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B. Joseph Pine II & James H. Gilmore

Experiences drive economic demand

Goods and services are no longer enough. There is a fundamental shift going on in the very fabric of all developed economies. That shift is not to an information economy, much less to a knowledge economy. The new economy emerging is now based on an age-old but newly identified economic offering: experiences.

Consider the lowly coffee bean. Companies that harvest this *commodity* and trade it on the futures market receive a little less than 1 euro per pound, which translates into less than 2 cents per cup. When a manufacturer roasts, grinds, packages, and puts those same beans in a grocery store, turning them into a *good*, the price jumps to between 4 and 14 cents per cup (depending on brand and package size). Brew the ground beans in a vending machine, brown cafe or kiosk and that *service* now sells for 50 cents or 1 euro, perhaps 1 euro 50 cents, 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 it. But wait: serve that same coffee in a five-star restaurant of a grand hotel (such as the Hotel Kämp in Helsinki) or an experiential coffee shop (like Robert's Coffee) – where the ordering, creation, and consumption of the cup embodies a distinctive ambience or heightened sense of theatre – and consumers gladly pay anywhere from two to six euros for each cup. Businesses that ascend

to this fourth echelon of value establish a distinctive *experience* that envelops the purchase of coffee, increasing its value (and therefore its price) by several orders of magnitude over the original commodity.

Experiences are a distinct economic offering, as distinct from services as services are from goods, but one that – until now – went largely unrecognized. When people buy a good, they receive a tangible thing; when they buy a service, they purchase a set of intangible activities carried out on their behalf. But when they buy an experience, they pay to spend time enjoying memorable events that a company stages to engage them in a personal way.

Goods and services no longer enough

Goods and services are no longer enough. Companies in industry after industry recognize the need to stage experiences for their guests. The Hard Rock Cafe, for example, was the world's first theme restaurant, opening in London in 1971. It merged rock music with food service to create a unique dining experience – one successful to this day. Retail is becoming more experiential with stores like REI, based in Seattle, which has put 65-foot climbing walls inside its latest establishments, charging a USD 5 fee for guests to climb the rock. Stores have cross-country ski or bicycle trails, walking paths with different surfaces to test out shoes, rain rooms, and the newest store in Denver sits right next to a river for easy access to a kayaking experience. The big idea is to get consumers to experience the goods at the store, and then the chances that they will buy those goods goes up tremendously.

Hotels are becoming more experiential as well. **Ian Schrager**, the co-founder of Studio 54 in the 1970s, has opened up a series of boutique hotels around the world to provide a distinctly non-chain experience. His theme for the Paramount Hotel in Manhattan, for example, is “in the know.” It is for people in the know; for people who want to see others in the know; for people who want to be in the know. So much so is that its theme, outside the hotel there is no sign indicating where it is. You have to know where it is to be able to find it!

Even manufacturers are getting into the act. Volkswagen has opened up a theme park outside of its factory in Wolfsburg, Germany, called Autostadt. It is more than a factory tour, though that of course is available. There is a different pavilion for each of VW's brands – including Audi, Seat, Lamborghini and Bentley – that exposes the underlying themes that the company is trying to get across to each of its markets. And if you order a car to be built by that factory and picked up at Autostadt, VW stores it in one of several huge towers surrounded by water, and when you arrive at its showroom, a mechanical arm

picks up the car, brings it down into a tunnel, and then it appears in the middle of the showroom for a unique delivery experience.

But it is not just frivolous activities or fantasy environments that engender experiences. In the U.S., one of the industries that best understands the need to shift from services to experiences is in fact health-care. As just one example among many, when **Peter Betts**, CEO of East Jefferson General Hospital in Metairie, Louisiana, found his hospital faltering, he went so far as to take his management team to Walt Disney World to learn from the premier experience stager in the world. Not, realize, to bring back Disney's cartoonish experience, but rather to extract out the principles that Disney applies, and then apply them to the hospital.

The team implemented a number of the ideas they brought back, including scripting patient encounters, costuming workers, and enhancing its surroundings from various shades of off-white to colorful murals on the ceilings, with a piano player in the atrium, and moving off-stage activity (such as transporting blood) to back hallways inaccessible by patients or their families, the guests of the experience. So successful has East Jefferson been that it gained eighteen points in market share, going from losing millions of dollars to having profits of millions of dollars every year that it returns to its owner, the local government.

