

See discussions, stats, and author profiles for this publication at: <https://www.researchgate.net/publication/299292969>

The Experience Economy

Article *in* Harvard business review · November 1998

CITATIONS

1,189

READS

43,450

2 authors, including:



B. Joseph Pine II

Strategic Horizons

45 PUBLICATIONS 11,916 CITATIONS

SEE PROFILE

Some of the authors of this publication are also working on these related projects:



Regenerative Managing [View project](#)

Welcome to the Experience Economy

by B. Joseph Pine II and James H. Gilmore



Harvard Business Review

Reprint 98407

Harvard Business Review

JULY–AUGUST 1998

Reprint Number

C.K. PRAHALAD AND KENNETH LIEBERTHAL	THE END OF CORPORATE IMPERIALISM	98408
LINDA HILL AND SUZY WETLAUFER	LEADERSHIP WHEN THERE IS NO ONE TO ASK: AN INTERVIEW WITH ENI'S FRANCO BERNABE	98402
B. JOSEPH PINE II AND JAMES H. GILMORE	WELCOME TO THE EXPERIENCE ECONOMY	98407
ROBIN COOPER AND ROBERT S. KAPLAN	THE PROMISE – AND PERIL – OF INTEGRATED COST SYSTEMS	98403
THOMAS H. DAVENPORT	PUTTING THE ENTERPRISE INTO THE ENTERPRISE SYSTEM	98401
NIGEL NICHOLSON	HOW HARDWIRED IS HUMAN BEHAVIOR?	98406
REGINA FAZIO MARUCA	HBR CASE STUDY HOW DO YOU MANAGE AN OFF-SITE TEAM?	98405
DURWARD K. SOBEK II, JEFFREY K. LIKER, AND ALLEN C. WARD	IDEAS AT WORK ANOTHER LOOK AT HOW TOYOTA INTEGRATES PRODUCT DEVELOPMENT	98409
TIMOTHY A. LUEHRMAN	MANAGER'S TOOL KIT INVESTMENT OPPORTUNITIES AS REAL OPTIONS: GETTING STARTED ON THE NUMBERS	98404
INTRODUCTION BY RICHARD L. NOLAN	PERSPECTIVES CONNECTIVITY AND CONTROL IN THE YEAR 2000 AND BEYOND	98411
DAVID WARSH	BOOKS IN REVIEW WHAT DRIVES THE WEALTH OF NATIONS?	98410

*As goods and services become commoditized,
the customer experiences that companies
create will matter most.*

WELCOME TO THE EXPERIENCE ECONOMY

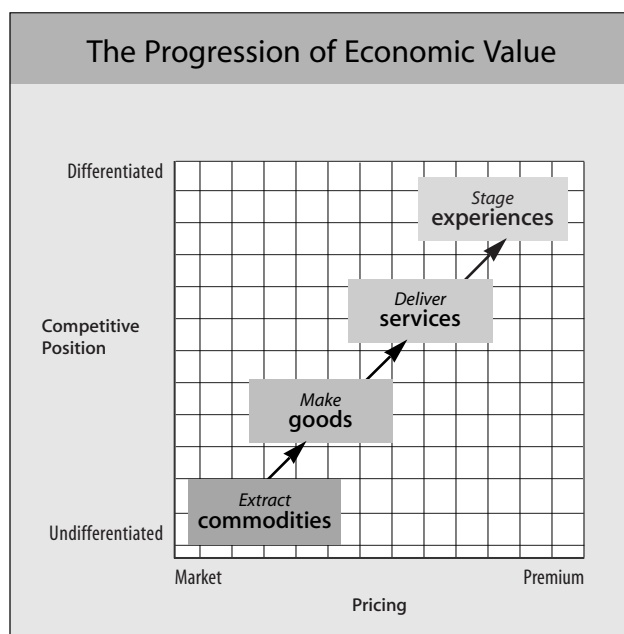
BY B. JOSEPH PINE II AND
JAMES H. GILMORE

HOW DO ECONOMIES CHANGE? The entire history of economic progress 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 to Betty Crocker for premixed ingredients. Later, when the service economy took hold, busy parents ordered cakes from the bakery or grocery store, which, at \$10 or \$15, cost ten times as much as the packaged ingredients. Now, in the time-starved 1990s, parents neither

make the birthday cake nor even throw the party. Instead, they spend \$100 or more to “outsource” the entire event to Chuck E. Cheese’s, the Discovery Zone, the Mining Company, or some other business that stages a memorable event for the kids—and often throws in the cake for free. Welcome to the emerging *experience economy*.

