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Gaining More Benefits of Design: An Analysis of Relationships in Buying Industrial Design Services, a Finnish Perspective

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This paper supplements earlier IMP studies by analysing a new area of services: industrial design. Analysis of the buying practices in design services and the client-design consultancy – relations shows that in this context relationship endurance is a prerequisite for increased benefits in the cooperation between a client customer and a design consultancy.
Design can be a considerable element in innovation creation and provide strong competitive elements to companies utilizing design. While design is primarily an outsourced activity in Finland, the client firm-design consultancy -relationship should be studied on an inter-organizational level to grasp the benefits of the cooperative practises, e.g. strategic level input and access to specialist knowledge.

Keywords: industrial design, professional services, business relationships, purchasing

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1. Introduction

The nature of business-to-business services can be characterized as relationship-based, enduring and networked, both on a business as well as on an individual level. Therefore, the approach and concepts developed within IMP, including the ARA-model, are relevant and applicable in studying professional services (Axelsson and Wynstra, 2002). The inclusion of both actors and resources in the analysis offers an in-depth understanding of elements and substance that comprise the exchange between service providing companies and their clients. In addition, the activity-layer enables assessment of the dynamics and endurance of the relationships.

IMP scholars have studied various types of business services: e.g., advertising services (Halinen, 1997), business consulting (Löfmarck-Vaghult, 2002) and legal services (Sandwell and Freeman, 2004). The corresponding foci were agency-client relationship dynamics, relationship endurance and foreign market entry. Design business, however, has gained little attention so far, although the analogies between these fields and industrial design are evident. A major difference can be seen in the capabilities of the (industrial) organizations to understand and integrate design in their operations. In majority of Finnish companies design has not been widely established as a (separate) function. There are substantial differences in design-maturity, the roles and tasks that designers are assigned and the strategic importance of their involvement (Valtonen, 2007), between industries and countries. While numerous companies have developed internal design competences, design is still primarily an outsourced activity (Bruce and Morris, 1998). The design companies are usually rather small in size and the customer relationships vary from one-off cases to close and deep co-operation with certain customers that may span over decades. The role of design has not been studied in-depth in the inter-organizational context, while the characteristics of design activity call for such considerations.

This paper addresses the gap in the earlier studies by analyzing the buying of design services from a relationship perspective. As the utilization of design is rising in a number of (Finnish) industries, there is also a managerial need for understanding better the special characteristics of buying design

services. This paper focuses on the design-oriented companies and their buying practices, and describes the ways in which the benefits from using design can be increased.

The aim of the study is to analyze the buying practices and expectations of customer companies buying design services. The study looks at Finnish companies buying mainly industrial design services, while convergence with adjacent fields, such as graphic design and management consulting, is occurring.

The empirical study is longitudinal and based on (open-ended) interviews of a single focal company, Suunto Ltd, in the area of buying design. The analysis is complemented with interviews of the cooperating design consultancies, Provoke Ltd, Linja and SWECO PIC. Suunto has an established design function and has combined in-house design and external design consultancies, making design one of its key competitive elements. Thus the network around the client-design consultancy relationship is analyzed, together with the critical issues in the development of relationships. The market for design services is limited in Finland, therefore the customer companies, especially the ones with previous experience in buying design services, are well aware of the potential design collaborators.

To conclude, this paper adds to the earlier IMP studies by looking at a new area of services: industrial design. Our analysis of the buying practices in design services and the client-design consultancy – relations shows that in this context relationship endurance is a prerequisite for increased benefits in the cooperation between a client customer and a design consultancy.

This paper is structured as follows. First we briefly discuss the relevant conceptual tools for analysis of client-design consultancy relationships in buying design services. Then we describe the design business – the characteristics of the field in general and in Finland in particular. Next we present the empirical study, first describing the methods (to be) used and some of the preliminary findings. The concluding section of this work-in-progress paper summarizes some key findings and directions for continuation of the study.

2. Analytic tools

Our analysis focuses on buying industrial design services and benefiting better from the client-design agency -relationships. Long-term relationships between firms have been seen as a predominant characteristic of industrial markets, which has been adopted as a tenet in IMP research. In professional services, however, relationship endurance can be seen more as a goal (Löfmarck-Vaghult, 2002). This also applies in design services, where long-term cooperation seems to enable innovation, reduce uncertainty and to reduce both switching costs from the customer side and reduce marketing costs from the consultancy perspective.

