribution from the consultant.

③ License without royalty: This method involves transferring ownership that com be used in a specified field to a client for a certain payment with the intellectual property right being partially retained.

④ License with royalty: This is a method involves royalty payment for a period and percentage of royalty is agreed upon between the parties.

⑤ Stock option: This method involves the client corporation transferring its stock to a consultant at a price less than its face value. The stock can be sold after a certain period has elapsed.

⑥ One-sided direct investment: This method involves a consultant investing cash in the project of a client corporation. The investment can be disposed of anytime regardless of the approval of the client corporation.

⑦ Joint venture: This method involves a client corporation and a consultant jointly sharing any and all risks and compensation arising from their co-operation as if they were engaged in a partner relationship. It would be rare for an expert design company to calculate the design fees as only expenses to be incurred before receiving a request and discussing the incentive later. In case a design ends in failure, the responsibility for the failure is jointly shared. The mutual reliance and responsibility become high and thus a successful result can be obtained, which will lead to a long-term business relation between the two companies as partners.

4-4. PROPOSAL OF ACTIVE DESIGN

A designer should withdraw from passive design work that involves proposing a design only when requested, and instead perform active design work by proposing a new design based on superior ideas to a client. Also a designer should perceive the essential value of design and perform high value-added design work. Accordingly, on the basis of a potential success, a designer should develop as good design and propose it to corporation or a client in such a way that the designer can have legal ownership of the design and create profits including design fees by developing the design.

Figure 4-4: Active design paradigm
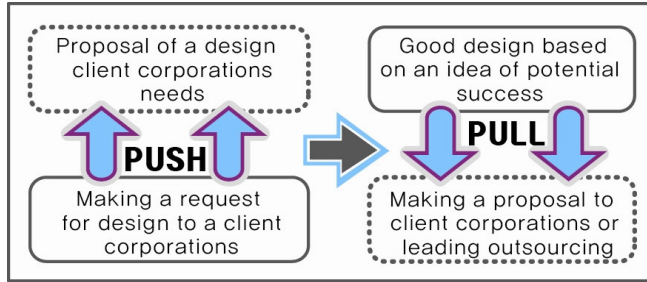
4-5. DESIGN DEVELOPMENT FROM A CORPORATE STRATEGIC ASPECT

In design development or improvement work, it is necessary to investigate and analyze whether or not the brand, package, advertisement, and etc. related to design suit the image of the corporation and, if not, the consultant should propose suitable alternatives by analyzing whether or not the problem is related to a product or the CI. Victor Seidel of Stanford University summarized the roles of a consultant, on the basis of an interview and a questionnaire, as follows.

① Strategy Visualizer: Design is the visualization of a strategic goal. This and represents the most basic and traditional designer role.

② Core Competence Prospector: This involves the ability to predict superiority in essential competition. Sometimes, a client corporation seeks new strategic help input to change an existing strategy. In the case of, a corporation having various departments, it sometimes requests help when it tries to advance into a new business field or diversify its business. The role of a prospector is to predict the potential of market success from a third party's standpoint.

③ Market Exploiter: The exploiter should make a proposal so that corporation may advance into a new area covered in existing operations. As an example of having opened a new market by considering the action and the psychology of consumers, Coca Cola developed 'Morning Coke' to target consumers in the morning. In the case of Arm & Hammer, a company that specialized in baking soda, its product did not sell well to ordinary homes, and so it developed toothpaste, a deodorant, and etc. and opened up new markets. These cases show that a market can be extended by modifying an idea or widening a product's usability. Therefore, it is necessary to

provide a new strategic direction by understanding the essential ability of a client corporation and having an insight into the market.

④ Design Process Provider: This involves dealing with the problems arising from any of all the processes and procedures related to design, including problems related to personnel affairs, decisions on the extension or reduction of the product line, or the involvement of marketers or engineers and the persons supporting such design stages called 'Silent Designers'. To develop design of a strategic nature, the characteristics of the client corporation has to be determined. If a client corporation is innovative, it would be desirable for a designer to take the lead in a project and adopt an aggressive product-centered marketing strategy, and if a client corporation is a late acceptor of innovation, it would be better to use an analysis that targets the consumers or basically map out a strategy to concentrate on image management.

The following case shows an example of design development of a strategic nature.

Figure 4-5: Relation among acceptance of renovation, an expansion model and a design development process
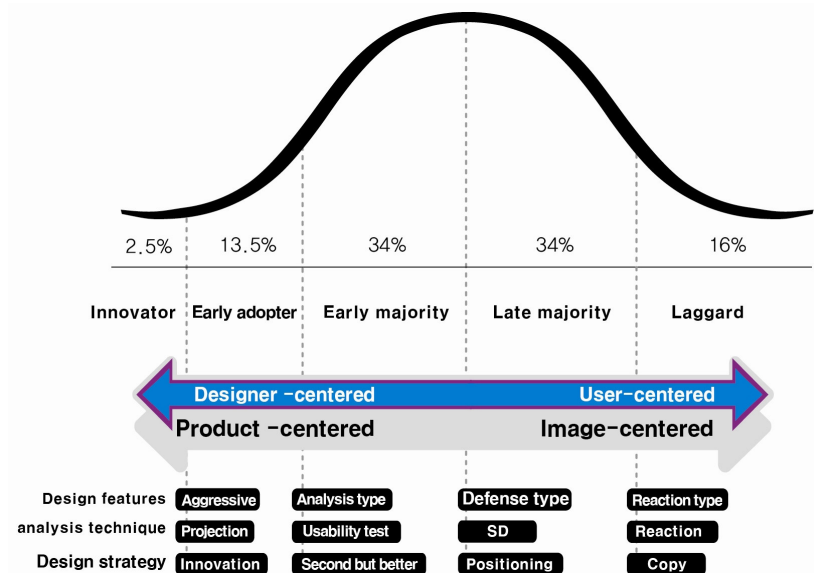
A corporation can be variedly classified from being innovative to being less developed according to its brand value and asset scope. Each corporation, depending on its features, can promote diverse strategies from innovative to steady design development. The design consulting corporation should decide where to direct the strategic focus in design development by grasping the location and situation of the client corporation. If a decision on such a strategic situation is not

made, the relevant design is likely to terminate as a simple design development process. In this case, it can be said an expert design company is limited to project-based design development and has difficulty in providing design consulting service of a strategic nature.

5. CONCLUSION

Now, it is the age of design consulting service. Demand for such design consulting service comes from corporations. Expert design companies, to meet such a demand of the times, is required to change into design consulting corporations providing strategic design development services rather then project-based design services. In relation to this, this study proposed five agendas as features of a design consulting service corporation: long-term relation with client corporations, organization of consulting corporations, problem of compensation, proposal of active design, and design development of a corporate strategic nature. In their business progress with existing client corporations, design consulting corporations should not develop a design just as requested by the client corporations as they did in the past, but should be able to propose a design and a strategy as if they were an internal department of a corporation. To do this, the manpower of an existing expert design company is insufficient. It should gradually change into a design consulting corporation, and when experts in diverse fields gathered together, design could play a core role in operating corporations. Also, if the company makes profits and at the same time shares some responsibility for damage and proposes effective strategies according to the status and features of a corporation, long-term relationship will be established and thereby mutual profits will be gained.

It is expected that in the future lots of expert design companies will change into design consulting corporations seeking to work on design development of a strategic nature rather than project-based services. Future studies should examine such changes and the problems related to the operation of design consulting corporations. Many studies are expected to be conducted in the future on the efficient operation of design consulting corporations.

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