The British Design Industry valuation survey 2006 to 2007

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

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

More than 1500 design firms, representing over a third of the sector, participated in the 2006/7 survey.

Published in November 2007

The Valuation Survey is supported by UK Trade and Investment.

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

Percentages are accurate

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turnover: -8%

£4.3bn

£4bn

employees: -4.9%

65,000

62,000

fee income: -8%

£3.3bn

£3bn

overseas income: -10%

£0.8bn

£0.7bn

London turnover: -10%

£2bn

£1.8bn

introduction:

the British Design Industry valuation survey 2006 to 2007

With so much government activity centred on the value design brings to business it is worrying not to see that message translating into increased purchase of design or increased fee levels.

The fall in company employee levels and conversely the health of the freelance market supported by increased freelance rates is making it harder for design firms to turn a profit. Consequently, lack of investment in staff training and employment incentives increase the attractiveness of freelance work.

The larger design firms are recruiting, yet project income continues to fall.

Key issues such as sustainability ought to be providing increased business opportunities. Design firms with a published sustainability policy rose from 13% in 2005/6 to 20% in 2006/7. However it is difficult to ascertain whether this represents business investment and learning or simply an increased awareness in the subject.

Sustainability has been widely debated and there is an enhanced awareness of the issue and a greater level of responsibility felt. However only a few dozen design firms have sought to make sustainability a core focus of their offer. We would argue that this is due to lack of guidance on what is a very complex issue.

Overall, despite the significant public sector investment in consultations focused on seeking to understand creative industries and their needs, the under-resourced and time-starved design sector itself is struggling to engage or understand how to benefit.

BDI would argue that there exists an imbalance between benefits gained by businesses utilising design as a competitive advantage and the commercial benefits derived by the design sector itself. The business model needs to be reviewed in order to equitably benefit industry and the design sector.

BDI would also question the regional fragmentation of the design sector in context of the national strength required to counter overseas competition.

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BDI's predictions for 2008...

More out of necessity than burning desire, design firms will review their income models and look for ways in which to earn income through investment in their own ideas and through alternative business models such as licensing, royalty and other forms of shared risk and reward.

Design firms will seek to develop a greater understanding of Intellectual Property and how to negotiate more equitable terms with industry.

Collaboration and co-creation will be a growth area both between creative disciplines & innovation skills sets.

Arguably the ease of use of technology and rise of social networks that has led to exponential growth in ideas & file sharing and collaborations through people power, will continue to influence the professional creative market.

The Government agenda will shift towards development of entrepreneurialism linking it directly with innovation. The skills agenda is likely to focus on multi-disciplinary learning and development of business skills through CPD and training initiatives.

Mergers and acquisitions will continue throughout 2008 leading to a widening gap between large multi-disciplinary design groups and small, niche firms regularly collaborating with other creative firms and innovation disciplines to broaden their offer to industry.

Knowledge, and in particular technology transfer, will become a driving influence in the creative industries and as such new types of design firm will begin to emerge. These firms will have a greater understanding and control over the intellectual property they create.

Industry itself will begin to look externally for new ways to manage and access innovation from the individual and SME originator market place.

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turnover:

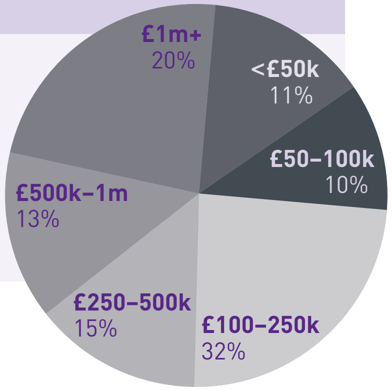
the British Design Industry valuation survey 2006 to **2007**

turnover £m

company turnover	2005 to 2006	**2006 to 2007**	% change	% of turnover
up to 50k	15	12	-20	0.3
50 to 100	37	33	-11	0.8
100 to 250	196	251	28	6.3
250 to 500	236	247	5	6.2
500 to 1m	468	426	-9	10.7
1m+	3,357	3,007	-10	75.6
total	**4,309**	**3,976**	**-8**	**100.0**

% of companies in turnover bracket

company turnover	2005 to 2006	**2006 to 2007**
up to 50k	14	11
50 to 100	11	10
100 to 250	25	32
250 to 500	14	15
500 to 1m	14	13
1m+	23	20