Therefore, our investigation concerns the relationships between design-oriented companies and design agencies Design has been seen to span the boundaries of the firm through its linking role and ability to break through the established organizational departments (Walsh 2000), and we take this idea further by looking at the interface and boundary spanning between the two companies. Further, our study looks at the critical events that influence the developments of the relationship. We adopt a dyadic approach, but focus on the buyer's perspective in the relationship.

Design can be seen as an important element in innovative approaches to product development, e.g. through user-centred market data collection and ability to synthesize unforeseen elements related to problem solving in general. Studies on networks have clearly indicated the importance of cross-organizational cooperation in enabling innovation and renewal (e.g. Lynch, O'Toole, 2003). Cooperating with firm-external designers can be seen as boundary spanning and adding to the knowledge base of the purchasing company (Jevnaker, 2001). Bertola and Teixeira (2003) studied 30 design cases to identify how design, as a knowledge agent, contributes to innovation. The outcome was identifying two distinctive ways: design as a knowledge integrator in global corporations and design as a knowledge broker in local companies. The authors saw these different roles as evidence for design enabling innovation, flexibly adjusting to varying needs.

The more strategic benefits require a deep integration between the client company and the design service provider. Currently, in many cases, the cooperation is limited mainly to operative level tasks and the field has generated practices where the design provider primarily communicates with project managers on the operative level. This prevents the client companies from achieving maximal benefit from their design investment, including wide-spread utilization of design thinking and methods. Long-term cooperation and accumulation of knowledge would require increased understanding of design practices and potential, which is a key competence area in the buying activity.

Critical events, i.e. points in time along the relationship development where the cooperation is questioned and possibly terminated, are a natural focus point for observing relationship development (e.g. Halinen 1997, Halinen and Salmi, 2001). The critical events in a client company design agency relationship can roughly be divided into pre-co-operation phase events (including the initial contact and the negotiations) and the co-operation phase events (evaluation of the assignments, assessment of long-term results and crisis situations). The knowledge-base and the competences are essential in the pre-cooperation phase while the customer assesses the fit of the agency to the estimated need. While the nature of design activity is tacit and each assignment results in unique outcomes, buying design services is often seen as highly challenging. As the co-operation progresses, the evaluation becomes somewhat easier. The latter critical events are assessments of past cooperation (e.g. concrete outcomes, chemistry, ability to come up with innovative solutions), future expectations and mutual benefits.

3. Design business

Historically industrial design as a function within a company has been associated either with marketing or with technology. The American 50's design, styling, especially in car manufacturing and household appliances, aimed at increasing sales, was enabled by changes of model by simple colour or form adjustments. This liaison with marketing was criticized by the German Ulm School (1953-68) that saw design as a means to improve the technical and ergonomic issues, with universal, neutral form solutions. (Vihma, 2002) Both approaches, the marketing oriented customer experience-driven practices and the technological, production improvement-focused practices, are prevailing within industrial design today.

This twofold view on design has special characteristics in Finland. The marketing related styling has never grown strong in Finland, first because of the economic conditions of the post war situation, where consumer goods markets were secondary in importance, because of the key economic role of the heavy industries. The current conception of the golden era of design in the 50's, placing aesthetic values first, overlooks the important production improvements and design solutions improving the manufacturability, which enabled the commercial success of tableware (glass, ceramic and wood as materials). The industrial design link with engineering and technology has remained strong, with the ideological roots in the Ulm School. (Vihma, 2002) An example of this is from the Finnish paper machine manufacturing, where the role of industrial design has been since the 1970's to reduce the number of components and provide other production related cost savings (Mutanen, 2003).

The Ulm School's second thesis of design balancing cultural needs to mass production is an important component of what industrial design is today in Finland. While the focus of Finnish industry is shifting towards consumer orientation and supporting services, the potential designer role of a cultural interpreter is growing. The fast product cycles, where technological developments should be accompanied with changes of appearance to create an illusion of a fast pace, necessitate the effective use of industrial design. As an example Nokia, in addition to strong product development, differentiates its products strongly by design means, helping them to reach the numerous consumer segments, using fairly small technological changes.