Economists have typically lumped experiences in with services, but experiences are a distinct economic offering, as different from services as services are from goods. Today we can identify and describe this fourth economic offering because consumers unquestionably desire experiences, and more and more businesses are responding by explicitly designing and promoting them. As services, like goods before them, increasingly become commoditized—think of long-distance telephone services sold solely on price—experiences have emerged as the next step in what we call the *progression of economic value*. (See the exhibit “The Progression of Economic Value.”) From now on, leading-edge companies—whether they sell to consumers or businesses—will find

B. Joseph Pine II and James H. Gilmore are cofounders of Strategic Horizons LLP, based in Cleveland, Ohio. They are coauthors of *Every Business a Stage: Why Customers Now Want Experiences*, to be published by the Harvard Business School Press in January 1999. They are the authors of “The Four Faces of Mass Customization” (*HBR* January–February 1997) and can be reached at pine@gilmore@customization.com.



that the next competitive battleground lies in staging experiences.

An experience is not an amorphous construct; it is as real an offering as any service, good, or commodity. In today's service economy, many companies simply wrap experiences around their traditional offerings to sell them better. To realize the full benefit of staging experiences, however, businesses must deliberately design engaging experiences that command a fee. This transition from selling services to selling experiences will be no easier for established companies to undertake and weather than the last great economic shift, from the industrial to the service economy. Unless companies want to be in a commoditized business,

however, they will be compelled to upgrade their offerings to the next stage of economic value.

The question, then, isn't whether, but when – and how – to enter the emerging experience economy. An early look at the characteristics of experiences and the design principles of pioneering experience stagers suggests how companies can begin to answer this question.

Staging Experiences that Sell

To appreciate the difference between services and experiences, recall the episode of the old television show *Taxi* in which Iggy, a usually atrocious (but fun-loving) cab driver, decided to become the best taxi driver in the world. He served sandwiches and drinks, conducted tours of the city, and even sang Frank Sinatra tunes. By engaging passengers in a way that turned an ordinary cab ride into a memorable event, Iggy created something else entirely – a distinct economic offering. The *experience* of riding in his cab was more valuable to his customers than the service of being transported by the cab – and in the TV show, at least, Iggy's customers happily responded by giving bigger tips. By asking to go around the block again, one patron even *paid more* for poorer service just to prolong his enjoyment. The service Iggy provided – taxi transportation – was simply the stage for the experience that he was really selling.

An experience occurs when a company intentionally uses services as the stage, and goods as props, to engage individual customers in a way that creates a memorable event. Commodities are fungible, goods tangible, services intangible, and experiences *memorable*. (See the chart "Economic Distinctions")

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

tions.") Buyers of experiences—we'll follow the lead of experience-economy pioneer Walt Disney and call them "guests"—value what the company reveals over a duration of time. While prior economic offerings—commodities, goods, and services—are external to the buyer, experiences are inherently personal, existing only in the mind of an individual who has been engaged on an emotional, physical, intellectual, or even spiritual level. Thus, no two people can have the same experience, because each experience derives from the interaction between the staged event (like a theatrical play) and the individual's state of mind.

Experiences have always been at the heart of the entertainment business—a fact that Walt Disney and the company he founded have creatively exploited. But today the concept of selling an entertainment experience is taking root in businesses far removed from theaters and amusement parks. New technologies, in particular, encourage whole new genres of experience, such as interactive games, Internet chat rooms and multi-player games, motion-based simulators, and virtual reality. The growing processing power required to render ever-more immersive experiences now drives demand for the goods and services of the computer industry. In a speech made at the November 1996 COMDEX computer trade show, Intel chairman Andrew Grove declared, "We need to look at our business as more than simply the building and selling of personal computers. Our business is the delivery of information and lifelike interactive experiences."

At theme restaurants such as the Hard Rock Cafe, Planet Hollywood, or the House of Blues, the food is just a prop for what's known as "eatertainment." And stores such as Niketown, Cabella's, and Recreational Equipment Incorporated draw consumers in by offering fun activities, fascinating displays, and promotional events (sometimes labeled "shoppertainment" or "entertailing").