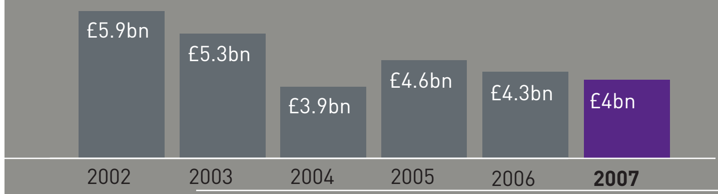
number of companies in turnover bracket

company turnover	2005 to 2006	**2006 to 2007**	% change
up to 50k	612	486	-21
50 to 100	494	438	-11
100 to 250	1,117	1,435	28
250 to 500	630	657	4
500 to 1m	624	568	-9
1m+	1,024	915	-11
total	**4,500**	**4,500**	

-8%

£4.3bn

£4.0bn



Design industry turnover, UK

- Turnover for the industry has seen an 8% fall on last years figures, from £4.3bn to £4bn
- The largest growth was among companies in the £100k to £250k bracket, seeing a rise of some 28% over last year in turnover and an estimated 248 more companies in this bracket. This sees it return to the growth area it occupied before the 2005/6 fall
- The fall in value of turnover among the £1m+ bracket is as last year - greater than the fall for the whole industry. This sector of the industry has suffered an estimated £0.7bn loss in turnover in the last 2 years

employees:

the British Design Industry valuation survey 2006 to **2007**

% of agencies		
employees	2005 to 2006	**2006 to 2007**
0 to 5	51	57
6 to 10	17	16
11 to 20	15	11
21 to 50	10	8
50+	7	8

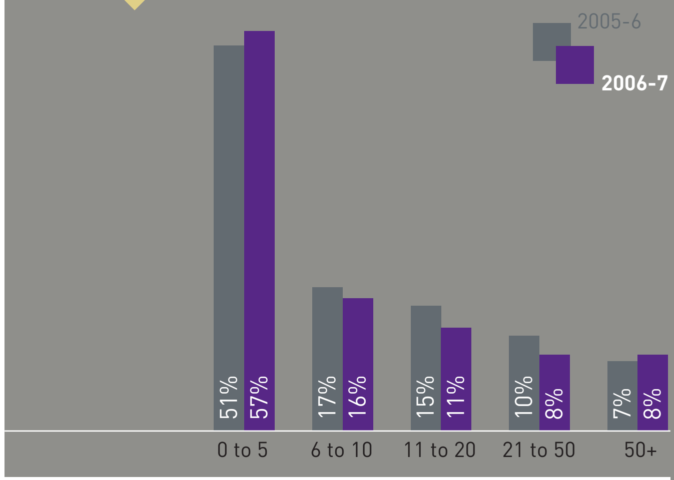
number of employees		
employees	2005 to 2006	**2006 to 2007**
0 to 5	6,928	7,758
6 to 10	6,030	5,687
11 to 20	10,931	8,087
21 to 50	16,165	12,561
50+	24,793	27,587
total	**64,847**	**61,680**

number of agencies		
employees	2005 to 2006	**2006 to 2007**
0 to 5	2,309	2,586
6 to 10	754	711
11 to 20	683	505
21 to 50	449	349
50+	305	349
total	**4,500**	**4,500**

-4.9%

65,000

62,000



Number of employees

- The 2006/7 results show a fall of some 3,000 employees (4.9%), continuing the fall reported in the 2005/6 survey. This amounts to a fall of around 9,000 employees over the past 2 years
- Parts of the industry have seen some growth. The 0-5 bracket has seen a rise in the number of companies and a 12% rise in the number of employees
- The 50+ bracket also saw a rise in the number of design firms and an 11% rise in the number of employees.
- The industry has also seen the percentage of total employment in the 0-5 bracket rise, from representing 51% of the sector in 2005/6 to representing 57% of the sector in 2006/7.

fee income:

the British Design Industry valuation survey 2006 to 2007

fee income £m

company income (£)	2005 to 2006	2006 to 2007	% change	% of fee income
up to 50k	19	17	-11	1
50k to 100k	97	117	21	4
100k to 250k	102	98	-4	3
250k to 500k	221	217	-2	7
500k to 1m	403	321	-20	10
1m+	2,495	2,313	-7	75
total	**3,337**	**3,083**	**-8**	

