

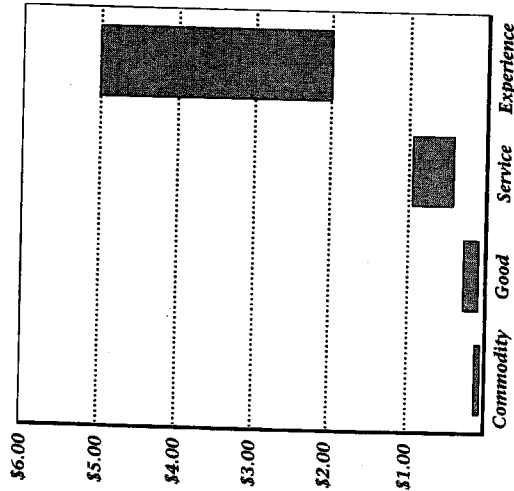
1 Welcome to the Experience Economy

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COMMODITIZED. No company wants that word applied to its goods or services. Merely mentioning *commodification* sends shivers down the spines of executives and entrepreneurs alike. Differentiation disappears, margins fall through the floor, and customers buy solely on the basis of price, price, price.

Consider, however, a true commodity: the coffee bean. Companies that harvest coffee or trade it on the futures market receive—at the time of this writing—a little more than \$1 per pound, which translates into one or two cents a cup. When a manufacturer grinds, packages, and sells those same beans in a grocery store, turning them into a good, the price to a consumer jumps to between 5 and 25 cents a cup (depending on brand and package size). Brew the ground beans in a run-of-the-mill diner, corner coffee shop, or bodega and that service now sells for 50 cents to a dollar per cup.

So depending on what a business does with it, coffee can be any of three economic offerings—commodity, good, or service—with three distinct ranges of value customers attach to the offering. But wait: Serve that same coffee in a five-star restaurant or espresso bar, where the ordering, creation, and consumption of the cup embodies a heightened ambience or sense of theatre, and consumers gladly pay anywhere from \$2 to \$5 for each cup. Businesses that ascend to this fourth level of value (see Figure 1-1) establish a distinctive experience that envelops the purchase of coffee, increasing its value (and therefore its price) by two orders of magnitude over the original commodity.

Figure 1-1. Price of Coffee Offerings



Or more. Immediately upon arriving in Venice, Italy, a friend asked a hotel concierge where he and his wife could go to enjoy the city's best. Without hesitation they were directed to the Cafe Florian in St. Mark's Square. The two of them were soon at the cafe in the crisp morning air, sipping cups of steaming coffee, fully immersed in the sights and sounds of the most remarkable of Old World cities. More than an hour later, our friend received the bill and discovered the experience had cost more than \$15 a cup. Was the coffee worth it, we asked? "*Absolutamente!*" he replied.

A NEW SOURCE OF VALUE

Experiences are a fourth economic offering, as distinct from services as services are from goods, but one that has until now gone largely unrecognized. Experiences have always been around, but consumers, businesses, and economists lumped them into the service sector along with such uneventful activities as dry cleaning, auto repair, wholesale distribution, and telephone access. When a person buys a service, he purchases a set of intangible activities carried out on his behalf. But when he buys an experience, he pays to spend time enjoying a series of memorable events that a company stages—as in a theatrical play—to engage him in a personal way.

Experiences have always been at the heart of entertainment, from plays and concerts to movies and TV shows. Over the past few decades, however, the number of entertainment options has exploded to encompass many, many new experiences. We trace the beginnings of this experience expansion to one man and the company he founded: Walt Disney. After making his name by continually layering new levels of experiential effects onto cartoons (he innovated synchronized sound, color, three-dimensional backgrounds, stereophonic sound, audio-animatronics, and so forth), Disney

capped his career in 1955 by opening Disneyland—a living, immersive cartoon world—in California. Before his death in 1966, Disney had also envisioned Walt Disney World, which opened in Florida in 1971. Rather than creating another amusement park, Disney created the world's first *theme* parks, which immerse guests (never "customers" or "clients") in rides that not only entertain but involve them in an unfolding story. For every guest, cast members (never "employees") stage a complete production of sights, sounds, tastes, aromas, and textures to create a unique experience.¹ Today, The Walt Disney Company carries on its founder's heritage by continually "imagineering" new offerings to apply its experiential expertise, from the Disney Institute to Club Disney play centers, and from Broadway shows to the Disney Cruise Line, complete with its own Caribbean island.

Where Disney used to be the only theme park proprietor, it now faces scores of competitors in every line of business, both traditional and experiential. New technologies encourage whole new genres of experience, such as interactive games, World Wide Web sites, "motion-based attractions," 3-D movies, and virtual reality. Desire for ever-greater processing power to render ever-more immersive experiences now drives demand for the goods and services of the computer industry. In a speech at the November 1996 Comdex computer show, Intel Chairman Andrew Grove declared, "We need to look at our business as more than simply the building and selling of personal computers [that is, goods]. Our business is the delivery of information [that is, services] and lifelike interactive experiences." Exactly.

Many traditional service industries, now competing for the same dollar with these new experiences, are becoming more experiential themselves. At theme restaurants such as the Hard Rock Cafe, Planet Hollywood, Dive! and the Bubba Gump Shrimp Co., the food functions as a prop for what's known in the industry as an "eatertainment" experience. And stores such as FAO Schwarz, Jordan's Furniture, and Niketown draw consumers through fun activities and promotional events (sometimes called "shopertainment" or "entertailing").

But this doesn't mean that experiences rely exclusively on entertainment; entertainment is only one aspect of an experience. Rather, companies stage an experience whenever they *engage* customers, connecting with them in a personal, memorable way. Many dining experiences have less to do with the entertainment motif or celebrity of the financial backers than with the merging of dining with comedy, art, architecture, history, or nature, as happens at such restaurants as Pomp Duck and Circumstance,

**Experiences
are as distinct
from services
as services are
from goods**

Iridium, the Cypress Club, Medieval Times, and the Rainforest Cafe, respectively.² In each place, the food service provides a stage for layering on a larger feast of sensations that enchants consumers.

The "commodity mind-set," according to former British Airways chairman Sir Colin Marshall, means mistakenly thinking "that a business is merely performing a function—in our case, transporting people from point A to point B on time and at the lowest possible price." What British Airways does, he continued, "is to go beyond the function and compete on the basis of providing an experience."³ The company uses its base service (the travel itself) as a stage for a distinctive en route experience, one that gives the traveler a respite from the inevitable stress and strain of a long trip.

