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FEATURE 01

why royalties?

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THE CONVENTIONAL ROLE AND BUSINESS MODEL adopted by many Industrial Designers has long been that of "professional service provider."

Working as part of a multi-disciplinary team to create products for large corporations, the designer is one of many contributors. Designers are typically positioned (at best) as the "creative component" of the team and at worst as a "provider of options" for styling and packaging concepts, then our work is juried and edited by marketing and engineering management.

My intent in this essay is to challenge this convention and to propose an alternative: based on over 20 years of experience I believe passionately that a royalty-based business model is the best form of engagement for designers and their client/partners.

Instead of selling time and talent by the hour, I believe we should work as other creative professionals do. Writers, directors, photographers, and inventors all work with business agreements that limit up-front risk on the client side, and create pay-for-performance incentives for the creative talent.

Professional Service Provider, or Creative Director?
My first position out of college was in the styling studio of Peugeot Automobiles. As part of a large corporate design group, the professional service provider model of the Styling Studio was well established. Over the course of my four years with Peugeot, I began to see the drawbacks and inherent conflicts of interest this structure imposes.

I submit that the common complaint, "the client picked the wrong concept" is a direct result of this paradigm. Designers have positioned themselves as option providers, not solution finders.

One of my earliest surprises was this: Whenever the engineering or manufacturing groups made a presentation of their work, the executive team would generally take the recommendations de facto, with little discussion or input on direction.

However, when the styling director would make a proposal, there was tremendous discussion, deliberation, re-direction. It seemed as if the lawyers and MBA's that made up the executive team understood that engineers are "experts" whose ideas and counsel are to be taken seriously — but designers…well, they're here to help us see possibilities, and we'll make up our own minds about what looks right to us, thank you very much.

During the first five years of running my own design firm, I adopted the traditional paradigm and tactics of professional service firms: fee based, phase-by-phase program structures, with "options a, b or c" offered up for my clients to review.

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Selling Time or Selling Talent

In our drive to give our profession more credibility and appeal to large corporations, we have adopted a form of practice used by lawyers and accountants. Professional services, by definition, are easily formulized and systematized. Creative direction, on the other hand, defies a formulaic approach and requires individual talent, inspiration and "pixie dust."*

Interestingly, when industrial designers speak of whom they admire, they typically name "celebrity designers" — Phillipe Starck, Mark Newson, Antonio Citterio, Raymond Loewy, and Charles Eames. All of these designers have built their businesses on a retainer/royalty basis, and yet this model is still the exception among independent designers and design firms.

I had a very interesting conversation recetly with Eames Demetrios — film maker, artist, and grandson of Charles Eames. We talked about what made Charles and Ray Eames so different from more conventional and generally less successful designers. Demetrios believes they were truly independent — they did not approach design as a service activity reactive to the direction and sponsorship of clients. Instead they structured projects as explorations and experimentation with ideas or materials they felt were interesting and compelling.

Second, and most profoundly for me, they were not afraid to "bet on themselves." Starting with their early experiments in molded plywood, and through work with Herman Miller, Vitra, IBM and others, the Eames' consistently invested resources and time into projects they believed in. The legacy of the work is strong testament to the power of their passionate proactive design process.

By contrast, I believe that there is a fundamental conflict of interest set up with a fee-based, phase-by-phase model. When one phase is over and the time/resources have been spent, the difficult dilemma of business owners (who happen to be designers as well) is to forego profitability for design quality, or finish the job, get paid, and move on.

Shifting Gears, Embracing Opportunities

In my own practice I've had the good fortune to work with two companies that changed my view of the designer/client partnership and helped me to appreciate the power of a relationship based on true sharing of risk and reward.

Late in 1989 I was contacted by Ed Hart, then President of Casablanca Fan Company. At that time, Casablanca was regarded as the leader in the industry. However, Ed believed that to continue to grow sales Casablanca needed to reach people who wouldn't even consider the practical benefits of ceiling fans because the image of the product itself. Fans were by the perceptions of a fan as typically used in traditional, historically referential interiors. To gain the market share he sought, Ed needed someone who was not "in the club," who could push the boundaries and challenge assumptions.

Ed insisted on structuring a royalty agreement for our work together, with a minimal monthly retainer to cover basic costs. He explained that if I succeeded in creating new products that would truly accomplish our collective goals, I would be paid much more that any fee-based compensation plan could accommodate. If I did not, I would make very little, and the company would not have risked much investment.

RIGHT: *The Levity Collection for Herman Miller*

Over the seven years I worked with Casablanca, we created dozens of products together that expanded their market and established new directions for what ceiling fans represent today. We introduced integrated halogen lighting, easy to use electronic controls, new colors and finishes, clean and elegant design statements.

And in the process I made more money for the time invested than I could ever have imagined. However, the money was only part of what I gained from the relationship with Casablanca. The lessons I learned about collaboration, conviction about an idea, and shared risk/reward were ultimately more valuable to my future.

Nurturing Ideas, Protecting Ownership, Rewarding Success

These lessons from my work with Casablanca were reinforced, and my conviction to using a royalty model for my business was further cemented by my collaboration with Herman Miller for 11 years.

