The experience economy: past, present and future

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B. Joseph Pine II
Strategic Horizons

2. The experience economy: past, present and future

B. Joseph Pine II and James H. Gilmore

2.1 INTRODUCTION

It has been almost 20 years since we first described the next emerging wave of economic history as an experience economy. At the time, no one spoke of "experiential marketing" (its precursor was "marketing aesthetics"). The term "customer experience" had yet to be coined (all the talk concerned delivering excellent "customer service"). While a few technologists may have occasionally referred to the "user experience," the term had not taken hold to anywhere near the extent that it warranted an acronym; today no one in the digital world need explain what is meant by "UX." The word "experience" exploded in its usage with product names, marketing taglines, destination venues and digital media. Why the change in terminology? And why to language based on this word "experience"? Clearly, the notion of experiences resonated in the market place of ideas and the world of commerce.

Many factors contributed to the widespread acceptance of this lens through which to view the economic landscape. First of all, people were more than ready to embrace a new way of thinking about their offerings, as evidenced by the call to "exceed expectations" and other similarly wanting business buzzwords and mantras. Experience thinking provided a welcome new platform for pursuing new value-creating activity. Second, the very idea that consumers valued experiences more than goods and services was affirmed by personal experience. Regardless of their industry or vocation, individuals knew they cherished the experiences in their lives more than physical things, and certainly more than the mundane services that surrounded everyday life. But perhaps most importantly, executives and managers in various enterprises – for-profit businesses, non-profit charities, tourism bureaus, ad agencies, healthcare systems, colleges and universities, political campaigns, and even churches – saw experiences as an untapped means to differentiate.

As a result, certain research methods and innovation methodologies – ethnography, design thinking, improvisation skills – that had been largely neglected for decades suddenly found a groundswell of interest. Daniel Pink declared "the MFA is the new MBA." Strategy consulting work started to flow to the IDEOs (design firms; IDEO, n.d.) of the world, not just the McKinsey's. Howard Schultz discovered European café culture and latched onto Ray Oldenburg's concept of "a third place" (Oldenburg, 1997). Everywhere in the world Starbucks went was abuzz about experiences and being filled with new experiences.

In the mid 1990s, when we wrote the popular "How to profit from experiences" in *The Wall Street Journal* (Pine and Gilmore, 1997) and the more scholarly "Beyond goods and services" for *Strategy and Leadership* (Gilmore and Pine, 1997), we scrambled to find exemplars we could cite that would illustrate the various experience design principles we espoused. (We obviously recognized Disney as ahead of the pack, and have been wrongly accused by some ever since of wanting to "disneyfy" every place.) Today, however, we

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simply cannot keep up with the myriad experience innovations that continue to fill the world, from A (app after experiential app) to Z (zorbing).

The world has indeed become more intentionally experiential. Yet one point needs to be repeatedly emphasized: this all represents a fundamental shift in the very fabric of the global economy. Focusing on goods and services alone leads down the road of economic austerity. Experiences are a distinct form of economic output, and as such hold the key to promoting economic prosperity. The fact that so many still long for the return of hard industries, fantasize about restoring manufacturing jobs and cling to an industrial mass production mindset limits further progress. Today, around the world, goods and services must give way to experiences as the predominant form of new economic output, the foundation of growth in gross domestic product (GDP) and the source of new job creation.

The down economies around the planet, spawned by the desperate financial attempts to prop up a world of goods, now makes the perfect time to take a closer look at the still untapped upside to experience-based innovation and economic expansion. This chapter, therefore, looks at the past of the experience economy – how it was discovered and where it came from, with many never-before published details; at the present of the experience economy – our current understanding of it, plus the implications and issues that arise from it; and finally at the future of the experience economy – where it must head in the years and decades to come.

2.2 THE ORIGIN

It was back in late 1993 or early 1994. Joe Pine was teaching a class on Mass Customization to a number of staff in the IBM Consulting Group at the IBM Advanced Business Institute in Palisades, New York (where he had worked full time less than a year before).

As he often did, Joe talked about how mass customizing a good – making an individually customized physical product with low costs, high volume, efficient operations – automatically turned it into a service. He pointed out how economists make some classic distinctions to differentiate the two: goods are standardized while services are customized – done on behalf of an individual customer; goods are inventoried after production while services are delivered on demand – when the customer says this is exactly what he wants; and goods are tangible, whereas services are intangible. And part and parcel of mass customization is the intangible service of helping customers figure out exactly what they want. So mass customizing a good involves the business of defining, making and delivering an exact item that fits each individual customer's needs at a particular moment in time – and that's a service!

So one of the IBM consultants in the back of the room shoots up his hand and says, "You talk about mass customizing services too. What does it turn a service into?" And Joe shot back: "Mass customization automatically turns a service into an *experience*." Then he said to himself, "Whoa. That sounds good!" He stopped the class to write it down, just to make sure he wouldn't forget it. He needn't have, for the notion consumed his idle thoughts for months: delivering exactly the right service – precisely what an individual needs over a duration of time – can't help but make them go "Wow!" and turn

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it into a memorable event, an experience! And if that were true, then experiences were a distinct economic offering, as distinct from services as services were from goods. And that suggested that the developed world would shift into an experience economy, supplanting the service economy just as that had superseded the industrial economy in the latter half of the twentieth century, which in turn had unseated the agrarian economy a century before.

Late one night, a month or so later, Joe had made enough progress in his thinking to get out a piece of paper and write down all of the distinctions he could think of between each of the four economic offerings at the core of the four economies – commodities, goods, services and experiences – plus a fifth (and as it turns out, final) economic offering, transformations. (For into what does mass customizing an experience turn the offering? If you design an experience so appropriate for a particular person – precisely what he needs to be fundamentally affected by it over time – then it can't help but become a life-transforming experience that changes the customer in some way.)

Joe knew he really had something – something that would change how executives saw the world of business. So the next morning he typed it all up into a table, and flying off to see his favorite client – Jim Gilmore, then head of CSC Consulting's process innovation practice – faxed it to him in advance with special instructions to Jim's assistant not to open it until the two met. And together in Cleveland they mulled over the not-quite-complete and still-unrefined table (Figure 2.1), growing in their mutual appreciation for how the recognition of these two newly identified economic offerings could help executives think differently about how they created economic value for their customers. They soon knew they would have to write about it – culminating in the 1999 book *The Experience Economy: Work is Theatre and Every Business a Stage* (Pine and Gilmore, 1999) – and later decided to join together to found Strategic Horizons LLP, a thinking studio dedicated to helping companies conceive and design new ways of adding value to their economic offerings.

And the rest, as they say, is history. But history must also do justice to a number of thinkers and authors who were amazingly prescient in identifying this same trend – although not as strongly as we saw it as (we emphasize) *a fundamental shift in the very fabric of the economy* – some long before us and all unbeknownst to us until we started researching the then-embryonic experience economy. Way back in 1970 futurist Alvin Toffler included a chapter in *Future Shock* titled "The experience makers" where he asked, "Where does the economy go next? After the services, what?" and answered with "the growth of a strange new sector based on what can only be called the 'experience industries" (Toffler, 1970, p. 221). But of course we can see now that experiences are not just a single sector of the economy; there are in fact many sectors (movies, sporting events, music festivals, art galleries, video games, corporate briefing centers, trade shows, tourist attractions, hotel resorts, membership clubs, and on and on the list goes) that together comprise the experience economy.