Even the most mundane transactions can be turned into memorable experiences. Standard Parking of Chicago plays a signature song on each level of its parking garage at O'Hare Airport and decorates walls with icons

of a local sports franchise—the Bulls on one floor, the White Sox on another, and so forth. As one Chicago resident told us, "You never forget where you parked!" Trips to the grocery store, so often a burden for families, become exciting events at places such as Bristol Farms Gourmet Specialty Foods Markets in Southern California. This upscale chain "operates its stores as if they were theatres," according to *Stores* magazine, featuring "music, live entertainment, exotic scenery, free refreshments, a video-equipped amphitheater, famous-name guest stars and full audience participation."⁴ Russell Vernon, owner of West Point Market in Akron, Ohio—where fresh flowers decorate the aisles, restrooms feature original artwork, and classical music wafts down the aisles—describes his store as "a stage for the products we sell. Our ceiling heights, lighting and color create a theatrical shopping environment."⁵

Consumers aren't the only ones to benefit from experiences. Businesses are made up of people, and business-to-business settings also present stages for experiences. A computer installation and repair firm in Minneapolis dubs itself the Geek Squad. Its "special agents" costume themselves in white shirts with thin black ties and pocket protectors, carry badges, and drive around in old cars, turning a normally humdrum service call into a memorable encounter. Similarly, many companies hire theatre troupes to turn otherwise ordinary meetings into improvisational events (an example is the Minneapolis-based Interactive Personalities, Inc., which stages rehearsed plays and "spontaneous scenes" with audience members and displays computer-generated characters that interact in real time).⁶ And business-to-business marketers increasingly orchestrate elaborate venues for

selling. In June 1996, Silicon Graphics, for example, opened its "VISIONAR-ium Reality Center" at its corporate headquarters in Mountain View, California, to bring customers and engineers together in an environment where they could interact with real-time, three-dimensional product visualizations. Attendees view, hear, and touch as well as drive, walk, or fly through myriad product development simulations. As former chairman and CEO Edward R. McCracken related at the time, "This is experiential computing at its ultimate, where our customers can know what their products will look like, sound like, feel like before manufacturing."

VALUABLE DISTINCTIONS

The above examples—from consumer to business customer, theme restaurant to computer repair service—only hint at the newfound prominence of such experiences within the U.S. economy and, increasingly, that of other developed nations as well. They are heralds of the emerging Experience Economy.

Why now? Part of the answer lies with technology, which powers so many experiences, and part with increasing competitive intensity, which drives the ongoing search for differentiation. But the most encompassing answer resides in the nature of economic value and its natural progression—like that of the coffee bean—from commodities to goods to services and then to experiences. An additional reason for the rise of the Experience Economy is, of course, rising affluence. Economist Tibor Scitovsky notes that "man's main response to increasing affluence seems to be an increase in the frequency of festive meals; he adds to the number of special occasions and holidays considered worthy of them and, ultimately, he makes them routine—in the form, say, of Sunday dinners."⁷ The same is true of experiences we pay for. We are going out to eat more frequently at increasingly experiential venues, and even drinking more "festive" types of coffee. As summarized in Table 1-1, each economic offering differs from the others in fundamental ways, including just what, exactly, it is. These distinctions demonstrate how each successive offering creates greater economic value. All too often some manager claims a company is "in a commodity business" when in fact the product sold is *not* a true commodity. The perception results in part from a self-fulfilling commoditization that occurs whenever an organization fails to fully recognize the distinctions between higher-value offerings and pure commodities. (And if an analyst or pundit says your company sells a commodity when you don't, you've been insulted, as well as challenged to shift up to a higher stage in economic value.) If you fear that your offerings are being commoditized, read

Companies stage an experience when they engage customers in a memorable way

Table 1-1. Economic Distinctions

Economic Offering	Commodities	Goods	Services	Experiences
Economy	Agrarian	Industrial	Service	Experience
Economic function	Extract	Make	Deliver	Stage
Nature of offering	Fungible	Tangible	Intangible	Memorable
Key attribute	Natural	Standardized	Customized	Personal
Method of supply	Stored in bulk	Inventoried after production	Delivered on demand	Revealed over a duration
Seller	Trader	Manufacturer	Provider	Stager
Buyer	Market	User	Client	Guest
Factors of demand	Characteristics	Features	Benefits	Sensations

the simple descriptions given below. And if you think your offerings could never be commoditized—think again. A haughty spirit goes before a great fall (in prices).

Commodities

True commodities are materials extracted from the natural world: animal, mineral, vegetable. People raise them on the ground, dig for them under the ground, or grow them in the ground. After slaughtering, mining, or harvesting the commodity, companies generally process or refine it to yield certain characteristics and then store it in bulk before transporting to market. By definition, commodities are *fungible*—they are what they are. Because commodities cannot be differentiated, commodity traders sell them largely into nameless markets where some company purchases them for a price determined simply by supply and demand. (Companies do of course supply gradations in categories of commodities, such as different varieties of coffee beans or different grades of oil, but within each grade the commodity is purely fungible.) Every commodity trader commands the same price as

everyone else selling the same stuff, but when demand greatly exceeds supply, handsome profits ensue. When supply outstrips demand, however, profits may be hard to come by. Over the short term, the cost of extracting the commodity bears no relationship to its price, and over the long term price is determined by the invisible hand of the market as it encourages companies to move in or out of commodity businesses.

Agricultural commodities formed the basis of the Agrarian Economy, which provided a subsistence level of existence for families and small communities for millennia. At the Agrarian Economy's zenith in eighteenth-century United States, more than 80 percent of the workforce was employed on farms. Today, less than 3 percent of the population work on farms.⁸

What happened? The tremendous productivity improvements that became known as the Industrial Revolution drastically altered this way of life, beginning on the farm but quickly extending into the factory (such as the pin-making factory made famous by Adam Smith in his 1776 book *The*

Wealth of Nations). Building on the success of companies in England from the 1750s onward, flourishing U.S. factories developed their own production innovations that in the 1850s collectively became known as the American System of Manufactures.⁹ As manufacturers the world over copied and learned these techniques, automating millions of craft jobs in the process, the foundation for all advanced economies irrevocably shifted to goods.