The design practices, previously including mainly products and product parts, have grown to include issues of usability and holistic customer experience. Use of industrial design is no longer restricted

to the product development purposes only, but it is utilized also in strategic planning and supporting business decision-making.

Nature of design activity

The term ‘design’ (as used in English) is often used to refer to a wide range of activities, including architecture, fashion design, interior design, graphic design, industrial design, and engineering design. In Scandinavia there is a clear division between ‘form-giving’ and engineering, which in manufacturing companies ascribes the aesthetic and user-related aspects of the product to the designer and the technology and manufacturability ones to the engineer. (Walsh, 2000)

Moody argues (in Walsh, 2000) that “industrial design seeks to rectify the omissions of engineering; it is a conscious attempt to bring form and visual order to engineering hardware where technology does not itself provide these features”, and continues “(in cases where technology does not have an intrinsic elegance; form following function) industrial design aims to relate the hardware to the dimensions, instinctive responses, and emotional needs of the user”

The International Council of Societies of Industrial Design (ICSID) defines design as follows:

”Design is a creative activity whose aim is to establish the multi-faceted qualities of objects, processes, services and their systems in whole life-cycles. Therefore, design is the central factor of innovative humanization of technologies and the crucial factor of cultural and economic exchange.”

This definition, where the term design is used to refer to industrial design in particular, is used in this study. The definition emphasizes the inter-relatedness of business objectives, technological issues and user-driven design activity; innovation is seen as an outcome of the creative activity.

Walsh (2000) claims that design is part of the innovation process (including R&D and technological innovation), but also a key element in activities traditionally seen as ‘non-innovative’ related to launching and realizing new inventions (including marketing activities; e.g. via packaging; brochure, manual, and advertising design; and corporate identity). Design makes a contribution both to marketing, production and new product development, all elements of successful innovation. Walsh claims that design spans the boundaries of the firm through this linking role and ability to break through the established organizational departments.

Buying design services

A generic business-to-business purchasing process can roughly be divided in three types of purchase situations: new task situation, modified rebuy and straight rebuy (Robinson et al., 1967 in van Weele, 2005). In new task situations an organization decides to purchase a new product, supplied by an unknown supplier, which propose high degree of uncertainty and risk. The related decision making process is characterized by extensive problem solving and high risks. Modified rebuy occurs when an organization purchases a new product from a known supplier or an existing product from a new supplier. These purchases usually take place when there is dissatisfaction with a current supplier or better alternatives for a known product become available. These transactions are characterized by a smaller amount of uncertainty than in new task situations and limited problem solving. While most purchasing transactions are straight rebuys, the conditions primarily apply to well-defined goods purchases, which are regularly recurring.

In knowledge intensive business services, including design consulting, purchasing is usually handled by the R&D department, the marketing department, or top management. According to Axelsson (in Lövmarck Vaghult, 2002), knowledge-based firms engage in qualified problem solving with a non-standardized production process. While the possible suppliers of design services may be known to the customer companies, the solutions are by nature unknown to the parties beforehand. Therefore each transaction or business exchange may include extensive problem solving and uncertainty about the outcomes. Previous references, knowledgeable employees and the use of established and tested methods and design process by the design service provider decrease the

risk involved. In these cases, elements of new task situation (uncertainty about the outcomes and possibly unknown suppliers) apply, simultaneously with modified rebuy elements (usually the customer company has previous experience from the design service providers, or will be able to compare them against each other by recommendations from colleagues in other firms, their reputation or the reference works presented). However, customer companies with high degree of design competence (e.g. Nokia in Finland) are able to isolate well-defined tasks from the design work to be completed externally by suppliers in their established network of cooperators. In these cases the straight rebuy best describes the purchase situation, including the involvement of a purchasing organization, which is not typical in buying design services.

Offering design services

Among design practitioners, the issues related to client relationship development and ability to offer value-adding services, are actively discussed in trade journals. Faust (2000) proposes design consultancies to foster their customer relationships to enable long-term partnerships. While this seems a problem easily fixed, the employees of design consultancies are more typically specialists, while generalists would best serve as relationship managers. Longevity in a relationship often involves more extensive problem solving capabilities, which in turn requires understanding of the client's business, strong interpersonal skills and project management skills. These are often quite limited in the small design consultancies. Tennity (2003) describes the reasons for client companies to use external design consultancies. He sees the design consultancies offering complementary resources (speeding up the NPD process) and expertise (e.g. methodologies) in areas in which in-house competence development is neither possible nor flexible enough. The long-term relationships require, Tennity claims, design consultancy's understanding of the client's processes and resource development to respond to the changing client needs.