But experiences are not exclusively about entertainment; companies stage an experience whenever they engage customers in a personal, memorable way. In the travel business, former British Airways chairman Sir Colin Marshall has noted that the "commodity mind-set" is to "think 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, according to Sir Colin, is "to go beyond the function and compete on the basis of providing an experience." (See "Competing on Customer Ser-

vice: An Interview with British Airways' Sir Colin Marshall," HBR November–December 1995.) The company uses its base service (the travel itself) as the stage for a distinctive en route experience—one that attempts to transform air travel into a respite from the traveler's normally frenetic life.

Neither are experiences only for consumer industries. Companies consist of people, and business-to-business settings also present stages for experiences. For example, a Minneapolis computer-installation and repair company calls itself the Geek Squad. Its "special agents" costume themselves in white shirts with thin black ties and pocket protectors, carry badges, drive old cars, and turn a humdrum activity into a memorable encounter. Similarly, many companies hire theater troupes—like the St. Louis-based trainers One World Music, facilitators of a program called Synergy through

Today the concept of selling experiences is spreading beyond theaters and theme parks.

Samba—to turn otherwise ordinary meetings into improvisational events that encourage breakthrough thinking.

Business-to-business marketers increasingly create venues as elaborate as any Disney attraction in which to sell their goods and services. In June 1996, Silicon Graphics, for example, opened its Visionarium Reality Center at corporate headquarters in Mountain View, California, to bring customers and engineers together in an environment where they can interact with real-time, three-dimensional product visualizations. Customers can view, hear, and touch—as well as drive, walk, or fly—through myriad product possibilities. "This is experiential computing at its ultimate, where our customers can know what their products will look like, sound like, feel like before manufacturing," said then chairman and CEO Edward McCracken.

You Are What You Charge For

Notice, however, that while all of these companies stage experiences, most are still charging for their goods and services. Companies generally move from one economic stage to the next in incremental steps. In its heyday in the 1960s and 1970s, IBM's slogan was "IBM Means Service," and the computer manufacturer indeed lavished services—for free—

on any company that would buy its hardware goods. It planned facilities, programmed code, integrated other companies' equipment, and repaired its own machines; its service offerings overwhelmed the competition. But eventually IBM had to charge customers for what it had been giving away for free, when a Justice Department suit required the company to unbundle its hardware and

Companies should think about what they would do differently if they charged admission.

software. The government order notwithstanding, IBM couldn't afford to continue to meet increasing customer-service demands without explicitly charging for them. Services, it turned out, were the company's most valued offerings. Today, with its mainframe computers long since commoditized, IBM's Global Services unit grows at double-digit annual rates. The company no longer gives away its services to sell its goods. In fact, the deal is reversed: the company will buy its clients' hardware if they'll contract with Global Services to manage their information systems. IBM still manufactures computers, but now it's in the business of providing services.

It's an indication of the maturity of the service economy that IBM and other manufacturers now make greater profits from the services than from the goods they provide. General Electric's GE Capital unit and the financial arms of the Big Three automakers are cases in point. Likewise, it's an indication of the immaturity of the experience economy that most companies providing experiences—like the Hard Rock Cafe, the Geek Squad, or Silicon Graphics—don't yet explicitly charge for the events that they stage.

No company sells experiences as its economic offering unless it actually charges guests an admission fee. An event created just to increase customer preference for the commoditized goods or services that a company actually sells is not an economic offering. But even if a company rejects (for now) charging admission to events that it stages, its managers should already be asking themselves what they would do differently if they were to charge admission. The answers will help them see how their company might begin to move forward into the experience economy, for such an approach demands the design of richer experiences.

Movie theaters already charge admission to see featured films, but Jim Loeks, part-owner of the Star theater complex in Southfield, Michigan, told *Forbes* magazine that "it should be worth the price of the movie just to go into the theater." Star charges 3 million customers a year 25% higher admission for a movie than a local competitor does because of the fun-house experience it provides.

Soon, perhaps, with 65,000 square feet of restaurants and stores being added to the complex, Star will charge its customers admission just to get into the complex.

Some retailers already border on the experiential. At the Sharper Image or Brookstone, notice how many people play with the gadgets, listen to miniaturized stereo equipment, sit in massage chairs, and then leave without paying for what they valued, namely, the experience. Could these stores charge admission? Not as they are currently managed. But if they did charge an admission fee, they would be forced to stage a much better experience to attract paying guests. The merchandise mix would need to change more often—daily or even hourly. The stores would have to add demonstrations, showcases, contests, and other attractions to enhance the customer experience.

