the British Design Industry valuation survey 2005 to 2006

The BDI Valuation Survey, now in its sixth year, is the only industry wide survey that specifically focuses on the 'UK commercial design consultancy' sector.

The survey uses a base of 4,500 commercial design firms.

Over 1500 design firms, representing over a third of the sector participated in the 2005/6 survey.

Headline figures have been rounded to the nearest one hundred million. Percentages are accurate.

Published on November 1st, 2006.

The 2005/6 Valuation survey is supported by UK Trade and Investment.

turnover: -6%

£4.6bn

£4.3bn

employees: -8.4%

71,000

65,000

fee income: -16%

£4.0bn

£3.3bn

overseas income: +19%

£0.8bn

£0.7bn

London turnover: -13%

£2.3bn

£2.0bn

introduction:

the British Design Industry valuation survey 2005 to **2006**

The year 2005 to 2006 has arguably been an eventful one, particularly in political circles.

The Creative Industries sector Skills Council was launched in **May 2005** and set up a concordant partnership with the Design Council. That partnership was represented by the Design Advisory Skills panel comprising a number of principles from leading design firms across the UK. A years work culminated in the launch of the Keep British Design Alive Campaign which met with a mixed reaction from the wider industry. Results of that quantitative research and consultation process will be launched towards the end of 2006.

In **August 2005**, British Design Initiative set up a new not for profit organisation British Design Innovation to whom it licensed its assets and brand. It opened up its membership to include other key parties operating in the innovation space with an aim to foster collaborative innovation and increase the remuneration terms for the strategic design consultancy sector.

In **September 2005**, BDI launched its Propositions into Profit programme to support its collaborative membership and provide the strategic design industry with Shared Risk Shared Reward opportunities to secure their longer term future.

In **March 2006** the CSD launched Design Association and a new accreditation scheme.

turnover: -6%

£4.6bn

£4.3bn

employees: -8.4%

71,000

65,000

fee income: -16%

£4.0bn

£3.3bn

overseas income: +19%

£0.8bn

£0.7bn

London turnover: -13%

£2.3bn

£2.0bn

introduction:

the British Design Industry valuation survey 2005 to 2006

The Cox Review was launched in **April 2006** and picked up much media attention. Its recommendations to the Treasury included the Design Councils' Designing Demand programme be taken up by all of the nine English RDAs between 2007 to 2010.

Designing Demand which aims to utilise strategic design skills to improve the competitiveness of the UK SME sector was adopted by SEEDA and Advantage West Midlands and launched in **October 2006**.

BDI hope that the programme will stimulate an interest in design with an equal benefit to the design community throughout the regions.

In **June 2006**, BDI launched a portal in every region and appointed 30 Regional Board Directors. It re-classified the commercial design sector and updated the industry design discipline glossary to more appropriately reflect new skill sets and business offers arising from strategic service design and proposition creation

In **October 2006**, BDI launched its Shared Risk Shared Reward Guide produced in partnership with leading creative industry lawyers Harbottle and Lewis LLP. The Guide is designed to assist and support design firms seeking to explore alternative remuneration models and earn appropriate income from the IP they generate.

BDI's predictions for 2007... the move towards alternative remuneration models will continue. A greater gap will emerge between the mainstream design offers and the strategic design firms – particularly the service, product and proposition disciplines. In light of the Stern Review, social and environmental issues and the role of designers will grow in importance and new opportunities will arise. A greater understanding of the value strategic designers bring to a business will provide demonstrable results and increase the fee income of these groups as well as their status within business. Principle designers will start to take equity in start-up companies and seats on the Boards of SMEs.

turnover: -6%

£4.6bn

£4.3bn

employees: -8.4%

71,000

65,000

fee income: -16%

£4.0bn

£3.3bn

overseas income: +19%

£0.8bn

£0.7bn

London turnover: -13%

£2.3bn

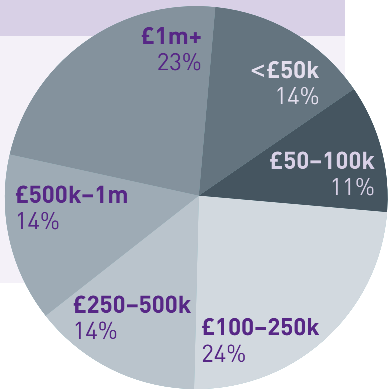
£2.0bn

turnover:

the British Design Industry valuation survey 2005 to **2006**

turnover £m				
company turnover	2004 to 2005	**2005 to 2006**	% change	% of turnover
up to 50k	17	15	-12	0.3
50 to 100	36	37	3	0.9
100 to 250	208	196	-6	4.5
250 to 500	232	236	2	5.5
500 to 1m	381	468	23	10.9
1m+	**3,711**	3,357	-10	77.9
total	**4,585**	**4,309**	**-6**	**100.0**