Goods

Using commodities as their raw materials, companies make and then inventory goods—tangible items sold to largely anonymous customers who buy them off the shelf, from the lot, out of the catalog, and so on. Because manufacturing processes actually convert the raw materials in making a variety of goods, leeway exists to set prices based on the costs of production as well as product differentiation. Today significant differences exist in the features of different makes of automobiles, computers, soft drinks, and, to some degree, even lowly pins. And because they can be put to immediate use—to get places, write reports, quench thirsts, fasten things together—their users value them more highly than the commodities from whence they came.

Although people have turned commodities into useful goods throughout history,¹⁰ the time-intensive means of extracting commodities and the high-cost methods of craft producing goods long prevented manufacturing from dominating the economy. This changed when companies learned to

Commodities are fungible materials extracted from the natural world

standardize goods for economies of scale. People came off the farm in droves to work in factories, and by the 1880s the United States had overtaken England as the world's leading manufacturer.¹¹ With the advent of Mass Production, brought about in the first assembly line at Henry Ford's Highland Park, Michigan, plant on April 1, 1913,¹² the United States solidified its position as the number one economic power in the world.

Goods are tangible products that companies standardize and then inventory

As continued process innovations gradually reduced the number of workers required to produce a given output, the need for manufacturing workers leveled off and eventually began to decline. Simultaneously, the vast wealth generated by the manufacturing sector, as well as the sheer number of physical goods accumulated, drove a greatly increased demand for services and, as a result, service workers. It was in the 1950s, when services first employed more than 50 percent of the U.S. population, that the Service Economy overtook the Industrial (although this was not recognized until long after the fact). Today, manufacturing jobs employ a mere 17 percent of the population.¹³ What economists today categorize as services makes up the remaining 80 percent.

Services

Services are intangible activities customized to the individual request of known clients. Service providers use goods to perform operations on a particular client (such as haircuts or eye exams) or on his property or possessions (such as lawn care or computer repair). Clients generally value the benefits of services more highly than the goods required to provide them. Services accomplish specific tasks they want done but don't want to do themselves; goods merely supply the means.

Just as gray areas lie between commodities and goods (extensive processing or refining sometimes merges into making), the line between goods and services can be blurry. Even though restaurants deliver tangible food, for example, economists place them in the service sector because their offerings aren't standardized and inventoried but rather delivered on demand in response to an individual patron's order. While fast-food restaurants that make the food in advance share fewer of these attributes and so lie closer to the realm of goods than others, economists are not mistaken when they count those employed at McDonald's, for instance, in the service sector.

While employment in services now dominates the economy, output in the commodity and goods sectors has not abated. Today, fewer farmers har-

vest far more than their ancestors ever conceived possible, and the sheer quantity of goods rolling off assembly lines would shock even Adam Smith. Thanks to continued technological and operational innovations, extracting commodities from the ground and making goods in factories simply takes fewer and fewer people. Still, the percentage of gross domestic product (GDP) devoted to the service sector today dwarfs the other offerings. After fearing for so many years the hollowing of America's industrial base, most pundits now recognize it as a positive development that the United States, along with most advanced countries, has shifted full-bore to a Service Economy.

With this shift comes another little realized or discussed dynamic: In a Service Economy, *individuals desire service*. Whether consumers or businesses, they scrimp and save on goods (buying at Wal-Mart, squeezing suppliers) in order to purchase services (eating out, managing the cafeteria) they value more highly. That's precisely why so many manufacturers today find their goods commoditized. In a Service Economy, the lack of differentiation in customers' minds causes goods to face the constant price pressure indelibly associated with commodities. As a result, customers more and more purchase goods solely on price and availability.

To escape this commoditization trap, manufacturers often deliver services wrapped around their core goods. This provides fuller, more complete economic offerings that better meet customer desires.¹⁴ So automakers increase the range and length of their warranties and offer to lease cars, and consumer goods manufacturers manage inventory for grocery stores, and so forth. Initially, manufacturers almost always give away these services to enhance selling their goods. Many later realize that customers value the services so highly that the companies can charge separately for them. Eventually, astute manufacturers shift away from a goods mentality to become predominantly service providers. For example, who buys cellular telephones anymore? Except for those who absolutely must have the latest and greatest techno-goodies, most everyone just waits until one of the paging service providers offers it for a nominal fee as little as one cent as incentive to sign up for its service.

Look at IBM. In its heyday in the 1960s and 1970s the hardware manufacturer's well-earned slogan was "IBM Means Service," as it lavished services—at no cost—on any company that would buy its hardware goods. It planned facilities, programmed code, integrated other companies' equipment, and repaired its own machines so prodigiously as to overwhelm nearly all competitors. But as time went on and the industry matured, customer demand for service surpassed the company's ability to give it

Services are intangible activities performed for a particular client

away (not to mention the Justice Department suit that forced IBM to unbundle its hardware and software), and it began to charge explicitly for its services. Company executives later discovered that the services it once provided free were, in fact, its most valued offerings. Today, with its mainframe computers long since commoditized, IBM's Global Services unit grows at double-digit rates. The company no longer gives away its services to sell its goods. Indeed, the deal is reversed: IBM will *buy* its clients' hardware if they'll contract with Global Services to manage its information systems. IBM still manufactures computers, but it's now in the *business* of providing services. Similarly, General Electric's highest-profit contributor is GE Capital, and the Big Three automakers actually make more money from their financial arms than they do from manufacturing cars.

Giving away or buying goods to sell services is a harbinger that the Service Economy has reached a level once thought unimaginable and by many undesirable. Indeed, until just a few short years ago one could still hear the voices of academics and pundits decrying that services were taking over as the engine of economic growth, that no economic power could afford to lose its industrial base, and that an economy based so overwhelmingly on services would become ephemeral, destined to lose its prowess and its place among nations. That is now obviously untrue.

Even more so, the commoditization trap that forced manufacturers to add services to the mix now attacks services with the same vengeance. Telephone companies sell long-distance service solely on price, price, price. Airplanes resemble cattle cars, with a significant number of passengers flying on free awards. Fast-food restaurants all stress "value" pricing. (Indeed, McDonald's now finds itself so commoditized that the *Economist*

created the Big Mac Index to compare the price levels in different countries based on the price of a local Big Mac.¹⁵)

And a price war looms in the financial services industry as first discount and then Internet-based brokers constantly drive down commissions, in some cases charging as little as \$8 for what a full-service broker would charge more than \$100. The chairman of AmeriTrade Holding Corp., J. Joe

Ricketts, even told *Business Week* this: "I can see a time when, for a customer with a certain size margin account, we won't charge commissions. We might even pay a customer, on a per trade basis, to bring the account to us."¹⁶ An absurdity? Only if one fails to recognize that any shift up to a new, higher-value offering entails giving away the old, lower-value offering.