% of companies in fee income bracket

company income (£)	2005 to 2006	2006 to 2007	% change
up to 50k	17	15	-2
50k to 100k	29	35	6
100k to 250k	13	12	-1
250k to 500k	13	13	0
500k to 1m	12	10	-2
1m+	17	16	-1

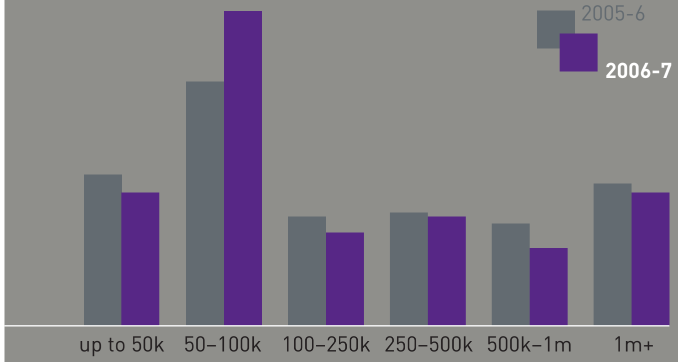
number of companies in fee income bracket

company income (£)	2005 to 2006	2006 to 2007	% change
up to 50k	746	662	-11
50k to 100k	1,295	1,558	20
100k to 250k	580	558	-4
250k to 500k	590	578	-2
500k to 1m	537	429	-20
1m+	752	714	-5

-8%

£3.3bn

£3.0bn



Design industry fee income

- Industry fee income has fallen by 8% compared to the 2005/6 results, a fall of £254m
- The second consecutive year of falling fee income represents a total fall of £912m in the last 2 years.
- In previous years, the £1m+ fee income bracket has accounted for a comparatively greater fall than other brackets – again in 2006/7 it follows suit and accounts for 72% of the fall in the value of the industry fee income
- The largest percentage fall has been in the £500k to £1m brackets, which has seen fee income fall by 20% - accounting for 32% of the fall in value of the industry. The £500k to £1m bracket has also seen the largest fall in number of companies, down 20%
- The only growth in fee income is in the £50-£100k brackets, where income and number of companies rose by 20% or more

overseas fee income:

the British Design Industry valuation survey 2006 to **2007**

overseas fee income £m

% of fees earned	2005 to 2006	**2006 to 2007**	**% change**
1 to 10%	66	68	-7
11% to 25%	124	147	18.5
26% to 50%	247	218	-11.7
51% to 75%	252	175	-30.6
76% to 100%	142	139	-2.1
total	**831**	**747**	**-10**.1

% of overseas fee income split by range

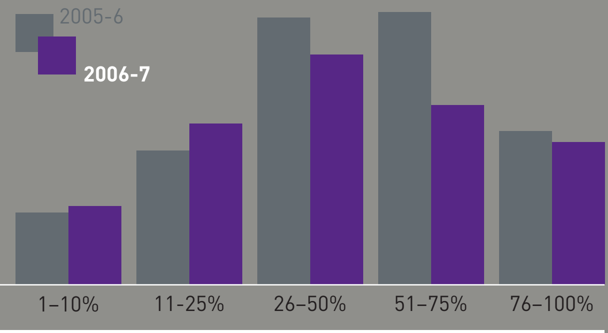
% of fees earned	2005 to 2006	**2006 to 2007**
1 to 10%	63	62
11% to 25%	17	18
26% to 50%	10	10
51% to 75%	7	6
76% to 100%	3	3

- Despite the 10% fall in 2006/7 export fee income, the drop is comparatively lower than the overall drop in fee income for the sector. Thereby in context, export income remains relatively strong; accounting for 24% of fee income
- A strong argument remains for national representation of the design sector, through activities such as the China Design Task Force, rather than regional fragmentation.
- Many major architectural groups continue to plough their own furrow in the export markets – many of whom are not represented in this survey.