The True New Economy

Of course, as several of the examples above demonstrate, experiences are just as prevalent in Europe as they are in the U.S. Indeed, some of our favorite examples are uniquely European, including Vinopolis in London, the Heineken Experience in Amsterdam, the House of Music in Vienna, LEGOLAND in Denmark, the Bergen Railway in Norway, the Ice Hotel in Sweden, and of course Santa Park in Lapland. After all, what's going on is a fundamental shift in the very fabric of all developed economies.

It is crucial to understand that this shift is not to an information economy, much less to a knowledge economy. Why not? Because information and knowledge are not economic offerings, rather merely forms of intelligence. Until such intelligence is turned into informational goods, information services, or informing experiences, it cannot be bought and sold as economic output.

Economic commerce began with the Agrarian Economy, based on natural commodities as the primary economic offering. It then progressed through the Industrial Economy, based on physical goods, and in the 20th century developed into a Service Economy, with intangible services comprising the predominant

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mode of economic activity. The new economy emerging now in the 21st century is similarly based on an age-old but newly identified economic offering: experiences.

The Experience IS the Marketing

And that shift has the potential to affect every single company – for in the Experience Economy, the experience is the marketing. In other words, the best way to market any offering is with an experience so engaging that potential customers cannot help but pay attention – and pay up by buying the company's offerings as a result.

Consider a true commodity company: Pike Place Fish Company in Seattle, Washington, which takes fish caught on the ocean and sells them to customers in an open market in the middle of the city. But how they do so (as immortalized in the training video *Fish!* from Charchouse International) is by staging an engaging experience that causes people to come from all over to their stalls, rather than their competitors, to watch the show and buy the fish. While the workers there have many street-theatre-based routines, Pike Place's signature moment occurs when someone buys a particular fish. Then, the worker shouts out the order, with everyone else repeating it, and flings it behind the counter to a fellow worker, who catches it, wraps it up, and delivers it to the guest with a flourish. So thoroughly engaging is this performance that it plays to sellout crowds every day.

Or consider a manufacturer of a collection of high-quality girl's dolls, The Pleasant Company, based in Madison, Wisconsin. When founder and ex-schoolteacher **Pleasant Rowland** decided to go beyond selling her wares directly to consumers, rather than open a store she produced an experience: The American Girl Place, just off Michigan Avenue in Chicago. Here, mothers and daughters (with not a few grandmothers) spend time together at The American Girl Theater, where for USD 25 apiece they can take in a 70-minute staged production, The American Girls Revue. They go to The Cafe for a "grown-up dining experience," paying an admission

fee of USD 16 for lunch or tea and USD 18 for dinner.

Girls pose for a USD 21.95 photo shoot to take home a copy of American Girl Magazine with their pictures on the cover. They even have their dolls' hair styled in The Hair Salon for USD 10 (a simple ponytail) to USD 20 (restoring the look of its original styling). Think about it: A family can walk into the American Girl Place and spend hundreds of dollars – without buying a thing! (Of course, each one arrives home with more dolls, more furniture, more clothing, and more accessories as memorabilia of their experiences.)

Service companies can also use experiences to market their offerings. For example, The Geek Squad, based in Minneapolis, Minnesota, installs and repairs computers with panache. Its Special Agents costume themselves in white shirts, thin black ties, and black pants with devices hanging off the belt. They drive around in new black-and-white VW Beetles dubbed Geekmobiles and engage their customers in a unique blend of street theatre. When a geek goes to a customer's premises, he pulls out his identification badge and might say something like, "I'm Special Agent Smith from The Geek Squad. Please step away from your computer, ma'am. . . ." Chief Geek Robert Stephens tells us his goal is to make each performance so engaging that customers cannot wait until their computers break down!

The bottom line: In the Experience Economy, experiences drive economic demand for all economic offerings. That is a trend worth paying attention to. ◀

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are co-authors of *The Experience Economy: Work Is Theatre & Every Business a Stage* and most recently of the e-Doc "The Experience IS the Marketing". They also co-founded Strategic Horizons LLP of Aurora, Ohio, USA, a thinking studio dedicated to exploring the frontiers of business and helping executives see the world differently, and can be reached at pine&gilmore@strategichorizons.com