Indeed, the Internet is the greatest force of commoditization ever known to man, for both goods and services. It eliminates much of the human ele-

ment in traditional buying and selling. Its capability for friction-free transactions enables instant price comparisons across myriad sources. And its ability to quickly execute these transactions allows customers to benefit from time as well as cost savings. In today's world of time-starved consumers and speed-obsessed businesses, the Internet increasingly turns transactions for goods and services into a virtual commodity pit.¹⁷ Web-based businesses busy commoditizing both consumer and business-to-business industries include the following:

- www.appliances.com (appliances)
- www.priceline.com (airline travel)
- www.narrowline.com (advertising space)
- www.necx.com (computer components)
- www.getsmart.com (financial services)
- www.insweb.com (insurance)
- www.compare.net (consumer goods)
- www.energymarket.com (natural gas and electricity)
- www.netmarket.com (virtually all goods and services households buy)

In addition to such commoditization, service providers face a second adverse trend unknown to goods manufacturers: *disintermediation*. Companies such as Dell Computer, Streamline, USAA, and Southwest Airlines increasingly go around retailers, distributors, and agents to connect directly with their end-buyers. Decreased employment in these intermediaries, as well as bankruptcies and consolidations, invariably results. And a third trend further curtails service sector employment: that old boogeyman *automation*, which today hits many service jobs (telephone operators, bank clerks, and the like) with the same force and intensity that technological progress hit employment in the goods sector during the twentieth century. Today, even professional service providers increasingly discover that their offerings have been "productized"—embedded into software, such as tax preparation programs.¹⁸

All this points to an inevitable conclusion: The Service Economy is peaking. A new, emerging economy is coming to the fore, one based on a distinct kind of economic output. Goods and services are no longer enough.

Experiences

The newly identified offering of experiences occurs whenever a company intentionally uses services as the stage and goods as props to engage an individual. While commodities are fungible, goods tangible, and services

The Internet is the greatest force for commoditization known to man

intangible, experiences are *memorable*. Buyers of experiences—we'll follow Disney's lead and call them *guests*—value being engaged by what the company reveals over a duration of time. Just as people have cut back on goods to spend more money on services, now they also scrutinize the time and money they spend on services to make way for more memorable—and more highly valued—experiences.

The company—we'll call it an *experience stager*—no longer offers goods or services alone but the resulting experience, rich with sensations, created within the customer. All prior economic offerings remain at arm's length, outside the buyer, while experiences are inherently personal. They actually occur within any individual who has been engaged on an emotional, physical, intellectual, or even spiritual level. The result? No two people can have the same experience—period. Each experience derives from the interaction between the staged event and the individual's prior state of mind and being.

Even so, some may still argue that experiences are just a subclass of services, merely the latest twist required in today's fast-paced world to get people to buy certain services. Interestingly, the esteemed Adam Smith made the same argument about the relationship between goods and services more than two hundred years ago in *The Wealth of Nations*.

Experiences are events that engage individuals in a personal way

He regarded services almost as a necessary evil—what he called “unproductive labour”—not as an economic offering in itself, precisely because services cannot be physically inventoried and therefore create no tangible testament that any work has been done. Smith did not limit his view of unproductive activity to such commoners as household servants. He included the “sovereign” and other “servants of the public,” the “protection, security, and defence of the commonwealth,” and a number of occupations (“churchmen, lawyers, physicians, men of letters of all kinds”) whose work the market has today determined to be of far more value than that of most laborers. He then singled out the experience staggers of his day (“players, buffoons, musicians, opera-singers, opera-dancers, &c.”) and concluded:

The labour of the meanest of these has a certain value, regulated by the very same principles which regulate that of every other sort of labour; and that of the noblest and most useful, produces nothing which could afterwards purchase or procure an equal quantity of labour. Like the declamation of the actor, the harangue of the orator, or the tune of the musician, the work of all of them perishes in the very instant of its production.¹⁹

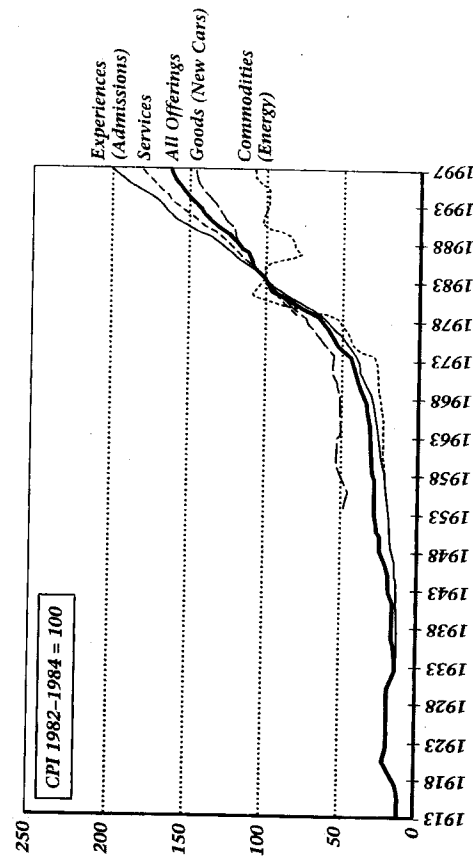
However, while the *work* of the experience stager perishes upon its performance (precisely the right word), the *value* of the experience lingers in the

memory of any individual who was engaged by the event.²⁰ Most parents don't take their kids to Walt Disney World just for the event itself but rather to make that shared experience part of everyday family conversations for months, and even years, afterward. While the experience itself lacks tangibility, people greatly value the offering because its value lies within them, where it remains long afterward.

Those companies which capture this economic value will not only earn a place in the hearts of consumers, they will capture their dollars. Indeed, the notion of inflation as purely the result of companies passing on increased costs to consumers simply is not valid. The shift in consumer (and business) demand from commodities to goods to services and now to experiences should shift the prototypical “market basket” to these higher-valued offerings, but the federal government is behind the times; as of 1997 services made up only a little more than 57% of its Consumer Price Index (CPI)²¹—services weren't even included in the Producer Price Index until 1995. But if we examine the CPI statistics, as shown in Figure 1-2, we see that the CPI for commodities increases less than that for goods (using new cars as the prototypical Industrial Economy good), which increases less than the CPI for services, which in turn increases less than the CPI for the one prototypical experience that

While the work of the experience stager perishes, the value of the experience lingers

Figure 1-2. Consumer Price Index (CPI) by Economic Offering



Source: U.S. Bureau of Labor Statistics.

can be found in the government statistics: admissions to recreational events (movies, concerts, sports, etc.).²² Note, too, the volatility of the CPI for energy commodities relative to the other offerings. Increased price volatility as market forces take over awaits the sellers of all *commoditized* goods and services.²³ Companies that stage experiences, on the other hand, increase the price of their offerings much faster than the rate of inflation simply because consumers value experiences more highly.