% of companies in turnover bracket		
company turnover	2004 to 2005	**2005 to 2006**
up to 50k	15	14
50 to 100	11	11
100 to 250	26	25
250 to 500	14	14
500 to 1m	11	14
1m+	23	23

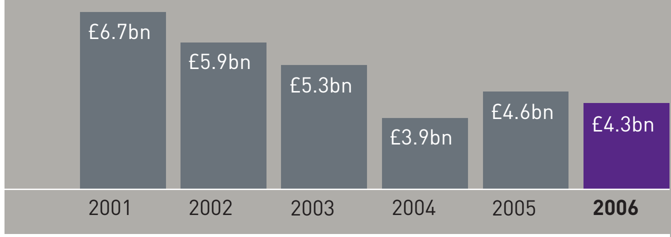


number of companies in turnover bracket			
company turnover	2004 to 2005	**2005 to 2006**	% change
up to 50k	666	612	-8.1
50 to 100	480	494	2.9
100 to 250	1,187	1,117	-5.9
250 to 500	619	630	1.8
500 to 1m	508	624	22.8
1m+	1,040	1,024	-1.5
total	**4,500**	**4,500**	

-6%

£4.6bn

£4.3bn



Design industry turnover

- The turnover for the industry has seen a 6.5% fall on last year's figures, from £4.6bn to £4.3bn.
- Growth this year has been in the mid-sized companies, suggesting that smaller, newer companies and freelancers are struggling.
- The fall in the £1m+ bracket represents a larger fall than the industry as a whole, down £354m, compared to the industry fall of £276m. However, they still account for some 78% of the total turnover of the industry.
- Companies in the £100 to £250k bracket have shown a consistent rise year-on-year for the past five years, but this year the bracket has seen a fall – down 6%. However, they do continue to represent the largest group of companies in the industry.
- The largest growth was among companies in the £500k to £1m bracket, seeing a rise of some 23% in turnover over the last year, plus an estimated 116 more companies appear in this bracket. It is not clear whether this represents a fall from the bracket above or growth from the bracket below.

employees:

the British Design Industry valuation survey 2005 to **2006**

% of agencies

employees	2004 to 2005	**2005 to 2006**
0 to 5	55	51
6 to 10	15	17
11 to 20	12	15
21 to 50	9	10
50+	9	7

number of employees

employees	2004 to 2005	**2005 to 2006**
0 to 5	7,410	6,928
6 to 10	5,310	6,030
11 to 20	8,895	10,931
21 to 50	14,438	16,165
50+	34,706	24,793
total	**70,759**	**64,847**

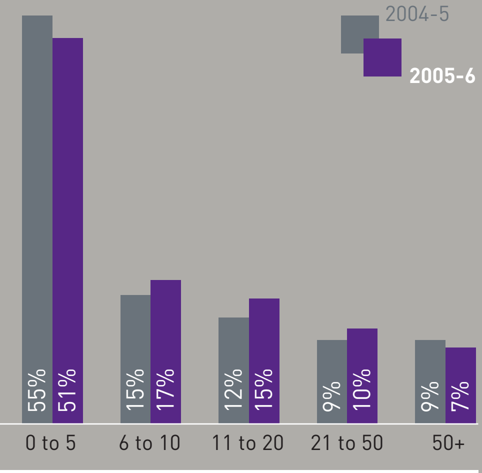
number of agencies

employees	2004 to 2005	**2005 to 2006**
0 to 5	2,470	2,309
6 to 10	664	754
11 to 20	556	683
21 to 50	401	449
50+	409	305
total	**4,500**	**4,500**

-8.4%

71,000

65,000



Number of employees

- 2005/2006 employee numbers are down overall by 8.4%.
- Over half the industry is still made up of companies with 5 or fewer employees. However, this has been falling over the past 3 years, down from 58% in 2003/4 to 51% in 2005/6.
- The real growth has been companies with 6 to 20 employees. This bracket has risen from 21% in 2003/4 to 32% of companies in 2005/6.
- For the first time since we have conducted this survey, the volume of employees in the 50+ bracket has fallen to account for just 38% of the total employment.
- The major growth in employees is in companies with 6 to 50 employees, all seeing a consistent rise in volume over the past 3 years.

fee income:

the British Design Industry valuation survey 2005 to 2006

fee income £m				
company income (£)	2004 to 2005	2005 to 2006	% change	% of turnover
up to 50k	20	19	-5	1
50k to 100k	102	97	-5	3
100k to 250k	86	102	19	3
250k to 500k	199	221	11	7
500k to 1m	308	403	31	12
1m+	3,280	2,495	-24	75
total	**3,995**	**3,337**	**-16**	

