Experience Economy

Ex-Based (+) experience-based economy

How to survive in the 21st century
Experience Economy

Agenda:

• Background for the development: From commodity to experience
• Indirect use of experiences: Experience as value adding
• Experience process
• Selling pure experiences: Using the experience realm model
• How to develop experiences
• Creating the experience settings
Background for the development: From commodity to experience
Historical development

- Alvin Toffler: First author to define the concept in “Future Shock” from 1970: “From a system designed to provide material satisfaction, we are rapidly creating a new economy geared to the provision of psychic gratification”
- Gerhard Schultze describes a development in society based on experiences, hobbies and values in “Erlebnisgemeinschaft” in 1992
- First management book in 1999: The experience Economy” by Joseph Pine & James Gillmore
The Pine & Gillmore contribution

• Presenting a business view on the experience concept (and a way to avoid commoditization)
• Introducing experiences as a source of economic value
• Separating services and experiences
• Using a theatre metaphor to explain their points
• Providing tools to identify and develop experiences

Their definition:
Companies **stage** meaningful events to **engage** customers in a **memorable** and **personal** way
Why now?

1. Rising consumer demands:
   - Rising Brand awareness
   - Politically correct consumer (environment; production ethics)
   - Personalization (self-staging)

2. Commoditization: Increasing focus on price (Internet; discount wave; growing competition)

3. Increasing wealth
Economical progression

- A commodity business charges for undifferentiated products.
- A goods business charges for distinctive, tangible things.
- A service business charges for the activities you perform.
- An experience business charges for the feeling customers get by engaging it
From commodity to experience
Indirect use of experience economy: Experience as value adding
Producers

1. Direct
   - the experience is the business idea
   - theme parks, movies, concerts,
     tourism, computer games etc.

2. Indirect
   - experience is added to the physical
     product (value adding)
   - Emotional state achieved by owning or using product
   Tools: branding, story telling, events, customization
Indirect use of experience economy

Companies need to focus on:
• Building a strong Brand
• Personalizing products: Customization
• Telling a story
• Staging events
Examples:

**Branding**

- Exciting, classy person
- Feels at ease at the finest hotels in an international environment

**Events**

Are you a LEGO Club member who wants to meet other LEGO Club members, participate in fun, themed building activities, and get an exclusive LEGO Club t-shirt? Then come to a LEGO Club meeting at your local LEGO store! Meetings will be held on Saturday mornings and take place in the store before it opens!
Examples:

Story telling

It all started in New York’s Greenwich Village in 1972. Childhood friends Leonard Marsh, Hyman Golden and Arnold Greenburg saw more potential in fruit than just something to throw in the lunchroom. But where did they get the name Snapple? It actually came from a carbonated apple soda that was part of the original beverage line. The soda had a great snappy apple taste. Now that’s cleverness at its best. Fast forward to the era of hair bands and acid-washed jeans. We’re talking 1987, my friends. That’s when Snapple teas were born. Today, Snapple produces more than 50 varieties of teas, juice drinks and flavored waters – all Made from the Best Stuff on Earth.

Customization

Zoom Rock

Designed for Kobe
Made for Kobe
Designed by you

Hæ bestemmer du selv!

Odder Comfort design overdelene kan vælges i både og og Victory almindeligt – og du kan nøjagtigt fremskrive det du vil have, helt op til 4 forskellige farver blandt mange end 700 nuancer.

Dørelen produceres i mereforskellige stof, der er fantastisk skinnende, struktedeksel og reningsfærdige. Hele dørelen skulle være stil.

Hæ her har mulighed for selv at designe en funky benængesnor til præcis de farver der opfylder dine drømme.
Experience process
Rational vs. emotional behavior

- The non-rational consumer buys product with an emotional appeal
- Brain system:
  a) reptile brain: controls the instincts
  b) neo cortex: controls our reason
  c) limbic system: controls our emotions

Experience economy is appealing to the limbic system and silencing neo cortex
Proces of experience

Sensory perception

↓

Emotion

↓

Experience (Erlebnis)

↓

Meaningful experience (Erfahrung)

↓

Give meaning
Sensory perception and emotions

- Use of the senses in creating experiences (sight, hear, smell, taste, touch)
- Hierarchy of senses – useful to establish
- Senses lead to emotions (a way of dealing with the world)
- Emotions are part of the evaluation process
- Mental state has a big impact on emotions
Experience and meaningful experience

• **Experience**
  - a set of emotions
  - create meaning
  - is related to the moment

• **Meaningful experience**
  - learning process of experiences (what it means to me?)
  - could be compared to post purchase behavior
Motivation

• Understanding the quest for meaningful experiences
• Fridjas model:
  a) individual (appreciation) vs. collective (recognition)
  b) control (certainty) vs. discovery (expression)
• The consumer will move in this field!