Tuulenmäki (in Hytönen et al 2004) identifies necessary skills and capabilities on the design consultancy side for successful design agency-client relationships. He divides them into six areas: 1) skills that enable getting the account, 2) skills in idea development environment, 3) skills in execution environment, 4) project skills, 5) relationship skills, 6) strategic skills. These skills are similar ones to the ability to develop relationships, i.e. networking capabilities, described by Håkansson and Snehota (1995)

In-house vs. external design

In Finland the industrial design coordination is handled in three different ways (Figure 1). First, a company has developed a strong in-house competence and this function has the responsibility of external design work. Second, the company employs one or two designers and coordination of the external industrial design work is handled by these individuals. In the third option, use of external industrial design services is coordinated by non-designers, project or product managers.

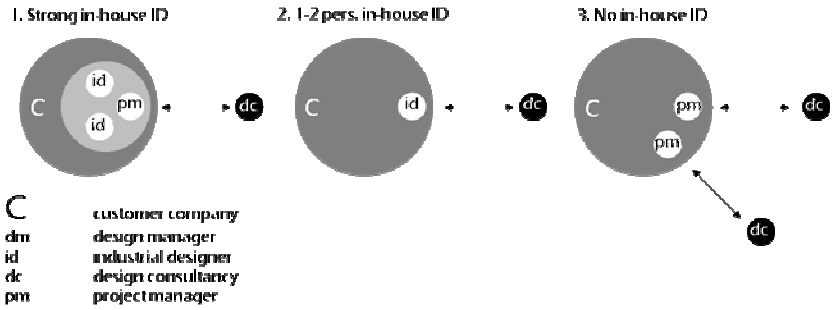

Figure 1: Three cooperative models for design consultancy, customer company interaction related to industrial design (ID) practices (Source: Hakatie & Haltsonen, 2005)

Based on a study of design practises in the Finnish manufacturing industry, the PROOMU study (Hakatie 2003), there is evidence that a strong in-house department can better facilitate the use of external industrial design services. In these cases industrial design is an established function within

a company. Understanding the process of industrial design work, existing processes and somewhat clearly allocated resources enable organization of efficient cooperation. Metso Paper (manufacturer of papermaking lines) is a good example of such a hybrid arrangement, where the internal industrial design function has permanent partnerships with outside ID consultancies.

Metso employs nine design consultants, one being a primary partner, which all have participated initially in the ‘rooming in’ period. This practice was developed by Metso's senior design manager to integrate external industrial design work to Metso's value production system. Metso primarily seeks to find cost savings by using industrial design and concentrates on production improvements leading to significant cost-savings, but also influencing issues such as usability and aesthetic appearance. To reach the objective of significant cost-savings the industrial design consultants are expected to be very familiar with the production methods. To make sure the processes, people and tacit knowledge is mastered by the external designers, the senior design manager employs assistants from design consultancies or recently graduated young designers for the ‘rooming-in’ period. The consultants and apprentices work as temporary employees for this period inside Metso and some of them later become regular partners in Metso's industrial design network. This kind of intense orientation requires vast internal resources and design competence, although later it reduces the time required to manage external work. (Hakatie 2003) Such long-term partnership arrangements are not easily developed and they are still uncommon.

The first (strong in house) and second approach (1-2 in house designers), are prevailing in around 14% of large and medium-sized Finnish companies (Hakatie, 2003). Nokia, with approximately 200 industrial designers globally, has the most substantial in-house competence, followed by around 10 companies mostly in b-to-c businesses employing 5-15 internal industrial designers. In the Finnish companies an industrial design function of some 5 people can therefore be considered as a strong design investment. While these companies are around 10 in total, the major part of the 14% is accounted by the 1-2 persons in-house design departments. Still, hiring one designer can be the start of developing an industrial design capability. The main tasks of these individuals are to carry out design work on an operative level and to guide the company in design-related matters, e.g. coordinating external industrial design work. Besides the formal authorization of the designer, the task area, social and professional capabilities of the in house designer determine the scope of utilizing industrial design, which is materialized in the use of external industrial design work.

