

INTERIOR DESIGN BUSINESS SURVEY

Findings & Trends

OCTOBER

2023

PRESENTED BY





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INTERIOR DESIGN BUSINESS SURVEY FINDINGS & TRENDS 2023

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INTRODUCTION



WHY SOME FIRMS DON'T GROW

Our 2023 Interior Design Business Survey has uncovered some intriguing findings. Results show that most interior design firms continue to benefit from the boom in demand that began in the second half of 2020. Two-thirds of firms told us that business conditions in 2022 were very good or good. More than 8 out of 10 said they believe business for the year 2023 will be the same or better than the last.



SOFTENING DEMAND

Yet, within this optimism, there are signs that demand may be starting to soften. Revenues were down slightly from 2021 for firms that earned between \$250,000 and \$2.5 million in annual revenues in 2022. Additionally, fewer firms hired new staff in the previous 12 months, and even fewer plan to hire additional staff within the coming months.



BUSINESS IS FLAT FOR SMALLER FIRMS – NEW STRATEGIES NEEDED

More worrisome, though, are certain persistent patterns and challenges that are holding many firms back from realizing their full potential. Again this year, a third of firms reported having revenue of less than \$250,000 in 2022, and a number of those said they believe business for 2023 will be worse than last year. Others, many of which have been in business for 10 years or more, have not experienced any significant growth the previous years which indicates that they haven't made significant changes to how they do business. It's time for a new plan!

As we report on the findings from this year's survey, we want to focus in on these persistent patterns and challenges and offer guidance as to how firms can address them. We want more firms to thrive and more designers to achieve their goals and dreams.



BUSINESS CONDITIONS & SALES



BUSINESS CONDITIONS & SALES

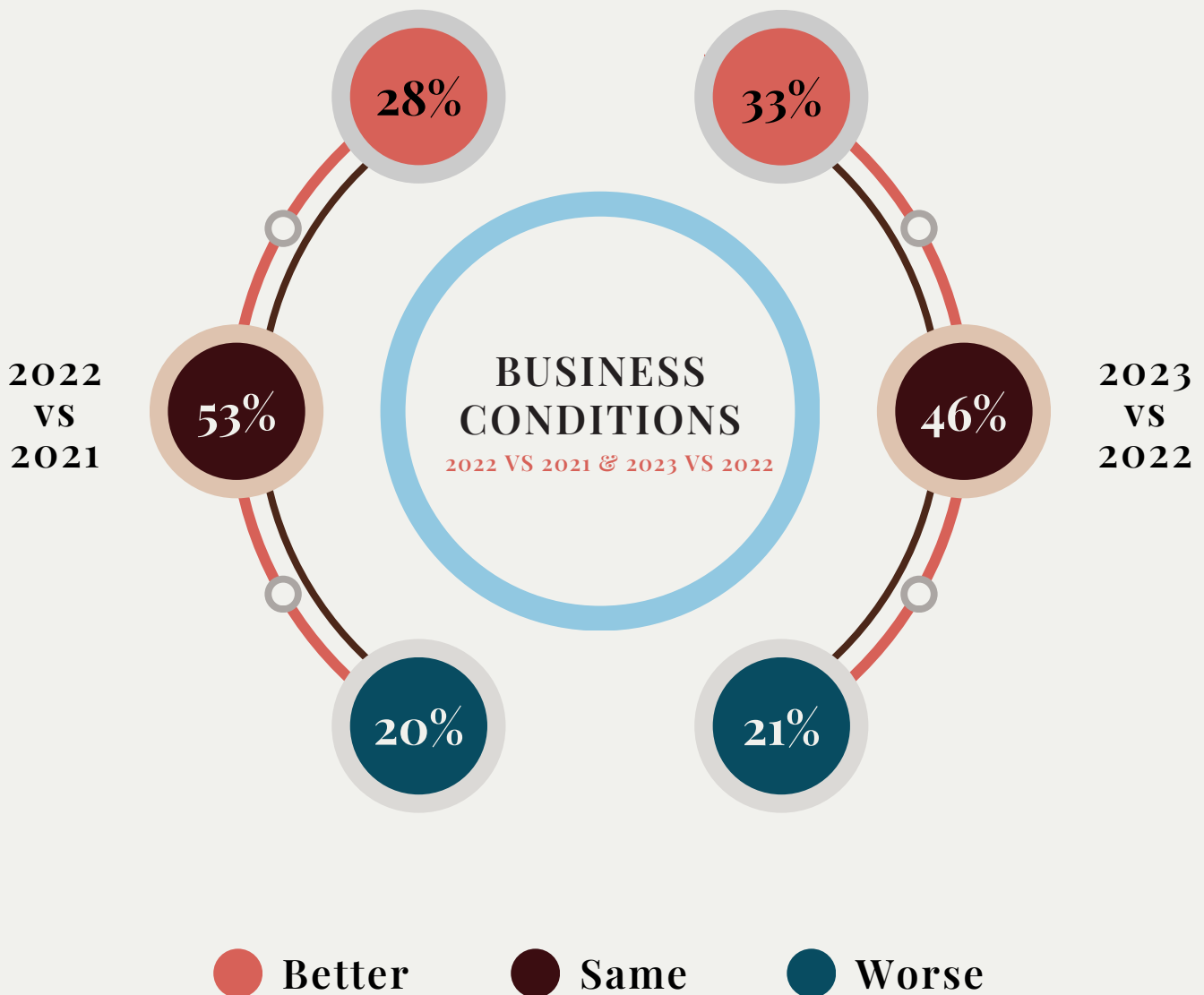
While the economy has had its ups and downs since we conducted the previous survey in 2022, many business conditions have improved. We wanted to find out how design businesses were faring this year compared to the year before.





BUSINESS IS GOOD FOR MOST FIRMS

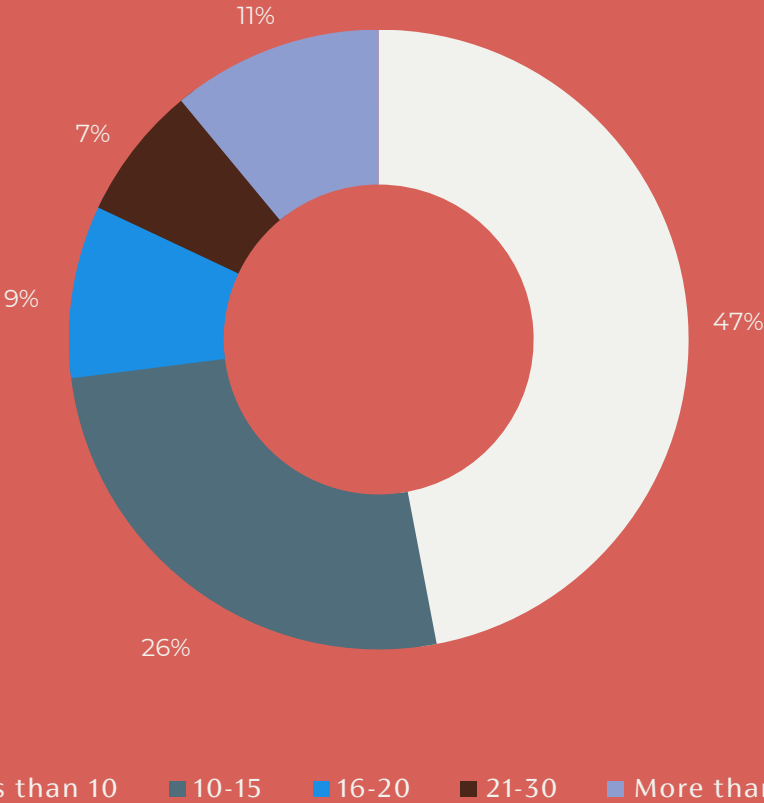
An impressive two-thirds of participants said business conditions in 2022 were good or very good. Close to half of respondents (46%) expect 2023 business conditions will be about the same as for 2022. Optimistically, a third expect business conditions for this year will be better than in 2022. That is five percent higher than owners' expectations last year. This noteworthy confidence is certainly something to watch.



MOST FIRMS AVERAGE ONE PROJECT PER MONTH

Nearly half of the firms in this year's survey reported completing 10 or fewer projects in 2022. About a fourth completed between 10 and 15.

PROJECTS COMPLETED



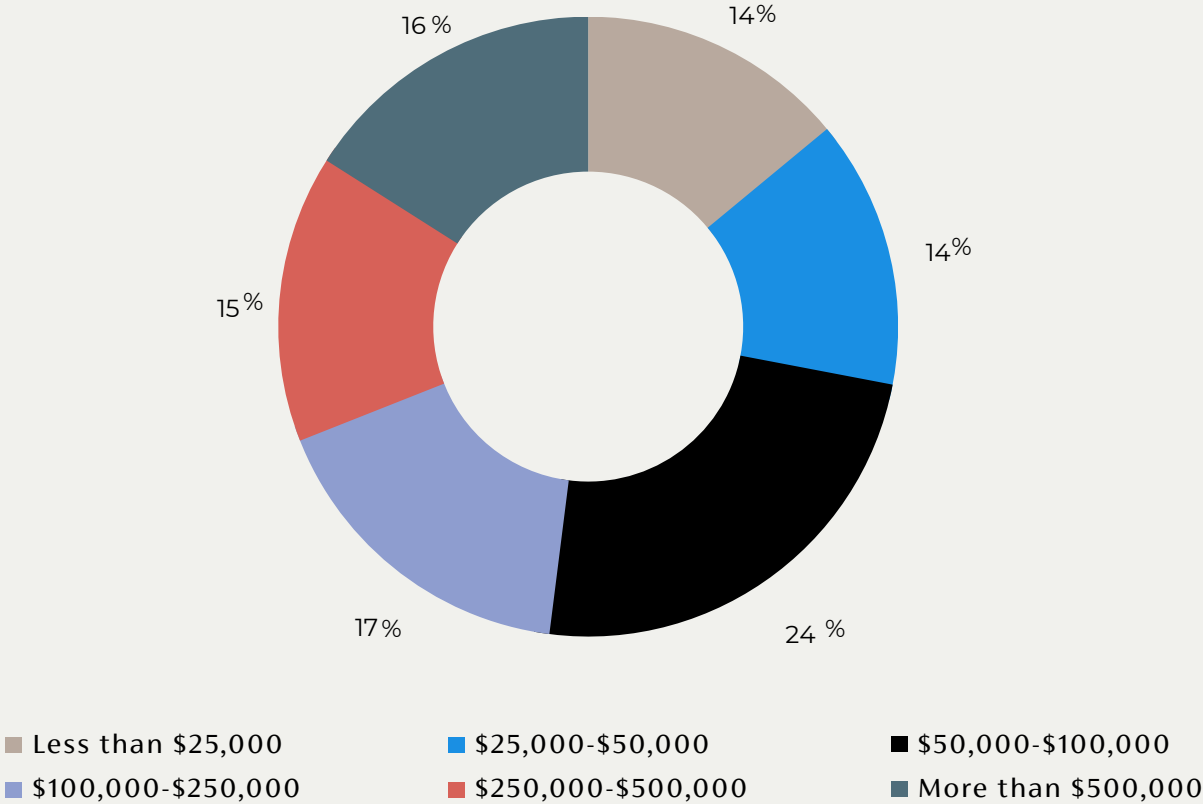
BUDGETS ARE SMALL FOR MANY PROJECTS

Inflation and concerns about the economy has brought a sense of caution among some clients. That has impacted the size of both projects and budgets. A quarter of firms reported typical project investments of \$50,000 or less. Another quarter reported investments of between \$50,000 and \$100,000.

LOW BUDGET MINIMUMS

Roughly half of survey participants disclosed that they have a set minimum budget requirement for accepting a project while the other half did not. Of those that did, around one third have a minimum budget of between \$25,000 and \$250,000, nearly equal between those with a minimum of \$25,000 to \$50,000 and those with a minimum of \$100,000 to \$250,000.

CLIENT PROJECT INVESTMENT



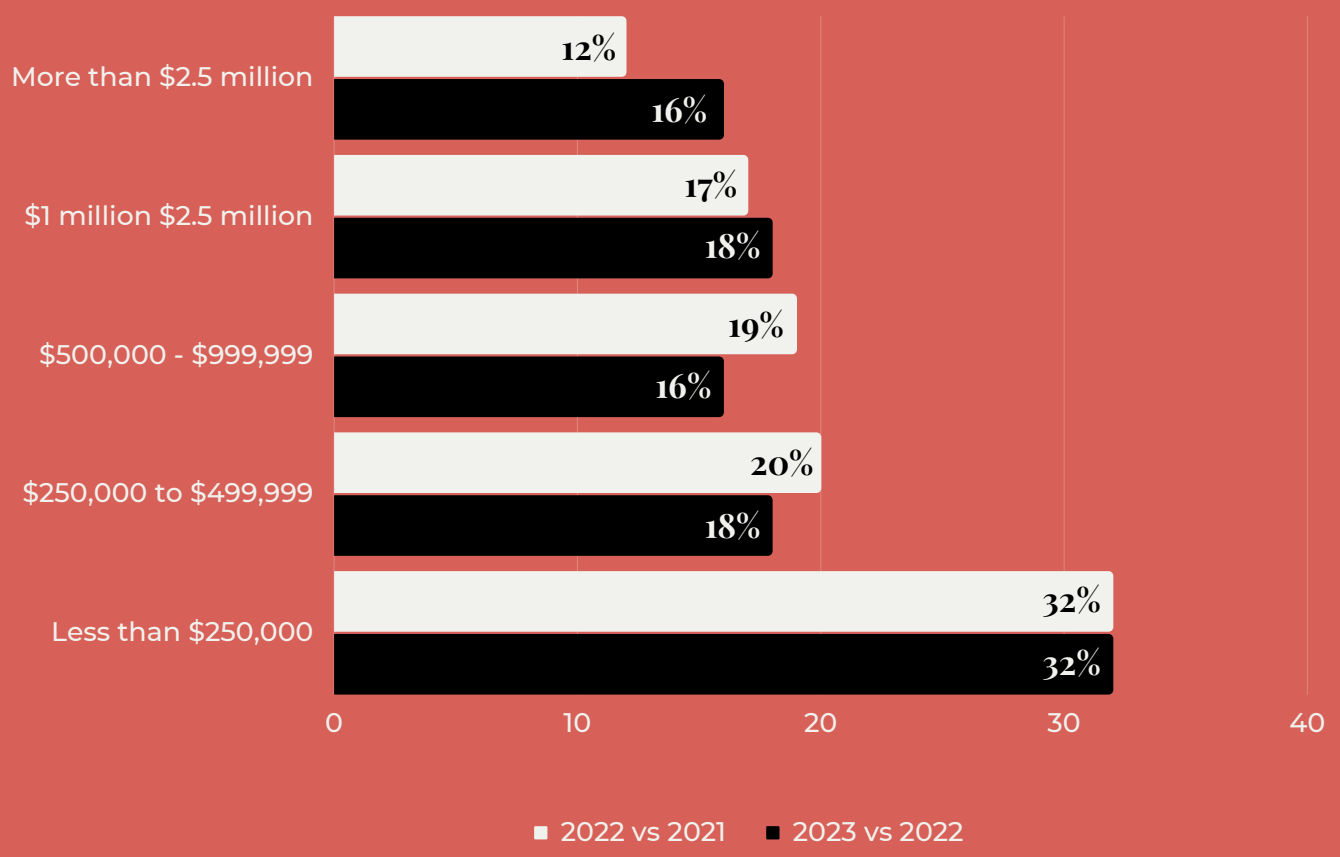


2022 REVENUES MOSTLY FLAT

Prices for many products and services have increased. In response, some firms have raised their fees and/or mark-ups to compensate for increases in salaries and operating expenses. Yet, overall, reported gross sales for 2022 were about the same or slightly less than for 2021. Firms over \$1M in revenue grew year over year. Larger firms tend to have more consistent marketing based on our experience.