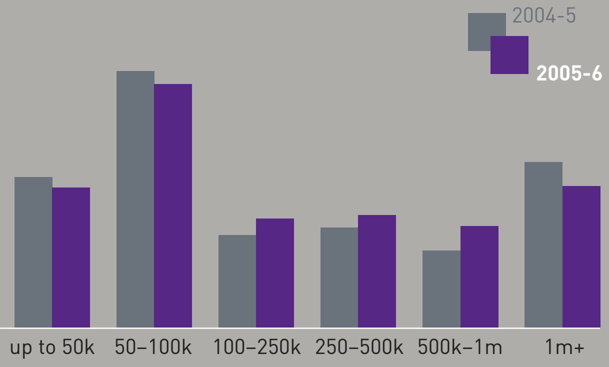
% of companies in fee income bracket		
company income (£)	2004 to 2005	2005 to 2006
up to 50k	18	17
50k to 100k	30	29
100k to 250k	11	13
250k to 500k	12	13
500k to 1m	9	12
1m+	20	17

number of companies in fee income bracket		
company income (£)	2004 to 2005	2005 to 2006
up to 50k	805	746
50k to 100k	1,367	1,295
100k to 250k	494	580
250k to 500k	532	590
500k to 1m	411	537
1m+	891	752
total	**4,500**	**4,500**

-16%

£4.0bn

£3.3bn



Design industry fee income

- Total fee income for the industry has fallen in 2005/2006 by some 16% from £4.0bn to £3.3bn.
- Compared to the £3.1bn fee income recorded in 2003/4; 2005/6 shows a growth over that year and a loss over 2004/5. However, the gap between turnover and fee income is much wider than in previous years suggesting that workload may have remained but fees are being cut.
- Mirroring turnover, falls are seen at both ends of the spectrum and again falls in the £1m+ bracket are larger than the industry as a whole.
- Growth though is seen in mid-sized companies, all with double-digit increases in fee income.
- For the first time in 3 years, the £1m+ bracket now represents less than 20% of the number of companies in the industry suggesting that larger companies have shouldered the largest losses in the past year.

fee income: continued

- Fee income has fallen by 16% which, whilst slightly higher than its lowest point in a decade recorded in 2003 – for a sector that is purported to be crucial to UK competitiveness – something is going wrong. We have been aware of the commodity trap design firms have found themselves in. Investment in technology enables agencies to turn work around fasterbut all benefits are being passed directly to client organisations. This coupled with the designers' inability to earn appropriate income from the IP it generates, does not bode well for the future.

- BDI have begun a re-classification of the commercial design sector and launched a Shared Risk Shared Reward Guide in partnership with Harbottle & Lewis LLP to try to assist design firms to change their remuneration model.

overseas fee income:

the British Design Industry valuation survey 2005 to 2006

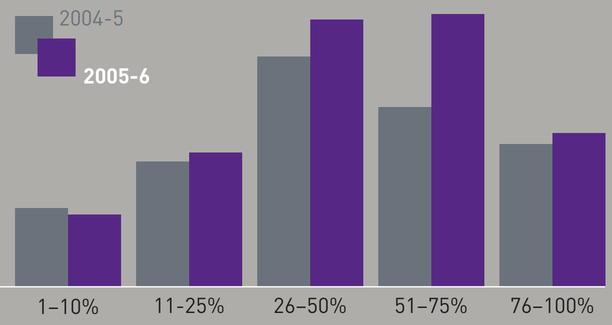
overseas fee income £m			
% of fees earned	2004 to 2005	**2005 to 2006**	**% change**
1 to 10%	71	66	-7
11% to 25%	116	124	7
26% to 50%	213	247	16
51% to 75%	166	252	52
76% to 100%	132	142	8
total	**698**	**831**	**19**

% of overseas fee income split by range		
% of fees earned	2004 to 2005	**2005 to 2006**
1 to 10%	70	63
11% to 25%	14	17
26% to 50%	8	10
51% to 75%	5	7
76% to 100%	2	3

+19%

£0.8bn

£0.7bn



No. of companies by % of fees earned overseas

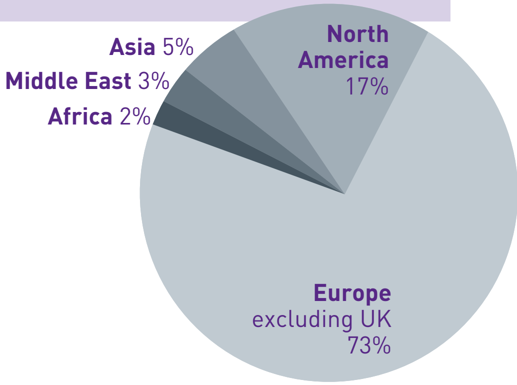
- The growth in export income shows that design firms are becoming more reliant on winning business overseas to compensate for a shrinking volume of work in the UK.
- UK Trade & Investment, through Design Partners, clearly continues to do a good job of promoting UK design talent overseas which is supporting agencies' new business success.
- Contrary to turnover and fee income, overseas fee has seen a rise in 2005/6, up 19% on the last year to £0.8bn, ahead of where it was in 2003/2002 when we saw the dramatic fall.
- The largest growth is among companies with the majority of fee income from overseas. Whilst this only represents some 10% of companies, they account for 47% of total overseas fee income.