The employment and nominal gross domestic product statistics show the same effect as the CPI, as Figure 1-3 makes clear.²⁴ Using the period 1959 to 1996, where the data remains consistent across the offerings, we see the same relative position of each successive offering. While commodity output produced in the United States increased by a compound annual growth rate (CAGR) of more than 5 percent from 1959 to 1996, employment in

commodity industries actually *decreased*. Manufacturing output increased more than commodity output, while employment increased slightly (although the relative number of people employed in the manufacturing sector decreased greatly in this time period). Services dominated the statistics with a 2.7 percent CAGR in employment and more than 8 percent in GDP. But those industries which could be pulled out of the government's service sector statistics as clearly experiential grew even faster: almost twice the annual growth in employment with a slightly higher GDP growth rate.²⁵ Why such a disparity in employment growth between services and experiences? Previously because the Experience Economy is still in its infancy and has not yet undergone the automation now endemic to much of the service sector.

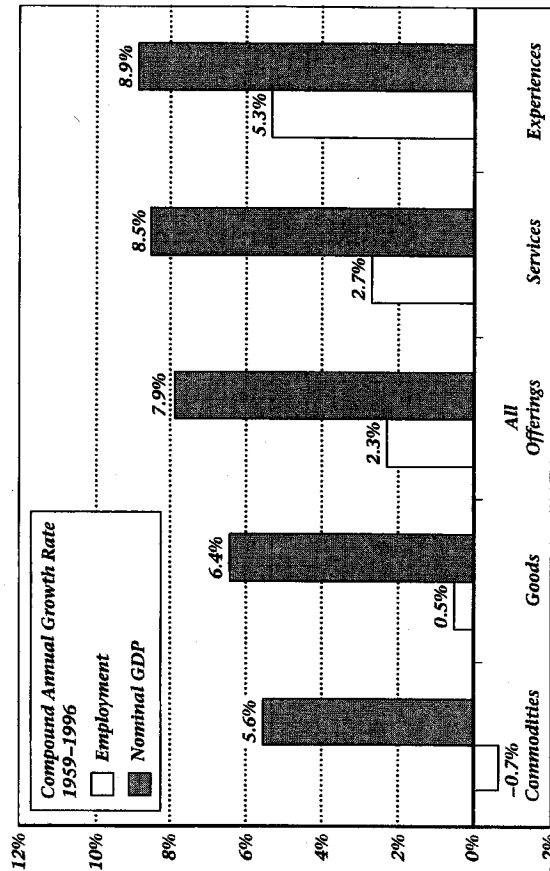
No wonder so many companies today wrap experiences around their existing goods and services to differentiate their offerings. Service providers clearly have an edge in this regard, as they are not wedded to tangible offerings. They can enhance the environment in which clients pursue chase and/or receive the service, layer on inviting sensations encountered while in that company-controlled environment, and otherwise figure out how to better engage clients to turn the service into a memorable event.

ING THE THING

So what's a manufacturer to do? Short of leapfrogging into the experience business itself—quite a stretch for most diehard manufacturers—manufacturers must focus on the experience customers have while *using* their goods.²⁶ Most product designers focus primarily on the internal mechanics of the good itself: how *it* performs. What if the attention centered instead on the individual's use of the good? The focus would then shift to the user: how the individual performs while *using* the good.

In the Experience Economy, people seek to perform a wide variety of activities. Fodor's Travel Publications, which issues vacation guides for scores of places around the world, recently published Peter Guttman's "escapist scrapbook," which describes twenty-eight adventures in which potential travelers can immerse themselves. Consider the diversity of activities—some old, some new, but all very intense experiences: houseboating, portaging, mountain biking, cattle driving, bobsledding, tall-ship sailing, tornado chasing, canyoneering, wagon training, seal viewing, iceberg tracking, puffin birding, race-car driving, hot-air ballooning, rock climbing, spelunking, white-water rafting, canoeing, heli-hiking, hut-to-hut hiking, whale kissing, llama trekking, barnstorming, land yachting, historic battle reenacting, iceboating, polar bearing, and dogsledding.²⁷

Figure 1-3. Growth in Employment and Nominal Gross Domestic Product (GDP) by Economic Offering



Source: U.S. Bureau of Labor Statistics, Labstat; *The Statistical History of the United States: Colonial Times to 1970*, United States Bureau of the Census; U.S. Census, Bureau of Economic Analysis, National Income and Product Accounts, unpublished detail; Strategic Horizons LLP and Diamond Technology Partners, analysis.

Retailers like Bass Pro Shops Outdoor World, Recreational Equipment, Inc., (REI), and Cabela's sell goods as tools for use in these types of experiences, and lead the way in making their retail space an experience itself. Bass Pro Shops brings the outdoor environment indoors, REI erected a fifty-five-foot mountain that customers can climb to test out gear, and Cabela's displays a thirty-five-foot dioramic mountain filled with stuffed wild animals. Manufacturers must explicitly design their goods to enhance the user's experience as well—essentially *experientializing* the goods—even when customers pursue less adventurous activities. Automakers do this when they focus on enhancing the *driving experience*. But what could a valve manufacturer do to improve the *pumping experience*, a furniture producer the *sitting experience*, a publisher the *reading experience*? What changes could an appliance manufacturer make to its white goods that would enhance the *washing experience*, the *drying experience*, and the *cooking experience*?

Executives at one appliance maker already think this way. At Maytag, William Beer, president of the company's appliances unit, implores his people to create innovations that "wow" the customer. He told *Industry Week*, "The eating experience is now wherever a person is at the moment. We have people eating in the car on the way back and forth to work, in front of the TV." This leads Beer to deduce that "People may need a refrigerated compartment in an automobile or in the arm of a chair,"²⁸ innovations that would greatly enhance the eating experience but would never be considered within the framework of the industry's old mindset, which focuses on how appliances perform rather than on what users do when eating.