With its Niketown stores, Nike is almost in the experience business. To avoid alienating its existing retail channels, Nike created Niketown as a merchandising exposition. It's ostensibly for show—to build the brand image and stimulate buying at other retail outlets—not for selling. If that is so, then why not explicitly charge customers for experiencing Niketown? Would people pay? People have already queued to enter the Niketown on Chicago's Michigan Avenue. An admission fee would force Nike to stage more engaging events inside. The stores might actually use the basketball court, say, to stage one-on-one games or rounds of horse with National Basketball Association players. Afterward customers could buy customized Nike T-shirts, commemorating the date and score of events—complete with an action photo of the winning hoop. There might be more interactive kiosks for educational exploration of past athletic events. Virtual reality machines could let you, as Nike's advertising attests, be Tiger Woods. Nike could probably generate as much admission-based revenue per square foot from Niketown as the Walt Disney Company does from its entertainment venues—and as Disney *should* (but does not) yield from its own retail stores. For the premier company of the experience economy, Disney's specialty re-

tailoring outside of its own theme parks disappoints. Its mall stores aren't much different from anyone else's, precisely because Disney doesn't charge admission to them—and so doesn't bother creating the extraordinary experiences it so expertly creates elsewhere.

An entrepreneur in Israel has entered the experience economy with the opening of Cafe Ke'ilu, which roughly translates as "Cafe Make Believe." Manager Nir Caspi told a reporter that people come to cafés to be seen and to meet people, not for the food; Cafe Ke'ilu pursues that observation to its logical conclusion. The establishment serves its customers plates and mugs that are empty and charges guests \$3 during the week and \$6 on weekends for the social experience.

Charging admission—requiring customers to pay for the experience—does not mean that companies have to stop selling goods and services. Disney generates significant profits from parking, food, and other service fees at its theme parks as well as from the sale of memorabilia. But without the staged experiences of the company's theme parks, cartoons, movies, and TV shows, customers would have nothing to remember—and Disney would have no characters to exploit.

In the full-fledged experience economy, retail stores and even entire shopping malls will charge admission before they let a consumer even set foot in them. Some shopping malls, in fact, already do charge admission. We're not thinking of the Mall of America outside of Minneapolis, which contains an amusement park; it charges for the rides, but the shopping is still free. We're referring to the Gilroy Garlic Festival in California, the Minnesota Renaissance Festival, the Kitchener-Waterloo Oktoberfest in Ontario, Canada, and other seasonal festivals that are really outdoor shopping malls and do indeed charge admission. Consumers judge them worth the fees because the festival operators script distinctive experiences around enticing themes, as well as stage activities that captivate customers before, after, and while they shop. With nearly every customer leaving with at least one bag of merchandise, these festival experiences clearly capture shopping dollars that otherwise would be spent at traditional malls and retail outlets.

The business equivalent of a shopping mall is a trade show—a place for finding, learning about, and, if a need is met, purchasing exhibitors' offerings. Trade-show operators already charge admission to the experiences they create; individual business-to-

business companies will need to do the same, essentially charging customers to sell to them. Diamond Technology Partners for instance, stages the Diamond Exchange, a series of forums that help members explore the digital future. Current and potential clients pay tens of thousands of dollars annually to attend because what they gain—fresh insights, self-discovery, and engaging interactions—is worth it. No one minds that in staging the event, Diamond greatly improves its chances of selling follow-up consulting work.

The Characteristics of Experiences

Before a company can charge admission, it must design an experience that customers judge to be worth the price. Excellent design, marketing, and delivery will be every bit as crucial for experiences as they are for goods and services. Ingenuity and innovation will always precede growth in revenue. Yet experiences, like goods and services, have their own distinct qualities and characteristics and present their own design challenges.

One way to think about experiences is across two dimensions. The first corresponds to *customer participation*. At one end of the spectrum lies passive participation, in which customers don't affect the performance at all. Such participants include symphony-goers, for example, who experience the event as observers or listeners. At the other end of the spectrum lies active participation, in which customers play key roles in creating the performance or event that yields the experience. These participants include skiers. But even people who

Some companies will eventually
be like trade shows, charging
customers to sell to them.

turn out to watch a ski race are not completely passive participants; simply by being there, they contribute to the visual and aural event that others experience.