GROSS SALES 2021 VS 2022

Percent of Total Responses



PROFIT MARGINS IN LINE WITH NATIONAL AVERAGES

Profit margins vary considerably among small businesses and in different industries. According to the U.S. Small Business Administration, the national average for annual net profit a month for small businesses in North America is around 7 to 10 percent. In our survey, nearly one third of firms reported earning a profit of less than 10 percent in 2022. Another fifth earned between 11 percent and 20 percent.

Alarming, close to one fifth said they did not know or were not sure how much profit their business had earned. We've found that some designers don't understand their numbers so this statistic is not surprising. We highly recommend attending our free Financial MasterClass for these designers.

WE PROMISE YOU'LL KNOW YOUR NUMBERS MUCH BETTER!

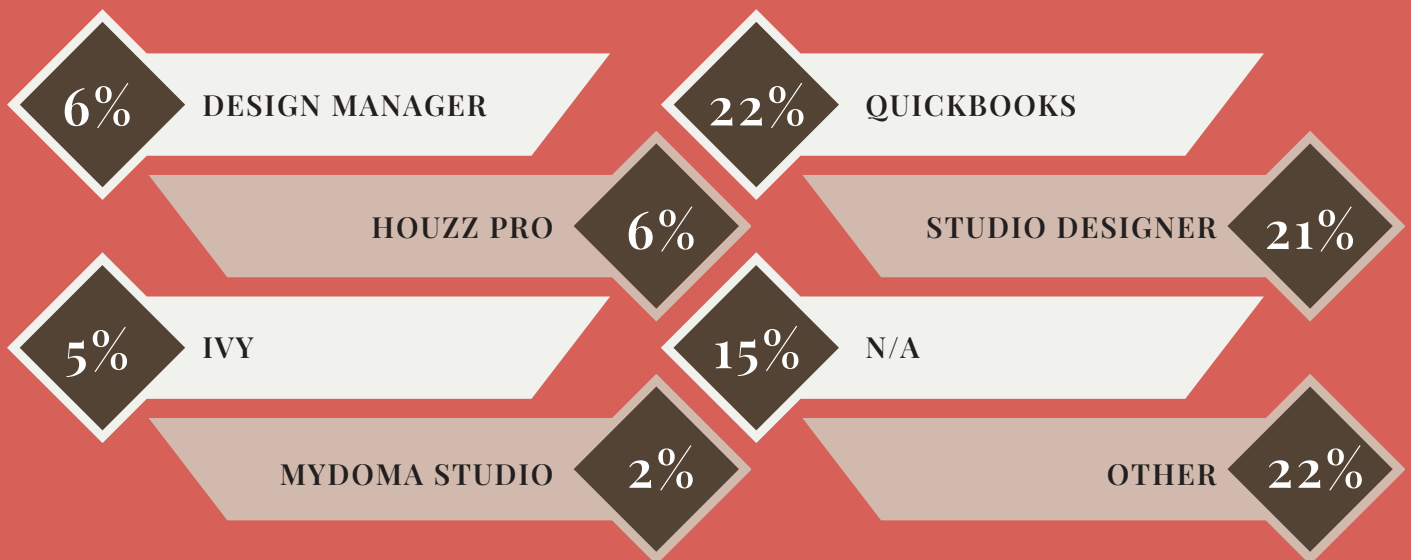


DESIGN BUSINESS SOFTWARE

The financial management tools most often used by designers are QuickBooks (22%) and Studio Designer (21%). Interestingly, more than a third of designers say “Other” or claim to use “None of the Above”. This could be a contributing factor to the fact that nearly a fifth of designers are unsure about their income and profit margins.

It’s not uncommon for designers to handle their finances using a mishmash of general office software and traditional paperwork, a path familiar to many new entrepreneurs. However, transitioning to specialized accounting software tailored to the design industry can be a crucial first step toward gaining clarity on your profitability.

DESIGN BUSINESS SOFTWARE



OUR ANALYSIS

WHAT'S DRIVING BUSINESS SUCCESS?

Although most firms appear to be satisfied with current business conditions, we believe more firms could and should be doing more business and earning higher revenue and profit. To get a better idea of what may account for the relatively flat growth in many firms, we took a look at some of the factors in the survey data related to business performance. Here's what we found.

FIRM SIZE MAKES A DIFFERENCE

The majority of firms responding to our survey were small, having either no employees (45%) or only one or two employees (32%). Those figures correspond closely to estimates for all U.S. firms, at 44 percent and 28 percent, respectively.

Our analysis found a noteworthy trend: Firms with only one or two employees and sole proprietorships tend to report lower annual revenues compared to those with three or more employees.

Two-thirds of sole practitioners reported annual gross sales of less than \$250,000. They also were more likely to report profits of less than 5 percent which is in line with not understanding one's financials. Solo practitioners are so busy doing the work of design that marketing is rarely done unless the pipeline is dry, and that is why they experience big swings in revenue. Marketing needs to happen when the firm is the busiest in order to fill the future pipeline. Yes, it's hard to do both marketing and design, and that's why firms need to grow to afford help so the principal can bring in the projects.

As would be expected, larger firms are considerably more likely to complete higher numbers of projects. Those with 6 to 10 employees are twice as likely to have completed 20 or more projects than all firms, and those with 11 or more employees are four times as likely to have completed 30 or more projects.

While having a larger staff is no guarantee of business success, the strongest correlation we found to higher revenues was firm size. Having more staff allows firms to take on more projects, to offer a wider variety of project types, to capitalize on the strengths of each employee, to improve their business operations, and to delegate tasks so that owners or principals can devote more time to client acquisition and management.

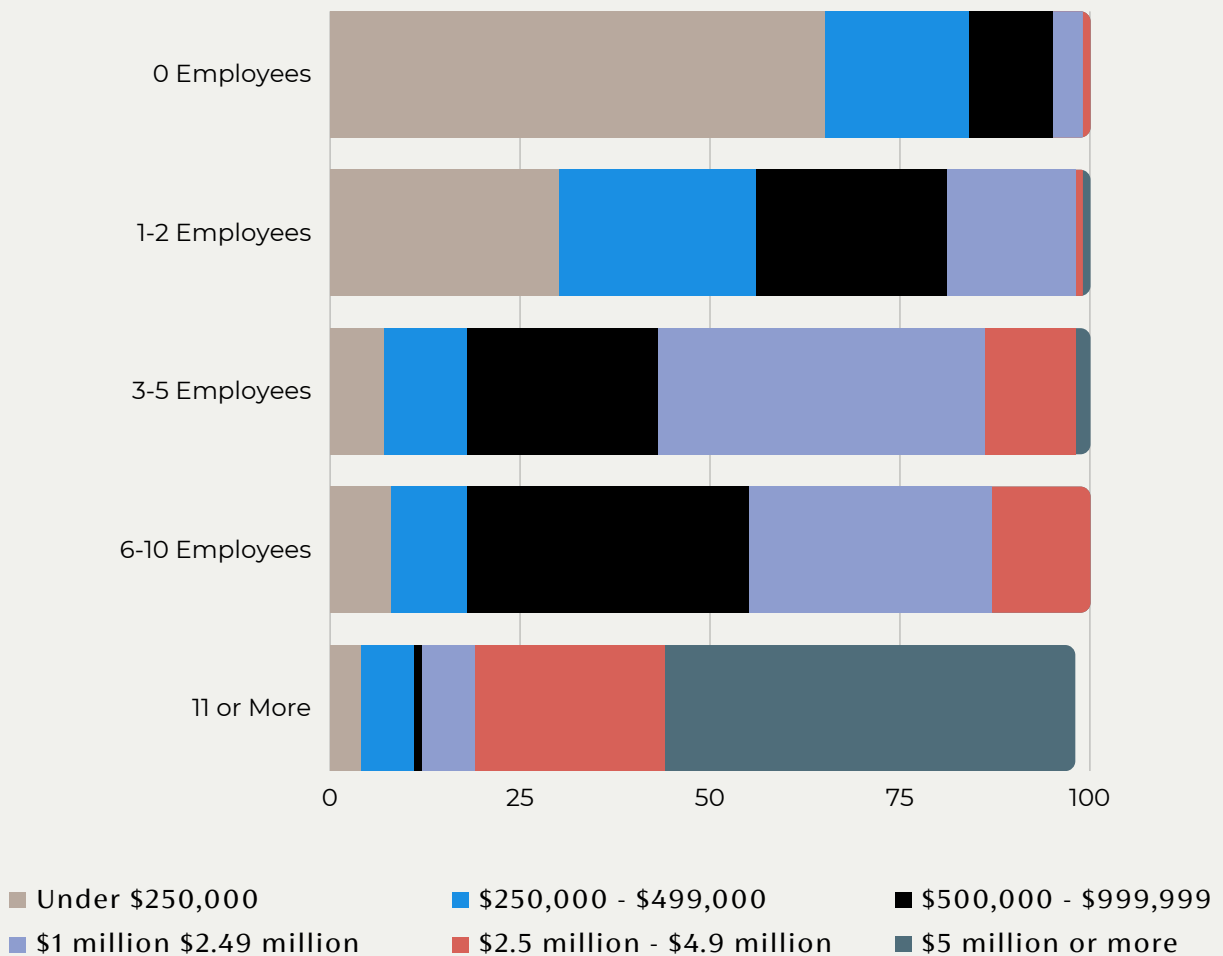
OUR ANALYSIS



Yet, many firms are reluctant or uninterested in adding staff. More than one third of firms in this year’s survey have had the same level of staffing for six or more years. Smaller firms that have been in business for six or more years were less likely to have hired staff in the previous 12 months and to have plans to hire in the coming months.

2022 ANNUAL GROSS SALES BY FIRM SIZE

Percent of Total Responses





OUR ANALYSIS

BREAKING OUT OF THE LOW-VALUE CYCLE

Projects are the main source of revenue for most interior design firms. Yet, we found that the value of projects undertaken varies considerably among firms. Half of the firms in our survey complete fewer than 10 projects a year. Of those, more than three-fourths had gross annual sales of \$500,000 or less in 2022. In addition, many of these same firms are twice as likely have no minimum budget for accepting a project and are twice as likely to take on projects with budgets below \$50,000. This leads to an endless cycle of low revenues and little or no profit that makes these firms more willing to continue to take on smaller projects.

So, how can these firms break out of this cycle? It's all about shifting focus. Rather than focus on the amount of work they are or are not getting, they should focus instead on attracting more of their ideal clients. As well, they need to ensure that the projects they are willing to accept are not only profitable but also a good use of their time and talents.



FEES & MARK-UPS



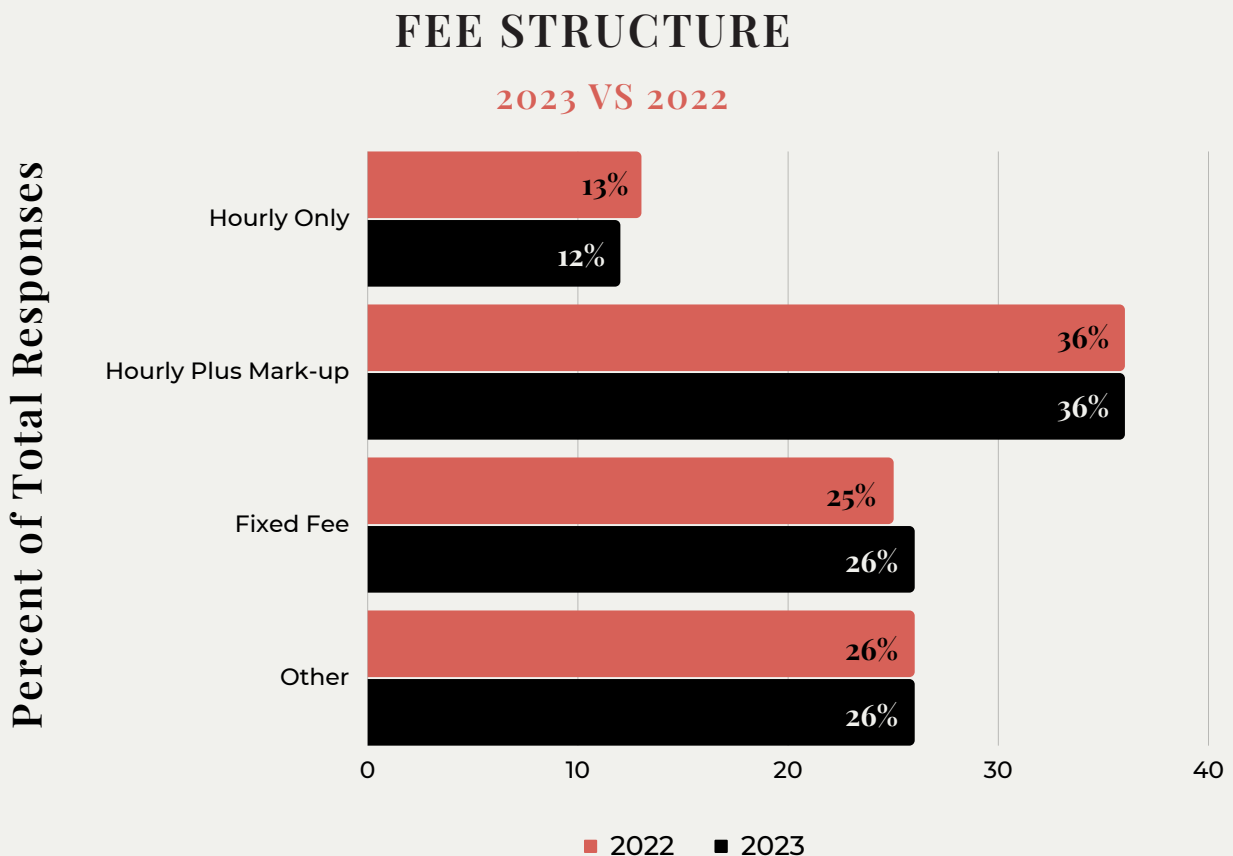
FEES & MARK-UPS



How and what designers charge for their services greatly impacts the revenue for the projects they undertake. With inflation having driven up costs in many parts of the service sector, we were curious to see if designers had made any adjustments in how they bill since our previous survey.

FEE STRUCTURES HAVE NOT CHANGED

The proportion of firms using one or more of the most common forms of billing for projects has not changed since last year. In last year's survey, nearly one fifth of respondents said they were considering changing their fees or fee structure in order to generate more business. But, it seems that most prefer to stay with the model they know, perhaps because it works well for them or is best suited to the types of projects they do. Or they are uncomfortable with change for fear of not being able to sell the jobs.



BILLING RATES REMAIN CONSTANT

Nearly half (46%) of participants in this year’s survey told us they had increased their fees and/or mark-up within the past 12 months. The reason? To compensate for increases in operating expenses and other costs. Our findings show, though, that in general they have not substantially changed from last year.