-10%

£0.8bn

£0.7bn



No. of companies by % of fees earned overseas

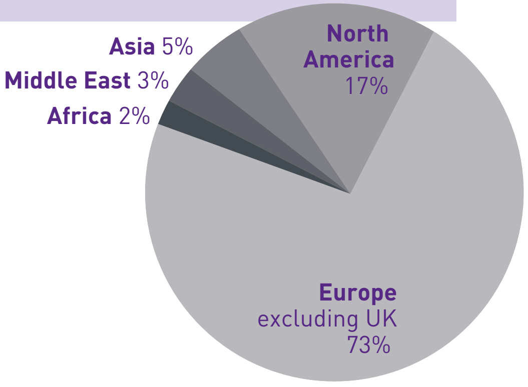
- Overseas fee income has seen a fall of 10% compared to last years results. However, unlike fee income and turnover, it remains about the level seen in the 2004/5 survey.
- The fall accounts for a third of the total fall in fee income for the industry
- Growth has been at the bottom of the scale and results suggest more companies are working overseas as the percentage of companies reporting overseas fee income has risen for all brackets that receive more than 10% of fee income from overseas

overseas markets:

the British Design Industry valuation survey 2006 to 2007

% of companies operating in single overseas markets

markets	2005 to 2006	2006 to 2007
Europe (excl. UK)	73	71
North America	17	16
Asia	5	6
Middle East	3	4
Africa	2	2
South America	0	0



% of companies operating in overseas markets

no. of overseas markets	2005 to 2006	2006 to 2007
1	57	56
2	27	28
3	11	12
4	3	3
5	1	1
6	1	1

the top countries exported to

	2005 to 2006	2006 to 2007
1	United States	United States
2	Germany	France
3	France	Germany
4	Netherlands	Netherlands
5	Ireland	Ireland
6	Spain	Belgium
7	Japan	Japan
8	Italy	Spain
9	Switzerland	Switzerland
10	Belgium	Italy

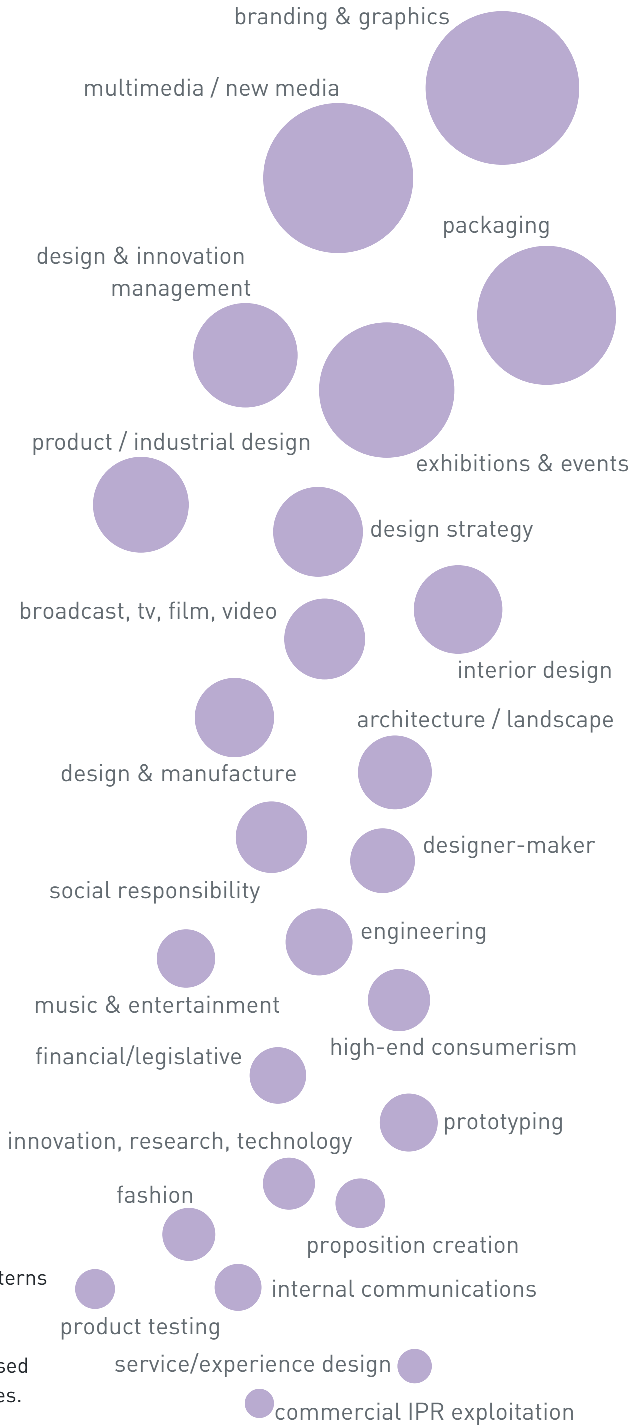
- Destinations in Europe remain the most popular export markets accounting for nearly three quarters of all overseas fee income
- The Top 10 countries remain the same with the US leading the survey again this year. The main change has been Belgium moving up to 6th place
- The majority of overseas fee income continues to come from Europe and North America
- Minor change has occurred in single market destinations with Asia and the Middle East rising slighting thereby marginally reducing the Europe and North American % share.
- A small increase is shown in companies now exporting to two or three markets.