Even before Toffler, in 1959, sociologist Erving Goffman, in *The Presentation of Self in Everyday Life*, applied the principles of theatre to work and social situations as we too have applied it to work: not as a metaphor, but as a model (Goffman, 1959). Jay Ogilvy, co-founder of the Global Business Network, wrote *The Experience Industry*, a 1985 report for SRI International, demonstrating that demand for "vivid experiences" already drove marginal growth in the US economy – a factor that has only accelerated in the

Economies of Man: Past, Present, and Future

Economy	**Agrarian**	**Industrial**	**Service**	**Experience**	**Transformation**
Primary Economic Offering	**Commodities**	**Products**	**Services**	**Experiences**	**Transformations**
Economic Function	Extracted	Manufactured	Delivered	Created	Enabled
Nature of Offering	Fungible	Tangible	Intangible	Memorable	Incorporeal
Extent of Use	Subsumed in products	Permanence beyond production	Consumed at delivery	Experienced over a duration	Enduring
Character	Natural	Standardized	Customized	Individualized	Actualized
Development Method	Discover/ Planted/ Cultivated	Developed?	Fashioned ?		Formed?
Production Method	Extracting/ Harvesting	Batches	Co-production?	Co-experienced?	Symbiosis? Induced?
Delivery Method	Bulk Stored	Inventoried	Created at delivery	Participated in at creation	Subsumed in transformation
Marketed Attributes	Characteristics	Features	Benefits	Sensations	Realization/ Consummation
Basis of Purchase	Price	Transaction	Relationship/ Desire?	Content?	Aspiration/ Hope/Dream?
Observability	Detectable	Tactile	Perceivable	Sensorial	Sensible
Primary Flows	Physical	Financial	Informational	Social	Individual
Information Content Level[1]	Noise	Data	Information	Knowledge	Wisdom

Economic Relationships
- 'Commodities are only material components of the products in which they are comprised'
- '[Goods] are only physical embodiments for the services thet deliver'[2]
- 'Services are only temporal activities for the experiences they create'
- 'Experiences are only memorable events for the transformations they enable'
- 'Transformations are only the earthly possibilities for the perfection God can one day instill'

[1] Based on Haeckel's Hierarchy of Stephan H. Haeckel of the IBM Advanced Business Institute, as published in Vincent P. Barabha and Gerald Zaltman, *Hearing the Voice of the Market: Competitive Advantage through Creative Use of Market Information* (Boston: Harvard Business School Press, 1991), pp. 45–46.
[2] James Brian Quinn, *Intelligent Enterprise: A Knowledge and Service Based Paradigm for Industry* (New York: The Free Press, 1992), p.7.

Figure 2.1 Original table detailing experience and transformation offerings

past quarter century (Ogilvy, 1985). In 1992 Gerhard Schulze wrote of the "experience society" in *Die Erlebnisgesellschaft: Kultursoziologie der Gegenwart* (which we still hope someone someday translates into English) (Schulze, 1992). And at about the same time *The Experience Economy* came out in 1999, Rolf Jensen of The Copenhagen Institute for Future Studies published *The Dream Society* (Jensen, 1999). Like Toffler, but taking a more societal than economic vantage point, Jensen asked, "What comes after the Information Society?" and answered with "the Dream Society. It's a new society in which businesses, communities, and people as individuals will thrive on the basis of their stories, not just on data and information" (Jensen, 1999, p. 1). While these are the most important antecedents we have discovered, surely there are others whom we should be mentioning, and we hope that they all receive due recognition for their parts in predicting and describing the rise of today's experience economy.

2.3 SO WHAT IS THE EXPERIENCE ECONOMY?

Every economy is defined by its predominant economic offering: what a buyer obtains from a seller in exchange for money. In the agrarian economy, when the vast majority of the population lived and worked on farms, the predominant economic offering was of course agrarian commodities, bought and sold in the physical, open-air markets in the middle of every town of any size in the world. Commodities are distinguished by being undifferentiated. They are what they are, fungible offerings interchangeable with other commodities of the same kind (although the process of refining may create different classes of a particular commodity, such as separating apples by quality, rocks by size or oil by purity), and therefore purchased primarily on the basis of price.

Goods – physical, tangible offerings such as tools, equipment, clothing, furniture and so forth – were of course around during the agrarian economy, but they traded at a fraction of the total value of commodities when many lived at a subsistence level, and their manufacture employed far fewer people. Hundreds of years ago most people made their own tools, fashioned their own equipment, sewed their own clothes, finished their own furniture and so forth. But thanks to the Industrial Revolution, factories could produce each of these categories of goods and hundreds, thousands, millions more as well, much more cheaply than could individuals on their own. David Ricardo's Law of Comparative Advantage applies to households and communities as well as to nations, and so people moved off farms and into factories to produce more and more goods, using the money earned to purchase commodities (and other goods) on the open market. As goods became the predominant economic offering in the late nineteenth and early twentieth centuries, we shifted full-bore into the industrial economy, named for that collection of manufacturing enterprises, industry.

Services – intangible activities performed on behalf of another individual, such as cooking meals, distributing and merchandising goods, repairing tools or equipment, cleaning clothes, cutting hair, performing legal and accounting activities and so forth – were also around during the industrial and agrarian economies, but comprised a relatively small part of each. In fact, it wasn't until the late 1800s, we believe, that services were even recognized as a distinct economic offering. Adam Smith called service activity "unproductive labour" (Smith, 1776 [1994], p. 361) because services cannot be physically inventoried and therefore create no tangible testament that work had been done. But both consumers and companies increasingly found services of great value, enhancing their lives and their businesses, respectively, and so purchased them more and more frequently. The Law of Comparative Advantage applied once again, as people increasingly ceased doing certain service activities themselves and instead paid someone else who could do them more efficiently, more effectively and with higher quality. So people left factories to move into restaurants, retail stores, hotels, logistics facilities, call centers, hair salons, offices and so forth. By the latter half of the twentieth century more people were employed in services than in goods as the former comprised a greater portion of GDP than the latter. We had moved into a service economy.[1]

One effect of this shift was that people, despite what Adam Smith said, valued services more highly than goods, and so more and more treated goods as if they were commodities – undifferentiated "stuff" purchased primarily on price – so they could save their hard-earned money to spend on services instead. To combat increasing commoditization, manufacturers increasingly moved into services themselves via repair programs, contract warranties, service leases and other value-added activities.

That same effect of commoditization has long been a factor in services as well. Think of fast-food restaurants with all of their value prices, retail stores plastered with “SALE!” signs, mobile phone plans sold primarily on price and so forth. The Internet is the greatest force of commoditization ever invented, and while it initially attacked the price of goods it is now commoditizing such services as hotels, airlines, banks, telecommunications and brokers of all stripes. So now people increasingly buy services on price and thus are able to spend their hard-earned money – and harder-earned time – on economic offerings of even greater value. They increasingly purchase experiences.

Experiences – memorable events that engage each individual in an inherently personal way, such as going to a musical concert, theatrical play or athletic event; visiting a museum, art gallery or far-off destination; playing a game or sport; sipping coffee with friends in a cafe; having a birthday party; and on and on again the list could go – have also always been around. They are not a new economic offering – think of traveling troubadours, Greek plays, Roman competitions, *commedia dell'arte* performances – just a newly identified one. Intriguingly, when undervaluing services Smith singled out the experience stagers of his day (“players, buffoons, musicians, opera-singers, opera-dancers, &c.”), concluding that “the work of all of them perishes in the very instant of its production” (Smith, 1776 [1994], p. 361). How true! But although the work of the experience stager perishes with its performance (precisely the right word), the value of the experience lingers in the memory of any individual who was engaged by the event.

Although experiences themselves lack tangibility, people greatly desire them because the value of experiences lies within them, where again it remains long afterward. That's why the studies performed by Cornell psychology professors Travis Carter and Thomas Gilovich concluded that buying experiences makes people happier, with a greater sense of well-being, than purchasing mere goods (Carter and Gilovich, 2010; see also Van Boven and Gilovich, 2003). Similarly, *The Economist* summarized economic research into happiness as “‘experiences’ over commodities, pastimes over knick-knacks, doing over having” (*The Economist*, 2006).