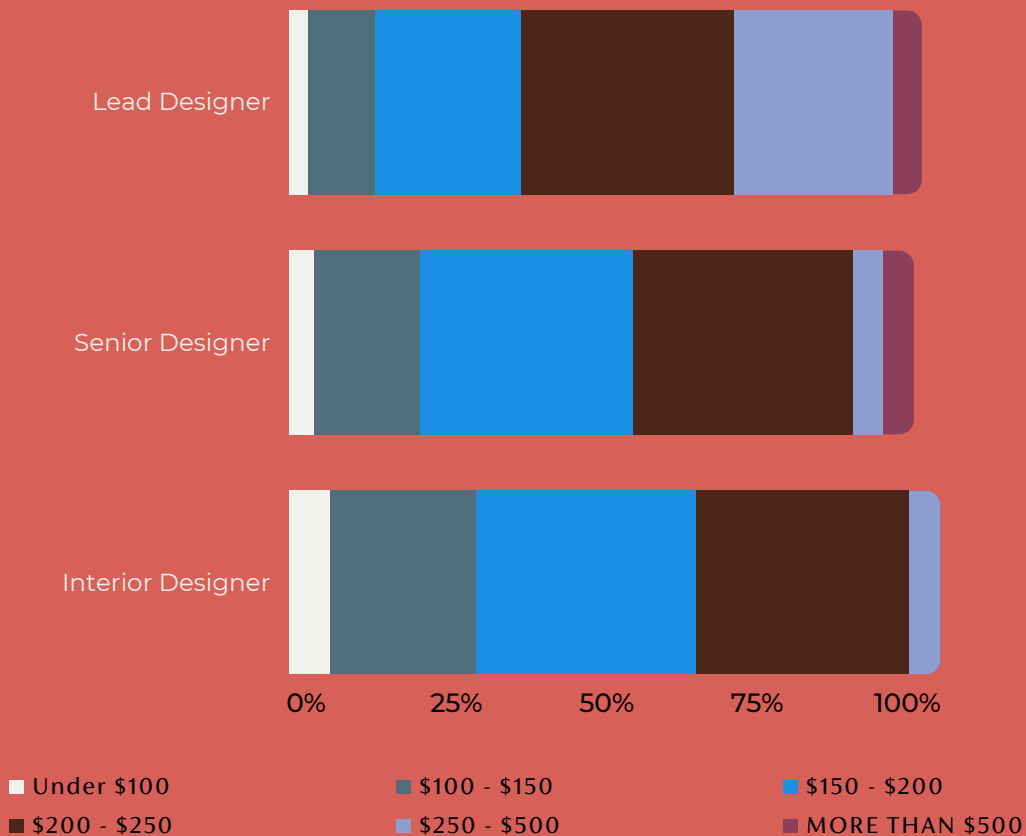
In last year’s survey, the typical hourly rate for a lead designer (e. g., principal or design director) was between \$150 and \$200 an hour. Senior designers were most often billed at a rate of between \$100 and \$200 an hour. The typical rate for an interior designer was \$100 to \$150 an hour.

Overall, both the hourly rates and the distribution of billing rates for each position reported in this year’s survey were the same as those reported last year.

In most firms, fees charged for junior designers and/or design assistants are substantially lower. Nearly half charge under \$100 per hour, and another fourth charge \$100 to \$125 per hour.

2023 HOURLY FEE BY POSITION

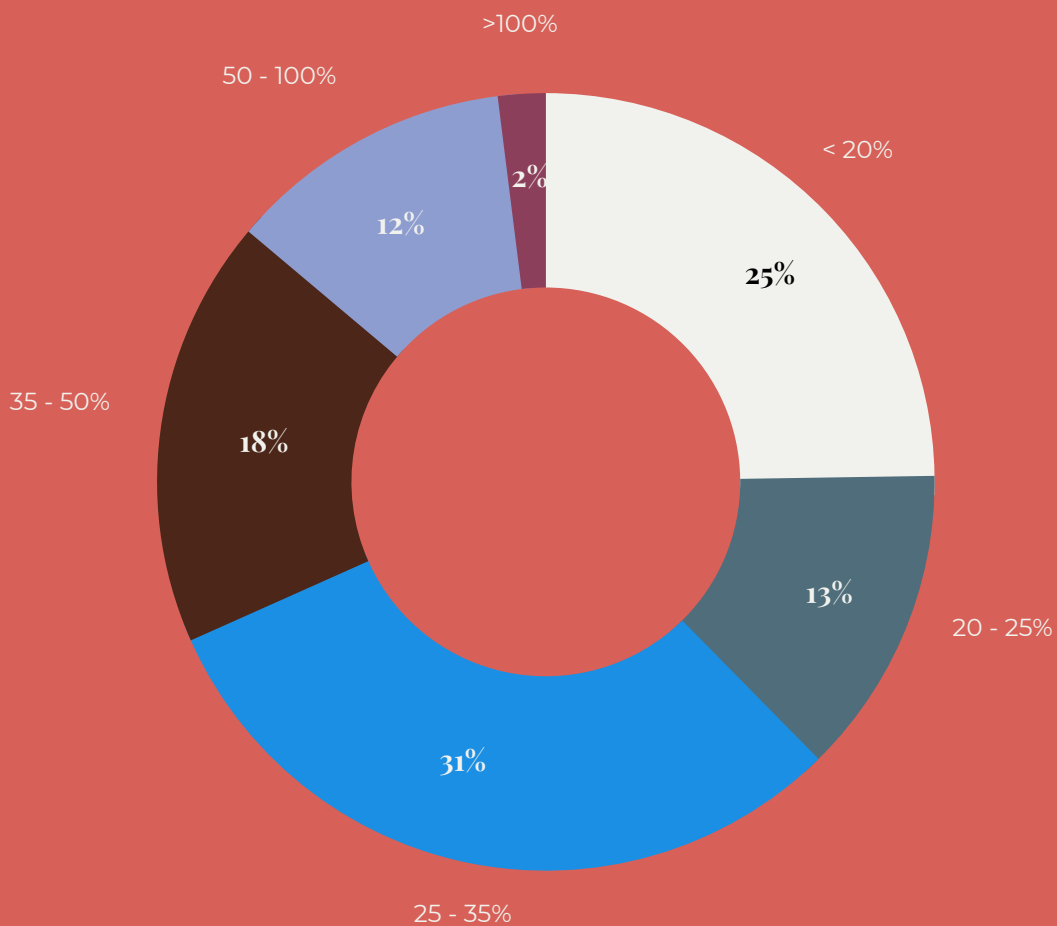
Percent of Total Responses



MARK-UP RATES DOWN SLIGHTLY

Similar to hourly billing rates, mark-up percentages reported in this year's survey did not change significantly from those reported in 2022. The main difference was an increase in the proportion of firms charging between 25 and 35 percent, up five percent from last year. At the same time, however, the proportion of firms charging between 35 to 50 percent decreased by five percent. Likewise, the proportion charging a mark-up of 100 percent or more decreased by two percent, while that of those charging 20 percent or less increased by three percent. We wonder if the designers that decreased their mark-up were doing so because of competitive pressure.

2023 MARK-UP RATE



OUR ANALYSIS

HAS ANYTHING CHANGED?

What might account for the discrepancy between a substantial number of firms saying they had increased their fees and/or mark-up percentages in the past year and the very slight changes in the overall distribution of fees and mark-up percentages from last year to this? When we scrutinize the data, we do not see any clear-cut answers. Given that participants were asked to select from a range of hourly fees and mark-up percentages, it suggests that any increases would have been relatively slight adjustments, keeping them within the same ranges.

That billing rates and mark-up percentages remained fairly constant from last year points to the same issue discussed above in regards to revenues and growth. For many firms, the primary strategy for trying to improve business is to take on more projects. They may be reluctant to raise fees too much or at all for fear that will drive off potential clients. It may well be that some firms adjusted their mark-up percentages down from last year in response to clients concerns about the rising costs of products caused by inflation. It's the tried-and-true approach they've leaned on year after year, resulting in a familiar outcome – stagnant growth.



Becky Charton

TABLE SETTERS, INC.

QUESTION

Can designers increase fees or markup without losing potential clients?

ANSWER

Absolutely! By the prompting of my Pearl Collective coach, I have gone through this process with clients on both open projects and upcoming projects. The client list included what we call "lifers," our repeat clients.

The number one key to success in this process was face-to-face communication. As I shared with each client why, when, and how we planned to increase our pricing, their comments surprised me! I found my clients wanting to talk about how they too could do this in their business!

I highly encourage other owners, when it's time to increase fees and markups, to write up a plan, create time with your clients, IN PERSON, and take it as an opportunity to connect!

Absolutely, but with a purpose and full transparency. I don't believe fees or markups should be arbitrary. Most of the time, raising my prices has to do with the actual cost of time or resources needed. I've also raised my hourly rate as I've become more experienced. I know it can be hard to say, "I am worth that much," but in the end the billable time is an important reflection of our own value-add and worth. The right clients will agree and send a check. - **Courtney Thomas**, *Principal, Courtney Thomas Design, LLC*

Price increases are inevitable, but doing it in a measured and balanced way will ensure that potential clients are still knocking on your door. Communication and transparency are always key when it comes to terms and fees. - **Joey Conicella**, *President, Soco Interiors*

CURRENT BUSINESS CHALLENGES & STRATEGIES



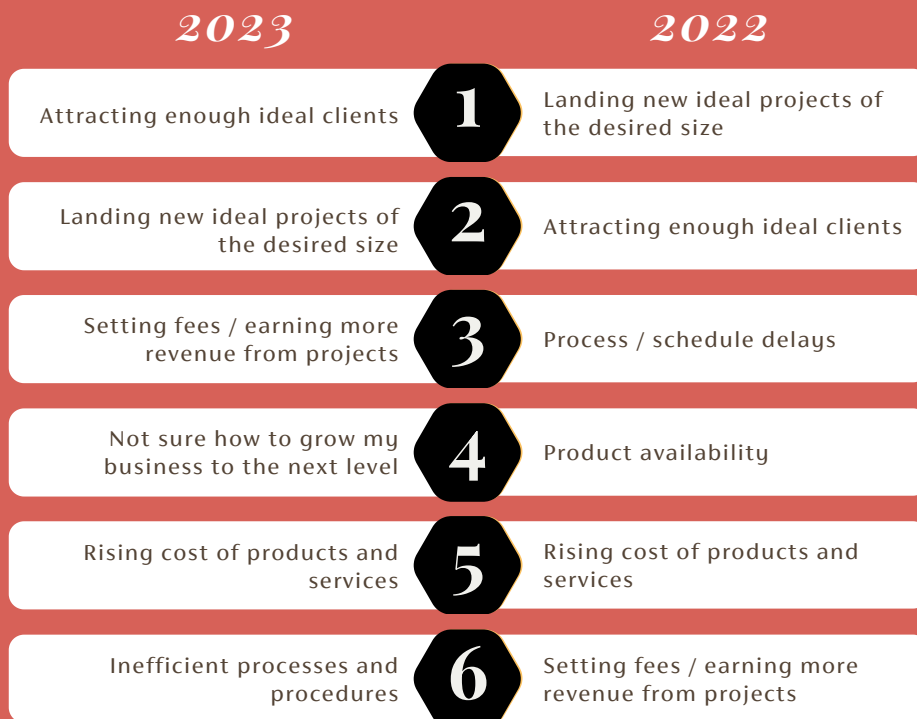
CURRENT BUSINESS CHALLENGES & STRATEGIES

Now that we are transitioning into the post-COVID era, it's time to assess whether these challenges are changing. We also wanted to know what strategies firms have adopted or are planning to adopt to address their most pressing business challenges.

DELAYS ARE EASING, BUT SO IS DEMAND FOR SERVICES

In last year's survey, many firms cited top challenges with completing projects, such as delays, availability of products, and availability of contractors. This year, top challenges centered more around attracting and securing new business. This indicates that even as supply chain and labor issues abate, the boom in demand that occurred during the pandemic is beginning to subside.

TOP MOST COMMON BUSINESS CHALLENGES



DEALING WITH VENDORS

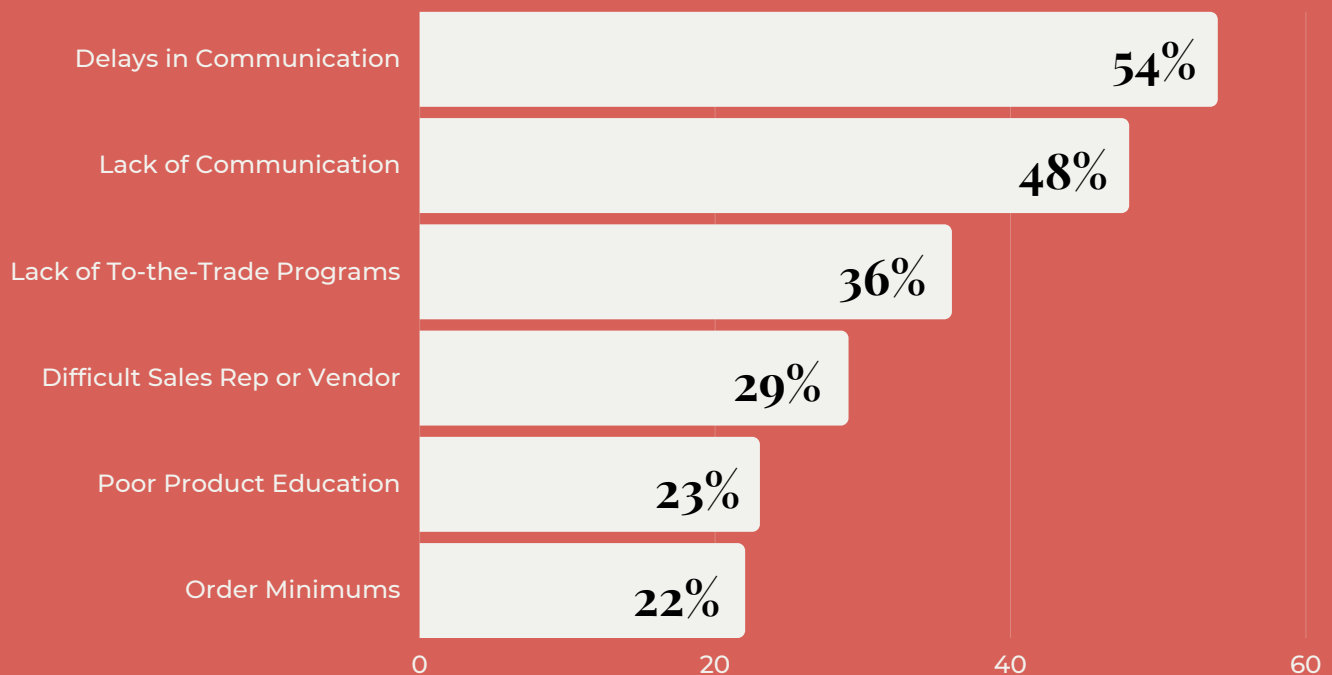
In recent years, designers have grappled with numerous challenges when dealing with vendors, many of which stemmed from pandemic-induced disruptions like supply chain issues, factory closures, shipping delays, and labor shortages. We aimed to uncover whether designers still faced challenges in their interactions with vendors, considering that many of these issues have subsided.

Communication emerged as the most frequent pain point among designers, closely followed by difficulties in placing orders—over half of designers identified communication as a top challenge.

On a more positive note, we explored whether vendors and manufacturers were offering designers the products they truly desired, and an overwhelming 83 percent responded yes. Likewise, we inquired about customization options, with the majority (71%) indicating they were satisfied with the level of customization offered.

To gauge current product demand, we asked designers how often they ordered custom designs from vendors or manufacturers. A significant two-thirds reported ordering more than six times a year, while a fifth placed orders four to six times annually. The remainder either ordered custom designs less than three times a year or not at all.

