

McKinsey Explainers

# What is design thinking?

Design thinking is a systemic, intuitive, customer-focused problem-solving approach that organizations can use to respond to rapidly changing environments and to create maximum impact.



**Design and conquer:** in years past, the word “design” might have conjured images of expensive handbags or glossy coffee table books. Now, your mind might go straight to business. Design and design thinking are buzzing in the business community more than ever. Until now, design has focused largely on how something looks; these days, it’s a dynamic idea used to describe how organizations can adjust their problem-solving approaches to respond to rapidly changing environments—and create maximum impact and shareholder value. Design is a journey *and* a destination. Design thinking is a core way of starting the journey and arriving at the right destination at the right time.

Simply put, “design thinking is a methodology that we use to solve complex problems, and it’s a way of using systemic reasoning and intuition to explore ideal future states,” says McKinsey partner Jennifer Kilian. Design thinking, she continues, is “the single biggest competitive advantage that you can have, if your customers are loyal to you—because if you solve for their needs first, you’ll always win.”

And good design is good business. Kilian’s claim is backed up with data: McKinsey Design’s 2018 *Business value of design* report found that the best design performers increase their revenues and investor returns at nearly *twice* the rate of their industry competitors. What’s more, over a ten-year period, design-led companies outperformed the S&P 500 by 219 percent.

As you may have guessed by now, design thinking goes way beyond just the way something looks. And incorporating design thinking into your business is more than just creating a design studio and hiring designers. Design thinking means fundamentally changing how you develop your products, services, and, indeed, your organization itself.

Read on for a deep dive into the theory and practice of design thinking.

## How do companies build a design-driven company culture?

There’s more to succeeding in business than developing a great product or service that generates a financial return. Empathy and purpose are core business needs. Design thinking means putting customers, employees, and the planet at the center of problem solving.

McKinsey’s Design Practice has learned that design-led organizations start with design-driven cultures. Here are four steps to building success through the power of design:

1. **Understand your audience.** Design-driven companies go beyond asking *what* customers and employees want, to truly understanding *why* they want it. Frequently, design-driven companies will turn to cultural anthropologists and ethnographers to drill down into how their customers use and experience products, including what motivates them and what turns them away.

Makeup retailer Sephora provides an example. When marketing leaders actually watched shoppers using the Sephora website, they realized customers would frequently go to YouTube to watch videos of people using products before making a purchase. Using this information, the cosmetics retailer developed its own line of demonstration videos, keeping shoppers on the site and therefore more likely to make a purchase.

2. **Bring design to the executive table.** This leader can be a chief design officer, a chief digital officer, or a chief marketing officer. Overall, this executive should be the best advocate for the company’s customers and employees, bringing the point of view of the people, the planet, and the company’s purpose into strategic business decisions. The design lead should also build bridges between multiple functions and stakeholders, bringing various groups into the design iteration process.

3. **Design in real time.** To understand how and why people—both customers and employees—use processes, products, or services, organizations should develop a three-pronged design-thinking model that combines design, business strategy, and technology. This approach allows business leaders to spot trends, cocreate using feedback and data, prototype, validate, and build governance models for ongoing investment.
4. **Act quickly.** Good design depends on agility. That means getting a product to users quickly, then iterating based on customer feedback. In a design-driven culture, companies aren't afraid to release products that aren't quite perfect. Designers know there is no end to the design process. The power of design, instead, lies in the ability to adopt and adapt as needs change. When designers are embedded within teams, they are uniquely positioned to gather and digest feedback, which can lead to unexpected revelations. Ultimately, this approach creates more impactful and profitable results than following a prescribed path.

Consider Instagram. Having launched an initial product in 2010, Instagram's founders paid attention to what the most popular features were: image sharing, commenting, and liking. They relaunched with a stripped-down version a few months later, resulting in 100,000 downloads in less than a week and over two million users in under two months—all without any strategic promotion.

### What's the relationship between user-centered design and design thinking?

Both processes are design led. And they both emphasize listening to and deeply understanding users and continually gathering and implementing feedback to develop, refine, and improve a service.

Where they are different is scale. User-centered design focuses on improving a specific product or service. Design thinking takes a broader view as a way to creatively address complex problems—

whether for a start-up, a large organization, or society as a whole.

User-centered design is great for developing a fantastic product or service. In the past, a company could coast on a superior process or product for years before competitors caught up. But now, as digitization drives more frequent and faster disruptions, users demand a dynamic mix of product and service. Emphasis has shifted firmly away from features and functions toward purpose, lifestyle, and simplicity of use.

McKinsey analysis has found that some industries—such as telecommunications, automotive, and consumer product companies—have already made strides toward combining product and service into a unified customer experience. Read on for concrete examples of how companies have applied design thinking to offer innovative—and lucrative—customer experiences.

### What is the design-thinking process?

McKinsey analysis has shown that the design-thinking approach creates more value than conventional approaches. The right design at the right price point spurs sustainability and resilience in a demonstrable way—a key driver of growth.

According to McKinsey's Design Practice, there are two key steps to the design-thinking process:

1. **Developing an understanding of behavior and needs** that goes beyond what people are doing right now to what they will need in the future and how to deliver that. The best way to develop this understanding is to spend time with people.
2. **"Concepting," iterating, and testing.** First start with pen and paper, sketching out concepts. Then *quickly* put these into rough prototypes—with an emphasis on quickly. Get feedback, refine, and test again. As American chemist Linus Pauling said: "The way to get good ideas is to get lots of ideas and throw the bad ones away."