We have now entered an experience economy, where experiences supplant services as the predominant economic offering in terms of GDP, employment and especially actual value (Pine and Gilmore, 2011, pp. 19–21). This Progression of Economic Value, as we call it, can be seen in Figure 2.2 and outlines how the locus of economic activity – what is bought and sold in the market place – has changed over the centuries.

2.4 IMPLICATIONS OF THE EXPERIENCE ECONOMY

Concomitant with this new economy are a number of implications, of which the following are the most pertinent.

2.4.1 Mass Customization is the Route

Figure 2.2 also shows the effect of customization from the discussion about the origins of the experience economy. Customization (serving customers uniquely) is basically the

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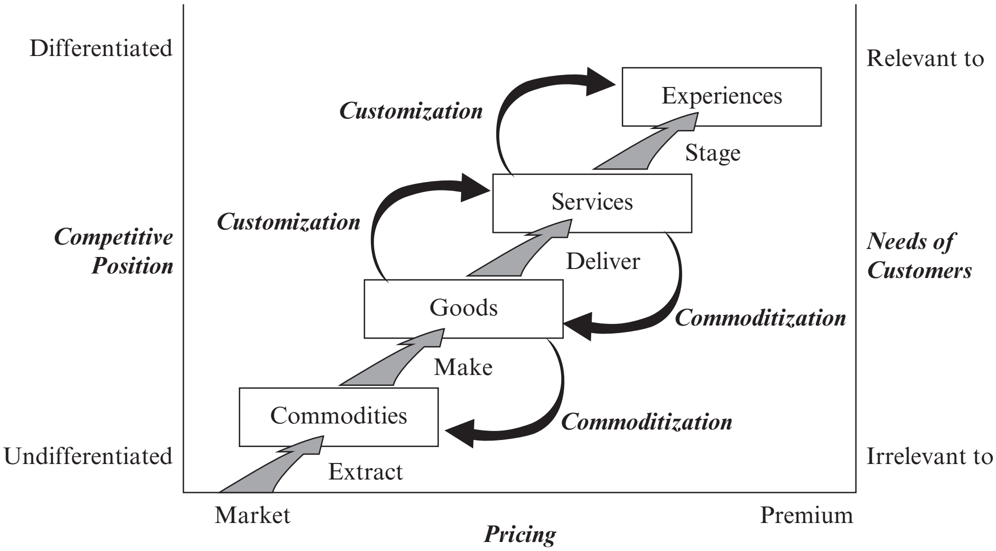


Source: Pine and Gilmore (2011, p. 111).

Figure 2.2 The Progression of Economic Value

antidote to commoditization. (This effect does not occur for true commodities, which, being fungible, cannot be materially changed, much less customized.) Where commoditization drags down offerings (and the companies that offer them) year after year like the force of gravity, customization enables offerings (and the companies that offer them) to differentiate themselves, for if it is customized to an individual, it cannot be like every other offering. As a result, companies create offerings more relevant to the wants and needs of individual buyers, differentiate their goods and services from the sea of look-alike competitors and thereby increase the value provided, and thus the price charged, to users and clients.

Note that while commodities, goods and services all exist outside the individual buyer, experiences happen inside them. The experience stager effectively reaches inside customers with the sensations, impressions and performances they orchestrate together in order to engage each guest and create a memory. That's why customization is so important to experience staging. When a company customizes to an individual, it engages that person in the creation of an offering produced just for him, and can easily become a memorable event. With individuals at the heart of each and every experience, customization is critical, while mass customization (efficiently serving customers uniquely) lowers the cost of engagement.

Consider Progressive Insurance of Cleveland, which lowered the costs of automobile claims adjustment by outfitting claims adjusters in vans, called Immediate Response Vehicles (or IRVs), equipped with a personal computer, satellite uplink and everything else they may need to efficiently resolve a claim from the very site of an accident. While the other party may wait days or weeks for his insurance company's adjuster to fit him into the schedule and go through the rest of the standardized process, the Progressive claimant finds his particular needs handled right then and there. On a laptop computer, with wireless uplink to a mainframe computer, Progressive's claims adjuster knows everything about this particular person, his policy, his vehicle and where it can be fixed, and in the vast majority of cases hands him a check on the spot. The claimant receives not only a check but a cup of coffee as well and, if need be, a few minutes to calm down in the van and reassure his family (or arrange for a ride) over the adjuster's (free) cellular phone, going beyond the expected service to provide an experience appropriate to the physical and emotional needs of the claimant. Moreover, it actually costs Progressive less to run claims adjustment like this than the old, mass-produced way.

The key to such low-cost, efficient, high-volume customization – mass customization – is to break apart a company's offerings into modules that then can be brought together in different ways for different customers like LEGO building bricks. What can you build with LEGOs? The answer, of course, is anything you want. This is because of the many different sizes, shapes and colors of bricks as well as the simple, elegant system of tabs and holes that enables them to be easily snapped together. These two basic elements – a set of modules and a linkage system that dynamically connects them – define the modular architecture that equips a company to mass customize. This architecture determines the universe of benefits that a company intends to provide for customers and, within that universe, the specific combinations of modules it will deliver at this time, to this particular customer (Pine, 1993; Gilmore and Pine, 2000).

2.4.2 Work is Theatre

If your economic offering is an experience, then for you work *is* theatre. Again, as with Goffman, we do not mean this as a metaphor – work *as* theatre (Goffman, 1959). Rather, we recognize it as a model – work IS theatre! Whenever workers perform in front of the watching eyes of customers, they are acting – whether they know it or not, whether they do it well or not, they are acting. They must act in a way, therefore, that engages each guest with each and every interaction.

As renowned English stage director Peter Brook declared in the very first line of his book *The Empty Space*: "I can take any empty space and call it a bare stage. A man walks across this empty space whilst someone else is watching him, and this is all that is needed for an act of theatre to be engaged" (Brook, 1968, p. 9). The simplest definition of acting, in other words, is that one person watches as another person works. Anyone working in front of customers must therefore act in a way that draws them into the experience.

Consider the Geek Squad, a computer support task force selling to both consumers and businesses. Instead of interviewing prospective employees the company auditions them. Then it costumes them with white shirts, thin black ties – always clip-on ties, just in case they get caught in the printer – and black pants with devices hanging off the belt. Black shoes and white socks complete the costume, with shoes that have the Geek Squad logo emblazoned backwards on the soles in order to leave a distinct impression whenever the walking surface allows. Company cars – called Geekmobiles – are VW beetles painted as black-and-white squad cars. And each Special Agent uses particular performance routines to engage every customer. For example, when arriving at a customer's premises, one might pull out his identification badge and say something like, "Good morning! I'm Special Agent 384 from the Geek Squad. Slowly step away from your computer, ma'am . . . ." Then he charms his host with the unique blend of street theatre that is the Geek Squad experience while demonstrating his expertise in fixing any and all personal computer issues. Since the largest computer retailer in the world, Best Buy, bought the company from entrepreneur Robert Stephens in 2002, it has grown from a few score of Agents to now over 20 000.

2.4.3 Authenticity is the New Consumer Sensibility

In a world increasingly filled with deliberately and sensationally staged paid-for experiences, people increasingly see the world in terms of real and fake, and want to buy the real from the genuine, not the fake from some phony. They now decide where and when to spend their money as much if not more than they deliberate on what and how to buy. But in a world of experiences – an increasingly unreal world – consumers choose to buy or not buy based on how real they perceive an offering to be.