Majority of industrial design activity is conducted in Finland as cooperative arrangements between the customer company, without internal design competence, and the design consultancy. In such cases the design coordination is usually handled by project managers, whose competence and motivation determine the nature of the cooperation and the development of the relationship. The coordination of industrial design is usually handled by a single actor, usually a project manager and their background, and the lack of experience in the area may limit the utilization of industrial design. The task area and responsibilities of the contact person are also defining the scope of utilizing external industrial design services.

The various expectations and requirements from the client firms propose challenges to the cooperative arrangements between client firms and the external design consultancies. These are exemplified by responses of design utilizing companies when asked about the cooperation with design consultancies (Haltsonen and Tuulenmäki, 2006).

(SME), R&D manager:
”Our workload does not allow employing a full time professional designer. It is of outmost importance that the external design consultancy has insight from other fields and companies. Even when not explicitly communicated this broader experience shows in the results.”

(SME), Design manager:
”The design consultancy can have both focused expert knowledge and be an overall strategic sparring partner, these are not mutually exclusive skills. An ideal consultant should be close enough to the core competence area of the client firm to be able to challenge it.”

(SME), R&D manager:
"Deeper understanding in a certain industry and industry-specific knowledge are more important to us then generic process capability (...) We have our own way of doing things and the design consultancy will have to adjust to these to enable smooth cooperation. There is no generic process that will benefit all customers of a design consultancy."

The design field in Finland

The industrial design and related fields have been recently studied (Designium). Accordingly, the turnover of industrial design consultancies (n=22) was over one million euros only in two companies in 2005, two had a turnover between 500 000 euros and one million. Although the majority of companies in the design area are microsized, there are around ten industrial design focused companies with ten or more employees, which have established themselves in the field.

The two studies in 2002 (n=54) and in 2006 (n=79) investigated the information sources for design services. (Designium) The customer companies (in manufacturing industries) named personal relationships as the main reason for choosing the current supplier (44 percent of the respondents in 2006), while reference work was only the second reason (most important reason in 2002, 56 percent of the respondents). Reasons related to the substance, processes and knowledge about the customer industry and even appropriate pricing were seen as much less important reasons.

To summarize, the design field in Finland is characterized by a small number of design companies; there are only about 15 established actors. Therefore, they know each other well, and the competencies of these companies are fairly well known by their customers. Our key interest in this study is to analyze those industrial companies that are intensively using design and cooperating with the design agencies; on this basis we aim to find out the key benefits of using design.

4. Methodology

The empirical data concerning the client company side comprises of interviews and a longitudinal analysis of an experienced design utilizing organization, Suunto. The design service providers' perspective is analyzed by interviewing design consultancies that have co-operated with Suunto during the period of analysis. This data gives an understanding of the expectations and prerequisites the client has for design collaboration with external design consultancies as well as the service provider perspective.

The interviews have been conducted (work-in-progress) during the past two years; in two phases (2006 and 2009). An additional explanatory view is sought through interviews of a number of CEO's of Finnish design consultancies, including Provoke, SwecoPic, Desigence, Ed-design and Pentagon Design. The design agency point-of-view, is observed also from the inside; one of the authors has worked (in total five years) in two design consultancies: Desigence and Pentagon Design, both of which have cooperated with Suunto, but only on a project-basis.

Methodologically, a case study approach is followed. The actors in the design consultancy – customer company dyadic network are interviewed to gain an in-depth view of the problem. Both Dubois and Araujo (2004) and Halinen and Törnroos (2002) have suggested that case research method can fruitfully be applied in network studies, since it captures some of the abound complexity. The collection of empirical material for the study is taking place in two phases; first interviews were completed in 2006, the latter ones will take place in 2009, supplemented by participatory observation and working in the field. Furthermore, we adopt the abductive approach for the case analysis (Dubois and Gadde, 2002); the participatory research setting in particular gives a fruitful basis for matching the theoretical tools and empirical data.

Case: Suunto, switching the balance and input of in-house vs. external design

Suunto is a manufacturer of sports instruments for training, diving and outdoor sports. The company strategy is to focus on sports activities where advanced measurement technology, data processing, and specific algorithms offer benefits for the users. Suunto is a wholly owned subsidiary of the Helsinki-based Amer Sports Corporation. Currently the company employs over 500 people worldwide and distributes its products to over 100 countries.