design disciplines:

the British Design Industry valuation survey 2006 to **2007**

agencies undertaking discipline	%	number
branding & graphics	62	2804
multimedia / new media	56	2508
packaging	49	2227
exhibitions & events	47	2109
design & innovation management	32	1433
product / industrial design	25	1109
design strategy	22	1001
interior design	22	982
brodcast, tv, film, video	21	927
architecture / landscape	19	852
designer & manufacture	14	646
social responsibility	14	636
designer-maker	13	602
engineering	11	488
music & entertainment	11	497
financial / legislative	10	445
high-end consumerism	10	454
fashion	9	411
innovation, research, technology	9	402
prototyping	8	380
proposition creation	7	321
internal communications	6	287
product testing	5	207
service /experience design	4	201
commercial IPR exploitation	3	120

- Following an overhaul of design disciplines in 2005/6 to take account of the shift towards innovation and the rise in new technology, sustainability and social changes, interesting patterns are beginning to emerge.
- The box to the right is reporting drops in traditional paper based graphics and packaging and increases in innovation disciplines.



2006–2007

- The top 5 disciplines remain branding and graphics, multimedia/new media, packaging, exhibition & events and design/innovation management
- However, these have all seen at least a 5% fall compared to the previous year in companies reporting them as a discipline.
- Branding and Graphics has seen an 8% fall year-on-year down from 70% in 2005/6 and Packaging is down from 55% to 49%
- Reflecting the rise in new disciplines such as Proposition Creation; Service design and IP exploration all have reported an increase in number of companies operating in these disciplines. Proposition design has marginally increased from 6 to 7% and Innovation, research and technology has risen from 7% to 9%.

industry sectors:

the **British Design Industry valuation survey** 2006 to **2007**

agencies operating in sector	%	number
services	55	2495
entertainment/leisure	54	2435
retail	54	2422
consumer goods	52	2325
public sector/non-profit	48	2145
business to business	45	2038
food and drink	42	1908
fashion / luxury goods	39	1758
pharmaceuticals/healthcare	37	1658
construction	36	1605
finance	34	1531
telecommunications	34	1528
manufacturing	34	1531
child/youth	33	1488
medical	33	1491
electronics	32	1424
transportation	28	1251
automative	26	1178
personal care	24	1084
packaging	24	1061
utilities	20	894
publishing	19	877
tv, film, video, dvd	15	687
agriculture	13	607
capital goods	10	440
aerospace	9	400
sport	9	384
biotechnology	8	364
textiles	8	364
environmental technology	8	364

- 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 34% and services as 55%.

Top 10 industry sectors that engage design firms

- Having seen growth for the last 2 year, business to business has shown a fall of 7% this year along with entertainment and leisure (-14%) an construction (-7%)
- Sector growth is seen in Food and Drink (+11%) and a large rise of 17% year-on-year for Manufacturing
- The service sector is now the largest source of work for the UK design sector

regions:

the British Design Industry valuation survey 2065 to **2007**

regional company analysis		
	no. of companies	percentage of UK
London	1,454	32
South East	716	16
East of England	456	10
Scotland	354	8
South West	351	8
East Midlands	311	7
North West	227	5
West Midlands	206	5
Yorkshire and Humberside	190	4
Wales	118	3
North East	97	2
Northern Ireland	21	0
total	4,501	

- Despite a hive of regional activity over the last couple of years particularly in the South West, North East and Scotland the regional market shares have barely changed. The East of England where no particular activity has been centered has in fact increased its market share, perhaps led by firms moving slightly further out of London into Counties such as Hertfordshire.