The second dimension of experience describes the *connection*, or environmental relationship, that unites customers with the event or performance. At one end of the connection spectrum lies absorption, at the other end, immersion. People viewing the Kentucky Derby from the grandstand can absorb the event taking place beneath and in front of them; meanwhile, people standing in the

infield are immersed in the sights, sounds, and smells that surround them. Furiously scribbling notes while listening to a physics lecture is more absorbing than reading a textbook; seeing a film at the theater with an audience, large screen, and stereophonic sound is more immersing than watching the same film on video at home.

We can sort experiences into four broad categories according to where they fall along the spectra of the two dimensions. (See the exhibit "The Four Realms of an Experience.") The kinds of experiences most people think of as entertainment—watching television, attending a concert—tend to be those in which customers participate more passively than actively; their connection with the event is more likely one of absorption than of immersion. Educational events—attending a class, taking a ski lesson—tend to involve more active participation, but students (customers, if you will) are still more outside the event than immersed in the action. Escapist experiences can teach just as well as educational events can, or amuse just as well as entertainment, but they involve greater customer immersion. Acting in a play, playing in an orchestra, or descending the Grand Canyon involve both active participation and immersion in the experience. If you minimize the customers' active participation, however, an escapist event becomes an experience of the fourth kind—the esthetic. Here customers or participants are immersed in an activity or environment, but they themselves have little or no effect on it—like a tourist who merely views the Grand Canyon from its rim or like a visitor to an art gallery.

Generally, we find that the richest experiences—such as going to Disney World or gambling in a Las Vegas casino—encompass aspects of all four realms, forming a "sweet spot" around the area where the spectra meet. But still, the universe of possible experiences is vast. Eventually, the most significant question managers can ask themselves is "What specific experience will my company offer?" That experience will come to define their business.

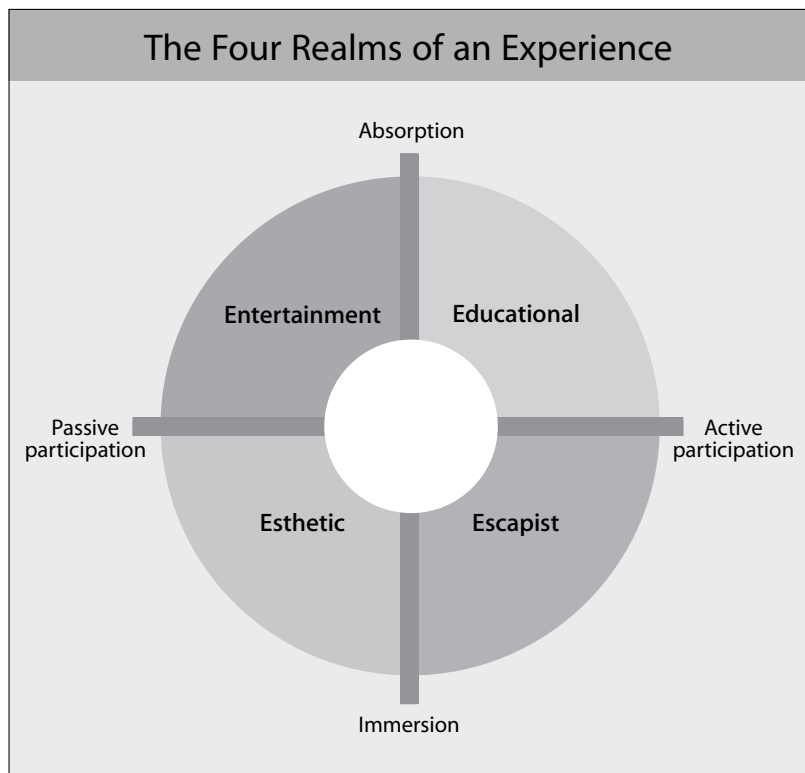
Experiences, like goods and services, have to meet a customer need; they have to work; and they have to be deliverable. Just as goods and services result from an iterative process of research, design, and development, experiences derive from an iterative

process of exploration, scripting, and staging—capabilities that aspiring experience merchants will need to master.

Designing Memorable Experiences

We expect that experience design will become as much a business art as product design and process design are today. Indeed, design principles are already apparent from the practices of and results obtained by companies that have (or nearly have) advanced into the experience economy. We have identified five key experience-design principles.

