



Report 2

A European initiative by the
Bureau of European Designers' Associations

The BEDA Communication Series

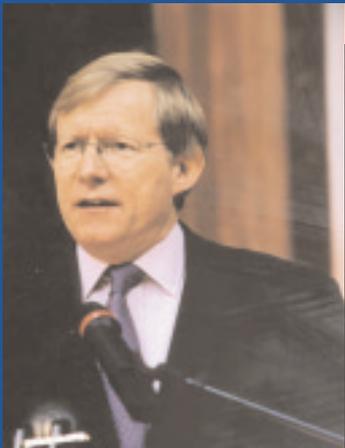
THE VALUE OF DESIGN TO THE EUROPEAN ECONOMY

Design as a key intangible – delivering value to the bottom line

8 June 2001



Andrew Summers



Giles Merritt



Eusebi Nomen



Shallendra Kumar



Preface



This report sets out a record of the proceedings of the second meeting of BEDA's Communication Series held in Brussels at La Bibliothèque Solvay on Friday 8 June 2001. The meeting brought together high-level representatives from across a number of key Directorates General to listen to three key-note presentations and to take part in a discussion about the role of design as an often underestimated key intangible which brings considerable value to today's competitive economies. As my predecessor Severin Filek outlined in our first report, (November 2000), the role of the BEDA Communication Series is to raise awareness in Brussels about the relevance and impact of design in the European Economy. Contributing to this aim, the three key speakers, Andrew Summers, Chief Executive of the British Design Council; Shailendra Kumar, the European Head of Valuation for brand consultants FutureBrand, London and Professor Eusebi Nomen of the ESADE Business School in Barcelona offered a breadth of insight and know-how into design as a key intangible. We are most grateful to them for giving freely of their time and expertise in supporting our work.

We are equally grateful to the BEDA Partners for this event, Corus, Europe's largest metals solutions company and the Design Council in London.

I hope you will agree that this report offers an indication of the powerful contribution which design as a key intangible makes to the European Economy.

Francisco Carrera
President 2000 – 2002
Bureau of European Designers' Associations

Design as a key intangible – delivering value to the bottom line

The second conference followed the inaugural meeting in Brussels on 9 November 2000. The various themes it explored will be further developed at subsequent events in the BEDA Communication Series on 23 November 2001 and 22 February 2002. All aim to promote discussion on the value of design and innovation to the European economy.

One important development to emerge from this second conference, which examined design as a key intangible, was an invitation from the European Commission for BEDA to cooperate on its current research studies into intangibles.

Speakers at the conference put forward a number of proposals for increasing the value that design contributes to the European economy. These included:

- Developing up-to-date and accurate economic data on the value and importance of design throughout the Union.
- Encouraging examples of best practice at company and national level.
- Extending the support the EU already provides towards research in design.
- Establishing intellectual property education programmes.
- Strengthening intellectual property rights and making it easier to acquire them.
- Adapting taxation and creating intellectual property management centres.
- Establishing economic reporting guidelines.

Giles Merritt, the President of Forum Europe and chairman of the proceedings, explained the context of this second Bureau of European Designers' Associations (BEDA) communication conference. "Our first event considered competitiveness and innovation through design. Now we are looking at design as an intangible and how that translates to the bottom line", he told participants.

Francisco Carrera, the President of BEDA, explained the organisation's background and *raison d'être*. Founded in 1969, and incorporated in The Hague with its headquarters in Barcelona, it has members from the European Union member states and observers from the candidate countries. Its aim is to develop long-term policies and promote the use of design to improve competition. With 20,000 members, BEDA is determined to create opportunities for design and innovation to play a significant role in European wealth creation and the development of the enterprise culture.

"Design is one of the stronger tools with which the European economy has to compete and is a strong cultural and tradable asset", said Carrera.

As Europe moves towards a more knowledge-based economy, the conference sought to bring together ways of measuring the value of intangibles. Achieving this would not only provide a more realistic picture of the wider economy, but could also influence government thinking.