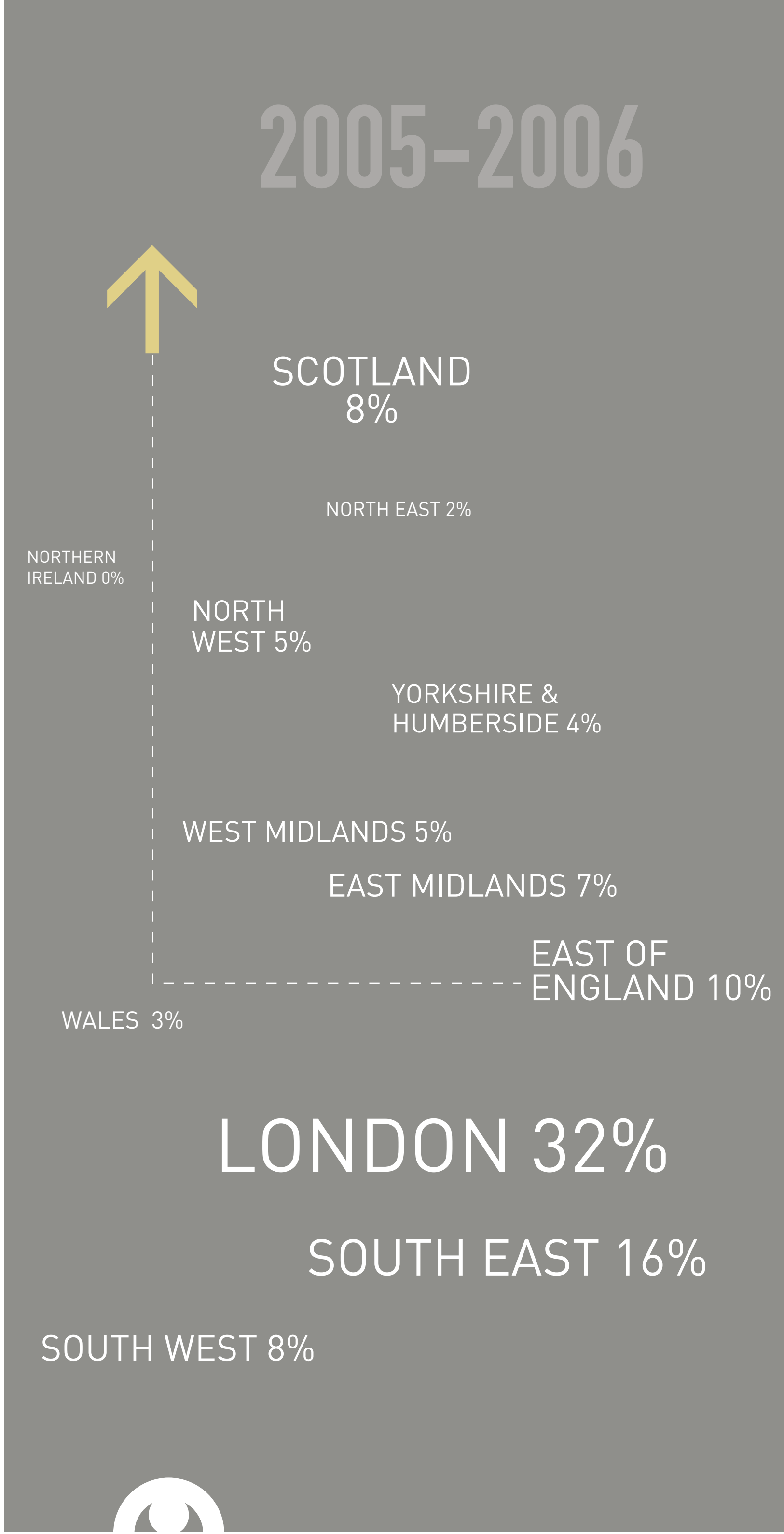
- Thereby regionalised design activities seem to have little bearing on the choice of location for design firms. Life style choice is more likely to be a driver of re-location.