Theme the experience. Just hear the name of any "eatertainment" restaurant—Hard Rock Cafe, Planet Hollywood, or the Rainforest Cafe, to name a few—and you instantly know what to expect when you enter the establishment. The proprietors have taken the first, crucial step in staging an experience by envisioning a well-defined theme. One poorly conceived, on the other hand, gives customers nothing around which to organize the impressions they encounter, and the experience yields no lasting memory. An incoherent theme is like Gertrude Stein's Oakland: "There is no there there." Retailers often offend the principle. They talk of "the shopping experience" but fail to create a theme that ties the disparate merchandising presentations together into a staged experience. Home-appliance and electronics retailers in partic-



ular show little thematic imagination. Row upon row of washers and dryers and wall after wall of refrigerators accentuate the sameness of different companies' stores. Shouldn't there be something distinctive about an establishment called Circuit City, for example?

Consider the Forum Shops in Las Vegas, a mall that displays its distinctive theme—an ancient Roman marketplace—in every detail. The Simon DeBartolo Group, which developed the mall, fulfills this motif through a panoply of architectural effects. These include marble floors, stark white pillars, “outdoor” cafés, living trees, flowing fountains—and even a painted blue sky with fluffy white clouds that yield regularly to simulated storms, complete with lightning and thunder. Every mall entrance and every storefront is an elaborate Roman re-creation. Every hour inside the main entrance, statues of Caesar and other Roman luminaries come to life and speak. “Hail, Caesar!” is a frequent cry, and Roman centurions periodically march through on their way to the adjacent Caesar's Palace casino. The Roman theme even extends into some of the shops. A jewelry store's interior, for instance, features scrolls, tablets, Roman numerals, and gold draperies. The theme implies opulence, and the mall's 1997 sales—more than \$1,000 per square foot, compared with a typical mall's sales of less than \$300—suggest that the experience works.

An effective theme is concise and compelling. It is not a corporate mission statement or a marketing tag line. It needn't be publicly articulated in writing. But the theme must drive all the design elements and staged events of the experience toward a unified story line that wholly captivates the customer. Educational Discoveries and Professional Training International of Orem, Utah, stage a day-long course on basic accounting skills to nonfinancial managers. Their exquisitely simple theme—running a lemonade stand—turns learning into an experience. Students use real lemons and lemonade, music, balloons, and a good deal of ballyhoo while they create a corporate financial statement. The theme unifies the experience in the students' minds and helps make the learning memorable.

Harmonize impressions with positive cues. While the theme forms the foundation, the experience must be rendered with indelible impressions. Impressions are the “takeaways” of the experience; they fulfill the theme. To create the desired impressions, companies must introduce cues that affirm the nature of the experience to the guest. Each cue

must support the theme, and none should be inconsistent with it.

George Harrop, founder of Barista Brava, a franchised chain of coffee bars based in Washington, D.C., developed the company's theme of “the marriage of Old-World Italian espresso bars with fast-paced American living.” The interior decor supports the Old World theme, and the carefully designed pattern of the floor tiles and counters en-

To create the desired impression, companies must provide cues that affirm the nature of the experience.

courages customers to line up without the usual signage or ropes that would detract from that theme. The impressions convey quick service in a soothing setting. Furthermore, Harrop encourages *baristas* to remember faces so that regular customers are handed their usual order without even having to ask.

Even the smallest cue can aid the creation of a unique experience. When a restaurant host says, “Your table is ready,” no particular cue is given. But when a Rainforest Cafe host declares, “Your adventure is about to begin,” it sets the stage for something special.

It's the cues that make the impressions that create the experience in the customer's mind. An experience can be unpleasant merely because some architectural feature has been overlooked, underappreciated, or uncoordinated. Unplanned or inconsistent visual and aural cues can leave a customer confused or lost. Have you ever been unsure how to find your hotel room, even after the front-desk staff provided detailed directions? Better, clearer cues along the way would have enhanced your experience. Standard Parking of Chicago decorates each floor of its O'Hare Airport garage with icons of different Chicago sports franchises—the Bulls on one floor, the White Sox on another, and so forth. And each level has its own signature song wafting through it. “You never forget where you parked,” one Chicago resident remarked, which is precisely the experience a traveler wants after returning from a week of travel.