The company has used design from the late1980's, making it a pioneer among Finnish businesses in design-intensive competence development. The initial incentive to include design approaches in the product development was related to the development of the first generation of diving computers, where the user interface was seen as an area where design should be applied. The founder of Linja Design, then still a student, Eljas Perheentupa, offered to perform this user interface design service to Suunto. The company had good experiences from this pilot cooperation, design was seen as a value-adding activity, and decided to include design as a permanent part of the product development process.

The interviewee, Design Manager Kimmo Pernu, was employed by Suunto in 1997. He describes the product development activity at that time as 'engineering activity', where a designer's competence was needed sporadically in various activity. At that time the use of design was somewhat systematic, while project managers invited both in-house and external designers to participate in the product development projects. Back then Linja was one of the cooperating design partners, but there were a few others as well. He gradually convinced the management that in addition to operative design work, the in-house design competence could also be applied to a more insightful and proactive role and extend the utilization of design within the company. The more proactive, visionary role was a combination of company internal competence and the external design consultancy know-how. This resulted in setting up the internal design team, which comprised of three designers. The design department has organically grown; the in-house design department has been seen as a good investment; and today employs over ten designers. The external design consultancies have included some permanent cooperative partners for a longer time.

The design department comprised of eight in-house designers at the time of the first interviews (2006). External design consultancies included two Finnish design consultancies: Linja and Provoke, and a German design consultancy. One of the key findings was the expectation that the external design consultancy should challenge the Suunto in-house design department and even strategic business decisions.

The Design Manager, Kimmo Pernu, noted in an interview in 2006:

"... Quite a bit has changed during the past years, ... 5-10 years ago it was crucial to know how a certain product was to be designed and realized. About 5 years ago the role of design shifted to become a tool in strategic planning in our firm."

At the time of the first interview, a design department of a large engineering consultancy, SWECO PIC, had just purchased the industrial design business from Linja, which continued solely on user interface design. Linja had a long partnership with Suunto, several individuals had worked in both companies and the cooperation had been successful. After the acquisition, only few of the Linja designers wanted to change to the new company. Suunto did not want SWECO using their products as references, since they were done before the ownership change. As a conclusion, SWECO failed to acquire the competence, i.e. the designers, as well as the valuable references, e.g. Suunto wrist top computer references, by purchasing the industrial design department of Linja.

- Cooperation with Provoke (to do)

Design department at the time of the second interviews (to be completed in 2009)

- Suunto has grown the in-house design department, over 10 people
- increasing emphasis on fuzzy front end concepts

5. To conclude

In the past years industrial design has been primarily an outsourced activity across Finnish businesses. The cooperation has been occasional in many cases and the work has been done on the operative level. We claim that by deepening the cooperation and developing long-term cooperative partnerships between the client firms and the design consultancies more benefits can be achieved on both sides. One of the key issues is buying design services; the content of the exchange is complicated and the outcome is unclear at the time of the purchase. The more influential and strategic use of design are potential enablers for innovative solutions and competitive advantage.

The question of developing an internal design competence or cooperating with external design consultancies requires thorough estimations about the goals for design utilization. The trade-off is between thorough understanding of the company-specific issues and benefits of boundary spanning through the external partners. Therefore, as design utilization becomes more established within the client firm and a need for internal design competence is realized, there are two options: establishing a strong in-house design organization and doing the strategic design work internally, or consciously aiming to purchase also strategic input from external design service providers. In the first case the tasks have to be well-defined and the purchasing process can be standardized, creating a cost-effective flexible resource, which can enable access to various specialist areas. In the latter approach, problem solving is a part of the cooperation and the outcomes can vary, from failures to truly innovative solutions which exceed the initial expectations. If the expectation of the client firm is primarily to yield potentially more innovative solutions, a close relationship with an external design consultancy, crossing organizational boundaries should be established.

This study shows that there are interesting developments taking place in buying design services, both in general and in our case company in particular. In the next phase we will investigate in more detail the critical events in the development of design-agency relationships. But the results so far already show that design can function as an important basis for boundary spanning both within and between organizations. This has important managerial implications for increasing the benefits of design, but also, adds to the theoretical understanding of buying business services.

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