overseas markets:

the British Design Industry valuation survey 2005 to 2006

% of companies operating in single overseas markets

markets	2004 to 2005	**2005 to 2006**
Europe (excl. UK)	72	73
North America	18	17
Asia	5	5
Middle East	3	3
Africa	1	2
South America	1	0



% of companies operating in overseas markets

no. of overseas markets	2004 to 2005	**2005 to 2006**
1	59	57
2	25	27
3	11	11
4	4	3
5	1	1
6	1	1

the top countries exported to

	2004 to 2005	**2005 to 2006**
1	United States	United States
2	France	Germany
3	Germany	France
4	Spain	Netherlands
5	Netherlands	Ireland
6	Switzerland	Spain
7	Japan	Japan
8	Ireland	Italy
9	Italy	Switzerland
10	Belgium	Belgium

- Destinations in Europe remain the most popular export markets.
- The majority of overseas fee income continues to come from Europe and North America.
- Some change has occurred in destinations of overseas fee income; Germany, Netherlands, Ireland and Italy have all risen up to the top 10 this year.
- A small increase is shown in the companies now exporting to two markets.

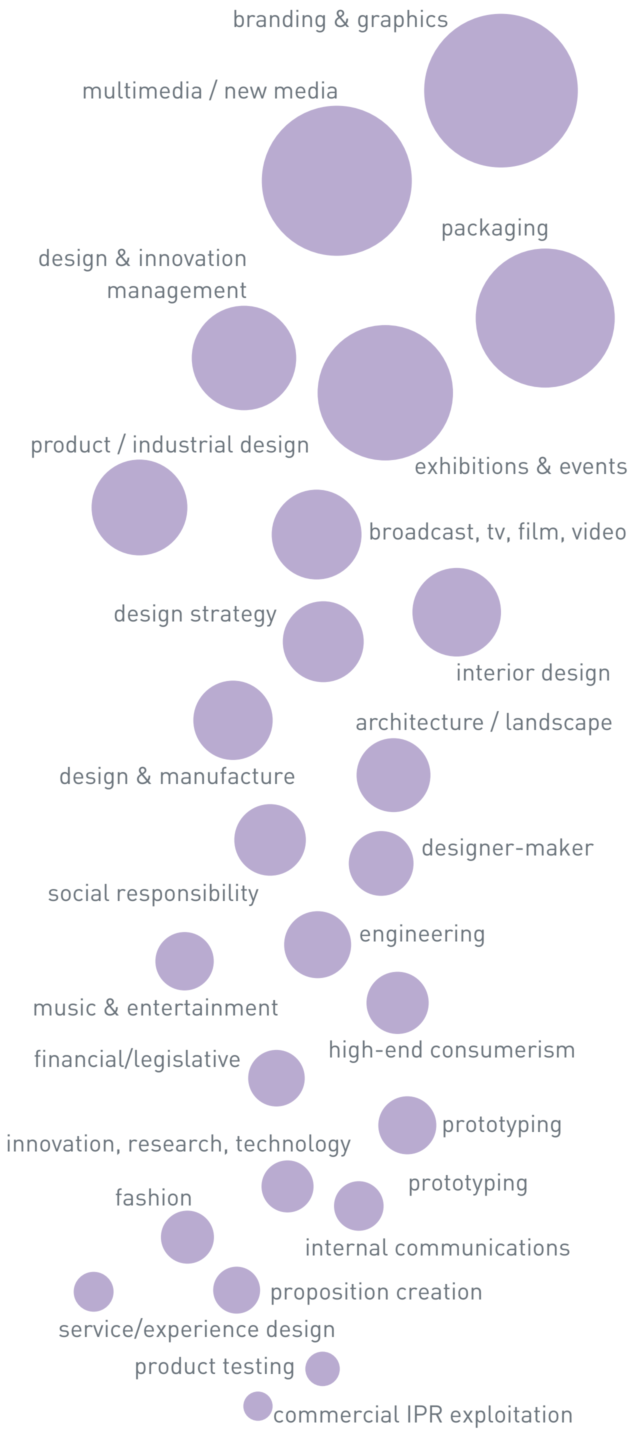
design disciplines:

the British Design Industry valuation survey 2005 to 2006

agencies undertaking discipline

	%	number
branding & graphics	70	3151
multimedia / new media	60	2688
packaging	55	2453
exhibitions & events	53	2397
design & innovation management	37	1672
product / industrial design	25	1144
broadcast,tv, film & video	23	1031
interior design	23	1051
design strategy	22	995
architecture / landscape	19	861
designer & manufacture	13	594
social responsibility	13	567
designer-maker	12	532
engineering	11	481
music & entertainment	10	460
financial / legislative	9	425
high-end consumerism	9	410
prototyping	8	339
innovation, research, technology	7	333
fashion	6	285
internal communications	6	291
proposition creation	6	267
service / experience design	4	187
product testing	3	146
commercial IPR exploitation	2	98