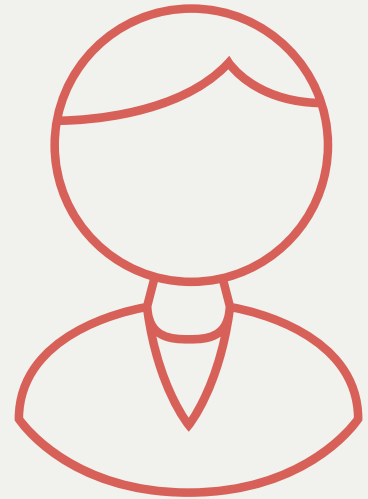
TOP VENDOR CHALLENGES



MORE FIRMS ARE USING SOCIAL MEDIA TO ATTRACT NEW CLIENTS

Another indication that firms are having to work harder to land new projects is the emphasis in this year's survey on outreach efforts. The biggest difference in top strategies was the percent of participants who indicated they were increasing their social media activity as a way to attract more clients and land more new projects—56 percent versus 42 percent in 2022.

Similarly, far more participants in this year's survey compared to last year's indicated they were increasing their marketing efforts—51 percent versus 37 percent in 2022.



Courtney Thomas

Principal, Courtney Thomas Design, LLC

QUESTION

How can social media be successfully used to attract new clients, and when should other forms of marketing be used?

ANSWER

Like the platforms themselves, our philosophies about social media are constantly evolving. Our current marketing strategy is centered around amplifying the experience of working with us. On social media, we showcase our personalities and our work and try to engage with industry partners, fans, and friends. Our grid is a deep dive into our projects, our day-to-day, and also our services and testimonials, whereas our reels are a mix of fun and informative. Our industry relies heavily on relationships and social media is a great place to nurture those.

Our leads usually funnel in from a variety of touch points but social media always seems to be a factor in the client's decision process. In our experience, advertising on social media can produce a lot of new leads, but the quality of the leads is widely mixed and we found that maybe 1/10 is actually qualified. Word-of-mouth referrals are still our largest lead source. So, we're creating email campaigns to stay in touch with potentials, clients, and industry partners. We're also increasing our participation in industry events. Anytime we can meet in person, make a connection, and form a real relationship, that's always our best marketing strategy. Deciding which forms of marketing are best for your company takes a lot of trial and error. We've invested in a lot of different strategies over the years as our needs and goals have changed. For us, things like influencer marketing and SEO aren't a fit for our business right now.

Overall, our goal is to display consistency across all our marketing efforts. We don't want potential clients to have one idea of us on social and then come to find something completely different on our website or vice versa. By the time the client meets with us in person, we hope that our marketing has given them an honest and well-rounded sense of who we are and what it's like to work with us. In our industry, so much of what goes on behind the scenes isn't social media material. When you zoom out, what we really offer is an experience and social media helps to paint that picture.



Joey Conicella

President,
Soco Interiors

QUESTION

How can social media be successfully used to attract new clients, and when should other forms of marketing be used?

ANSWER

Social media, when used correctly, can be a powerful tool to attract new clients. Showcasing a diverse work range, your team’s faces and personalities, and professional photography will help you stand out amongst the noise. Don’t underestimate the power of engagement via comments and direct messages, which gives you a way to connect with potential clients in real time. Traditional forms of marketing are still very powerful when it comes to interior design – it is a visual business at the end of the day and if someone can see your work, they have a greater chance of becoming a client.

TOP MOST COMMON BUSINESS STRATEGIES

2023

2022

Increase social media presence

1

Maintain contact with clients

Increase networking with local professionals

2

Increase social media presence

Increase marketing efforts

3

Raise fees /change billing practices

Maintain contact with clients

4

Increase networking with local professionals

Raise fees /change billing practices

5

Increase marketing efforts

Partner with other professionals

6

Outsource work

OUR ANALYSIS

WIDENING THE NET

We aren't seeing any radical changes in the challenges firms are facing or in the strategies they are employing to address those challenges. Nonetheless, results from this year's survey reveal a notable shift in focus from resolving project issues to acquiring new clients and projects. Perhaps most telling is the greater proportion of firms planning to increase their social media presence and marketing efforts. In previous surveys, most firms have relied more heavily on repeat business from current and former clients, referrals and networking to get new business. It would appear, however, that more firms now are having to cast their net wider.

This trend in part may be because so many clients have requested projects in the past two to three years, and even prior to the pandemic. It may also reflect some clients' reluctance to undertake new projects or larger projects because of concerns about higher costs and economic uncertainty.



STAFFING



STAFFING

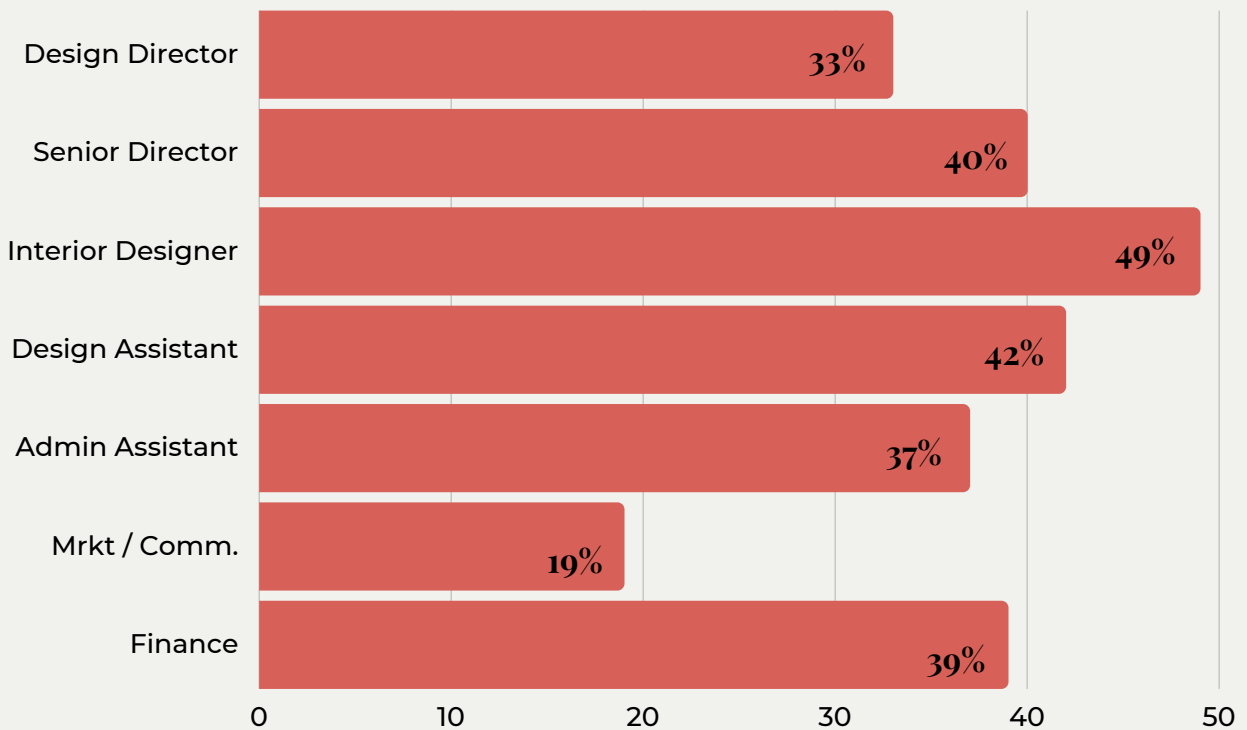
Even before the start of the pandemic, interior design firms were experiencing difficulties with hiring and retaining employees. As firms sought to add more staff to meet the rise in demand for their services in 2020 and 2021, competition for talent intensified. We wanted to find out if firms were still seeking to add staff and, if so, at what level.

FIRMS ARE MORE LIKELY TO HIRE LOWER-LEVEL STAFF

Of those firms that have one or more employees, the most sought-after positions they hire for are interior designer (including junior designers), design assistants and bookkeepers. Smaller firms especially are more likely to have a design assistant on staff than either an additional interior designer or a senior designer. By comparison, more than 80 percent of firms with six or more employees have a senior designer on staff, compared to just 30 percent or less of smaller firms. Larger firms are also twice as likely to have a design director or creative director on staff.

CURRENT STAFF POSITIONS (ALL FIRMS)

Percent of Total Responses



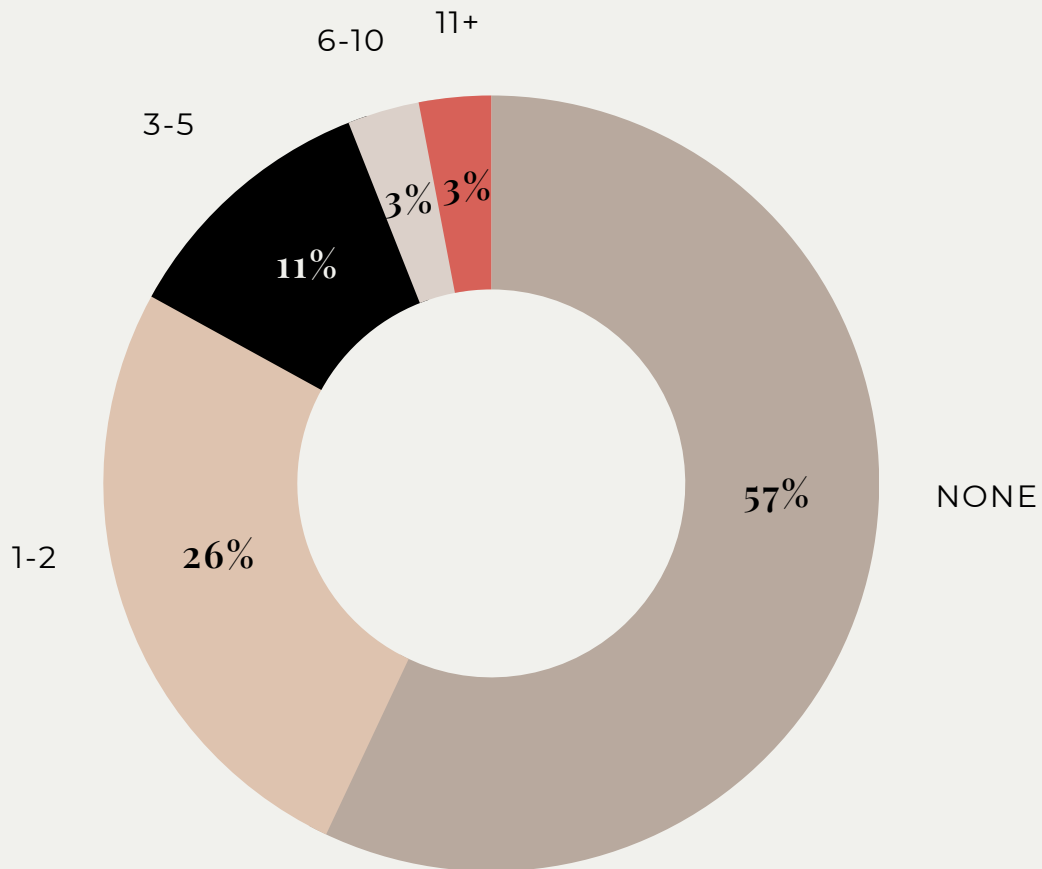
FEW FIRMS USE CONTRACTORS

Larger and older firms are more likely to have contractors on site. Of those, many have only one or two.

As a group, firms that have been in business for 11 years or more had nearly twice as many contractors in their firm than those who have been in business fewer years. Nearly three-fourths of firms with no employees also have no contractors.



HAVE CONTRACTORS IN FIRM

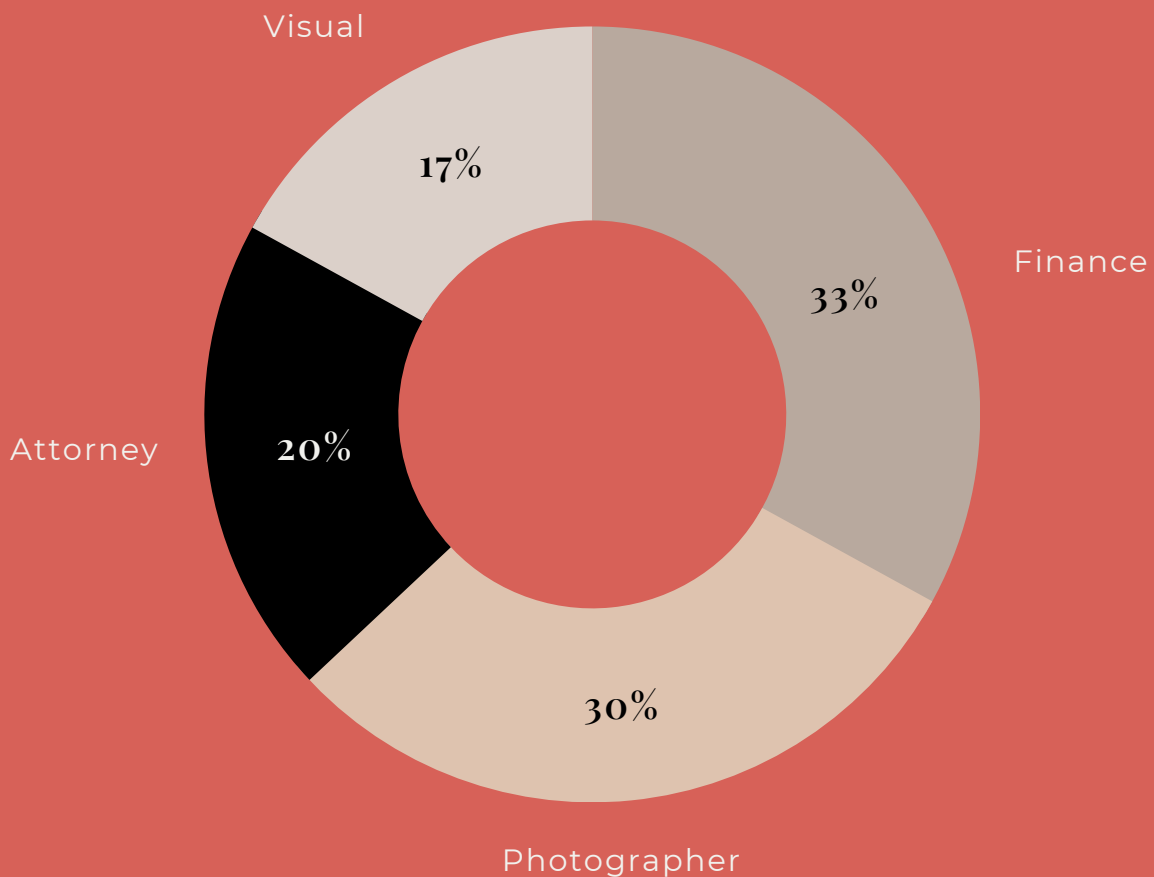


MOST FIRMS USE ONE OR MORE OUTSOURCED SERVICES

More than 90 percent of firms in this year's survey report using one or more outsourced services. In general, these tend to be professional or paraprofessional business support services. Larger firms are more likely to have some of these positions on staff, such as an administrative assistant, marketing assistant, human resources assistant, and/or bookkeeper, accountant or finance manager.



TOP OUTSOURCED SERVICES



OUR ANALYSIS

UNDER-STAFFED OR UNDER-EQUIPPED

Many small firms, which make up the majority of firms in the U.S., lack adequate staffing to help them grow. Often, the owner or principal is the only interior designer in the firm, and any other employees are mostly support staff. Even when there is another designer, they may not have the diversity of skills or level of experience necessary to allow the firm to enter into new markets or expand into other specialty areas.