In other words, authenticity has become the new consumer sensibility. While authenticity has long been the center of attention in the arts, the rise of the experience economy means companies too must understand, manage and excel at rendering authenticity. Indeed, "rendering authenticity" will one day roll as trippingly off the tongue among executives and managers as "controlling costs" and "improving quality," for rendering is precisely the right term for what's involved. To be blunt: business offerings must get real. When consumers want what's real, the management of the customer perception of authenticity becomes the primary new source of competitive advantage – the new business imperative (Gilmore and Pine, 2007).

So what exactly is authenticity, in business terms? It's purchasing on the basis of conformance to self-image. Economic offerings that correspond in both depiction and perception to one's self-image are perceived as authentic. Those that do not match to a sufficient enough degree to generate a "sympathetic vibration" between the offering and the buyer are viewed as inauthentic. So consumers now purchase offerings based on how well they conform to their own self-image, both who they are and who they aspire to be – with lightning-quick judgments of "real" or "fake" hanging in the balance.

To render such authenticity within customers, companies must work from these two key standards:

1. Is the offering true to itself?
2. Is the offering what it says it is?

The first standard pertains to the offering itself, encompassing the self-directed nature of how well it maintains an internal consistency while matching the company that offers it. Every company desiring to contend with authenticity as a consumer sensibility should seek to understand its own identity, what it is, by asking itself such questions as: What is the self to which we and our offerings must be true? What is the essence from which all our values flow, and how have our values evolved – for better or worse – over the course of our history? What are the defining characteristics that set us apart from every other company, not just in our industry, but in the world? How would we delineate this identity for our enterprise?

The second standard concerns how the company represents the offering, involving the other-focused nature of how well it maintains an external consistency with customers' perceptions of the offering (and by extension the company that offers it and the places in which it is offered). Here companies should embrace what exactly they say (in any form) about their business and its offerings, and understand how and whether that matches the reality people encounter. They should ask themselves: What exactly does our business say about itself? What do we lead others to believe? How do we reveal ourselves through our words and deeds and how they represent our business and its offerings?

2.4.4 The Experience is the Marketing

No matter the business, today every company competes with every other company in the world for the time, attention and money of potential customers – the currencies of the experience economy. Attention is increasingly scarce as advertisers the world over bombard people with messages. But if one company grabs someone's attention, that attention is not being paid to any other business. Time similarly is limited; there's only so much time anyone can spend experiencing anything. But if someone spends time with one company, they're not spending it with any other business. Finally, money is consumable, meaning if a customer purchases some economic offering (whether a commodity, good, service or experience) from one company, then that's money they're not spending with any other business.

What every company – no matter its offerings – needs to do, then, is create an experience that first gains potential customers' attention, then gets them to spend time experiencing their offerings and finally causes them to spend their money by buying those offerings. The experience is the marketing, so companies must stage marketing experiences, experiences that do the job of marketing by generating demand for their core offerings. That's why so many manufacturers now stage experiences (a short list of such top-tier marketers includes LEGO, Volkswagen, Case Construction, Heineken and Apple), and why service providers, too, increasingly wrap a marketing experience around their offerings (such as ING Direct Cafés and Best Buy with its Geek Squad offering). Even commodity traders have gotten into the act, such as the wonderful theatre surrounding the Pike Place Fish Market in Seattle, the activities, contests and events within the Agrodome in Rotorua, New Zealand, and the countless farms in the USA profiting from hay rides, corn mazes, pick-your-own produce and birthday parties (Gilmore and Pine, 2007, pp. 147–77).

2.4.5 Charging Admission is the Economic Key

While many marketers give away the experience to better sell their existing offerings, eventually companies must align what they charge for with what their customers truly value. And for economic experiences that require charging for the time customers spend with the company, such as charging an admission fee. The history of all economic progress consists of charging a fee for what was once free. In the experience economy, instead of relying purely on our own wherewithal to experience the new and wondrous – as has been done for ages – we increasingly pay companies to stage experiences for us, just as we pay companies for services we once delivered ourselves, goods we once made ourselves and commodities we once extracted ourselves. We find ourselves paying to spend more and more time in various places or events.

This economic history can be recapitulated in the four-stage evolution of the birthday cake. As a vestige of the agrarian economy, mothers made birthday cakes from scratch, mixing farm commodities (flour, sugar, butter and eggs) that together cost mere dimes. As the goods-based industrial economy advanced, moms paid a dollar or two for brands such as Betty Crocker for pre-mixed ingredients from which they baked. Later, when the service economy took hold, busy parents ordered already-baked cakes from the bakery or grocery store, which, at US$10 or $20, cost ten times as much as the packaged ingredients. In today's experience economy, parents less and less make the birthday cake – or even throw the birthday party. Instead, they pay an admission fee of $100 or more to "outsource" the entire event to a Chuck E Cheese's, McDonald's, museum, farm or some other business that stages a memorable event for the kids – and often throws in the cake for free.

Economically, you are what you charge for. A company that charges for undifferentiated stuff is in the commodities business. One that charges for tangible things is in the goods business. One that charges for the intangible activities its people execute is in the service business. But if it charges for the time its customers spend with it, then economically it is in the experience business.

2.5 ISSUES SURROUNDING THE EXPERIENCE ECONOMY

A number of objections have been raised over the years since we first published *The Experience Economy* in 1999.

Some object to the word stage to describe the primary work activity, or economic function, of experiences. One could substitute an alternative verb – orchestrate and choreograph come to mind – but only at the risk of diluting our emphasis on the importance of stagecraft in, well, staging engaging experiences. Stagecraft it is, and frankly, more businesses besides show business need to embrace theatre as their model for directing work.

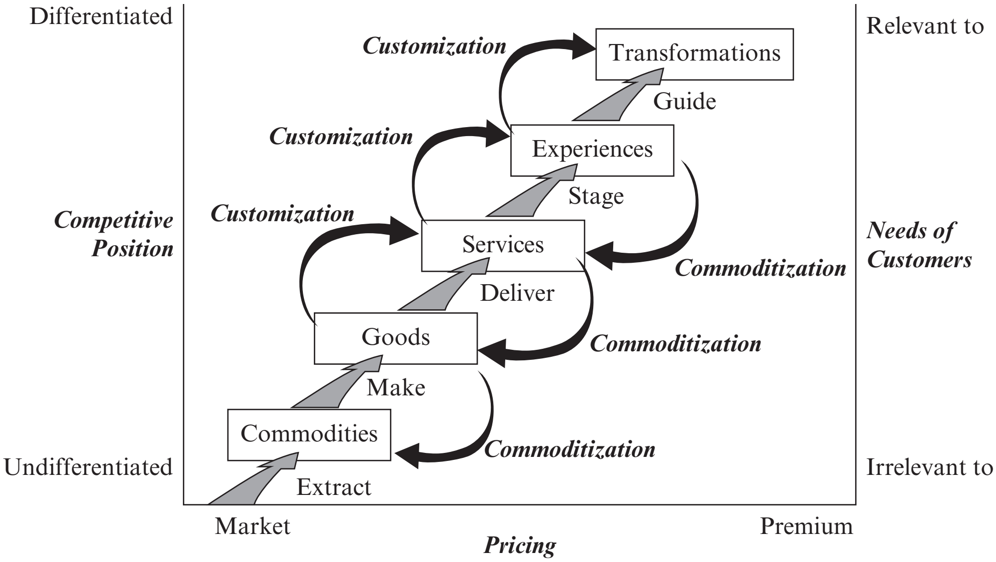
We also wish others who agree that an economic shift is indeed underway would stop trying to advance alternative terms for this wave of economic history, pushing such terms as the "information economy," "knowledge economy" or "attention economy" (for example, Davenport and Beck, 2002). Economic eras have always been named based on the corresponding nature of output (service economy for services) or dominant domain of work (agrarian economy for commodities, industrial economy for goods), so the only legitimate alternative to the experience economy would rightfully be the "theatrical economy" – which seems far less practical, especially given the aforementioned theatre misconception. Yet others simply need to be more precise with their terminology. We have no objection to referencing the "dream society" or "creative class," gladly recognizing and embracing these terms as properly identifying trends emerging alongside the experience economy (Jensen, 1999; Florida, 2002). But it does not help if others then make reference to a "dream economy" or a "creative economy." Having dreams and being creative have fueled innovation in previous economic eras (but so much more so in today's era that they may indeed give rise to a new social class); what is new about this new economy is that experiences represent the basis of economic activity.