- In June 2006 BDI began a re-classification of commercial design firms to separate strategic design consultancies from design agencies from design studios. Additionally all design disciplines were revised to take account of a new skill set emerging in service and proposition creation.



2005–2006

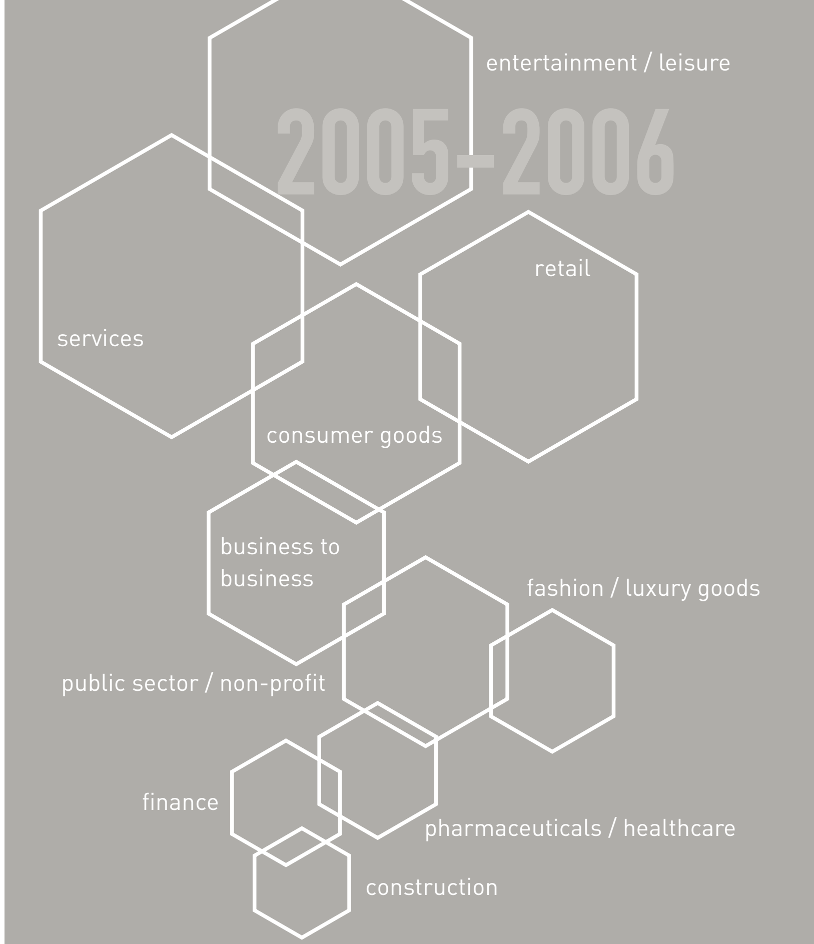
- The top 5 disciplines remain branding and graphics, multimedia/new media, packaging, exhibition & events and design & innovation management.
- The biggest rise has been in design & innovation mangement, up 6% from last year. This reflects the move of product design and proposition creation disciplines closer to the innovation space and to industry.
- The largest fall has been in multimedia/new media, down 4% from last year.
- The BDI revise of design disciplines reflects an emerging skill base and aims to enable buyers to more easily identify the specialists from the generalists.
- The increasing importance of social issues and the designer’s role in that area is an opportunity for growth for those design firms who genuinely seek to specialise in social and environmental issues.

industry sectors:

the British Design Industry valuation survey 2005 to **2006**

agencies operating in sector	%	number
entertainment/leisure	68	2614
services	57	2546
consumer goods	55	2453
business to business	52	2326
public sector/non-profit	51	2273
retail	50	2509
construction	43	1572
fashion / luxury goods	41	1842
pharmaceuticals/healthcare	38	1709
finance	37	1687
telecommunications	37	1653
electronics	34	1523
child/youth	33	1498
medical	33	1467
food & drink	31	2038
transportation	29	1303
personal care	26	1182
packaging	26	1172
automotive	26	1169
publishing	22	974
utilities	21	955
manufacturing	17	1575
tv, film, video, dvd	17	763
agriculture	13	568
aerospace	13	406
capital goods	11	478
biotechnology	9	385
textiles	8	344
environmental technology	6	248
sport	4	158

- This table represents the industry sectors engaging design firms and the number of firms operating in these sectors. It might also be taken as an indicator of UK plc sector strengths and growth industries as a whole – noting manufacturing at 17% and services as 57%.