Manufacturers must experientialize their goods

Many goods encompass more than one experiential aspect, opening up areas for differentiation. Apparel manufacturers, for instance, could focus on the *wearing experience*, the *cleaning experience*, and perhaps even the *hanging or drawing experience*. (And, like the people at Fodor's, they should not be afraid to make up new nouns whenever needed.) Other industries might create the *briefcasing experience*, the *wastebasketing experience*, or the *mask-taping experience*. If you as a manufacturer start thinking in these terms—*ing*ing your things—you'll soon be surrounding your goods with services that add value to the activity of using them and then perhaps surrounding those services with experiences that make using them more memorable.

Any good can be *inged*. Consider a simple baseball. The Rawlings Sporting Goods Company of St. Louis, Missouri, exclusive baseball manufacturer to the Major Leagues, introduced a ball that makes *play-catching* more engaging. This "radar ball" has a microchip in it that digitally dis-

plays how fast the ball has been thrown after each toss. Retailing for more than \$30, consumers pay much more for radar balls than regular baseballs, which generally go for less than five dollars each. Information about a ball's physical speed has long been available via radar guns, but those cost around \$1,000 and few little league, high school, or American Legion teams own one. The radar ball makes it affordable to know a kid's throwing velocity. But the real value lies in the new social interaction generated between two people playing catch. Rawlings used simple information technology to make playing catch a richer experience. The thrower must rely on the catcher—the other person sharing the same experience—not some third party on the sidelines with a radar gun, to know his speed. Thanks to Rawlings, right now somewhere in a backyard, some child is asking, "Hey, Dad, how fast was that one?"

One can imagine more sophisticated balls in the future able to capture the spin and drop of breaking balls (curves, sliders, split-finger fastballs), the height from ground when released from the hand, the height from ground when caught, and so forth. (Someday some kid will ask, "How much did that one curve?") Such higher-tech enhancements would further enhance the play-catching experience. The more technologically sophisticated the readings and the higher the price, the more likely that you would not own a radar ball yourself but would go to an experiential place to use one (much like aspiring athletes and weekend wannabees don't own their own pitching machines and batting cages but go to places like Swings 'n' Things to indulge in those experiences).

Information technology provides but one means to *ing* a thing, to experientialize the good. Manufacturers can also avail themselves of a number of other related possibilities for creating demand via *inged* things in the Experience Economy.

Embedding Goods in an Experiential Brand

Create a brand image emphasizing the experience customers can have surrounding the purchase, use, or ownership of a good.²⁹ Nike's ability to turn \$20 sneakers into \$100 cross-training tools is a prime example, as is Intel's "Intel Inside" marketing of its computing capability (complete with a melodious signature tone and multicolored multimedia characters). Coca-Cola and Pepsi-Cola continually try to outdo each other in advertising to convince consumers that the people who drink their soda have better drinking experiences. Meanwhile, every beer company in America tries to outdo them both. Automakers excel at experientializing their vehicles. After all, in this case the customer immerses himself in the good. Infiniti has even trademarked the phrase "Total Ownership Experience," while the new

nostalgia-laden Beetle from Volkswagen appears to be a big hit—owners report heads turning on every street. But the company that is perhaps most successful in embedding its goods into a total experience is Harley-Davidson. How many other company logos do you find tattooed on users' bodies?

Producing Goods Experience Stagers Need

As the demand for experiences grows, so too will the demand for those goods which enable experiences. This includes goods affecting the senses (for example, textured materials, lights and lighting controls, audio equipment, flavor ingredients, and fragrances) as well as those "propping" the event, such as the audio-animatronic animals at the Rainforest Cafe, the baseball-glove booths at the All Star Cafe, and the skimpy costumes at Hooters. And don't forget perhaps the largest, most important category of goods that experience stagers require: memorabilia. After all, someone has to make all those hats, T-shirts, mugs, stuffed animals, key chains, toys, pens, and all assorted manner of knickknacks, novelties, and souvenirs guests scoop up to extend the memory of their experiences. You don't make any of these items? Good news! Many of the goods traditionally used for memorabilia are boringly overabundant. You have the opportunity to make your goods an appealing alternative to the pedestrian merchandise generally available.

Sensorializing Goods

Perhaps the most straightforward approach to making goods more experiential is to add elements that enhance the customer's *sensory interaction* with them. Some goods richly engage the senses by their very nature: toys, cotton candy, home videos, CDs, cigars, wine, and so forth. While the very use of these goods creates a sensory experience, companies can *sensorialize* any good by accentuating the sensations created from its use.³⁰ Doing so requires awareness of which senses most affect customers, focus on those senses and the sensations they experience, and the consequent redesign of the good to make it more appealing. Automakers, for example, now spend millions of dollars on every model to make sure that car doors sound *just so* when they close. Publishers greatly enhance the covers and interiors of books and magazines with a number of tactile innovations (embossed lettering: scratchy, bumpy, or ultrasmooth surfaces) and sight sensations (translucent covers, funky fonts, clever photographs, three-dimensional graphics). Even presentation markers aren't just colored anymore; Sanford scents them as well (licorice for black, cherry for red, etc.).

Making Goods Scarce

When a company limits the availability of a hot item, it can turn mere ownership of the good into an experience. Think Beanie Babies. The privately held Oakbrook, Illinois, company that makes them, Ty, Inc., takes a number of steps to ensure the scarcity of these stuffed animals. It limits the total production of each cuddly creature, "retires" certain favorites, and restricts the availability of any single character at any single store or outlet. By making its goods scarce, Ty heightens the experience of *having* one. Other goods can exploit the same approach. What if, when the next design in Nike's Air Jordan series comes out, the company numbered each pair as it came off the production line: #1, #2, #3, etc.? And why not let a secondary market develop to buy and sell those at higher prices, so Nike could variably price the items as they come off the line? (Used Air Jordans already fetch up to \$400 in Japan.) Nike and other manufacturers could institute a whole new pricing model to maximize the value created from a single production run. (How much might Air Jordan pair #23 fetch?)

Forming a Goods Club

Exclusivity is the economic sibling of scarcity. By forming a club, companies can charge customers for the experience of *getting* their goods. This goods club should not, however, be modeled after many of the book or music clubs that have been around for decades. These businesses entice people with free or low-cost merchandise to sign up and then offer a featured selection that can be accepted or rejected until a minimum quantity of goods have been purchased. The club is just a mechanism for pushing goods customers may or may not want.