Design and the knowledge-based economy

The importance of design in the knowledge-based economy that the European Union is now developing was underlined by Andrew Summers, Chief Executive of the Design Council in London. He stressed that design was not a craft to be treated in isolation. It should be an integral part of a wider strategy since it turns ideas into reality, shapes products, services and concepts and creates added value for the user. To illustrate his point, he used two quotations.

"Our success depends on how we exploit our most valuable assets and knowledge, skills and creativity. These are the key to designing high-value goods and services and advanced business practices. They are at the heart of a modern, knowledge driven economy".

UK Prime Minister Tony Blair.

"Only one company can be the cheapest. All the others must use design"
Rodney Fitch, Chairman Fitch & Co.

Design is already an important factor for many companies. A recent survey of UK businesses revealed that 43bn is spent on design, the equivalent of 3% of total sales volume and considerably more than the 2% British companies allocate to research and development. "Yet, a lot of government and business decision-making is devoted to R&D and very little to design", said Summers.

While 69% of businesses regard design as significant and 35% consider it an integral part of their overall strategy, there are clear differences of opinion on its business advantages between firms with more than 200 employees and those with fewer than that number. Between 65% and 73% of larger companies believe it can help develop new markets, improve quality and image and increase profits and turnover. However, in smaller firms only between 40% and 47% share those feelings.

The Design Council uses its website to provide practical evidence of how design has helped companies strategically. To date, it contains some 850 case studies and increasingly it is looking to include international examples as well as those from the UK.

The survey also confirmed a strong correlation between a company's use of design and its financial performance. Almost three quarters (74%) of the top 25% of firms maintained that the extent to which their use of design was strategic was very high, while for the bottom 25%, only 4% offered the same rating and 90% said that it was low.

Summers pointed out that inspiration, creation and connection were all necessary to fuel innovation. People and staff need to be inspired to generate ideas and examine ways of making improvements. A company culture of inspiration and creation should be nurtured alongside a strongly developed process for innovation, while always having customers and end users in mind.

Later, in response to a question from Michael Thomson from Design Connect, he indicated that it was not necessarily important if it was not possible to measure in a financial way innovation culture in a company. What was more valuable, was to be able to identify people's design and creative skills and to apply this creativity to the economy and industry in areas where they are currently under-exploited.

Implications for national and EU-level policies

An analysis of national policies confirms that a range of activities is already in place to encourage greater use of design. These include promotion, research, education, consultancy, the use of awards and grants and development of links with universities and further education colleges.

Summers suggested three areas where European Union efforts could be concentrated:

- Developing up-to-date and accurate economic data on the value and importance of design throughout the Union, along the lines of the recent UK survey.
- Encouraging examples of best practice by building on the experienced gained at the recent SME forum on 'Entrepreneurship for the Future' in Vaxjö (Sweden) where measuring intangibles was one of the themes explored.
- Extending the support the EU already provides towards research in design. Much design research in Europe at the moment is small scale and largely technology driven. More attention could be given to the human dimension, to analysing the research currently being done across the Union and linking this to intangible assets.

Solid advantages can be gained from these investments. "There are great design strengths in Europe at the moment and encouraging these will be to all our benefits", said Summers. In particular, he pointed to areas such as engineering and digital technology where European design companies are world leaders and to the need to promote eco-design to guarantee sustainability.

But he also warned of the dangers of Europe losing its competitive advantage if it did not continually adapt to new challenges. He referred to Korea's design promotion organisation which had three times the resources of its British counterpart, although the country's economy was only

"Good design is not only the solution to a problem, but also its formulation."

Jens Bernsen, former Director of the Dansk Designrad, Denmark

one third the size of the UK. This reflected a readiness to replace its earlier image of no brand production with a recognition of the added value design can bring.

Summers' reference to EU-supported research was soon picked up by Elie Faroult from the European Commission's Research Directorate-General. He pointed out that within the current framework programme, the Commission was already involved in studies on intangibles. He confirmed the institution would like to collaborate with BEDA in establishing how intangibles affect disciplines such as design. He also stressed the need to ensure that future educational requirements were taken fully into account when working on research projects.

In the ensuing discussion, Galway Johnson, the head of division, business services, enterprise aspects of employment policy in the Commission's Enterprise Directorate-General, asked whether design was ever victim of export or trade barriers.