HIRING TRENDS



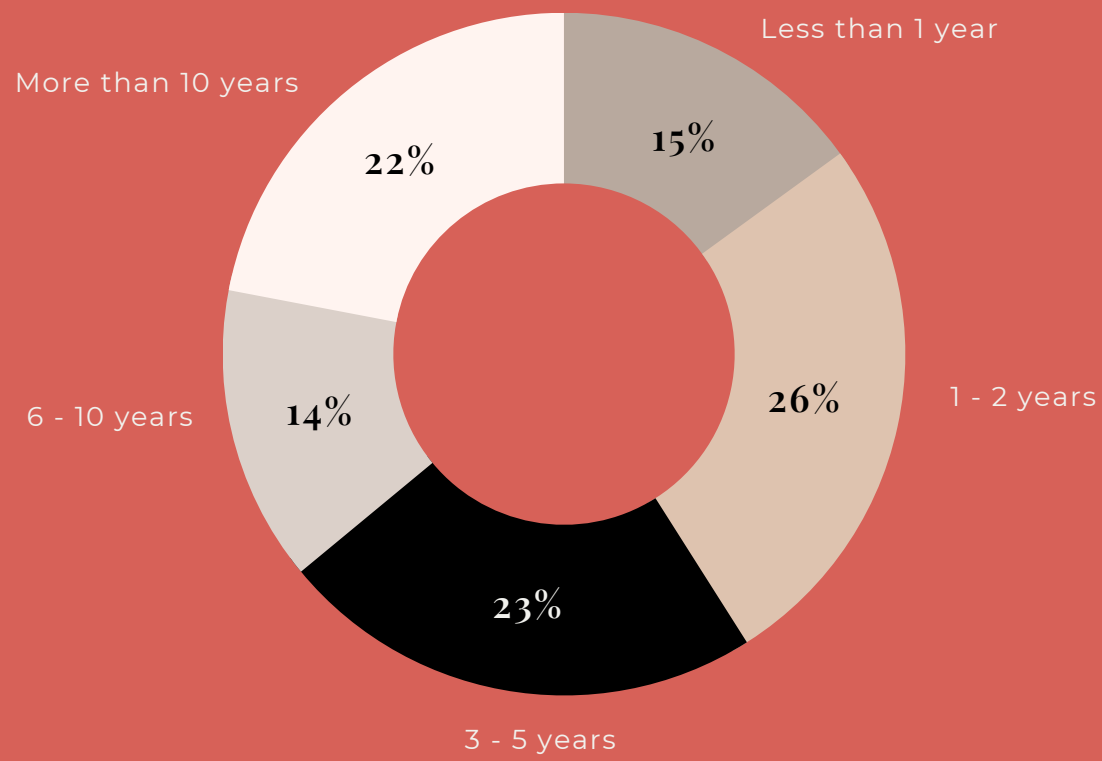
HIRING TRENDS

Hiring has been on an upward trend in the interior design industry for the past four or five years. Naturally, we were curious to learn whether that trend has continued and, if so, what roles firms are actively seeking to fill.

STAFFING LEVELS REMAIN FAIRLY CONSTANT

Even with the uptick in hiring in recent years, many firms have maintained the same level of staffing for years. Among firms that have been in business for more than 10 years, less than a third have changed their staffing levels in the past two years.

MAINTAINED CURRENT STAFFING LEVEL



As might be expected given the high demand for home remodels during the pandemic, residential firms were more likely than commercial firms to have increased their staffing levels in the past twelve months.

HIRING HAS SLOWED SOMEWHAT

In the past year, there's been a subtle shift in the hiring landscape. While over a third of firms were in expansion mode last year, this number has dipped to slightly more than a fourth. More firms opted to maintain their existing staff levels during the previous twelve months.

Looking forward, two-thirds of firms said they plan to maintain the same level of staff within the next twelve months. That's approximately a 10 percent increase from last year.

Less than a third of firms said they plan to add staff in the next twelve months. Firms that have been in business six to 10 years, those with three or more employees, those with 2022 sales of \$1 million or more, and those who expect business will be better next year than this year were more likely to say they plan to increase staff in the coming year.



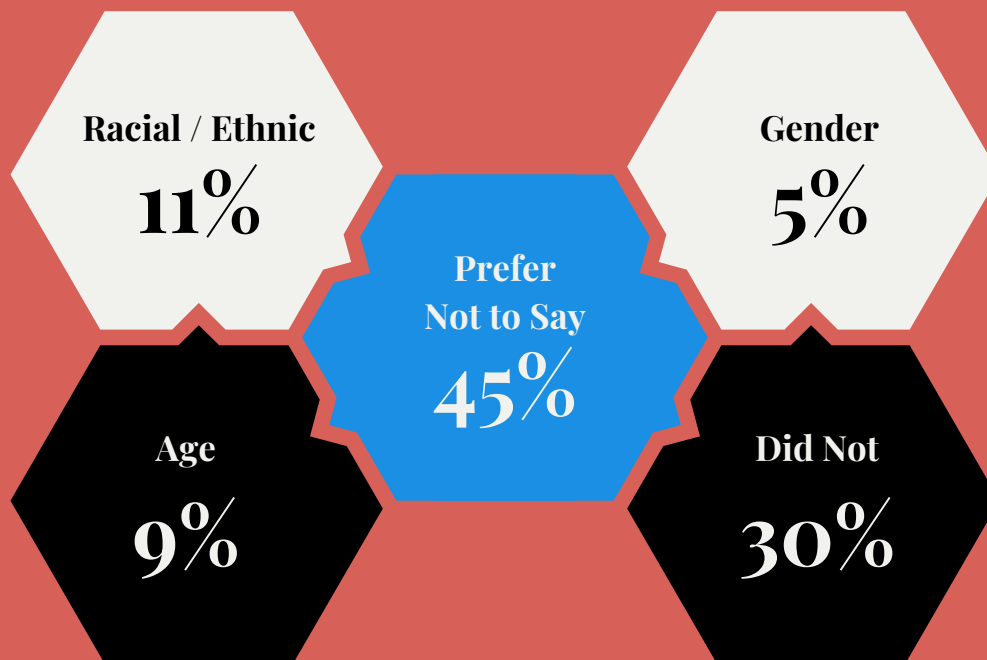
STAFF DIVERSITY

The interior design industry has long grappled with the issue of diversity, prompting industry leaders, professional associations, and educators to push for change. These efforts aim to raise awareness and encourage firms and institutions to foster greater diversity among their staff and students.

Our survey delved into whether firms actively consider diversity in their hiring plans. Among those that had hired new staff in the past year, a quarter had taken steps to enhance the diversity of their teams. However, almost a third had not made any such effort while almost half had no comment. When it comes to diversity training programs, a staggering 95% of firms indicated they had not implemented any.

Furthermore, we inquired about whether firms had set diversity hiring goals or quotas, and once again, a resounding 95% responded in the negative. Lastly, we asked if firms had established a diversity, equity, and inclusion (DEI) committee or a similar group, and, not surprisingly, nearly all (95%) replied in the negative.

HIRED TO INCREASE TEAM DIVERSITY

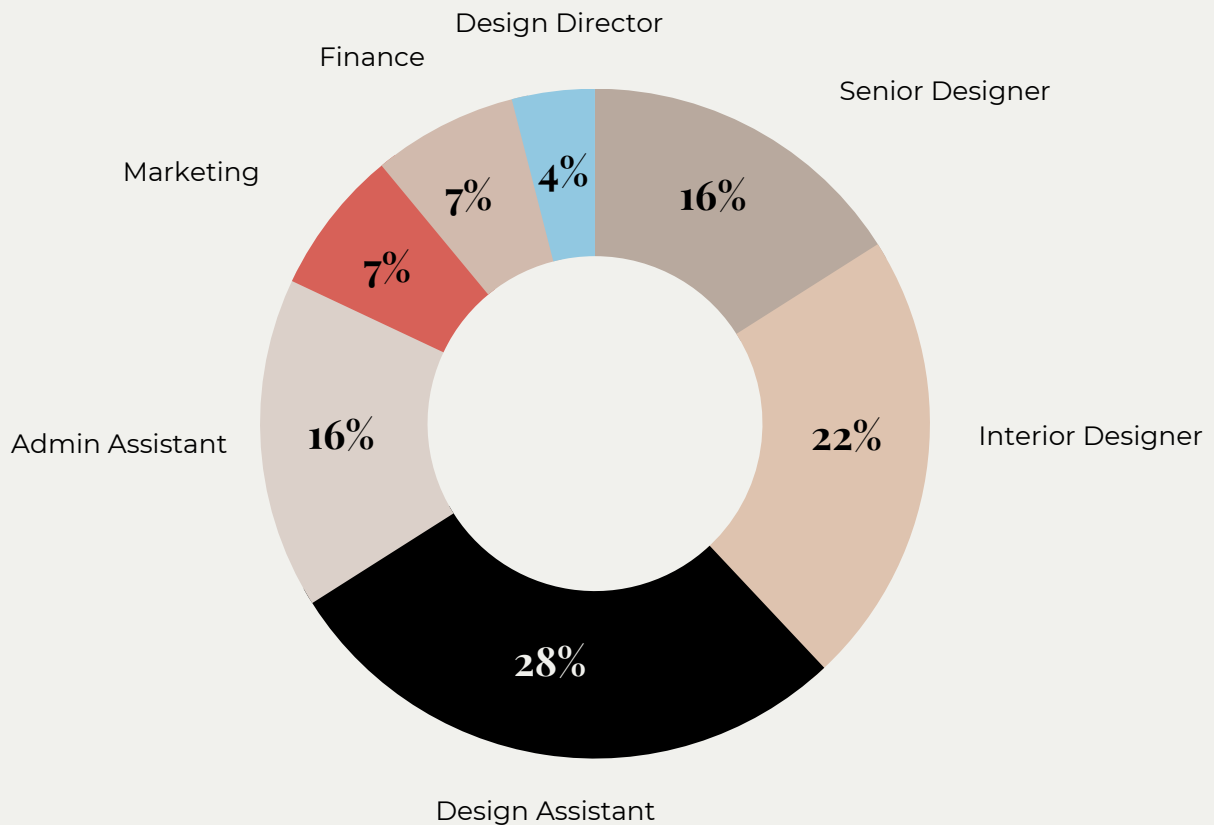


RECENT HIRES ARE MAINLY LOWER-LEVEL STAFF

More than half of all firms either hired or attempted to hire at least one new staff person in the previous twelve months. Of those, about three-fourths sought to hire one or two new staff. While it might seem like a money-saving move to bring in junior-level staff, it can actually be counterproductive. Training less experienced team members often eats up more time. Consider hiring more experienced designers because it saves time for you as the owner.

Of those who sought to hire one or more new employees, most wanted to add an interior designer or design assistant, followed by an administrative assistant.

MOST RECENT HIRE



Firms that have been in business for six to 10 years were more likely to hire a design director. Among those firms that hired a design director, design manager or senior designer, more than half did so to add a new position. That may reflect an increase in business or a move to develop new business.

OUR ANALYSIS

PRACTICAL HIRES

Examining who hired and for what positions, it would appear that in the majority of cases firms were hiring to try to keep up with current demand. They are taking on assistants or perhaps an extra designer. Hence, most firms cautiously have no plans to add more staff in the year ahead.

Far fewer firms are hiring strategically with an eye toward growing their business. Those are the ones adding senior designers and design directors or managers. In doing so, they are expanding their capacity to compete for better clients and projects.



Matthew Tenzin

MATTHEW TENZIN,
JOE MCGUIRE DESIGN

QUESTION

HIRING: Is it possible to increase revenue by hiring the right staff? Is it better to hire high-quality senior-level staff rather than less-expensive junior-level staff to accomplish growth?

ANSWER

If you have more work than you can keep up with, hiring can allow you to grow your business quickly. But as we have learned—sometimes the hard way—it's critical to hire the right people for the right seats, and this requires a clear plan. Clarifying your core values and vision is an essential first step, so you can hire people who are aligned with where you are going and who are a fit for the role, or the team ends up being costly and painful for everyone involved.

How much to scale, and what roles to hire first are big decisions. Bigger than we realized! It feels like deciding to have kids, it's a huge responsibility and people's daily lives and livelihoods depend upon you.

What kind of family do you want to create and how big? Are you a people person? What parts of the design and client work do you want to do yourself and how much are you ready to delegate? Do you like the idea of spending more and more of your time running the business and mentoring managing and leading?

It's important to ask these questions first.

I absolutely believe that hiring the right person in the right role can increase revenue. There comes a point in the growth of your business where you can't do it alone anymore. Not only does hiring the right team elevate your client journey but also elevates your mindset, attracting exciting new leads and projects. My team keeps me accountable, challenges me to think differently, and opens me up to new perspectives all the time. It's exciting and we produce better work too. It's always scary to increase overhead, but after ten years in business, it still has never failed me. As to whether senior or junior-level staff is needed, I consider several factors. If you want to up-level your business and move outside your current comfort zone, hire high-level top talent. Junior talent will help you get current tasks done. High-level talent will help you set new goals and move your needle forward on achieving them. I also frame my hiring choices around my own weaknesses and preferences. I take inventory of what I'm good at, what eats up my time, and what depletes my energy. Just because I could do something doesn't mean I should. I want everyone on the team to love what they do and bring that passion to a company they help build. I want them to serve their best and highest use and in doing so, set me up to do the same. - **Courtney Thomas**, Principal, Courtney Thomas Design, LLC

Powerhouse talent can be transformative for growth, but it's also important to invest in new and up-and-coming talent for long term growth potential. Finding the right mix is key. Senior level staff can also help mentor and coach newer talent. - **Joey Conicella**, President, Soco Interiors

SALARIES & COMMISSIONS



SALARIES & COMMISSIONS

Salaries for interior designers have been rising for the past several years. According to the most recent data collected by the U.S. Bureau of Labor Statistics (BLS), salaries for employed interior designers increased by more than seven percent between May 2021 and May 2022. The average salary for an employed designer in that period was \$67,460.

We probed deeper to get more detailed information about what firms currently are paying for particular positions and how those salaries may vary according to firm location, size, type, and annual revenues.

SALARY RANGES ARE SIMILAR THROUGHOUT THE INDUSTRY

We probed deeper to get more detailed information about what firms currently are paying for particular positions and how those salaries may vary according to firm location, size, type, and annual revenues.

AVERAGE SALARY RANGES BY POSITION

	MINIMUM	MEAN	MAXIMUM
Owner / Principal	\$45,000	\$146,000	\$350,000
Design Director	\$45,000	\$93,000	\$156,000
Senior Designer	\$45,000	\$85,000	\$150,000
Interior Designer	\$45,000	\$69,000	\$135,000
Procurement	\$45,000	\$65,000	\$110,000
CAD Specialist	\$45,000	\$56,000	\$80,000
Design Assistant	\$30,000	\$46,000	\$80,000

Given the pressure on employers in the past year to raise wages to help employees keep up with inflation, the salaries reported in our survey are more or less in line with the ranges reported by the Bureau of Labor Statistics in 2022, plus two to three percent.

It's no surprise that higher salary levels tend to correlate with higher costs of living. Some of the highest average salaries reported were in the Mid-Atlantic region, which is made up of New York, New Jersey and Pennsylvania. However, overall, average salaries in the Mountain region were among the highest reported. Average salaries were lowest in the West North Central region, even though it includes both Minnesota and Nebraska.

The size of a firm and its annual revenue aren't the sole drivers of hefty salaries. Other factors, such as specialty areas and market location, can influence what firms are willing to pay.

As a group, some positions tend to be paid higher than others. Owners or principals are more likely to be paid at the higher end of the range, as are design directors. CAD specialists and procurement or purchasing personnel are more likely to be paid at the lower end of the scale. Senior designers and interior designers are more likely to be paid around the mid-range of the scale.

Overall, sole practitioners and firms with revenues under \$250,000 a year (many of which are the same firms) reported the lowest salary levels. While revenues certainly play a role, but this may also reflect that many of these firms prefer to outsource services rather than hire staff.