Eliminate negative cues. Ensuring the integrity of the customer experience requires more than the layering on of positive cues. Experience stagers also must eliminate anything that diminishes, contradicts, or distracts from the theme. Most constructed

spaces—malls, offices, buildings, or airplanes—are littered with meaningless or trivial messages. While customers sometimes do need instructions, too often service providers choose an inappropriate medium or message form. For example, trash bins at fast-food facilities typically display a “Thank You” sign. True, it’s a cue to customers to bus their own trays, but it also says, “No service here,” a negative reminder. Experience staggers might, instead, turn the trash bin into a talking, garbage-eating character that announces its gratitude when

If airlines truly sold experiences, more passengers would actually shop in the seat-pocket catalogs for mementos of their flight.

the lid swings open. Customers get the same message but without the negative cue, and self-busing becomes a positive part of the eating experience.

The easiest way to turn a service into an experience is to provide poor service—thus creating a memorable encounter of the unpleasant kind. “Overservicing” in the name of customer intimacy can also ruin an experience. Airline pilots interrupt customers who are reading, talking, or napping to announce, “Toledo is off to the right side of the aircraft.” At hotels, front-desk personnel interrupt face-to-face conversations with guests to field telephone calls. In the guestrooms, service reminders clutter end tables, dressers, and desktops. (Hide them away and housekeeping will replace these annoyances the next morning.) Eliminating negative cues—by transmitting pilots’ offhand announcements through headsets instead of speakers, by assigning off-stage personnel to answer phones, and by placing guest information on an interactive television channel—creates a more pleasurable customer experience.

Mix in memorabilia. Certain goods have always been purchased primarily for the memories they convey. Vacationers buy postcards to evoke a treasured sight, golfers purchase a shirt or cap with an embroidered logo to recall a course or round, and teenagers obtain T-shirts to remember a rock concert. They purchase such memorabilia as a physical reminder of an experience.

People already spend tens of billions of dollars every year on memorabilia. These goods generally sell at price points far above those commanded by

similar items that don’t represent an experience. A Rolling Stones concert-goer, for example, will pay a premium for an official T-shirt emblazoned with the date and city of the concert. That’s because the price points are a function less of the cost of goods than of the value the buyer attaches to remembering the experience.

If service businesses like airlines, banks, grocery stores, and insurance companies find no demand for memorabilia, it’s because they do not stage engaging experiences. But if these businesses offered themed experiences layered with positive cues and devoid of negative cues, their guests would want and would pay for memorabilia to commemorate their experiences. (If guests didn’t want to, it probably would mean the experience wasn’t great.) The special agents of the Geek Squad, for example, stage such a distinctive computer-repair experience that customers buy T-shirts and lapel pins from the com-

pany’s Web site. If airlines truly were in the experience-staging business, more passengers would actually shop in those seat-pocket catalogs for appropriate mementos. Likewise, mortgage loans would inspire household keepsakes; grocery check-out lanes would stock souvenirs in lieu of nickel-and-dime impulse items; and perhaps even insurance policy certificates would be considered suitable for framing.

Engage all five senses. The sensory stimulants that accompany an experience should support and enhance its theme. The more senses an experience engages, the more effective and memorable it can be. Smart shoeshine operators augment the smell of polish with crisp snaps of the cloth, scents and sounds that don’t make the shoes any shinier but do make the experience more engaging. Savvy hair stylists shampoo and apply lotions not simply because the styling requires it but because they add more tactile sensations to the customer experience. Similarly, grocery stores pipe bakery smells into the aisles, and some use light and sound to simulate thunderstorms when misting their produce.

The mist at the Rainforest Cafe appeals serially to all five senses. It is first apparent as a sound: Sss-sss-zzz. Then you see the mist rising from the rocks and feel it soft and cool against your skin. Finally, you smell its tropical essence, and you taste (or imagine that you do) its freshness. What you can’t be is unaffected by the mist.

Some cues heighten an experience through a single sense affected through striking simplicity. The Cleveland Bicentennial Commission spent \$4 mil-


lion to illuminate eight automobile and railroad bridges over the Cuyahoga River near a nightspot area called the Flats. No one pays a toll to view or even to cross these illuminated bridges, but the dramatically lighted structures are a prop that city managers hope will help attract tourist dollars by making a trip to downtown Cleveland a more memorable nighttime experience.

Not all sensations are good ones, and some combinations don't work. Bookstore designers have discovered that the aroma and taste of coffee go well with a freshly cracked book. But Duds n' Suds went bust attempting to combine a bar and a coin-operated laundromat. The smells of phosphates and hops, apparently, aren't mutually complementary.