Beyond these language issues, others have misread our intentions (perhaps reading in their own apprehensions as our aspirations). Some viewed experiences only as entertainment. Any basic reading of Chapter 2 of *The Experience Economy* should dissuade readers from this mistaken notion (Pine and Gilmore, 2011, pp. 41–64). Indeed, we see the "four Es" – entertainment plus the educational, escapist and aesthetic realms of experience – as a means to avoid amusing ourselves to death. Showing full-length movies in the classroom, putting up PowerPoint screens in church sanctuaries and showing non-sports-related video clips on ballpark scoreboards do not indicate thoughtful application of experience-staging excellence for teaching students, preaching to disciples or connecting with fans, respectively.

Another mistaken interpretation: assuming that all experiences must necessarily trend toward the inauthentic or the virtual. In fact, the experience economy allows for a vast array of alternative offerings, ranging from the more or less natural/artificial, original/imitative, genuine/disingenuous, real/fake, self-centered/other-focused – across all dimensions of time, space and matter. Contrary to yet another objection – that we seek to turn "all of life" into "a paid-for experience" (Rifkin, 2000) – we certainly recognize non-economic spheres of social and personal experience. As undeniably more of life becomes commodified, we should all carefully examine our lives as citizens, donors, students and worshippers – not to mention as parents and lovers – in terms of what we choose to buy and not buy, to sell and not sell, to experience and not experience. Yet for developed economies to remain prosperous, a shift to experiences must occur: goods and services are no longer enough to employ the masses. We would hope that concern about the possible deleterious impact of certain experiences would prompt critics to enter the economic arena and offer more virtuous forms of these economic offerings.

Four particular criticisms of *The Experience Economy* provide a very useful perspective, especially as they serve to propel further study into the nature of engaging experiences. First, as discussed in the Introduction to this *Handbook on the Experience Economy*, where the English word "experience" is quite broad, many European languages encapsulate the concept with two distinct words: *belevenis* and *ervaring* in Dutch; *opplevelser* and *erfaring* in Norwegian; *upplevelse* and *erfarenhet* in Swedish; *oplevelse* and *erfaring* in Danish; and *Erlebnis* and *Erfahrung* in German. (Finnish also has *elämys* and *kokemus*, although it has no etymological connection with the other languages.) The first word in each case relates to the word for "life" and implies things experienced in the moment, while the second is about those experiences that matter more over time, that are cause for reflection, that integrate into a person's life over time – that are, in short, meaningful experiences (Snel, 2011; Boswijk et al., 2012).

While readers can certainly infer that in *The Experience Economy* we talk primarily about *Erlebnis* experiences (particularly since every official translation uses the first term of the pairs in the title), we by no means exclude *Erfahrung* experiences, and in fact discuss many experiences that could only be of this second kind (particularly when discussing the four Es model mentioned above). Not as much as we should have, apparently, to make it abundantly clear that the experience economy covers all manners of experiences, from *Erlebnis* to *Erfahrung* – and beyond. The last two chapters of the book discuss that fifth and final economic offering we also discovered and delineated in the mid 1990s, transformations, where experiences are used to guide customers to change (Figure 2.3 for the full picture of the Progression of Economic Value). Transformations



Source: Pine and Gilmore (2011, p. 245).

Figure 2.3 The Progression of Economic Value in full

take *Erfahrung* experiences and so integrate them into a customer's life such that they change that customer – not just in degree but in kind – in some appreciable way. With transformations, and therefore *Erfahrung* experiences, an integral part of our formulation from the very beginning, we could say that in some ways the first eight chapters of *The Experience Economy* are a "Trojan horse" for the last two chapters and epilogue (Pine and Gilmore, 2011, pp. 241–95).

A second criticism is that we take a business/company viewpoint and therefore leave out the individual. We plead guilty to the first part – we are business capitalists who seek to help companies create greater economic value for their customers – but not to the second, for we firmly believe the way to create greater economic value for customers is to understand 'individual customers' (a term we fervently hope gets recognized for the redundancy that it is). Business success and individual well-being should not be seen as an either/or trade-off. As related above, the entire concept comes out of our original work on mass customization, which continues to permeate everything we write and talk about. In fact, the megatrend that incorporates both mass customization and the experience economy is best summed up as 'individualization' – creating more and more value for individuals by getting closer and closer to what each individual truly wants and needs, culminating in the individual-changing offerings of transformations. But yes, still, we primarily do so from an economic/business/capitalist/company viewpoint, from the supply side – not getting much into a psychological/behavioral/political/customer viewpoint concerning the formation of tastes and preferences, from the demand side. It is true, as one PhD dissertation put it, that "[t]o balance the experience economy discourse one should also take into account the individual's perspective" (Snel, 2011, p. 29), and we applaud those who do so as it enriches the topic and provides greater understanding for how companies can create greater value via individualization, which means that people gain that greater value in their lives, as human beings.[2] And we encourage non-business enterprises of all kinds – those that sell no offering, for any price – to challenge individuals to consider why they buy what they buy and how they consume what they consume. We value the discussion of values.

Extending from both these first two, a third criticism emphasizes the role of co-creation in the formation of experiences – and viewing our work as lacking sufficient appreciation for the role of customers/guests in creating their own experiences (stemming in part from our insistence on "stage" as the proper economic function of experiences)[3] (Prahalad and Rasmaswamy, 2004). The view is also understandable because of, again, our primary focus on the supply side of experiences. Our primary goal has been to encourage the creation of new experiences, so once again we focus much more on the stager of experiences. We do, however, fully recognize the power of co-creation, and have from the very beginning. Note, for example, in the original table of the Economies of Man shown in Figure 2.1 that "Co-production" is listed as the method of production and "Participated in at creation" as the Method of Delivery. That naturally flows from Joe's recognition of co-creation in *Mass Customization* back in 1993 where he discussed the "dynamic extended enterprise," writing that "Mass Customization can be achieved only through the committed involvement of employees, of suppliers, of distributors and retailers, *and* through the involvement of end customers themselves both in the identification and fulfillment of their wants and needs" (Pine, 1993, pp. 109–10, emphasis in original). And we call one of the four approaches to customization, that outlined in *The Experience Economy*, "Collaborative Customization," in which the "nature of value" is "mutually determined"; and a second approach, called "Adaptive Customization," where the "nature of [the] offering" is "customizable," inferring customer involvement in the final configuration of output (Pine and Gilmore, 2011, p. 142). All experiences are co-created, as we've always believed, because once again they happen inside the individual person in reaction to what is staged outside that person.

That said, we agree that a supply of new experiences indeed prompts many guests to want a more participatory role, a view we came to appreciate from Albert Boswijk and his co-authored book, *Economy of Experiences* (Boswijk et al., 2012). Moreover, this desire spills over to the relationships between clients and providers of services, and between users and manufacturers of goods as well. Alvin Toffler nailed it when he anticipated the rise of "prosumers" (Toffler, 1980, pp. 265–88). No one approach, however, should be rigidly imposed on experience design. It would be a mistake to suppose that all consumers want to be fully involved in the design and staging of wholly co-created offerings in every circumstance and in every category of good, service and experience. (Transformations in free societies are by their very nature fully co-created, with the company only guiding what customers, in the end, must themselves undergo; to treat transformation otherwise is tyranny.) What should be considered is the degree of control afforded in any given situation. Even at Walt Disney World and all the other Disney theme parks – places with a high degree of producer-staging and, we should point out, tens of millions of enthralled guests every year – guests themselves exert a great deal of consumer control over where and when they roam between rides. And one of us (OK, it's Jim) takes particular delight in being just a little too enthusiastic in shows like Country Bear Jamboree, with his over-the-top hooting and hollering effectively co-ruining the experience for others. At issue in terms of co-creation is the intentionality of the stager and the adaptability for the guest. We would welcome greater excellence in both dimensions.