FEW FIRMS PAY COMMISSIONS

The tight labor market and rising inflation have put pressure on firms to offer higher salaries and more attractive compensation packages. One of the ways some firms have sought to bump up compensation is to pay employees commissions in addition to salaries and bonuses. We wanted to learn more about how many firms are paying commissions, to whom they pay commissions, what level of commissions they pay, and on what aspects of a project they pay commissions.

More than 80 percent of firms in our survey currently do not pay any commissions. Among those that do, about two-thirds pay commissions to all employees.

Among firms that pay commissions, the majority (42%) pay less than 10 percent. About a fifth pay between 20 and 35 percent. The majority (57%) of those that pay commissions do so mostly only on furniture.



OUR ANALYSIS

LESS IS NOT MORE

Employers may believe that they are making a sound business decision by hiring lower-level staff. Our survey results, however, indicate that the step up from a lower-level staff member to a more experienced and skilled staff member is not a big one. Considering the greater revenue-generating potential of the more senior staff member, the better investment would be to hire up, not down.



FUTURE BUSINESS OUTLOOK



FUTURE BUSINESS OUTLOOK

Clients are not the only ones feeling the pressures of inflation and other current economic challenges. In addition to affecting the number and size of projects available, designers' businesses have been impacted as well. We wanted to learn more about which aspects of their business have been most challenging during the past twelve months.

ESSENTIAL OPERATING EXPENSES HAVE INCREASED FOR MOST FIRMS

Nearly two-thirds of design firms reported that their business's operating expenses (excluding salaries and compensation) had increased during the previous twelve months. More than a fourth reported operating expenses had stayed the same. A few saw their operating expenses decrease.

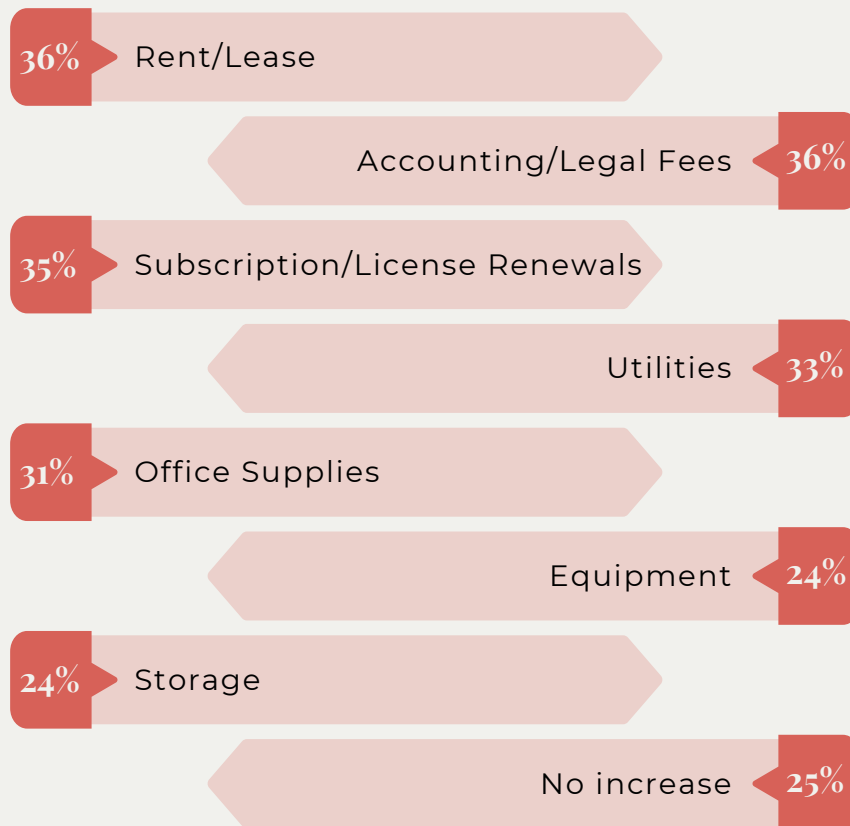
As a follow-up, we asked those whose operating expenses had increased approximately how much they had increased. A fifth said 10 percent or more. Most experienced increases of between four and nine percent—more or less in line with rates of inflation over the past twelve months.

FIRMS RAISING FEES, PRICES TO OFFSET IMPACT OF INFLATION

Of those whose operating expenses had gone up, most have experienced increases in essential areas like rents and utilities.

Nearly half (47%) of participants said they had increased their fees, prices, and/or mark-ups to compensate for the increase in operating expenses.

INCREASED OPERATING EXPENSE



Interestingly, firms with 2022 gross annual sales of \$500,000 or less were less likely to have raised fees, prices or mark-ups to offset increases in operating expenses than firms that earned more than \$500,000. We surmise that these firms may fear losing projects and therefore don't feel comfortable increasing their rates.

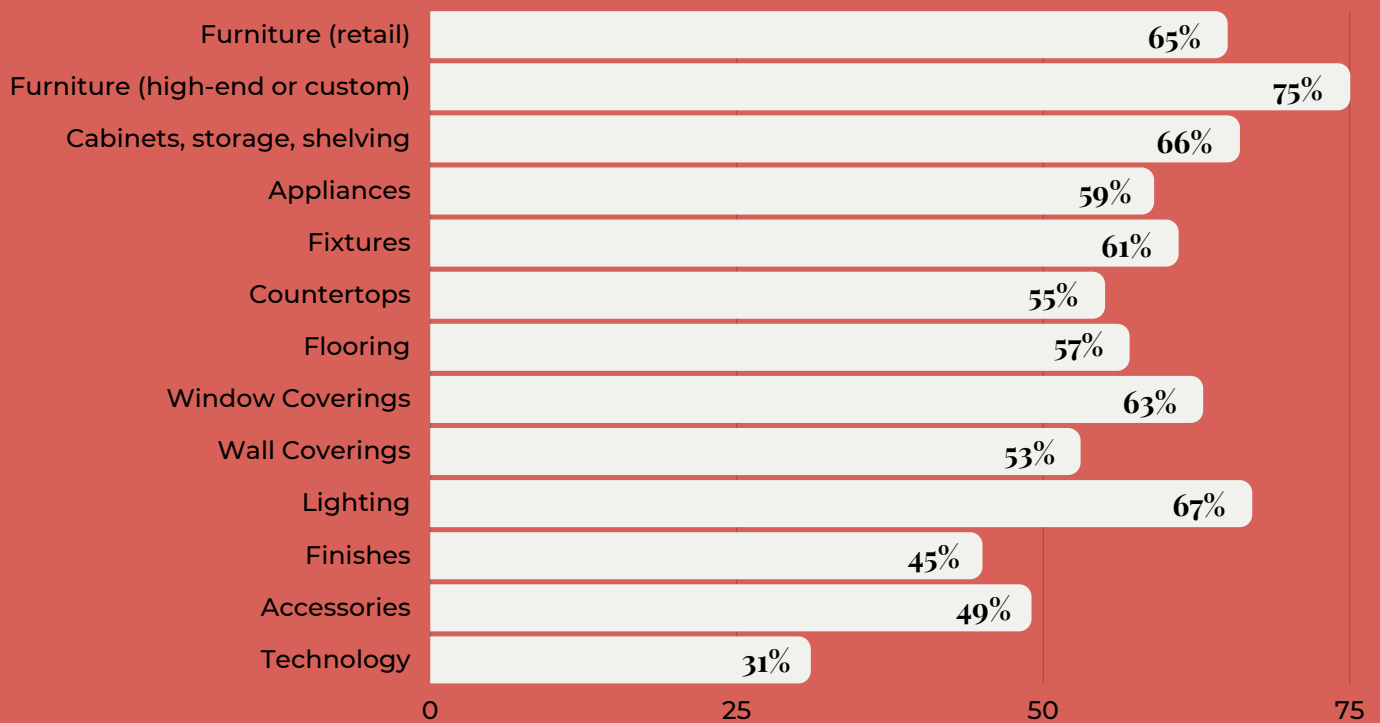
PROJECT COSTS CONTINUE TO RISE

The cost of many of the products and materials designers use in their projects rose during the pandemic due to supply chain issues, shipping delays and shortages. Now that those issues have begun to be resolved, we wanted to find out in which, if any, product categories within the past six months designers had experienced increases in prices and in which they had experienced decreases in prices.

Whether due to inflation or other factors, designers are still experiencing price increases in many of the product categories they regularly purchase or specify. The greatest number reported increases in furniture and cabinets, followed by lighting and window coverings.

By the same token, nearly all participants (89%) said they did not experience any decreases in product costs within the previous six months. Around 4 percent had experienced some decrease in retail furniture prices, and 3 percent had experienced a decrease in flooring prices or accessories. For all other categories, one percent or fewer of participants reported a decrease in prices.

PRODUCT PRICE INCREASES

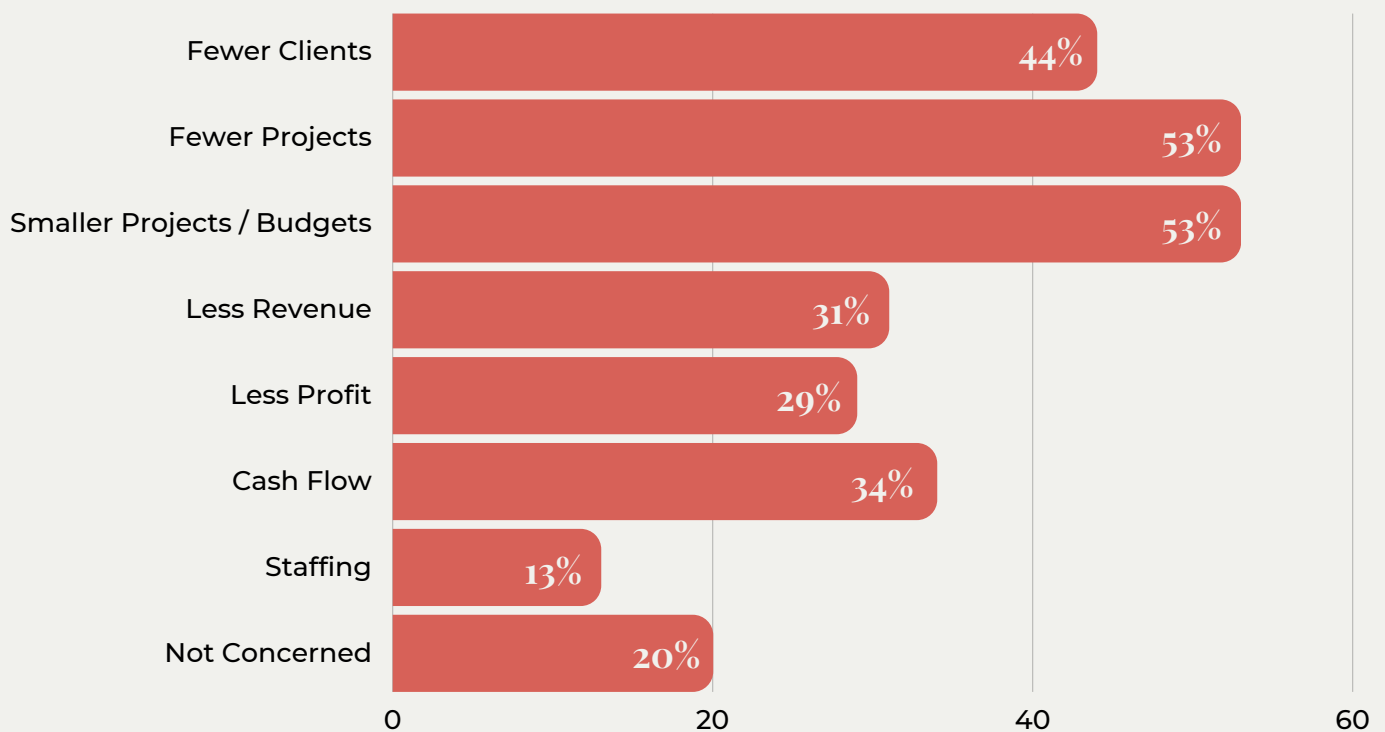


DESIGNERS ARE UNCERTAIN BUT CONCERNED ABOUT PROSPECTS FOR 2024

More than a third (38%) of participants said they believed current economic conditions would have a negative impact on their business this year. More than one-fourth (27%) believe they will also have a negative impact on their business next year. Many, however, said they simply weren't sure (35% and 50%, respectively) .

To try to better understand what challenges they foresee for their business in the year ahead, we asked them which aspects of their business they are most concerned about. A majority said they anticipated fewer projects and/or smaller projects or budgets next year.

CONCERNS FOR BUSINESS IN 2024

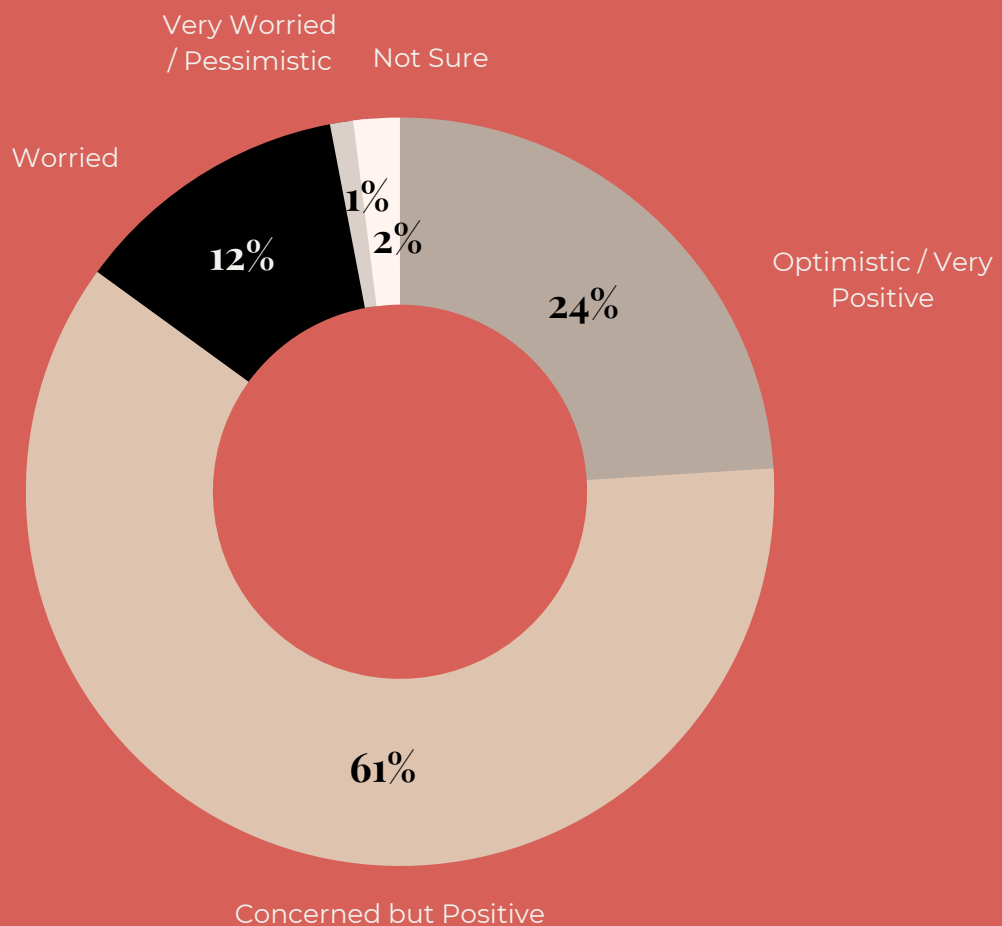


Residential firms were somewhat more likely to anticipate that their businesses in the near-term will be impacted by fewer clients, fewer projects, and smaller projects and/or budgets. If so, that would be a reversal of the upward trend that began in mid-2020.

