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A leader's guide to innovation in the experience economy

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In the past two decades, the economic offerings of businesses worldwide have become more intentionally experiential, a fundamental shift in the very fabric of the global economy. Experiences – commercial offerings that engage customers in memorable ways – are a distinct form of economic output, and as such hold the key to promoting future economic prosperity. Already experiences have supplanted services as the predominant economic offering in terms of US GDP, employment and actual value[1]. But increasingly, to succeed in the rapidly evolving experience economy executives must think differently about how they create economic value for their customers.

Five value-creating opportunities are likely to drive further progress in the dynamic experience economy:

- Customizing goods.
- Enhancing services.
- Charging for experiences.
- Fusing digital technology with reality.
- Transformative experiences, a promising frontier.

Customizing goods

First, more offerings should be mass customized: what is needed is more innovative methods for making goods fit the individual needs of customers. Most manufacturers have ignored the opportunity to shift from mass production to mass customization methods, to replace supply chains with demand chains and 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, when they want it. Despite being implemented decades ago by such companies as Lutron Electronics and Dell it's still not a competitive practice in many arenas in dire need of it, such as with the US auto industry.

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, particularly over time as it enables the company to create a learning relationship[2].

“Every business would benefit from asking itself: What one dimension of sacrifice, if eliminated, would create the greatest value for our customers?”

Enhancing services

Second, companies should undertake a corporate-wide rethink of how they want their customers to experience doing business with them. Too many organizations that have a service mindset that focuses solely on what tasks employees do. In contrast, 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 too 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. Service becomes a commodity that is inefficiently delivered and any experience is endured rather than anticipated. Profitability suffers, innovation is stymied and workers disengage – creating a downward spiral to yet more miserable service.

A huge first step in staging more engaging experiences is embracing the principle that work is theatre. As Best Buy’s Geek Squad unit 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. But 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 principle in their organizations. At their peril, 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.

Charging for experiences

Third, more offerings should find ways to explicitly charge for experience time. Time is the primary currency of the experience economy. Today, some experiential marketing events require an admission fee; some experiential operations help pay for the supported goods and services; and some experience offerings are accessible only on a subscription basis. We believe that innovation to create high-quality experiences that customers will pay for is even more important than goods or service innovation. 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 competitive advantage. 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 critical; identifying answers before the competition does is imperative.

Consider one particular pricing model ripe for such admission-fee innovation: timesharing, 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.

Fusing digital technology with reality

Fourth, whatever the genre of output, more companies need to wisely leverage digital technology in order to better fuse the real with the virtual. 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 increasingly need to integrate the two to create new digitally infused experiences never before envisioned[3]. In some cases, this may require greater integration of the digital into the physical; in other cases, it may mean removing digital devices that merely intrude on the face-to-face experience.

Transformative experiences, a promising frontier

Fifth, 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. People enroll in 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 gaining personal enrichment that is more desirable, and of more lasting value, than the experience itself.

By providing experiences that deliver lasting benefits, companies can avoid becoming the purveyors of rapidly diminishing thrills. 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 either become passé or 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, services atop goods, and goods from commodities.

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

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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.

Some observers will surely argue that these transforming experiences are really only a subclass of services. But there is a significant distinction between, for example, eating at a McDonald's and committing to work with a trainer at a fitness center, between providing information reports and partnering in business outcomes and between dry cleaning a suit and treating a psyche. There's a good case to be made that transformative experiences are a particular type of economic offering.

Rethinking the business model of transformations

With transformations, the economic offering of a company business is the improvement or value added 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 that explicitly charges 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. 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, 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.

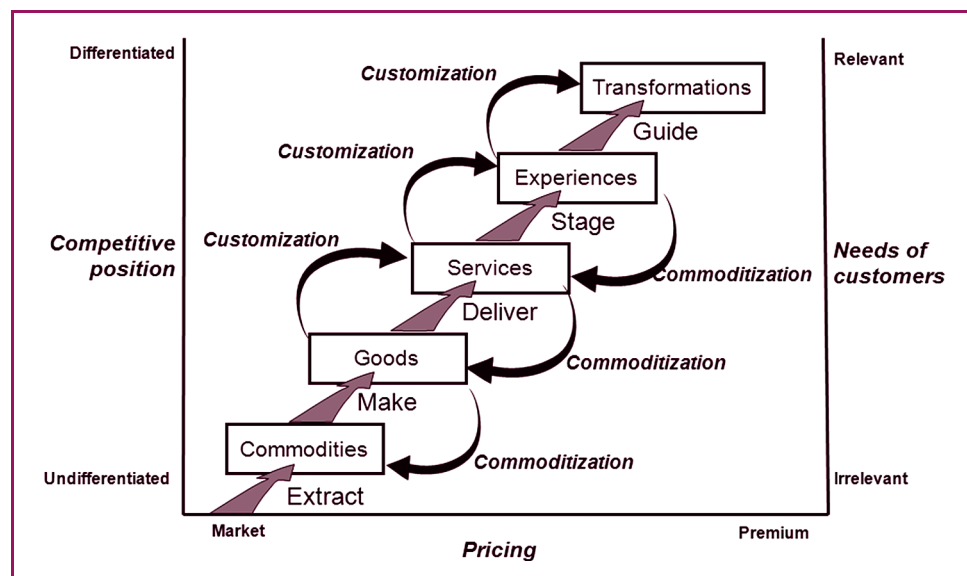
How the experience economy will evolve

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 require leaders and enterprises to take action, to abandon old industrial and service economy paradigms in order to introduce new experiences and transformations, a progression eventually resulting in the evolution of the experience economy into the transformation economy.

The shift into today's experience economy comes with a number of implications that leaders should keep in mind as they manage their company's shift from commodity trading, manufacturing and service providing or innovate wholly new businesses birthed in experiences:

1. Mass customization is the route up the progression of economic value (see Exhibit 1, “Progression of economic value”), 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 it’s a consumer or business desiring that offering.
2. Work is theatre. Business enterprises would gain an invaluable perspective simply by declaring their work to be theatre. For when a business sees its workplace as 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.
3. 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 – that is, 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 also need to 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 or inauthentic.
4. 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 invest their marketing money in experience places. 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 but 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.
5. Charging admission is the economic key. Whenever there is a dramatic 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 –

Exhibit 1 Progression of economic value – commodities to transformations



“When you customize an experience, you automatically turn it into a transformation.”

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 – retailers, hoteliers and other – 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.

For leaders, these five insights are key to achieving success via state-of-the-art experience staging, and they provide tested guidelines for managing in the experience economy, now and into the future.

Notes

1. Pine II, B.J. and J.H. Gilmore (2011), *The Experience Economy, Updated Edition*, Boston, MA: Harvard Business Review Press, pp. 19-21.
2. Pine II, B.J. and J.H. Gilmore (2000), “Satisfaction, sacrifice, surprise: three small steps create one giant leap into the experience economy,” *Strategy & Leadership*, Vol. 28 No. 1, pp. 18-23; Ibid. Pine II, B.J. and J.H. Gilmore (2011), pp. 120-143.
3. Pine II, B.J. and K.C. Korn (2011), *Infinite Possibility: Creating Customer Value on the Digital Frontier*, San Francisco, CA: Berrett-Koehler.

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