- Regional activities in context of local networks; information sharing and collaboration are worthy. However a strong national force must be maintained to save the design industry from further fragmentation and a potential weakening of the national story in face of increased international competition.

- London remains the largest design region in the country with nearly one third of all design firms 32% based in London; a slight decrease over 2005/6.

- The East of England market share has increased from 8% to 10% whilst Scotland has dropped from 9% to 8%.

- All other regions have maintained the same percentage market share as in 2005/6.

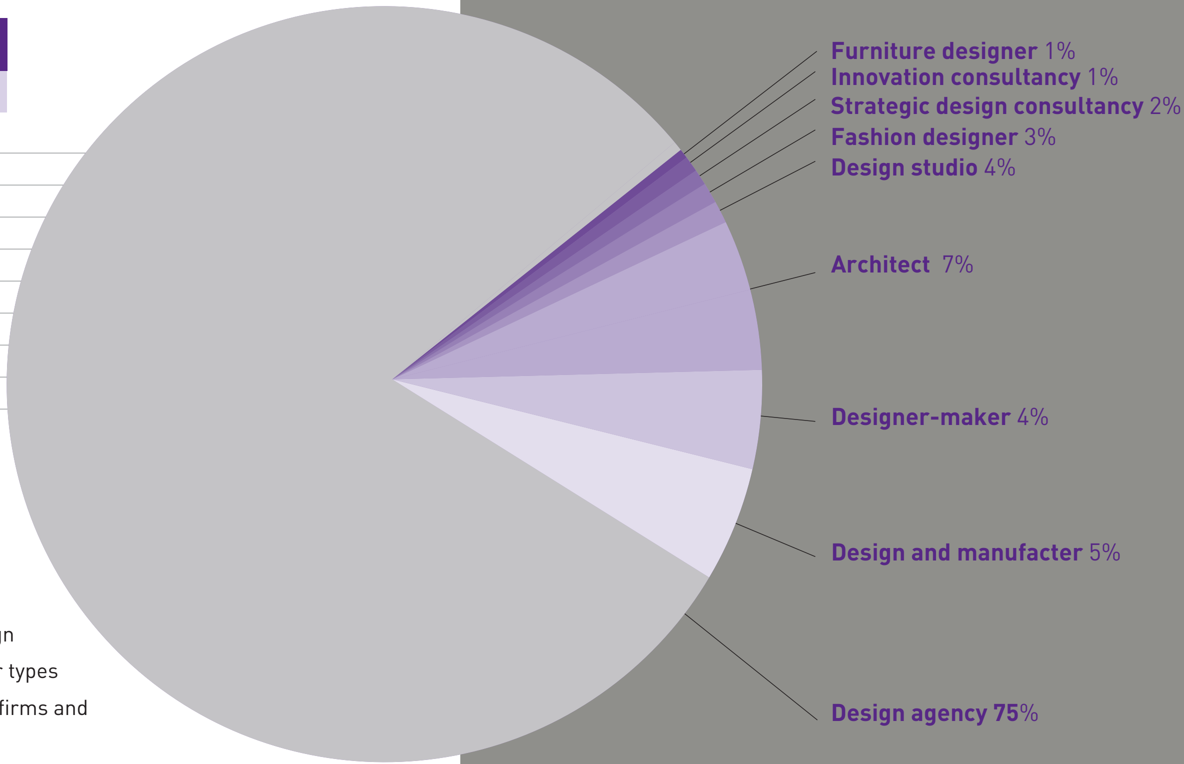


organisation type:

the British Design Industry valuation survey 2006 to 2007

2006–2007

organisation type	no. of companies	% of companies
design agency	3121	75
architect	283	7
design and manufacture	189	5
design studio	159	4
designer-maker	162	4
strategic design consultancy	93	2
innovation consultancy	24	1
fashion designer	117	3
furniture designer	21	1
interior product manufacturer	3	0



- In June 2006, British Design Innovation re-classified the make-up of the UK design sector to reflect the need of external audiences seeking to engage with particular types of design discipline. It also reflected the need to identify the strategic-led design firms and design-led innovation consultancies.