Summers indicated that he had not come across any natural ones, but that cultural obstacles might exist. He suggested that intellectual property had the potential to raise barriers and that it might be worthwhile to focus efforts on preventing these from occurring.

Mike Coyne, a principal administrator in the Commission's Enterprise Directorate-General, who had also participated in the Vaxjö conference agreed with the idea of promoting best practice and stressed this had to be seen in a wider context. He identified the need to improve management competence as a very real challenge which could be tackled by analysing the lessons to be learnt from specific groups and problems. "We should use design to bring about a general change in management style", he said.

Prompted by questions from Merritt and Carrera, there was also discussion on the extent to which a European image could be developed to help European industry promote its values and handle external competition.

Summers suggested that much could be achieved by exchanging examples of best practice at both company and national levels. He predicted that the euro might help generate a stronger European identity. But he suggested that the EU had missed a major opportunity with the arrival of the single currency by sanctioning such badly designed notes.

Merritt also advised that it was important to distinguish between branding Europe and branding the European Union's institutions. The first involved the real issue of making European economic integration an image or symbol of a more socially and economically progressive society. The second was limited to improving the institutions' image.

Intangibles offer leverage for value creation

Eusebi Nomen, an associate professor at the ESADE business school of Barcelona with a wide experience of contract negotiations requiring the valuation of key intangible assets, opened his presentation with the startling fact that 75 % of valuations of intellectual properties had proved to be entirely wrong.

The admission, reported by Robert Lamb from the New York University Stern School of Business at a 1996 conference, had come from the Bank of America in 1994 when it reevaluated many years of financial lending to merger and acquisition transactions. This exercise found that the investment bankers or the banks' own analysts' original financial forecasts for these acquisitions had been very wide of the mark. The reason for the discrepancies was the routine inability of rigid mathematical financial models to value correctly the intellectual properties of every company they had considered.

He suggested that industrial design could affect a company's bottom line from the perceived benefits and value consumers attach to a product. These might reflect the use they would make of an item, the feelings they have towards it and their thoughts on how others might see it. This combination of functional, social and emotional values could increase economic profit and consumer satisfaction. The question which had to be answered is how could one quantify a socially objective

"Our success depends on how we exploit our most valuable assets: our knowledge, skills and creativity."

Rt Hon Tony Blair MP, UK Prime Minister

value for industrial design? What benchmarks and tools should be used? "We have the tools to do it. We have to know how to use them", he said.

He suggested that senior executives tend to see the importance of industrial design as a somewhat fuzzy phenomenon, rather than as something clear with a value and strategic use. "Too often, industrial design is presented from a creative or legal perspective and not enough from an economic perspective. This aspect needs to be strengthened", he said.

Nomen pointed to the differences in quantifying tangible and intangible assets. In the former, physical and legal limitations and marginal costs can be identified. In the latter, they cannot. An industrial design, for instance, can be applied as easily to the production of one or one million chairs. As a result, in the first category, a market value can be established and international valuation standards used. In the second, by contrast, a value can only be established for a given use.

Later, during the question and answer session, he emphasised: "Intangibles do not have an intrinsic value. We give them a value. Whatever you do in a company, if you get an improved product or higher utility, then it has a value. You have to prove value in use".

This 'value in use' is a moving target where imaginative use of intellectual property rights (IPR) can provide leverage. This can be achieved by concentrating corporate human and tangible resources in areas where IPR are generated and on functions where intellectual resources or capabilities are used. This should be accompanied by segregating functions that produce only standard returns on assets and by shedding responsibilities the company is not prepared to handle.

"Leverage uses the same human and tangible resources to multiply earnings, increasing the total value in use. You can get leverage from intellectual property rights", he said.

Nomen offered five steps to help intangibles leverage economic value creation in the European Union.

- Establish an education programme. Only one university in the EU has an intellectual property department in a business school where managers can learn how to manage intellectual property.
- Promote licensing centres. People are needed who know how to carry out the segregating process and can help business concentrate on what it does best.
- Strengthen and make it easier to acquire intellectual property rights. Thought should be given to a Community Industrial Design. Governments must fully implement the TRIPS agreement so that the nominal protection it now provides becomes real.
- Adapt taxation. The EU should be less worried about the mobility of capital and should tackle the mobility of knowledge. Creating intellectual property management centres could be one policy to pursue.
- Establish economic reporting guidelines. These would remedy the inadequacy of current accounting practices.