## What is D4VG versus DTV?

For more than a decade, manufacturers have used a design-to-value (DTV) model to design and release products that have the features needed to be competitive at a low cost. During this time, DTV efforts were groundbreaking because they were based on data rather than experience. They also reached across functions, in contrast to the typical value-engineering approach.

The principles of DTV have evolved into design for value and growth (D4VG), a new way of creating products that provide exceptional customer experiences while driving both value and growth. Done right, D4VG efforts generate products with the features, form, and functionality that turn users into loyal fans.

D4VG products can cost more to build, but they can ultimately raise margins by delivering on a clear understanding of a product's core brand attributes, insights into people's motivations, and design thinking.

## What is design for sustainability?

As consumers, companies, and regulators shift toward increased sustainability, design processes are coming under even more scrutiny. The challenge is that carbon-efficient production processes tend to be more complex and can require more carbon-intensive materials. The good news is that an increased focus on design for sustainability (DFS), especially at the research and development stage, can help mitigate some of these inefficiencies and ultimately create even more sustainable products.

For example, the transition from internal-combustion engines to electric-propulsion vehicles has highlighted emissions-intensive automobile production processes. One study found that around 20 percent of the carbon generated by a diesel vehicle comes from its production. If the vehicle ran on only renewable energy, production emissions would account for 85 percent of the total. With more sustainable design, electric-vehicle

(EV) manufacturers stand to reduce the lifetime emissions of their products significantly.

To achieve design for sustainability at scale, companies can address three interrelated elements at the R&D stage:

1. rethinking the way their products use resources, adapting them to changing regulations, adopting principles of circularity, and making use of customer insights
2. understanding and tracking emissions and cost impact of design decisions in support of sustainability goals
3. fostering the right mindsets and capabilities to integrate sustainability into every product and design decision

## What is 'skinny design'?

Skinny design is a less theoretical aspect of design thinking. It's a method whereby consumer goods companies reassess the overall box size of products by reducing the total cubic volume of the package. According to McKinsey analysis, this can improve overall business performance in the following ways:

- **Top-line growth of 4 to 5 percent** through improvements in shelf and warehouse holding power. The ability to fit more stock into warehouses ultimately translates to growth.
- **Bottom-line growth of more than 10 percent.** Packing more product into containers and trucks creates the largest savings. Other cost reductions can come from designing packaging to minimize the labor required and facilitate automation.
- **Sustainability improvements associated with reductions** in carbon emissions through less diesel fuel burned per unit. Material choices can also confer improvements to the overall footprint.

## How can a company become a top design performer?

The average person's standard for design is higher than ever. Good design is no longer just a nice-to-have for a company. Customers now have extremely high expectations for design, whether it's customer service, instant access to information, or clever products that are also aesthetically relevant in the current culture.

McKinsey tracked the design practices of 300 publicly listed companies over a five-year period in multiple countries. Advanced regression analysis of more than two million pieces of financial data and more than 100,000 design actions revealed 12 actions most correlated to improved financial performance. These were then clustered into the following four themes:

1. **Analytical leadership.** For the best financial performers, design is a top management issue, and design performance is assessed with the same rigor these companies use to approach revenue and cost. The companies with the top financial returns have combined design and business leadership through bold, design-centric visions. These include a commitment to maintain a baseline level of customer understanding among all executives. The CEO of one of the world's largest banks, for example, spends one day a month with the bank's clients and encourages all members of the company's C-suite to do the same.
2. **Cross-functional talent.** Top-performing companies make user-centric design everyone's responsibility, not a siloed function. Companies whose designers are embedded within cross-functional teams have better overall business performance. Further, the alignment of design metrics with functional business metrics (such as financial performance, user adoption rates, and satisfaction results) is also correlated to better business performance.
3. **Design with people, not for people.** Design flourishes best, according to our research, in environments that encourage learning, testing,

and iterating with users. These practices increase the odds of creating breakthrough products and services, while at the same time reducing the risk of costly missteps.

4. **User experience (UX).** Top-quartile companies embrace the full user experience by taking a broad-based view of where design can make a difference. Design approaches like mapping customer journeys can lead to more inclusive and sustainable solutions.

## What are some real-world examples of how design thinking can improve efficiency and user experience?

Understanding the theory of design thinking is one thing. Seeing it work in practice is something else. Here are some examples of how elegant design created value for customers, a company, and shareholders:

- Stockholm's international airport, Arlanda, used design thinking to address its air-traffic-control problem. The goal was to create a system that would make air traffic safer and more effective. By understanding the tasks and challenges of the air-traffic controllers, then collaboratively working on prototypes and iterating based on feedback, a working group was able to design a new departure-sequencing tool that helped air-traffic controllers do their jobs better. The new system greatly reduced the amount of time planes spent between leaving the terminal and being in the air, which in turn helped reduce fuel consumption.
- When Tesla creates its electric vehicles, the company closely considers not only aesthetics but also the overall driving experience.
- The consumer electronics industry has a long history of dramatic evolutions led by design thinking. Since Apple debuted the iPhone in 2007, for example, each new generation has seen additional features, new customers, and lower costs—all driven by design-led value creation.

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