Top 10 industry sectors that engage design firms

- Business to business continues to show growth as it did last year, up some 6%. This may also reflect a heightened awareness and engagement of the emerging service design and proposition creation disciplines.
- The service sector itself continues to feature strongly, particularly for branding and graphics firms.
- Manufacturing has dropped significantly with 31% of companies claiming sector experience in 2004 down to 17% in 2005.
- The top five sectors have changed from last year seeing business to business taking 5th spot from the public sector.

regions:

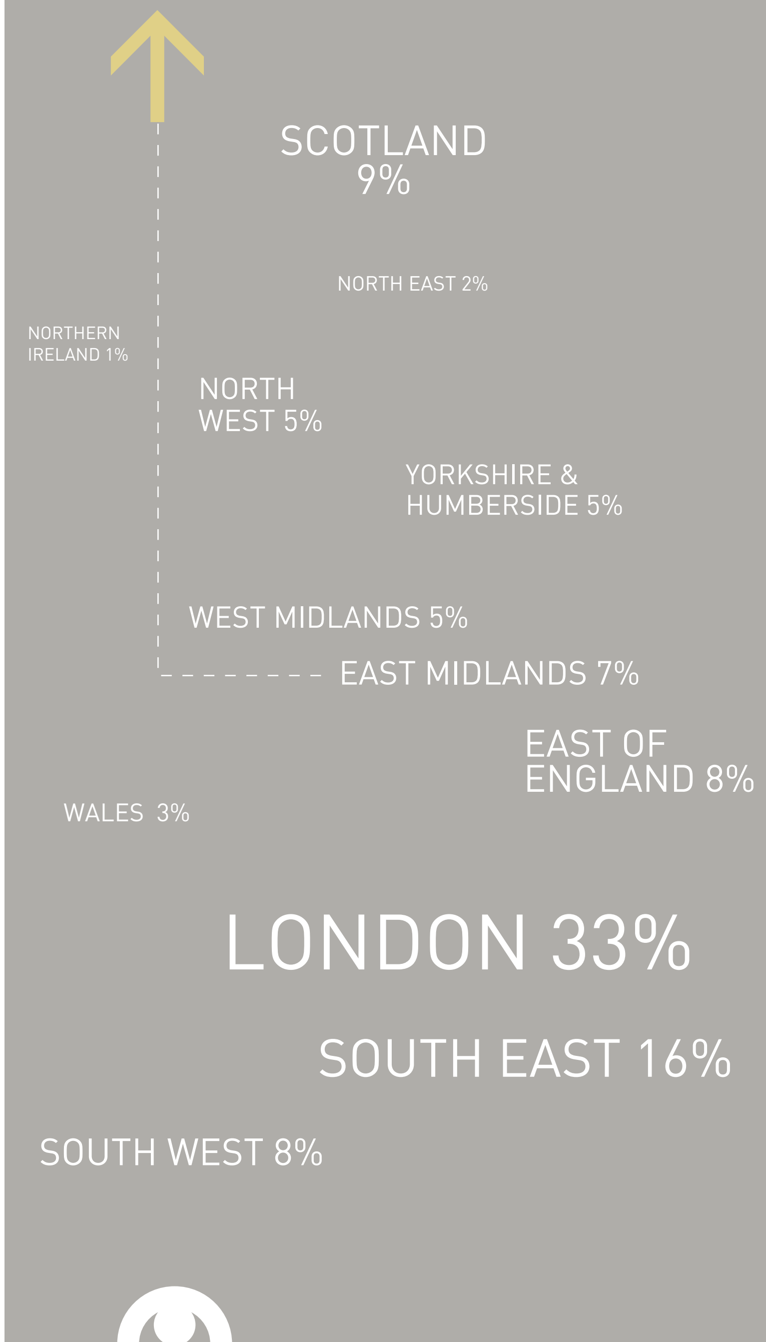
the British Design Industry valuation survey 2005 to **2006**

regional company analysis

	no. of companies	percentage of UK
London	1,502	33
South East	704	16
Scotland	387	9
South West	352	8
East of England	375	8
East Midlands	293	7
West Midlands	211	5
North West	211	5
Yorkshire and Humberside	211	5
Wales	126	3
North East	94	2
Northern Ireland	32	1
total	4,498	

- The design capabilities of the regions will become increasingly important in order to meet the delivery targets of RDAs who are implementing the Designing Demand programme.
- A better understanding of the size, disciplines, sector experience and strategic capabilities of design firms located in the regions needs to be gained.
- BDI has carried out a South East of England study commissioned by SEEDA to support its delivery of Designing Demand.
- London remains the largest design region in the country accounting for a third of all companies.
- The market share across all regions has remained relatively static with only East of England showing a drop from 10% to 8% picked up by the East Midlands moving up from 5.4% to 7%.