One company, Merchant Direct of Lake Bluff, Illinois, has adopted a new model to sell alcohol and other experiential goods with a much more subtle and sophisticated effect. The company's first and largest club, Beer Across America, ships two six-packs of microbrewed beer each month to members along with an issue of its newsletter, *Something's Brewin'*. Members also receive a quarterly lifestyle magazine called *DRINK*. Merchant Direct focuses solely on those goods which directly enable experiences. It also offers the Big Brew 22 club (for dark beer lovers), the International Wine Cellars and Prestige Wine Program clubs, the Cigar Affair club, the Coffee Quest club, and, the most experiential of all, the Spa Discoveries club. Monthly fees range from \$16.95 to \$39.95 in open-ended memberships.

The key to successfully launching such clubs is packaging and promot-

ing the experience in such a way that makes the sale of the goods automatic as the buyer wants (and pays for) an expert to enhance his private experience. The next step? Connecting the people in a club, physically or virtually, to share reactions to selections or ideas on how to best experience the goods. Such discussions could be used to improve selections, perhaps even to customize them to individual members.

Staging a Goods Event

Many manufacturers stage their own experiences, although generally still as a sideline, when they add museums, amusement parks, or other attractions to their factory output. Hershey's Chocolate World, where else but in Hershey, Pennsylvania, is perhaps the most famous, but there are others, including Spamtown USA (Hormel Foods, Austin, Minnesota), Goodyear World of Rubber (Akron, Ohio), Crayola Factory Museum (Binney & Smith, Easton, Pennsylvania), and Cereal City USA (Kellogg, Battle Creek, Michigan).³¹ Not every manufacturer can turn extra space into a ticket-taking museum, but any company can recast production as a miniaturized plant tour, thus turning the everyday acquisition and consumption of a candy bar, box of cereal, bottle of vitamins, or any other good into a memorable event. The goal is to draw the customer into the process of designing, producing, packaging, and/or delivering the item. Customers often value the way in which they obtain something as much as the good itself: Witness the great feeling with which new Saturn car owners leave the lot after every employee in the place gathers around to clap and celebrate their purchase. (To say nothing of how Volkswagen customers will feel when they pick up their cars at the company's Autostadt theme park, opening in the year 2000 next to the VW plant in Wolfsburg, Germany.) Bazaars, auctions, flea markets, and similar endeavors where prices aren't fixed have always created a distinctive experience around the purchase of goods, appealing to some while turning off others. Companies such as AUCNET, OnSale, Internet Shopping Network, and eBay have moved this time-honored format to the Internet. They may be commoditizing the goods, but at least their customers have a good time buying them!

THE PROGRESSION OF ECONOMIC VALUE

As the placard Rebecca Pine gave to her father for his birthday says, "The best things in life are not things." Consider that common event everyone experiences growing up: the birthday party. Most baby boomers can

remember back to childhood birthday parties when Mom would bake a cake from scratch. Which meant what, exactly? That she actually *touched* such commodities as butter, sugar, eggs, flour, milk, and cocoa. And how much did these ingredients cost back then? A dime or two, maybe three.

Such commodities became less and less relevant to the needs of consumers when companies such as General Mills with its Betty Crocker brand and Procter & Gamble with Duncan Hines packaged most of the necessary ingredients into cake mixes and canned frostings. And how much did these goods cost as they increasingly flew off the supermarket shelf in the 1960s and 1970s? Not much, perhaps a dollar or two at most, but still quite a bit more than the cost of the basic commodities. The higher cost was recompense for the increased value of the goods in terms of flavor and texture consistency, ease of mixing, and overall time savings.

In the 1980s, many parents stopped baking cakes at all. Mom or Dad simply called the supermarket or local bakery and ordered a cake, specifying the exact type of cake and frosting, when it would be picked up, and the specific words and designs desired on top. At \$10 to \$20, this custom service cost ten times the goods needed to make the cake at home and still involved less than a dollar's worth of ingredients. Many parents thought this a great bargain, however, enabling them to focus their time and energy on planning and throwing the actual party.

What do families do at the dawn of the twenty-first century? They outsource the entire party to companies such as Chuck E Cheese, the Discovery Zone, Club Disney, and Creativities. These companies stage a birthday experience for family and friends for costs between \$100 and \$250, as depicted in Figure 1-4. For Elizabeth Pine's seventh birthday, the Pine family went to an old-time farm called New Pond Farm where she and fourteen of her friends experienced a taste of the old Agrarian Economy by brushing

Figure 1-4. Price of Birthday Offerings

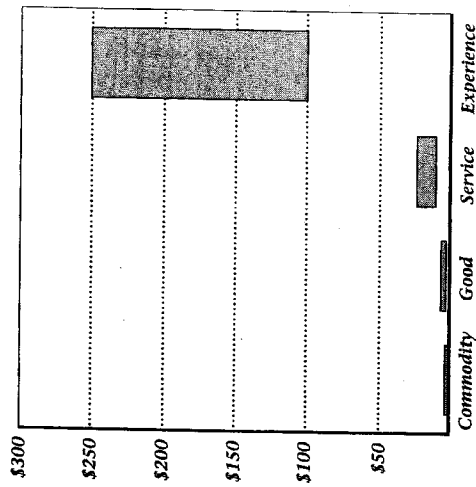
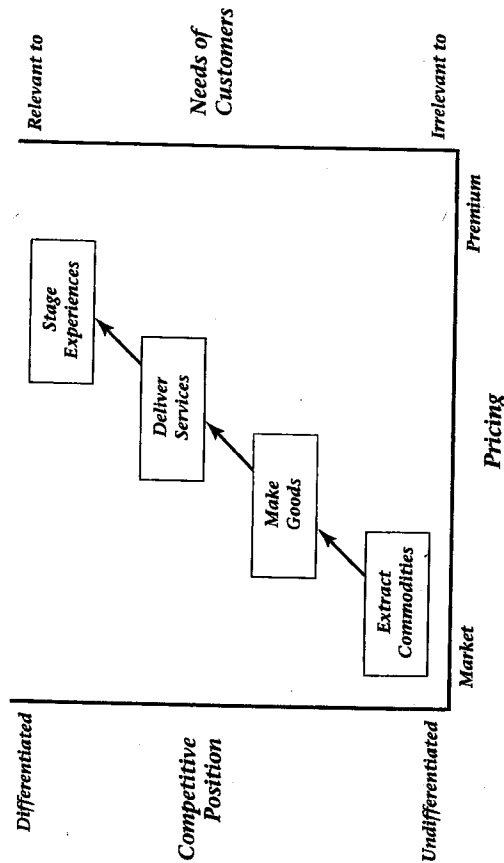


Figure 1-5. The Progression of Economic Value



cows, petting sheep, feeding chickens, making their own apple cider, and taking a hay ride over the hill and through the woods.³² When the last guest had left after opening the presents, Elizabeth's mom, Julie, got out her checkbook. When Dad asked how much the party had cost, Julie replied, "A hundred and forty-six dollars—not including the cake!"