The final valid concern we have seen contends that we place too much emphasis on experiences as memorable events. Let us share our twofold perspective. First, in envisioning engaging experiences, you can and should consider a multiplicity of dimensions. These include the multisensory nature of experiences, their level of personal meaningfulness, the way the experience is shared with others (if at all), the intensity and duration of various experiential elements, complexity (or simplicity), plus untold other characteristics of how people spend time. Cultural considerations and national and local sensitivities, as well as the prior life experiences of guests, all impact how people perceive experiences. Our belief is that no matter how viewed, any dimension of enjoyment usually translates into the experience being more memorable – even if few or no details can be recollected.

This takes us to a second aspect of the matter: recognizing the distinction between the memory of an experience and the enjoyment of the experience in the moment (apart from how memorable it later proves). Even here, people at least remember that they enjoyed the experience, even if they cannot recall or explain why. Of critical importance is how the experience concludes. Here, one new framework added to the updated edition of *The Experience Economy*, the nineteenth-century model of dramatic action devised by Gustav Freytag, explains the structure of compelling dramas and offers considerable insight (Freytag, 1898; Pine and Gilmore, 2011, pp. 160–62). In a nutshell, failure to adequately establish proper context, interweave building action or allow for falling action and a dénouement adversely diminishes the audience's memory of even the most climactic highs of an enjoyable experience (and even more adversely magnifies the memory of an unpleasant one). Bottom line: no, a strong memory is not required for every experience, but the greater the (positive) memory created and the longer it lasts, the more value created.

2.6 THE PRESENT STATE OF THE EXPERIENCE ECONOMY

Joe once gave a boardroom talk in Milan, Italy, to a number of executives from different companies. One was the vice president of a global coffee manufacturer, who said something amazing: "There's been no innovation in the coffee industry in fifteen years." Joe's response: "Have you never heard of *Starbucks*?" This gentleman could only conceive of innovation in physical goods, not in experiences, and therefore totally missed the shift in consumption from ground coffee to the coffee-drinking experience that Starbucks innovated by creating a place in which people wanted to spend time. (A particularly ironic circumstance given the interaction took place in one of the foremost coffee meccas of the world, the very city that inspired Howard Schultz to create that Starbucks coffee-drinking experience.)

That is what we desperately need in business today: experience innovation. For goods and services are no longer enough. That is the clear conclusion of the shift into the experience economy. But despite the recent economic crisis we are all still living through, that thesis has not sufficiently penetrated the minds of enough business leaders (and policymakers) to give full bloom to a truly new – and desperately needed – economic order.

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Relying on the manufacturing of goods and the delivery of services remains the mindset of too many executives (and politicians), prohibiting the shift to more vibrant enterprises offering experiences (and thus more robust national economies). So let us here be most clear: goods and services are no longer enough to foster economic growth, create new jobs and maintain economic prosperity. To realize revenue growth and increased employment, the staging of experiences must be pursued as a distinct form of economic output. In a world saturated with largely undifferentiated goods and services, the greatest opportunity for value creation resides in staging experiences.

The actions of individual entrepreneurs prove the point. Contrast the success of leading experience innovators over the past 15 years with the failure of rival companies (and whole industries, for that matter) that either missed or ignored our economic message. Take retail. Countless chains have met their demise in this timeframe as they insisted on merely merchandising finished goods. Walmart and online sellers ate their lunch. Yet experiences such as Build-A-Bear Workshop flourished. In 1999, founder Maxine Clark, told by conventional retail experts that launching such an enterprise was foolhardy, drew inspiration from our July/August 1998 *Harvard Business Review* article, "Welcome to the experience economy" (Pine and Gilmore, 1998). Today, Build-A-Bear profitably operates more than 300 experience outlets in the USA alone, and almost 500 worldwide – all venues where consumers mass customize their own plush toy animals within an engaging retail factory experience.

Similarly, Pleasant Rowland opened her first American Girl Place in Chicago in late 1998. From the outset she conceived her American Girl dolls – each themed to a specific period of American history – as only a prop for broader book-reading and character-building experiences. With yet additional American Girl Places (as well as Boutique & Bistros) in place today, American Girl thrives inside Mattel, which otherwise struggles to revive Barbie and other toys (seen as mere goods by most American girls and boys today). And what store is now the envy of every mall owner and developer? Apple. Why? Customers clearly flock there for not only the goods but also the store experience, with the number one sales per square foot in the world by far, over an order of magnitude greater than those of the typical retailer.

Interestingly enough, Apple studied the hospitality experiences at both Ritz-Carlton and various boutique hotels for design inspiration in creating its revolutionary new retail format. (Gateway had previously attempted selling direct via retail stores, as had Dell with kiosks, but both lacked a rich appreciation for experience design, opting instead to retain typical merchandising footprints.) Thus, experiencing the wares at an Apple store feels uncannily like bellying up to the bar at a hotel lounge. Apple's in-store Genius Bars, iPod Studios and classroom amphitheatres bear a remarkable resemblance to the registration areas, concierge desks and meeting space experiences of better boutique hotels.

Moreover, these "design" hotels played a role in changing the competitive landscape in their own industry. Thanks to Bill Kimpton, Ian Shrager, Chip Conley and other boutique hoteliers, no hotel chain can today afford to merely provide basic service activities and ignore its guests' experiences. From furnishing sociable lobby spaces to providing beds that promise better sleep experiences (credit Shrager for kick-starting innovation in the former, and Westin's "Heavenly Bed" for the latter), the hospitality industry now clearly creates new value on the basis of experiences. As Schrager himself says, "We're in an experience economy. People pay a premium for it" (Schrager, 2012).

Consider again the Geek Squad. The thematic costuming integral to the Geek Squad being the Geek Squad (and readily and naively dismissed by other service providers) demonstrates the tangible value – to customers, to employees and to shareholders – companies create by boldly treating services as the stage and goods as the props for staging engaging experiences. Think of the number of fragmented service industries – car washes, home decorators, landscapers, laundromats and educational tutors, to name a few – that would benefit from an enterprise emulating the Geek Squad's experience mindset.

The economic doldrums in which much of the advanced world found itself after the 2008 economic crisis resulted from a failure to experientially innovate like each of these companies. The industrial economy has had its day. The invention and production of new goods once fueled the world's advanced economies. It is today very difficult to invent – and therefore rare to encounter – a truly new good; most differentiation of goods now involves the enhancement or modification of items within existing product categories and not the creation of wholly new categories. (Consumer electronics and medical technology represent two notable exceptions; but consider that when buying these items, customers most value not the goods themselves but the experiences and transformations they enable.[4]) Even when someone invents a truly new good, manufacturers instinctively seek to automate the work required to make it and scale up as soon as possible. Although revenue growth may follow, these manufacturers do not add jobs to the world commensurate with the revenue.

The service economy, too, has justifiably faltered. Any growth we saw in true services – government statistics still embed experiences (and transformations) within the service sector – largely came from financial services, and most of that from artificially propping up a world of goods (beginning with automobiles and housing and extending to mall development and other commercial ventures) with increasingly desperate attempts to devise financial instruments that more highly leverage old wealth (in the form of protected classes of assets). All this incessant financing created precious little tangible value. And so, as with the dot-com craze and crash that came before, eventually the bubble burst. What does the world need instead? New wealth generated from the formation of new experience-based enterprises.