2005–2006

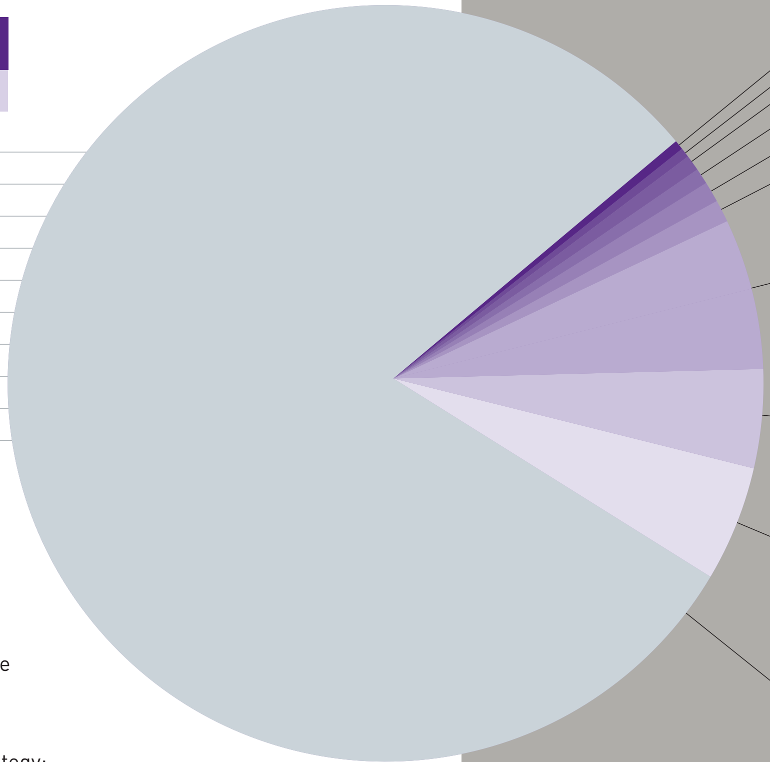


organisation type:

the British Design Industry valuation survey 2005 to **2006**

organisation type	no. of companies	% of companies
design agency	3,541	78.7
architect	218	4.8
design and manufacture	195	4.3
design studio	156	3.5
designer-maker	140	3.1
strategic design consultancy	137	3.0
innovation consultancy	42	0.9
self-employed	36	0.8
fashion designer	26	0.6
furniture designer	7	0.1
interior product manufacturer	3	0.1

2005–2006



- In June 2006, British Design Innovation took the lead in re-classifying the commercial design sector with an aim of assisting design procurers to identify the strategists and specialists from the generalists. This may also assist the design industry to set its fee rates to more appropriately reflect its offer.
- The reclassification is: Strategic Design Consultancy – those firms who drive strategy; Design Agency – firms who visually translate client strategy; and Design Studio – those firms who are more production led.
- This re-classification is not a reflection of creative ability but of business offer.
- The classification was added to the BDI online design directory and to the Valuation Survey questionnaire in June 2006.
- The re-classification of the commercial design sector has only just been introduced and thereby these results cannot be taken as a true picture at present.
- In relation to the three commercial design classifications, our own experienced estimate is that strategic design consultancies represent 10% or less of the design capability in the UK.
- The majority are likely to be design agencies at around 70% and the remaining 20% are likely to be production led graphic design studios.

professional practice:

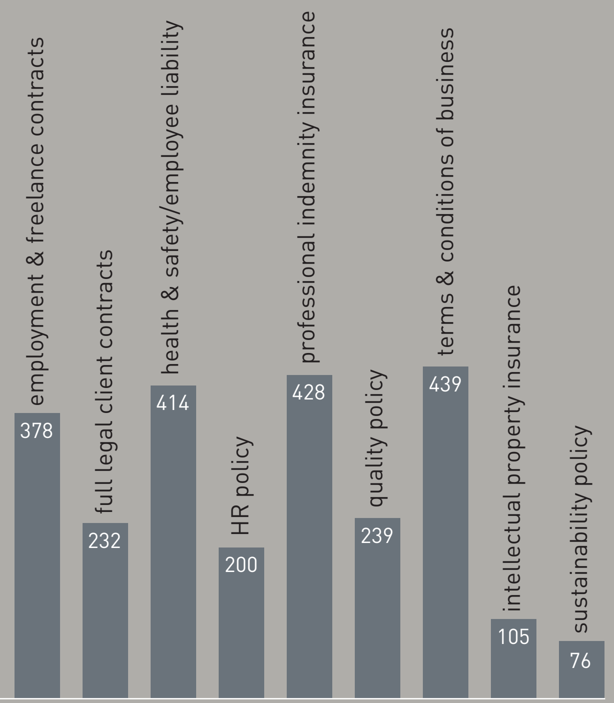
the British Design Industry valuation survey 2005 to **2006**

professional documentation	no. of companies	percentage
employment & freelance contracts	378	62
full legal client contracts	232	38
health & safety/employee liability	414	68
HR policy	200	33
professional indemnity insurance	428	71
quality policy	239	39
terms & conditions of business	439	72
intellectual property insurance	105	17
sustainability policy	76	13