ALTHOUGH CONCERNED ABOUT CURRENT CONDITIONS, DESIGNERS ARE OPTIMISTIC ABOUT THE FUTURE

Despite worries about current economic conditions and the possibility that business may slow next year, overall designers remain optimistic. Few have major concerns about the future of their firm.

FUTURE OUTLOOK FOR FIRM



Here again, commercial firms were slightly more optimistic than residential firms about the future of their firms—a reversal of the trend for the past two or three years.

OUR ANALYSIS

TAPPING THE BRAKES

Like other small businesses, interior design firms are feeling the pinch of prolonged inflation and its impact on prices, financing and spending. Our survey was conducted in the first half of the year, so it is no surprise that designers were uncertain about how their businesses would fare in the second half of the year and beyond. Even so, they were already seeing signs that demand for their services was easing. This was particularly true in the residential sector, which has benefitted most from the design boom of the past several years.

At present, most firms are not expecting a major decline in business—perhaps more of a return to business as usual. Some segments of the commercial sector may even enjoy a rebound in business next year. Barring a recession, which appears less likely now, the industry overall likely will experience some slowing over the next six months or so, with some parts more affected than others.

Firms should begin planning now for how they will adjust to the new business conditions. Some have already begun to do so, but many others continue to rely on how they have always done business and hope for the best.



SUCCESSION PLANNING



SUCCESSION PLANNING

The silver tsunami of aging baby boomers is not only changing the make-up of interior designers' client base, it will reshape the industry itself over the next decade. According to the ASID 2023 State of the Industry Report, one third of practicing interior designers are age 55 or over. In the coming years, a number of these older designers will be considering retirement and/or selling their firms. We wanted to find out if they and/or their firms have made plans for one of these eventualities.

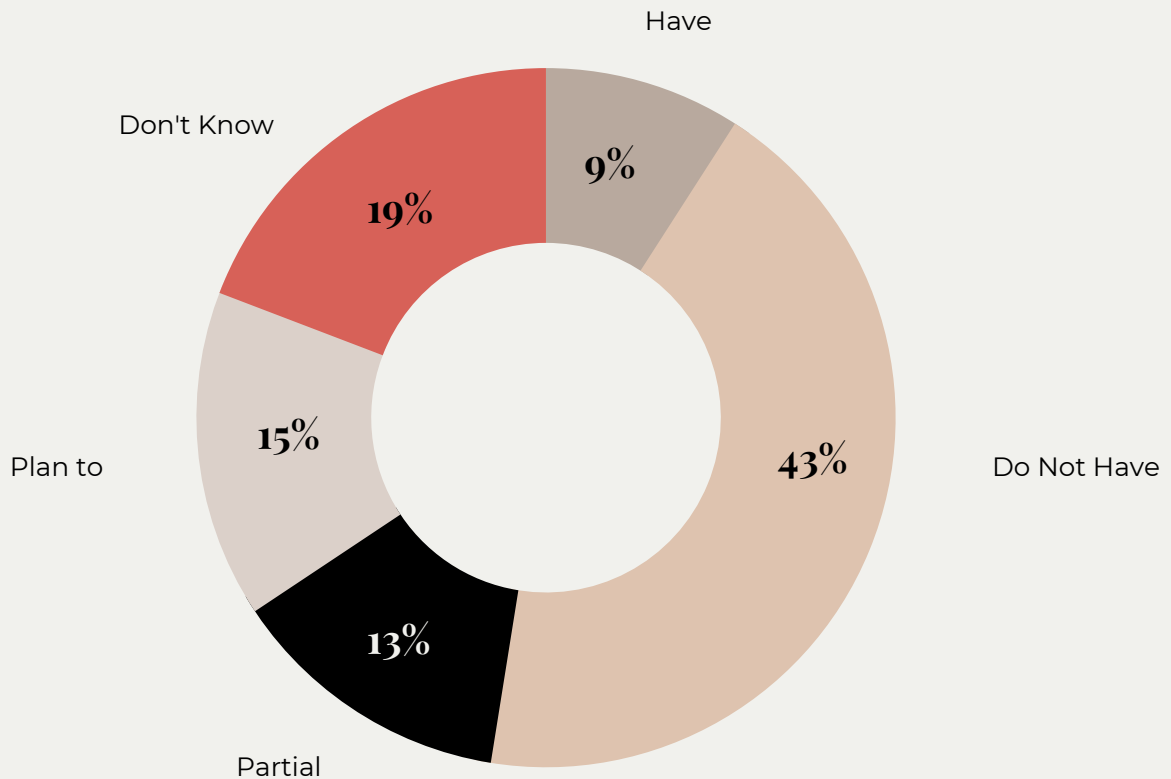
MOST DESIGNERS HAVE NOT CONSIDERED RETIRING SOON

More than half of participants told us they have no plans to exit their firm, for whatever reason, within the next five years. Another third has no plans at present but could do so, most likely in more than five years. Only 15 percent said they have plans to exit their firm in the near future.

MOST FIRMS HAVE NO FORMAL SUCCESSION PLAN IN PLACE

Most firms at present do not have a formal succession plan for how the business would continue to operate if the owner, partner, principal, or other senior member would, for whatever reason, exit the firm.

FIRM SUCCESSION PLAN



MORE SENIOR DESIGNERS ARE MORE LIKELY TO BE CONSIDERING EXITING THEIR FIRM IN THE NEAR FUTURE

Principals and senior employees in firms that have been in business for 20 years or more were nearly twice as likely to say that they had plans to exit their firms in the next five years. They were also somewhat more likely to say their firm had a succession plan in place. Design directors were more likely than owners / principals, senior designers and interior designers to have plans to exit their firms within the next five years.

OUR ANALYSIS

PERILOUS LACK OF PLANNING

When you are your business, as is the case for many design firm owners, partners, principals and senior designers, it is hard to imagine your business without you. Yet, a variety of circumstances, not just retirement, may result in the loss of a major member of the firm. Illness, accidents, caregiving responsibilities, personal issues, and life changes can suddenly and unexpectedly alter a firm's leadership.

Not having a succession plan is akin to not having a will. It creates a vacuum in leadership when a member of the leadership team exits the firm. The lack of clear guidance and authority for decision-making can be highly disruptive to the firm's normal operations as well as staff morale.

Every business, no matter how small, should have a formal succession plan, even a simple one. It is essential to the continued health and stability of the firm.



OBSERVATIONS & INSIGHTS



OBSERVATIONS & INSIGHTS

Major disruptors like the COVID-19 pandemic or the 2008 housing market crash are rare. Under more normal conditions, one would not expect to see many significant changes in business conditions and operations within the interior design industry from one year to another. Comparing the results of this year's survey with those from the 2022 survey we do indeed see quite a lot of stability in the industry, which is a good thing.

ECONOMIC UNCERTAINTY IS AFFECTING CLIENTS AND DESIGN BUSINESSES

Nonetheless, we are still in the midst of a post-pandemic readjustment period, both socially and economically. Economic trends are behaving in ways that weren't predicted a year ago and are continuing to baffle economists. Many areas of the economy are performing well. Regardless, many consumers continue to have a negative view of the economy and worry that things will get worse rather than better. At the same time, consumer spending remains strong.

Indicators in our survey show how the interior design industry is being impacted by these trends. Firm revenues and staffing have remained more or less the same as last year. Most designers are optimistic about the future, expecting business conditions to remain steady or improve in the coming year. However, some firms are already experiencing delays, adjustments and postponements in projects. They are ramping up marketing and outreach efforts to try to attract new business. New hiring has slowed. Revenues overall are healthy but profit margins for many firms are on the low end. These are all signs that demand may be easing.

In making their business plans for 2024, firms should include contingency measures for how they will respond if they should experience a significant drop in business. Our findings seem to indicate that residential designers may feel more of a slowdown than commercial designers, compared to the boom in demand over the past two or so years. If the economy avoids a recession, commercial designers in some specialties could see their business picking up. In addition, inflation continues to ease, it could provide some relief in the way of reduced expenses and lower prices.

PERSISTENT CHALLENGES HOLDING FIRMS BACK

Having conducted these surveys not just for the past two but over many years prior, we have seen certain patterns persist from year-to-year. One is the low level of investment in marketing. Many firms continue to rely largely on word-of-mouth and personal relationships to obtain new business or repeat business, even though our results show that firms that actively invest in marketing and do so consistently perform much better and have better track records for successful growth.

Another persistent trend is the relatively poor performance reported by many small firms, especially sole practitioners. A sizable portion of the latter consistently report annual revenues of less than \$250,000, even if they work full-time and have been in business for more than 10 years. As a group, they also report low profit margins, tend to charge less for fees and mark-up, and struggle to attract business. When they do hire, they more often hire a design assistant and pay relatively lower wages.



CONSULTANTS' CORNER



WHAT CAN FIRMS DO TO MOVE PAST THESE CHALLENGES?

INDUSTRY EXPERTS
GAIL DOBY, ASID
AND KEN ROBERTS
SHARE THEIR
INSIGHTS!





GAIL DOBY, ASID

GROWTH STRATEGIES FROM GAIL DOBY, ASID

As a former interior design firm owner and a current coach/consultant since 2008, I can appreciate and have experienced similar challenges that design firm owners are encountering now. Many of the challenges are typical for small businesses in general, and some are very common for our clients in particular – predominantly women-owned businesses.

As of March 6, 2023, according to the U.S. Census Bureau, most U.S. businesses have fewer than five employees and only nine percent of small businesses reach \$1 million or more in annual revenue.

According to the U.S. Bureau of Labor Statistics, there are an estimated 17,500 interior design firms in the U.S. If our survey's results reflect the industry at large, then around one third of firms in the U.S.— some 5,950—had annual revenues of \$1 million or more in 2022. By the same token, that means that 11,550 firms had annual revenues of less than \$1 million.

Why do so few of our colleagues ever achieve their goals and dreams? After decades of experience working in the industry and consulting with hundreds of firm owners, I've determined the reason most firms never achieve momentum and significant earnings boils down to the key “business growth blockers” listed below.

HOW DOES YOUR FIRM STACK UP?

Using a scale of from 1 to 5

Rate yourself and/or your firm on each of the following, then add up the column to get your score.

- 1** “Not at all true for me or my firm,”
- 3** “Somewhat true for me or my firm,”
- 5** “Very true for me or my firm,”

- _____ Mindset blocks
- _____ Lack of a business plan
- _____ Lack of financial knowledge and skills
- _____ Lack of financial reserves
- _____ Inconsistent marketing
- _____ Lack of sales skills
- _____ Lack of documented processes
- _____ Little or no contingency planning
- _____ No team or the wrong people on the team
- _____ Lack of focus
- _____ TOTAL SCORE

HOW DID YOU DO?

Here's how to interpret your score:

- 40 – 50 Seek professional guidance as soon as possible
- 30 – 39 You're doing better than most, but professional guidance could help
- 1 – 29 You're on the right track

Be sure to check out our blog for articles about these business growth blockers and how to overcome them at ThePearlCollective.com/blog.



KEN ROBERTS

TALENT TALK WITH KEN ROBERTS

Over the past 20-plus years working with interior design firms all throughout the U.S., I have been exposed to so many challenges our clients face when hiring talent.

Currently we see that interior design firms are facing mounting challenges hiring the talent they need to grow. The current economy does project a level of concern that owners feel caught between hiring experienced designers with higher salary expectations versus taking a risk on more junior, untested designers they can pay less.

The talent shortage has the owner looking longer to fill roles. They want candidates with specific aesthetics and sensibilities that align with their firm's vision, not just technical skills. But with the current shortage, these owners are debating whether to compromise and train up less experienced designers or hold out for elusive perfect fits that could help to take on additional business.

Some firms bridge the pay gap by offering profit sharing and flexible schedules. But for many, the salary needed to attract top talent is too straining on their small business budgets. With business booming post-pandemic for many boutique design firms, owners feel increased pressure to scale up their team. Yet without competitive pay, firms struggle to attract the level of talent that would justify a higher salary. It is a frustrating catch-22 hampering these firms' ability to hire and grow. Getting creative with non-salary incentives and career development opportunities may be essential to overcoming hiring obstacles in the current economic environment and this tight labor market.

METHODOLOGY



METHODOLOGY

THE 2023 INTERIOR DESIGN BUSINESS SURVEY WAS CONDUCTED BETWEEN MAY 15, 2023 AND JULY 31, 2023. MEMBERS OF THE INTERIOR DESIGN INDUSTRY WERE INVITED VIA EMAIL, SOCIAL MEDIA AND OTHER OUTREACH EFFORTS TO COMPLETE THE SURVEY, WHICH WAS HOSTED ON SURVEY MONKEY.

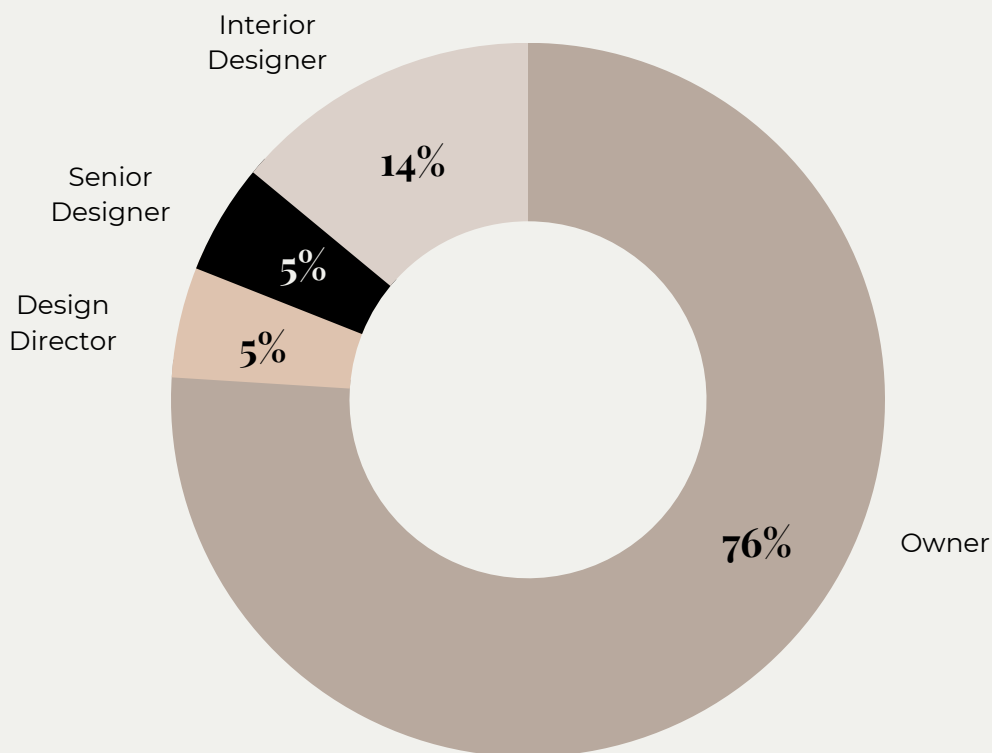
THANKS TO EVERYONE WHO TOOK THE TIME TO COMPLETE THE SURVEY AND TO THOSE WHO HELPED TO SPREAD THE WORD. WE ARE TRULY GRATEFUL FOR YOUR COOPERATION AND SUPPORT.

WHO WE HEARD FROM

A total of 1,137 individuals, mostly in the interior design industry, responded to our survey. Of those, 886 participants who currently practice some form of interior design or interior decoration qualified to complete the survey, representing all regions of the United States and many other countries as well.