2.7 THE FUTURE OF THE EXPERIENCE ECONOMY

Toward this end, five value-creating opportunities stand out that should drive further progress in the evolving experience economy. First, concerning goods, more offerings should be mass customized: what is needed is not more production of physical goods but more innovative methods for making those goods. Most manufacturers have ignored the pleas by us (and others) to shift from mass production to mass customization methods, to replace supply chains with demand chains, to convert raw materials into goods not as speculative inventory but only in response to actual demand. Mass customizing is not about being everything to everybody – a surefire way to increase costs. Rather, it means producing only and exactly what individual customers want. Despite being implemented decades ago by such companies as Lutron Electronics and Dell and named over 25 years ago by Stan Davis (Davis, 1987), to this day one cannot, for example, name a single US-made model of automobile that is truly mass customized to consumers. It's shameful.

It's why scores of dealerships have closed, with consumers awaiting new build-a-car experiences.

In effecting mass customization as a means of creating new value, perhaps the most ignored – and yet arguably the most powerful – concept is the notion of reducing or eliminating 'customer sacrifice.' Customer sacrifice is the gap between what individual customers settle for (in buying mass-produced goods and services) and what each wants exactly. Every business would benefit from asking itself: What one dimension of sacrifice, if eliminated, would create the greatest value for our customers? Once a business identifies that dimension, it should pursue solutions to help customers experience less sacrifice (Pine and Gilmore, 2000; Pine and Gilmore, 2011, pp. 120–43).

Second, concerning services, more companies should direct their employees to act. Organizations that have a service mindset focus solely on what tasks employees do; those with an experience mindset also consider how those tasks are performed and thereby embrace theatre as a model for performance. By and large, despite decades of management literature proffering customer service advice, consumers still endure many miserable encounters. Consider a typical "day in the life" of consumer service interactions – talking to call centers, waiting at convenience store counters, trying to be heard in drive-through lanes, waiting in line at bank-teller windows, getting rental cars, riding shuttle buses, enduring air travel, checking out groceries, visiting the mall, paying for gasoline and so forth. As a result, customers understandably hesitate to pay any premium. Profitability therefore suffers, wages stagnate and workers disengage – creating a downward spiral to yet more miserable service.

A huge first step in staging more engaging experiences needs to be taken. As the Geek Squad again exemplifies, companies must recognize that their employees are on stage and therefore need to act in a way that engages their customers. So managers need to give employees roles to play, help them characterize those roles and especially invest time in rehearsing before placing them on the business stage. When a business is treated as a mere service, hourly workers spend almost no offstage time preparing onstage behaviors. Actors prepare. Better human performances – focusing on the how and not only the what – turn mundane interactions into engaging encounters. So businesses should ask: What acts of theatre would turn our workers' functional activities into memorable events? Wise business leaders champion this new paradigm in their organizations; custodians of the old order fail to see the upside in investing in better workplace acting and seek only to cut headcount at every turn.

Third, concerning experiences, more offerings should find ways to explicitly charge for time. Time again is the primary currency of experiences. Today, some experiential marketing events require an admission fee; some experiential operations contribute to charging a premium for the supported goods and services; and some experiences are accessible only on a subscription basis. It is vital that more experiences in the future be available only by admission, for such holds the key to a long-lasting experience economy. Requiring customers to explicitly pay for the time they spend in places or events not only makes an experience a distinct economic offering but provides new sources of revenue growth. Many businesses languish today because they still have not asked themselves this fundamental question: What would we do differently if we charged admission? Addressing this question is most critical; identifying answers, most imperative.

Consider one particular pricing model ripe for such admission-fee innovation: time sharing, such as practiced by Netflix. It's no movie rental service, charging for each lent film. Rather, the company charges a monthly fee and subsumes the rental service in a movie-viewing subscription. The same sort of access-based experiences have emerged with corporate jets, recreational vehicles, snow removal equipment, housing and even women's designer handbags. Automobile ride-sharing programs have also met with some success, but real progress will come only when consumers can access a greater portfolio of vehicles for an assortment of driving needs. Almost any industry would benefit from seeking to differentiate based on for-fee experiences.

Fourth, whatever the genre of output, more companies need to wisely leverage digital technology in order to better fuse the real with the virtual. For more and more people are bringing their technological devices – iPods, iPhones, iPads and so on – with them wherever they go, with the diverting of their time, attention and money always just a glance away, a warm glowing trance away from remaining in the experience. This is not to say that companies should abandon Reality, for it will now and forevermore provide the richest of experiences, but with a migration going on to Virtuality, many experiences will increasingly need to fuse the two together to create new digitally infused experiences never before envisioned, engendered nor encountered (Pine and Korn, 2011).In some cases, this may require greater integration of the digital into the physical; but in other cases, it may mean removing digital devices that merely intrude on the face-to-face experience.

Finally – and most notably in thinking about the future of the experience economy –more experiences should yield transformations. While experiences are less transient than services, the individual partaking in the experience often wants something more lasting than a memory, something beyond what any good, service or experience alone can offer. People who buy memberships in a fitness center do not pay for the pain but for ongoing exercise regimens that will increase their physical well-being, helping them go from flabby to fit. Likewise, people return to psychiatrists as long as they see improvements in their mental or emotional well-being. People head for business school because they want to affect their professional and financial well-being. Exercise routines, counseling sessions, learning courses and also religious excursions are actually means of eliciting something that is more desirable, and more valued, than the experience itself.

As economic activity shifts further and further away from goods and services, those companies that stage experiences alone – without considering the effect these experiences will have on the participants and without designing the experiences in such a way as to create a desired change – will eventually see their experiences become commoditized. The second time you experience something, it will be marginally less enjoyable than the first time, the third time less enjoyable than that and so on until you finally notice the experience doesn't engage you nearly as much as it once did. Welcome to the commoditization of experiences, best exemplified by the increasingly voiced phrase, "Been there, done that."

Companies can escape this commoditization trap by the same route that all other offerings can take: customization. When you customize an experience to make it just right for an individual – providing exactly what he needs right now – you cannot help changing that individual. When you customize an experience, you automatically turn it into a transformation, which companies create on top of experiences (recall that phrase:

"a life-transforming experience"), just as they create experiences on top of services and so forth.

By staging a series of experiences, companies are better able to achieve a lasting effect on the buyer than through an isolated event. It is the revisiting of a recurring theme, experienced through distinct and yet unified events, that transforms. As multiple experiences emerge and compete for guests, companies staging these events will begin to realize that any experience can become the basis for a new offering that elicits a transformation.

As with experiences, some observers will surely argue that what we are calling transformations is really only a subclass of services. But there is just too much disparity between, say, eating at a McDonald's and firming up at a fitness center, between providing information reports and partnering in business outcomes and between cleaning a suit and cleansing a soul, to classify them all as a single economic offering.

With transformations, the economic offering of a company business is the change in the individual person or company changed as a result of what the offering company business does. With transformations, the customer is the product! The individual buyer of the transformation essentially says, "Change me." The company's economic offering is neither the materials it uses nor the physical things it makes. It's neither the processes it executes nor the encounters it orchestrates. When a company guides transformations, the offering is the individual.

Such transformations should therefore themselves command a fee in the form of explicitly charging for the demonstrated outcomes that result from the underlying experiences. In other words, companies enabling transformations should charge not merely for time but for the change resulting from that time. They should charge for the ends and not only the means of life-changing (or company-altering) experiences – and especially so in those industries that focus on making people healthy, wealthy and wise.