When I began working with Herman Miller in 1990, the process of design development in place was to partner with designers that can bring a unique and passionate voice and work as part of a team made up of Herman Miller employees, other independent resources, and supplier partners. The notion of letting a designer work unconstrained and uninfluenced by critique or direction in the early stages of a program is integral to the culture of the company established by George Nelson and the DePree family. This process can be agonizingly uncomfortable for designers habituated to a conventional "design options and client feedback" approach. But ultimately it can also be extremely liberating, and I believe it sets up the best opportunity for achieving true innovation and maintaining design integrity.

Coupled with a business agreement that creates the potential for substantial reward if a program is commercially successful, and conversely, has limited cost to the company if sales don't meet their expectations, this process can create powerful results for Herman Miller, for designers, and for end users.

The Ambi chair for Herman Miller was an extremely challenging, and sometimes frustrating, example of the power of this proposition. Charged with creating a new low-cost work chair in a short time frame, with clearly defined cost and investment criteria, I was faced with tough decisions about risk, innovation, artistic aspiration. Ultimately, we created a chair that has been a tremendous commercial success for Herman Miller in a part of the seating market where they had been unable to compete. Ten years later and still going strong, the Ambi chair has been a standard at companies such as Fidelity Investments and Nortel Networks, generating over a hundred million dollars in sales, with strong margins, and royalties in excess of two million dollars to date.

Defining Success and Failure

The work I did for Casablanca, and the Ambi program for Herman Miller were tremendous successes for everyone. But I've had my share of disappointments and surprises as well. My two best known programs — The Levity Collection for Herman Miller, and the dna venture created with Teknion both resulted in tremendous critical acclaim and interest, but failed to achieve sales sufficient to sustain momentum.

Timing can be everything, and both of these programs suffered from bad timing.

The Levity Collection was launched at a time when Herman Miller was in the throws of a re-organization, and when the company was focused almost exclusively on commercialization of a major new furniture systems program (Resolve). In spite of the promising response to Levity, few resources were made available for marketing support or cost effective manufacturing of the products, and the program never gained traction with the large corporate customers that Herman Miller serves. The unfortunate result was disappointing sales and small royalties.

The dna venture was launched during the downward spiraling economy of 2002, to very positive critical acclaim and promising initial sales. Unfortunately, faced with mounting losses in their core business, our partner company neither provided the resources to support the venture beyond our start-up period, nor allowed us to bring in outside funding or continue on our own. Choosing instead to force a closure of the venture, the unfortunate result was a complete write-off of an investment of millions of dollars and thousands of hours of work.

On the basis of financial return on investment, these two programs must be considered failures. However, I believe that neither life nor business should be measured in purely financial terms. The experience gained, exposure, and critical acclaim I received have been extremely valuable in my business and my life. So the adventure was excellent in both cases.

*Creative Direction requires individual talent, inspiration & pixie dust.

— Bill Stumpf, codesigner of the Aeron, Equa, Ergon and Caper chairs for Herman Miller.

Royalty Rules
Through good and bad experiences, profitable and not-so-profitable programs, I remain convinced that creating a retainer/royalty business model is the best way to achieve design excellence and motivate designers and client partners with financial reward tied to shared success.

Some of the lessons I learned have led me to these general guidelines to my business activities and relationships:

- Become an expert in the industry and product area you are targeting — if your products don't sell there will be no reward.
- Design products that many people will want to buy — niche products generate small returns.
- Pick partners that truly want to promote and sell your products — and get a commitment to staff and support the program fully and enthusiastically.
- Find a very good, very experienced intellectual property attorney — your agreement is the foundation for the relationship, in good times and bad.
- Find a very good, very experienced auditor. Everyone makes mistakes, and mistakes on royalty calculations are both common and expensive.
- Don't be afraid to bet on yourself!

ABOVE: *The DNA venture for Teknion*
BELOW: *The Ambi chair for Herman Miller*

Summary
Obviously, not all designers or projects are suited to a royalty-based model. Products with short shelf life (consumer electronics), products that have high technology value add (computers), and products where price drives sales (commodities) are typically more suited to a fee-based model.

But when industrial designer's contribution truly drives product value and customer desire/satisfaction, I believe that the benefits of a shared risk/reward model far outweigh the short term challenges.

As designers, we all strive to be respected as creative professionals, with ideas worthy of nurturing, investment, support. Who better to bet on our ideas than ourselves? ●

Richard Holbrook is the Founder and Creative Director of RM Holbrook Associates, a design consulting practice, and of Richard Holbrook, Inc., a manufacturer and distributor of furniture and accessories.

A 1981 graduate of Art Center College of Design, Richard worked four years in the Styling Studio at Peugeot Automobiles in England and France, before returning to Los Angeles to establish RM Holbrook Associates, Inc. His clients have included Casablanca Fan, Herman Miller, Steelcase, Teknion, Thermador, Tropitone, Yamaha and other well known brands. His work has received awards from IDSA/Business-week, ID magazine, *The Chicago Atheneum, and has been exhibited at the Museum of Modern Art.*