- BDI split the traditional commercial design groups into four categories. Strategic design consultancy – those leading strategy; design agency – those translating strategy, design studio – the more production-led firms, and innovation consultancy.

professional practice:

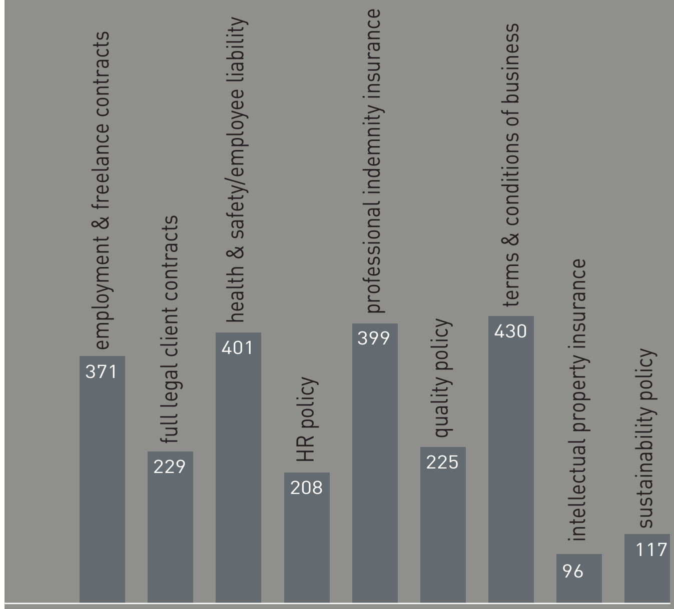
the British Design Industry valuation survey 2006 to **2007**

professional documentation

	no. of companies	percentage
employment & freelance contracts	371	64
full legal client contracts	229	39
health & safety/employee liability	401	69
HR policy	208	36
professional indemnity insurance	399	69
quality policy	225	39
terms & conditions of business	430	74
intellectual property insurance	96	17
sustainability policy	117	20

- **Note:** These figures, and their graphical representation, are indicative of the national picture, using only the total number of design firms who responded to this question.
- The debate surrounding Professional Practice; Professional Frameworks and Accreditation continued to rumble on throughout 2006/7.
- 57% of the entire sector employs fewer than five.

2006–2007



No. of companies using professional documentation

- Design firms that have a published sustainability policy has risen from 13% in 2005/6 to 20% in 2006/7.
- It is difficult to ascertain whether sustainability is being more regularly considered in design solutions. However the increase strongly suggests there is a greater awareness of sustainability issues and an enhanced responsibility being felt.
- Whilst sustainability is a major issue it is non the less a complex one when it comes to understanding if the changes proposed cause as much energy to be expended as the former status quo.

remuneration:

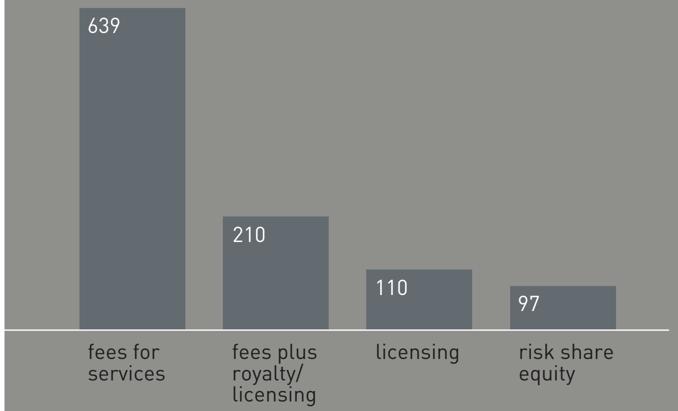
2006–2007

the British Design Industry valuation survey 2006 to **2007**

remuneration models	no. of companies	% of those responding
fees for services	639	99
fees plus royalty/licensing	210	33
licensing	110	17
risk share equity	97	15

- **Note:** These figures, and their graphical representation, are indicative of the national picture, using only the total number of companies who responded to this question.

- This question was introduced into the survey for the first time in 2005/6 to reflect the changing business model.



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.

- Respondents have increased marginally in 2006/7 and therefore only provide an insight into the design firms who are actually operating more than one income model.
- As understanding of Intellectual Property grows amongst traditional fee for services design firms and alternative remuneration model success stories begin to emerge, we expect these figures to start growing.

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the British Design Industry valuation survey 2006 to **2007**

The British Design Industry Valuation Survey is undertaken annually. 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.

VS 2006/11/v1