Truly market-based approaches in the healthcare industry would free parties to charge for demonstrated outcomes and not mere attempts to gain such noteworthy ends. Endless debate over health insurance would shift to actual innovation in healthcare, in which people would be charged only for the ongoing ensurance of wellness. Unsuccessful treatments that fail to remedy ailments would not be compensated fully (just as one doesn't pay a plumber who fails to fix a leaky sink), and new financial instruments tied to actual performance – perhaps securitizing future earnings streams of successfully treated patients – would necessarily emerge. Similarly, the reward systems in financial institutions would reflect the true results of investment decisions – and then move away from an exclusive spotlight on investments to granting wise counsel on life decisions concerning how best to spend and gift wealth. And colleges and universities, which in the US graduate barely half those who enroll in them (would we ever tolerate such dismal performance from any other industry?), should focus on the actual educational, personal and societal outcomes achieved, collecting all or part of the tuition only when those outcomes become clear at graduation and beyond. To do otherwise, in each of these fields, does a disservice to all.

Do not take this admonition for greater experience and transformation innovation to mean that there has not been great progress toward offering new experiences. Much has indeed emerged. But much more needs to follow. The experience economy is a long-term underlying shift in the very structure of advanced economies and the forces of creative destruction take time. New forms of economic output do not come automatically. They

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require individual people and individual enterprises to take action, to abandon old industrial and service economy paradigms in order to introduce new experiences and transformations, eventually resulting in the passing of the experience economy into the transformation economy.

2.8 SUMMARY

The world's economy is currently in a state of great flux, in times as turbulent as any non-wartime circumstances before it. Much of the difficulty stems from a failure to recognize and respond to the fundamental shift in the nature of economic offerings being sold by companies and purchased by consumers and businesses. This shift arises from both sides of the supply/demand equation. Companies seek out differentiation as their past offerings increasingly become commoditized while their customers seek out greater value for themselves as their wealth grows, desiring to spend their hard-earned money, their harder-earned time and their hardest-earned selves on offerings that provide them with more worth, more significance and more meaning than mere commodities, goods and services ever could.

While all five (and five only) economic offerings have always been around, until recently the final two – experiences and transformations – comprised just a small portion of employment, GDP and the purchase pie. The notion of the experience economy is not something we (or others who have described the same phenomenon from differing perspectives) invented; rather, it is something we all discovered. We discovered that up-and-coming companies – the true innovators – more and more were experientializing their goods, surrounding their services with engaging events, creating new and wondrous experiences, and eliciting transformations within those who seek help in achieving their aspirations.

The shift into today's experience economy – where experiences have become the predominant economic offering, the primary source of job creation and economic growth – comes with a number of implications that companies should keep in mind as they make the shift from commodity trading, manufacturing and service providing (or innovate wholly new businesses birthed in experiences). First, understand that mass customization is the route up the Progression of Economic Value, as customizing a good turns it into a service, customizing a service turns it into an experience and customizing an experience turns it into a transformation. Companies should focus on reaching inside of the individual, living, breathing customer, making their offerings as personal and as individual as the customer (whether a consumer or business) desiring that offering.

Second, understand that work is theatre. As the nature of economic output changes, so must the efforts that go into it. The word drama derives from the Greek *drao*, meaning simply "to do." In all companies, whether or not managers recognize it, the workers are playing not in some game but in what should be a well-conceived, correctly cast and convincingly portrayed real-life drama of doing. Business enterprises would gain an invaluable perspective simply by declaring their work to be theatre. For when a business calls its workplace a bare stage, it opens up opportunities to distinguish itself from the myriad humdrum makers of goods and providers of services that perform work without recognizing the true nature of their acts. With theatre furnishing the operating model, even the most mundane of tasks can engage customers in a memorable way.

Third, authenticity is the new consumer sensibility. Concomitant with the shift into the experience economy is a shift in the primary criterion by which people choose what to buy and from whom to buy. No matter the offering – commodity, good, service, experience or transformation – customers will judge it based on whether or not they view it as authentic, whether or not it conforms to their own self-image. While this criterion is primary, it will not trump quality that does not meet customer standards, costs that do not fit the budget nor a lack of availability in time or place to meet customers' needs. But companies better get good at managing the customer perception of the authenticity of their offerings, their places and their company, lest they invalidate themselves in the minds of customers as fake, contrived, disingenuous, phony, inauthentic.

Fourth, the experience is the marketing. Perhaps the worst offender when it comes to authenticity is advertising, as it has become a phoniness-generating machine. Companies should stop advertising and put their marketing money into experience places, where people can directly experience who they are. The best way to generate demand for any offering in today's experience economy is with an experience so engaging that customers can't help put pay attention and buy that offering. Marketing therefore needs to become placemaking, where companies create a portfolio of places, both real and virtual, to simultaneously render authenticity and generate demand.

The final insight to achieving success via the state-of-the-art in experience staging that we have discussed in this chapter is recognizing that charging admission is the economic key. Whenever there is such a shift in the underlying nature of the economy, companies always give away the next level of value in order to better sell what they have today. So back in the latter half of the twentieth century, as their goods began to be commoditized, manufacturers started giving away services – installation, repair, integration and so forth – to create preference for their goods. It worked, but eventually they realized that customers valued the services, and often more so than the goods, and so they started charging for them. Many manufacturers – think of IBM, for example – now make more money from their "ancillary" services than their "core" goods. In the same way, service companies (retailer, hotelier and so forth) gave away experience elements in order to better sell their offerings. Eventually, they must align what they charge for with what their customers value, and that means charging for time. An offering is only an experience, economically speaking, when customers pay for the time they spend with the company.

We do believe that pursuing these five fronts will greatly advance the vitality of the experience economy, now and into the future. Most significant is the final point regarding going beyond the experience to transformations. It may very well be that the world is not ready for the shift to this economic pursuit, for many people are still getting used to experiences and perhaps fear the sheer individuality of being so open about one's self as to ask for assistance from an outside enterprise in changing it. And in paying for it; it may be paying for demonstrated outcomes that would bother people the most if they thought about it

But that day will come. We can remember the early days of writing and speaking on the experience economy, where almost inevitably someone or some few would object to the very thought of it. Some did not think experiences were a distinct offering, some did not like the idea of paying for them, some did not like what kind of experiences were likely to surface, some did not like what would be left behind. We rarely if ever encounter such responses now, almost 20 years after we discovered the concept and 15 years after we first wrote of it. We do, however, still encounter similar objections when we talk about transformations.

But ready or not, we say again, that day will come, thanks to companies continuing to seek out new ways of differentiation, thanks to people seeking out better ways to spend their money and create value within them – and thanks to academics and students who continue to study what is going on in the world of business, and help the rest of the world understand it. It will come, but only if we act on it.

NOTES

1. It is interesting to note that the agrarian and industrial economies were names long after their economic offerings became predominant, the service economy as services took over from goods and the experience economy before it supplanted its predecessors.
2. It is not really true, however, that the dissertation "For the love of experience" (Snel, 2011, p. 30) "offset[s] the current bias in the experience economy discourse" by taking "the individual's perspective." Rather, the experience economy offsets the long-held individual bias by, for the first time, providing a business perspective! One can read marvelous books stretching back a century or more on the individual's perspective of experiences, but only in the past few decades have we been able to identify experiences as a distinct economic offering for which a business perspective becomes necessary.
3. Note that most discussions of co-creating experiences primarily revolve around the "customer experience" of designing and then making or delivering goods and services, respectively, versus experiences as a distinct economic offering.
4. Economist Stanley Lebergott (1993, p. 3) makes the point: "Consumers buy bazaars full of goods, but only to create the diversified experience they ultimately seek" and goes on to show with a wealth of data that those goods (and services, for that matter) that enable consumer experiences have seen tremendous growth in the twentieth century; that will continue to happen in the twenty-first century in concert with those that enable consumer transformations.

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