MOST OWN OR ARE PARTNERS OR PRINCIPALS IN AN INTERIOR DESIGN FIRM.

PROFESSIONAL POSITION



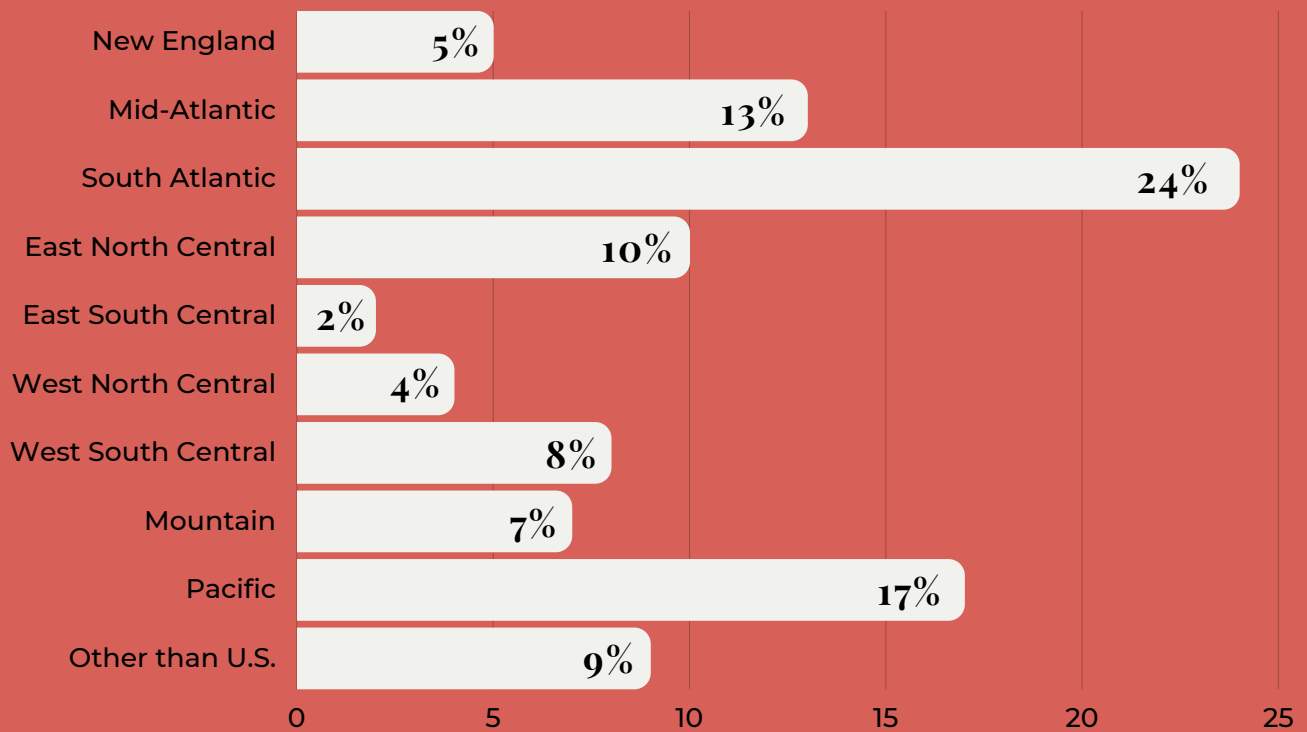
MOST ARE NOT AFFILIATED WITH ANY PROFESSIONAL DESIGN-RELATED ORGANIZATION.

Close to two-thirds of participants do not belong to any professional design-related organization. Slightly more than a fifth are members of the American Society of Interior Designers (ASID), and a tenth are members of the National Kitchen & Bath Association (NKBA). Around 5 percent belong to the Interior Design Society (IDS) or the International Interior Design Association (IIDA). Fewer than 4 percent each belong to other design professional organizations.

MANY FIRMS ARE HEADQUARTERED IN COASTAL STATES.

The largest portion of survey participants have their headquarters in one of the more populated coastal states, either in the South Atlantic region of the U.S., the Pacific region or the Mid-Atlantic region. Those outside the United States are located throughout the globe, in the United Kingdom and Europe, Asia, the Middle East, Africa, Australia and New Zealand, South America, Canada, and the Caribbean.

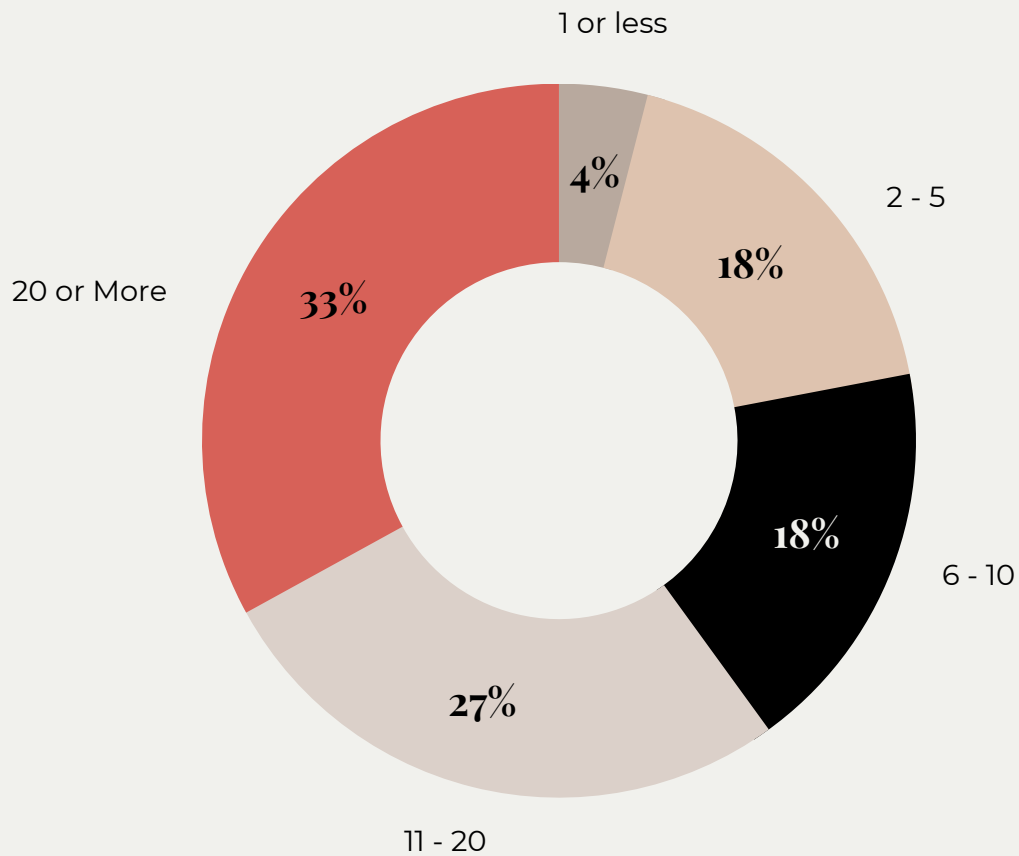
LOCATION OF FIRM



MOST FIRMS HAVE OPERATED FOR DECADES.

The number of firms operating for one year or less, which trended upward during the pandemic, was the same as in 2022, perhaps indicating a leveling-off in new start-ups.

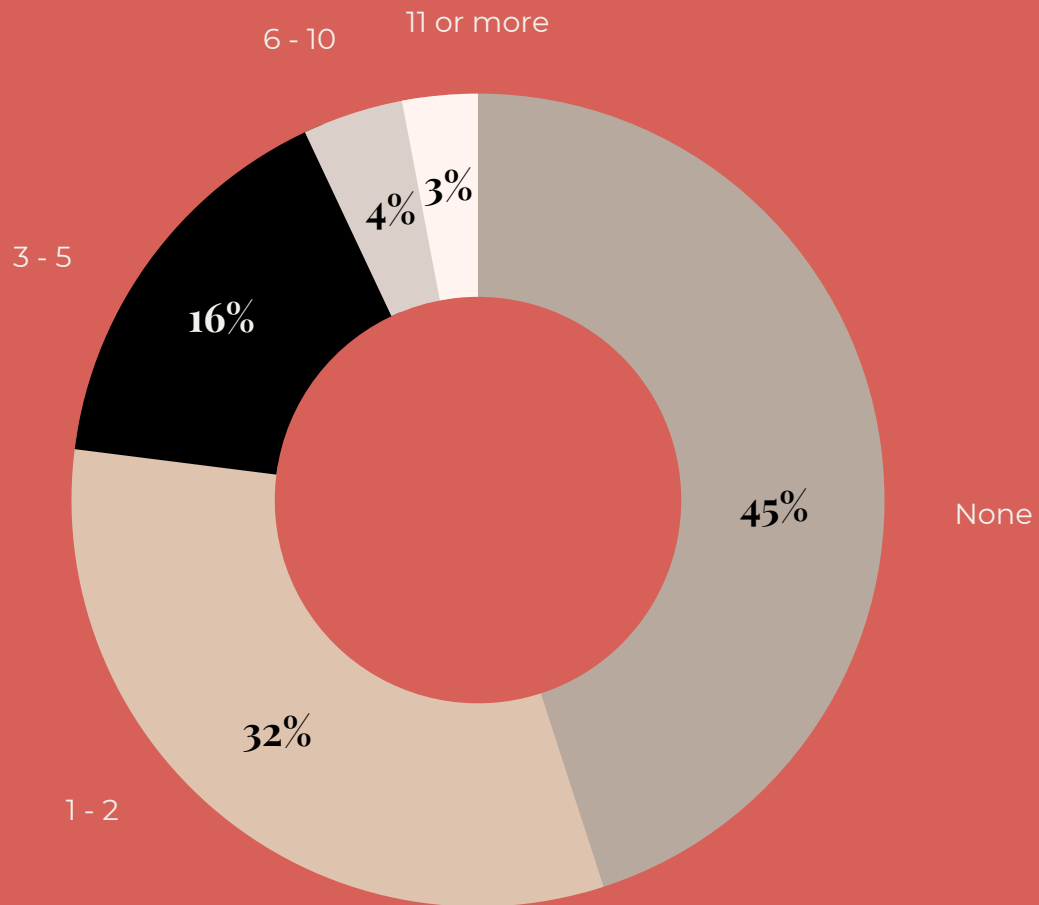
YEARS IN BUSINESS



THE MAJORITY OF FIRMS IN THE SURVEY ARE SMALL.

The distribution of number of employees per firm in our survey tracks with estimates for all interior design firms in the U.S.

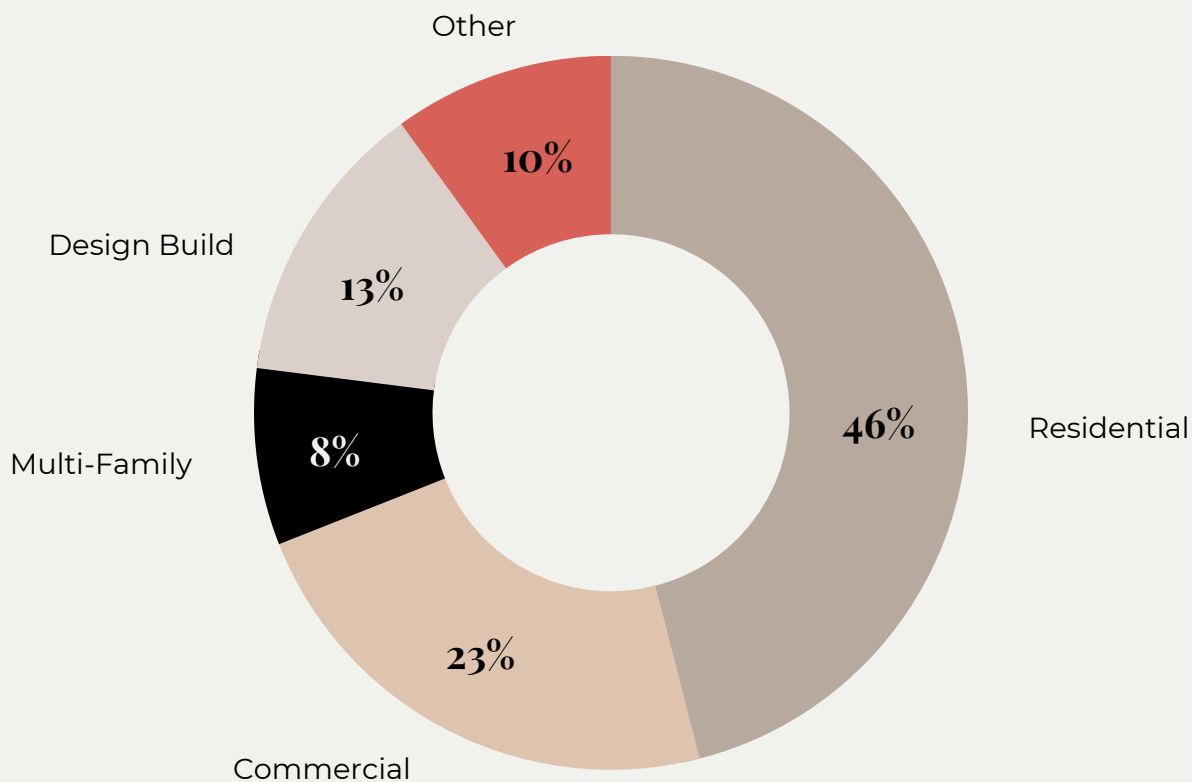
NUMBER OF EMPLOYEES



NEARLY ALL THE INTERIOR DESIGNERS WHO TOOK PART IN THE SURVEY PRACTICE RESIDENTIAL DESIGN.

More than over 40% firms doing residential projects also do commercial projects.
More than over 80% firms doing commercial projects also do residential projects.

TYPES OF PROJECTS



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About Us

The 2023 Interior Design Business Survey report is a joint venture of Pearl Collective, Interior Talent and Business of Home. We are pleased to make this valuable information available to you as members of our community to further your business success.



Pearl Collective, formerly known as Gail Doby Coaching & Consulting, offers a range of services to professional designers and firms. These include one-on-one VIP coaching and consulting, mastermind groups for CEOs and leadership team members, online courses and programming, business tools and documents, and live events across the U.S., and internationally. Firms from start-ups to those with seven-figure-plus revenues have realized transformational growth in sales and profitability as well as greater professional and personal satisfaction. Utilizing highly developed and strategic financial, marketing, organizational and human resources evaluations, Pearl Collective clears the path for clients to radically improve their businesses, achieve financial success, attain business and personal goals, and work more efficiently. For more information, visit ThePearlCollective.com and listen to the inspiring Creative Genius podcast, which can be found wherever you listen to your favorite podcasts.



Interior Talent, a national firm headquartered in Orlando, Florida, is a leading talent recruitment and resource firm for the architecture, interior design, engineering, retail, and manufacturing industries. Founded in 2003, the firm understands the needs of the modern employment industry in relation to talent recruitment and retention, allowing them to approach each opportunity from the employer and employee perspective to utilize best practices in all situations. For more information, visit InteriorTalent.com.



Business of Home is the industry's leading business media brand, delivering essential news, analysis and insights to interior designers and industry professionals. Business of Home's editorial initiatives include a robust daily news site, daily and weekly newsletter, the quarterly print magazine BOH, two podcasts that explore the challenges facing the industry, and biannual guides to the industry trade show, High Point Market. In addition, the company offers a broad range of business resources, including the industry's largest job board and events calendar, a hub for product debuts, a series of bimonthly business workshops, a directory of industry experts and skilled trades, photography and video production services, and a membership community offering exclusive access to experts, editors and events. Go to BusinessOfHome.com for more information.

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