Delivering value to the bottom line

Shailendra Kumar, the head of Brand Valuation, Europe at FutureBrand, approached the wider question of intangibles by concentrating on the value of brands. He explained that in a competitive environment for limited resources, brands had a role to play. Brands evoke a number of words: trust, reputation, name, logo, quality, prestige, reassurance, advertising, image, promise, relationship or impression.

At the same time, brands are trade marks with a variety of characteristics:

- Tangible (product, packaging, price, name),
- Intangible (personality, image),
- Affects purchase decision,
- Differentiates goods and services, and
- Represents ownable relationship between suppliers and customer.

Brands can be applied to a vast range of things: non-governmental organisations, football clubs, corporations and national assets such as airlines. Kumar gave the example of the use of branding of South African Airways to replace the country's apartheid image by that of a free, multiracial society. Similarly, branding had moved Hong Kong away from its colonial past to Asia's world city. "Design can signal a change of direction", he explained.

"A brand is not made in a factory. It exists in the minds of consumers", he pointed out, stressing that they were valuable as they helped generate both a level and security of demand. This is underlined by experience on the Fortune 100 monthly indexed share prices between 1990 and 2000. Strongly branded companies gave their shareholders a higher return than those with weaker or non-existent brands. They prolong competitive advantage and are also able to attract better employees and services.

Kumar pointed to the phenomenon of the shift in competitive advantage between tangible and intangible assets. In 1988, the latter represented 56 % of market capitalisation on the FTSE 100. Ten years later, this had climbed to 71 %, with some projecting 85 % by 2008. This is particularly marked for companies such as Coca Cola and Kellogg's where intangibles represent almost 100 % of their value.

"You can command more volume at the same price as the competition by having a strong brand", he said. That identity can also reduce the cost of capital and lessen the degree of risk.

Brand Valuation: how to do it

Kumar rejected traditional approaches – historic and replacement costs, market value, premium pricing and royalty relief – as ways of measuring brand valuation. Instead, he offered FutureBrand's economic use approach.

This takes account of the net present value of cash flows attributable to the brand and assesses its value creation. It uses financial data, brand and customer research and competitor data to establish economic value, a brand contribution index and a brand discount rate to determine its current value. Apart from helping to establish the worth of a brand, the exercise is a good business tool. As Kumar pointed out: "What gets measured, gets managed".

Future Events

BEDA has scheduled two further conferences for 23 November, 2001 and 22 February, 2002. It intends to explore the Commission's invitation to collaborate on its research work into intangibles.

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Speakers' biographical notes

Shailendra Kumar

European Head of Brand Valuation, FutureBrand

Shailendra is a leading practitioner in the valuation and strategic assessment of brands. His experience covers luxury goods, financial services, sports, utilities, food and beverages, oil and gas, airlines, broadcasting media and marketing services. His experience extends across continents in the developed and developing world.

Shailendra is a regular public commentator on television, in the print media and has been published widely on the subject of brands, marketing and finance. He is a visiting lecturer at leading business schools including INSEAD in Paris.

Shailendra was previously an Associate Director at the brand consultancy Interbrand and prior to that at Price Waterhouse in London for seven years where he qualified as a Chartered Accountant. After qualification he was an integral member of the PW global shareholder value practice managing international consulting and valuation assignments.

Shailendra graduated from University College London where he read Economics and an intercollegiate programme in International Relations at the London School of Economics.

Giles Merritt

President Forum Europe

Giles Merritt is the founder and President of Forum Europe. A former Brussels Correspondent of the Financial Times, he is a journalist, author and broadcaster who has specialised in the study and analysis of European public policy issues since 1978.

Merritt also heads Friends of Europe, the Brussels-based think-link that focuses on high-level EU policy proposals.

Since 1984, Giles Merritt has been a columnist for the International Herald Tribune, and his articles on the Editorial Page of the IHT range widely across EU political and economic issues. He is also Editor-in-chief of the Humanitarian Affairs Review, the quarterly ideas journal published in association with the European Commission and some 80 leading NGOs.