The simple saga of the birthday party illustrates the Progression of Economic Value depicted in Figure 1-5.³³ Each successive offering—pure ingredients (commodities), packaged mixes (goods), finished cakes (services), and thrown parties (experiences)—greatly increases in value because the buyer finds each more *relevant* to what he truly wants (in this case, the giving of a fun and effortless birthday party). And because companies stage so many different kinds of experiences, they more easily differentiate their offerings and thereby charge a premium price based on the distinctive value provided, not the market price of the competition. Those moms who baked from scratch paid out only a few dimes worth of ingredients. Likewise, the old-time farm accrues relatively little marginal cost (a few dollars for labor, a little feed, and an hour or two's worth of depreciation) to turn a nice profit.³⁴

One company that well illustrates the concept of the Progression of Economic Value is Ogden Corporation. This multibillion dollar firm traces its origins to two companies.³⁵ The first, Allied, was founded in 1888 when two Danish immigrants began working for a railroad terminal, tending the facility's kerosene lamps (cleaning, refueling, and trimming the wicks). From this humble beginning delivering one of the key commodities of the nineteenth century, Allied moved into contract cleaning services (for homes, office buildings, churches, and playhouses), inventing and manufacturing a number of cleaning goods along the way. The second company, Ogden, began in 1939 as a public utilities holding company, producing one of the key commodities of the twentieth century. It later moved into waste-water treatment facilities (yet another key commodity). Like Allied, Ogden began operating contract services, specializing in supporting experience offerings such as facility cleaning, food service, ticket taking, and public address announcements at Yankee Stadium. (It even made a lasting contribution to movie experiences when it first sold popcorn in cinemas back in 1940.) These two companies merged in 1982 as a highly diversified service support organization.

In the 1990s, Ogden Corporation feared the increasing commoditization of its service businesses. Realizing that consumers themselves (not the companies that Ogden supplied) increasingly drove demand for new and varied experiences, Ogden decided to forge its own experience offerings. It started owning and operating sports, performing arts, and entertainment arenas and theaters, often through joint ventures. It even signed artists to management contracts, promoted concerts, and produced TV specials, Broadway shows, and musical recordings. The company also entered the business of managing location-based entertainment complexes, such as the Top of the World at the World Trade Center, where guests can experience an aerial sightseeing tour of New York City. In 1996 it purchased two nature-based theme parks, Silver Springs and Wild Waters in Ocala, Florida, and through a consortium began constructing a theme park in Seville, Spain.

To cap its full-fledged entrance into these experience businesses, in 1996 Ogden committed \$100 million to create eight attractions called the American Wilderness Experience. There it immerses guests in nature scenes that feature the live animals, foliage, scents, and climates indigenous to various locales.³⁶ The company's first American Wilderness Experience opened in late 1997 in the Ontario Mills Mall in San Bernardino, California. The company charges an admission fee of \$9.95 for adults to take in five "biomes" depicting different aspects of California's natural environment: Redwoods, Sierras, deserts, coasts, and valleys. These exhibits are inhabited by 160 wild animals, across 60 distinct species, including snakes, bobcats, scorpions, jellyfish, and porcupines. Guests begin their journey with a

motion-based attraction, called the Wild Ride Theater, that lets them experience the world through the eyes of various animals—running like a mountain lion, buzzing like a bee—and then tour live animal exhibits and enjoy nature discussions with costumed Wilderness rangers. Of course, once guests pay to participate in the American Wilderness Experience, Ogden also makes money on the food service at its Wilderness Grill and the memorabilia at its Naturally Untamed retail store.

LET THE ACTION BEGIN

Managing such a far-flung enterprise as the American Wilderness Experience always proves difficult, particularly making the transition from business-to-business selling to consumer marketing, and time will tell how successful Ogden will be. A shopping mall remains unexplored territory for such an intensive and expensive experience, and getting the right mix of sensory cues from faux surroundings with live animals is not an easy task. (Although with the need to keep the smells of the grill away from the animals, and vice-versa, perhaps the American Wilderness Experience isn't quite so far afield from the company's waste management business after all.) But Ogden, like the many companies entering the Experience Economy, realizes that staging experiences forestalls the commoditization that is rapidly driving down the differentiation, relevancy, and price of so many goods and services.

Of course, no one repealed the laws of supply and demand. Companies that fail to provide consistently engaging experiences, overprice their experiences relative to the value received, or overbuild their capacity to stage them will of course see demand and/or pricing pressure. For example, one stalwart of the birthday party circuit, Discovery Zone, has had a few rough years because of inconsistently staged events, poorly maintained games, and little consideration of the experience received by the adults, who, after all, pay for the event.³⁷ More recently, same-store sales went down at the Rainforest Cafe and Planet Hollywood because they failed to refresh their experiences. Repeat guests see or do little different from what they saw and did on previous visits. Even Disney succumbed to this problem when it let Tomorrowland grow horribly out of date over the past couple of decades. But it did manage to refresh the Orlando complex in April 1998 by opening its fourth and largest theme park at Disney World, Animal Kingdom.

As the Experience Economy unfolds into the twenty-first century, more than a few experience stagers will find the going too tough to stay in business. It's hard to imagine, for example, how each and every one of the scores of theme-based restaurants in business today will survive into the

new millennium. But such dislocations occur as the result of any economic shift. Once there were more than a hundred automakers in eastern Michigan and more than forty cereal manufacturers in western Michigan. Now there are only the Big Three in Detroit and the Kellogg Company in Battle Creek, all stalwarts of the Industrial Economy.

The growth of both the Industrial Economy and the Service Economy brought with it a proliferation of offerings that didn't exist before imaginative companies invented and developed them. That's also how the Experience Economy will grow, as companies tough out what economist Joseph Schumpeter termed the "gales of creative destruction" that comprise business innovation. Those businesses that relegate themselves to the diminishing world of goods and services will be rendered irrelevant. To avoid this fate, you must learn to stage a rich, compelling experience.

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