Entering the Experience Economy

Using these five design principles, of course, is no guarantee of success; no one has repealed the laws of supply and demand. Companies that fail to provide consistently engaging experiences, overprice their experiences relative to the value perceived, or overbuild their capacity to stage them will of course see pressure on demand, pricing, or both. One stalwart of the children's birthday-party circuit, Discovery Zone, has had a rough few years because of inconsistent experience staging, poorly maintained games, and little consideration of the experience received by adults, who are, after all,

paying for the event. More recently, the Rainforest Cafe and Planet Hollywood have encountered trouble because they have failed to refresh their experiences. Guests find nothing different from one visit to the next. Disney, on the other hand, avoids staleness by frequently adding new attractions and even whole parks such as the Animal Kingdom, which opened in the spring of 1998.

As the experience economy unfolds, more than a few experience stagers will exit the business. It's hard to imagine, for example, that every one of the scores of theme-based restaurants operating today will last into the millennium. Recall that once there were more than 100 automakers in eastern Michigan and more than 40 cereal makers in western Michigan. Now only the Big Three automakers in Detroit and the Kellogg Company in Battle Creek remain. The growth of the industrial economy and the service economy came with the proliferation of offerings—goods and services that didn't exist before imaginative designers and marketers invented and developed them. That's also how the experience economy will grow: through the "gales of creative destruction," as the economist Joseph Schumpeter termed it—that is, business innovation, which threatens to render irrelevant those who relegate themselves to the diminishing world of goods and services. 

Reprint 98407

To place an order, call 1-800-988-0886.

Harvard Business Review



CASE STUDIES AND HARVARD BUSINESS REVIEW ARTICLE REPRINTS

Many readers have asked for an easy way to order case studies and article reprints or to obtain permission to copy. In response, we have established a Customer Service Team to grant permission, send rush copies in paper form, deliver files in Acrobat (PDF) format electronically (*Harvard Business Review* articles only), or customize collections.

Please contact the Customer Service Team:

Phone: 617-496-1449

United States and Canada: 800-668-6780
(8 A.M. – 6 P.M. weekdays, voice mail after hours)

Fax: 617-496-1029 (24 hours, 7 days a week)

E-mail: custserv@hbsp.harvard.edu
(24 hours, 7 days a week)

Web Site: <http://www.hbsp.harvard.edu>

Prices (minimum order, \$10):

Harvard Business Review Reprints

(Discounts apply to multiple copies of the same article.)

1–9 copies	\$5 each
10–99	\$4
100–499	\$3.50
Electronic	\$3.50 each

Harvard Business School Case Studies

\$5 each

For quantity estimates or quotes on customized products, call
Frank Tamoshunas at 617-495-6198.
Fax: 617-496-8866

PERMISSIONS

For information on permission to quote or translate Harvard Business School Publishing material, contact:

Customer Service Department
Harvard Business School
Publishing Corporation
60 Harvard Way
Boston, MA 02163

Phone: 617-496-1449

United States and Canada: 800-668-6780

Fax: 617-495-6985

E-mail: custserv@hbsp.harvard.edu

HARVARD BUSINESS REVIEW SUBSCRIPTION SERVICE

United States and Canada

Phone: 800-274-3214

Rates per year: United States, \$85;
Canada, U.S.\$95

International and Mexico

Phone: 44-1858-435324

Fax: 44-1858-468969

Rates per year: international, U.S.\$145;
Mexico, U.S.\$95

Orders, inquiries, and address changes:

Harvard Business Review

Tower House, Sovereign Park

Lathkill Street, Market Harborough

Leicestershire LE16 9EF

England

International customer service E-mail

address: harvard@subscription.co.uk

Payments accepted: Visa, MasterCard,
American Express; checks at current
exchange rate payable to

Harvard Business Review.

Bills and other receipts may be issued.

CATALOGS

Harvard Business School Publishing Media Catalog

This 32-page, full-color catalog features more than 40 management development video and interactive CD-ROM programs.

Harvard Business School Press

This latest full-color catalog features books for the fast-paced business world where you live and work.

Harvard Business School Publishing Catalog of Best-Selling Teaching Materials

This collection of teaching materials contains those items most requested by our customers.

Harvard Business School Publishing Catalog of New Teaching Materials

Designed for individuals looking for the latest materials in case method teaching.