Giles Merritt began his newspaper career in 1968, when he joined the Financial Times. From 1972 he was successively FT staff correspondent in Paris, Dublin/Belfast and Brussels, until leaving the newspaper in 1983. In 1982 he published 'World Out of Work', an award-winning assessment of the unemployment crisis in industrialised countries, and in 1991 'Eastern Europe & the USSR: The Challenge of Freedom', published in four languages in association with the European Commission.

Eusebi Nomen

Associate Professor, ESADE Business School, Barcelona

Eusebi Nomen is an Associate Professor at the ESADE Business School of Barcelona. He has an academic background in business science, engineering, microbiology and intellectual property law. At the end of 2001 he will defend the PhD thesis 'Contribution of Intangible Assets on the creation of economic value. Implications to establish an objective valuation method and to review Business Policy principles'.

For the last 15 years Eusebi Nomen has managed and advised art studios and artists, such as Estudio Mariscal, the design studio that created Cobi, the mascot of Barcelona 92 Olympic Games. Eusebi Nomen has been involved in hundreds of contract negotiations requiring the valuation of key intangible assets. Presently, he is completing the creation of the Andorran intellectual property system (the creator of the first digital Industrial Property Office) and he is a key member of the Siemens Business Services team conducting the reform of the Russian Intellectual Property IT system at FIPS-ROSPATENT. He is also involved with several firms to conduct the valuation of key intangibles and the establishment of intellectual resources management units.

Andrew Summers

Chief Executive Design Council, UK

Andrew Summers has a background in general management, innovation and international marketing in both the private and public sectors. He has been Chief Executive of the UK Design Council since 1995 and has been responsible for redirecting and rejuvenating this government-backed body which inspires and enables the best use of design by business, education and government in the UK. Millennium Products and Creative Britain have been particularly high-profile activities over recent years.

His industrial experience has spanned over 25 years mainly in the food industry, where he was Managing Director of Sharwood's and of RHM Foods before becoming Chief Executive of the Management Charter Initiative.

He is now a board member of both the Small Business Service and British Trade International and was awarded a CMG in the 2001 New Year Honours for his work in promoting UK design internationally.

Andrew has a Natural Sciences and Economics degree from Cambridge University and has also studied at Harvard Business School.

BEDA Partners

Corus

Corus, Europe's leading metals company, aims to close the gap between material innovations and product realisation. By working with designers at the initial creative stage Corus strives to find multi-metal solutions to enable companies to take ideas from the drawing board into production. Corus' support of BEDA forms part of a wide range of international design initiatives which promote and encourage excellence in design and sustainable solutions.

Design Council

The Design Council is the UK's national body for design. Founded in 1944, it is a registered charity incorporated by Royal Charter, and is funded by the UK Government's Department of Trade and Industry.

The Design Council's aim is to inspire leading organisations in business, education and government to use design effectively. It works closely with partner organisations in these fields to develop new business tools, to share and develop knowledge and understanding of design, and to raise awareness of how design generates competitive advantage. The Design Council aims to help influential organisations, including government departments, to achieve their own objectives by using better design.

One of the Design Council's main programmes is Sharing Innovation, which is based on the high profile Millennium Products initiative. Millennium Products was launched in 1997 by the UK's Prime Minister Tony Blair, with the aim of finding brilliant new British innovations. By the end of 2000, more than 1.000 had been identified and these are now the focus of the Sharing Innovation programme which analyses, explores and exposes to a wide audience the stories of innovation behind each Millennium Product.

Internationally, the Design Council is running a series of Millennium Products exhibitions which includes France, Germany, Spain and Sweden during 2000/2001, as well as Asia, North America and South America.

The Design Council also has two UK nationwide annual events – Design in Business Week and Design in Education Week – through which design is promoted to wide audiences in business and education; a world-leading, web-based knowledge resource called Design Horizons; and electronic, broadcast and print publications aimed at other business and education audiences.