- **Note:** these figures record the direct responses from 611 design firms who responded to this question. Over 1500 design firms participated in the whole survey; meaning that over 900 design firms declined to answer the above question. Thereby the national picture might show more alarming statistics particularly with sustainability policy which could be lower than than 5% across the industry.

- Whilst this graph only represents 611 (out of a base of 4500 design firms) it none the less gives an indication of the design industry commitment to professional structures.
- 60% of those responding to the survey opted not to answer these questions. Either the respondent did not know the answer or a high percentage of design firms are without basic professional structures in place.
- There is clearly a lack of importance placed on IP protection which is also reflected by the design sectors' inability to earn appropriate remuneration from the IP it generates.
- Only 13% of respondents state a sustainability policy, which is very disappointing particularly given that this is not a cost or size issue.

2005–2006



No. of companies using professional documentation

- BDI professional documentation includes heads of agreements, full legal contracts and other professional practice tools designed specifically for the design industry. These are available to all members.
- These results would indicate that a large percentage of design firms feel unable to, or are not willing to, face professional practice issues.
- The Creative Industries Sector Skills Council and its partnership with the Design Council sought to address professionalism within the sector. It appears that their task might be larger than they had anticipated.

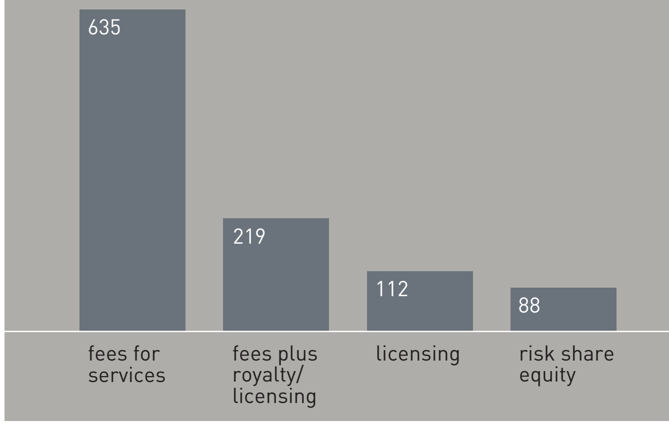
remuneration:

2005–2006

the British Design Industry valuation survey 2005 to 2006

remuneration models		
	no. of companies	% of those responding
fees for services	635	99
fees plus royalty/licensing	219	34
licensing	112	17
risk share equity	88	14

- **Note:** these figures, and their graphical representation, record the direct responses from the 650 design firms who responded to this question. Over 1500 design firms participated in the whole survey; meaning that over 800 design firms declined to answer the question.



No. of companies using each remuneration model

Shared Risk Shared Reward Guide

- In October 2006, BDI also launched, in partnership with Harbottle & Lewis, a Shared Risk Shared Reward Guide to enable design firms to begin to explore alternative remuneration models.
- Additionally, Harbottle & Lewis provide an IPR help line for all members.

- For the past two years BDI has been encouraging design firms to explore alternative remuneration models.
- In particular, the product design, service design, and proposition creation disciplines have an easier IP generation model to explore licensing and royalty remuneration models.
- High-end branded packaging firms also have a good opportunity, particularly with high quality, niche products and start-up brands.
- In place of just cutting fees to accommodate start-ups with limted budgets, design firms should charge fee plus agree on additional royalty/license or equity terms. To do otherwise, design firms are investing in start-up companies without any return on that investment.

British Design Innovation

making design and innovation resources visible and accessible to industry and media

For further information, contact **info@britishdesigninnovation.org**

Write to:

British Design Innovation
9 Pavilion Parade
Brighton
East Sussex
BN2 1RA

tel: + 44 (0) 1273 621 378

www.britishdesigninnovation.org

The 2005/2006 Valuation Survey was produced by Maxine J Horn, Amy Victoria Grey and Jeremy Walker

the British Design Industry valuation survey 2005 to **2006**

The British Design Industry Valuation Survey is undertaken annually by the BDI. First launched in 1999, the survey has become an important reference point that provides an insight into the performance of the UK commercial design industry.

Survey results are used by government, design industry infrastructure, media, education, design agencies and opinion formers.

The 2005/6 survey was supported by:

UK Trade & Investment

VS 2006/11/v1