For further information visit: www.designcouncil.org.uk

Attendees

List of attendees (in alphabetical order)

La Maison de L'Europe, Brussels
8 June 2001

Vincent Artis

European Parliament
Assistant to MEP Janelly Fourtou

Lucia Baresi

European Parliament
Assistant to MEP Francisco Fiori

Katharine Boness

Biss Lancaster Euro RSCG
Consultant Director

Geert Cami

Managing Director Forum Europe

Francisco Carrera

Bureau of European Designers' Associations (BEDA)
President and National Representative for Spain

Jarka Chloupková

European Parliament
Assistant to MEP Neil Parish

Aude Coliche

Euro RSCG Corporate
European Affairs Director

Johan Cops

Unie der Designers in België (UDB)
President and BEDA National Representative for Belgium

Michael Coyne

European Commission: Directorate General for Enterprise
Principal Administrator

Giovanni Daidone

Italian Union of Chambers of Commerce & Industry (Unioncamere)

Sue Davis

Europay International
Publications Manager

Gabriele Egartner

European Commission: Cabinet of Commissioner Fischler

Elie Faroult

European Commission: Directorate General for Research

Severin Filek

Director Design Austria

Joachim Graminsky

European Commission: Directorate General for Enterprise
Principal Administrator

Daniel Hanekuyk

European Commission: Directorate General for Enterprise
Principal Administrator

Galway Johnson

European Commission: Directorate General for Enterprise
Head of Division, Business Services, Enterprise Aspects of Employment Policy

Sylvia Kainz-Huber

European Commission Directorate General for Enterprise
Administrator

Pete Kercher

Bureau of European Designers' Associations (BEDA)
National Representative for Italy

Isabelle Krauss

European Commission: Directorate General for Competition
Administrator

Shailendra Kumar

FutureBrand
Head of Brand Valuation, Europe

Helen Larsson

European Commission: Directorate General for Enterprise
Official

Anne Leemans

Managing Partner Fontana Identity & Design

Anne-Claire Leon

European Commission: Directorate General for Enterprise

Emilio Leon Fernandez

European Commission: Directorate General for Enterprise
Administrator

Giles Merritt

President Forum Europe

Eusebi Nomen

Associate Professor ESADE Business School

Pedro Ortún

European Commission: Directorate General for Enterprise
Director, Services, Commerce, Tourism, e-business & IDA

Victor Sáez

European Commission: Directorate General for the Internal Market
Industrial Property Unit

Elisabeth Slavkoff

European Commission: Directorate General for Regional Policy
Director European Regional Development Fund Country Desks

Jan Stavik

Managing Director Norwegian Design Council

Andrew Summers

Chief Executive British Design Council

Belinda Taylor

Director Biss Lancaster Euro RSCG

Michael Thomson

Principal Design Connect

Eric Van der Stock

Associate VDS & Partners

Erik Vantal

Design Board
Senior Creative Account Manager

Rory Watson

Freelance / British Medical Journal (BMJ)
European Correspondent

Helen Williams

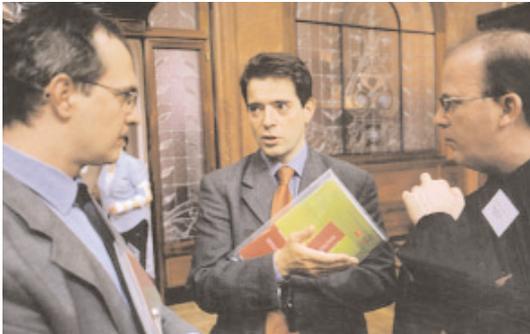
Corus
Head of Company Communications

Karlheinz Zachmann

European Commission: Directorate General for Enterprise
Advisor, Construction Contact Point

Franz Zöchbauer

European Commission: Cabinet of Commissioner Fischler



Project concept and development for BEDA by Michael Thomson, Design Connect, London
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Communicating the value of design and innovation for Europe



The Bureau of European Designers' Associations (BEDA)
E - 08006 Barcelona, Diagonal 452, 5º, Spain
Telephone +34 (934) 15 36 55, Fax +34 (934) 15 54 19, www.beda.org, office@beda.org

The Bureau of European Designers' Associations exists to ensure permanent liaison between the professional societies of designers within the EU countries and to act as a liaison between them and the authorities of the Union.