Alternative model:
Maslows hierarchy of needs
Conclusion: Meaningful experience

Include the following characteristics:

• They involve all senses
• High degree of focus and concentration
• A loss of time and place
• Being emotionally touched
• A unique and valuable process
• Being in contact with the environment
Selling pure experiences: Using the experience realms model
(Analyzing the experience)
Dimensions

An experience can engage customers based on two dimensions:

• **Degree of customer participation**
  - passive - observe, listen; do not affect the experience
  - active – affects and takes part in the experience

• **Customers relation to the experience**
  - absorption – experience ”goes into” the customer
  - immersion – customer ”goes into” the experience
The four experience realms
Entertainment

- Passive absorption of experiences
- Using the senses see and listen
- Traditional perception of experiences
- Entertainment will often be an element of the experience

Examples: Concerts; Movies, Sports events
Education

• Active absorption of knowledge by engaging the intellect or the body (training)
• Is often seen as serious experiences (you learn something or is developed physically)
• A fusion with entertainment is becoming popular (edutainment)

Examples: Fitness, Courses, Museums
Escapism

- Active immersion; customer becomes part of the experience; the experience can be affected
- Customer participates in activities, where you forget about time and place
- The most development is seen within this area

Examples: Amusement parks; Extreme sport; Gambling; Cyberspace
Esthetic

- Passive immersion; no influence on the experience
- Special moments of enjoyment to remember
- The environment is unchanged; only the customer is affected
- Is often related to art and nature
Major points

- Entertainment: Is about sensing
- Education: Is about learning
- Escapism: Is about doing
- Esthetic: Is about being there

Objectives:
- Expanding the experience by adding more realms
- The ultimate experience includes all four realms (the sweet spot)
How to develop experiences
Five stages of developing experiences

1. Innovation and creativity: Idea stage
2. Developing experience proposition: Design stage
3. Internal processes and core competencies: How it affects organization
4. People and culture: The people who makes it happen
5. The business model: How money is earned
Stage 1: Idea stage

**Objective:** Find new concepts; improving existing concepts

Creative thinking: break through existing patterns of thinking (“step into lunacy”)

**Methods:**
- Brainstorming
- Association techniques
- Power of imagination

Check your ideas with questions on page 171-173
Stage 2: Design stage

- Pine & Gillmore focus on 5 principles in designing experiences

Important principles:
1. Use a theme
2. Use positive cues
3. Avoid negative cues
4. Include memorabilia
5. Engage all five senses
Stage 2: Design stage

Another approach is developing on the value chain by creating a customer experience chain (also related to buying process)

- Determine the sequences of stages that a customer goes through
- Determine needs, considerations, emotions and impressions
- Design your offer
Stage 2: Design stage

Customer experience chain (booking a holiday)
1. Getting the idea (inspiration)
2. Finding information
3. Choosing between options
4. Booking the trip
5. Preparing for the trip
6. Taking the trip
7. Enjoying the memory of the trip
8. Getting a new idea
Stage 3: Organizational consequences

• The experience chain activities has to be translated into supporting processes (both physical and virtual settings)
• The basic processes has to be under complete control
• Need competencies to carry out the necessary processes
• Technology should support the processes
Stage 4: Personnel

- Quality of experience depends to a great extent on the contact moments
- Important to determine desired behavior from the personnel
- Determine the level of freedom (behavior is often controlled and standardized)
- Satisfied employees will deliver more value to the customer (motivation factors)
Stage 5: Economy

- The cost of creating an experience ultimately have to be returned – customers have to be willing to cover the value adding cost
- Costs include: development; salaries; physical settings; marketing
- Can be hard to calculate as most cost does not relate to one specific experience product
Creating the experience settings
Designing the setting

Important principles:
1. Use a theme
2. Use positive cues
3. Avoid negative cues
4. Include memorabilia
5. Engage all five senses
Principle 1: Themes

- Forms the foundation of a story
- Scripting a participative story
- Examples: nostalgia; wild west; Arabian fantasy; urban motif; tropical paradise...
Principle 2 & 3: Positive and negative cues

- The ”takeaways” of the experience
- Leave indelible impressions
- Can be divided into:
  1) Mechanics: sights, smells, sounds, tastes and textures generated by things
  2) Humanics: comes from people; the behavior of employees
- Eliminate distractions (like overservicing; long check-in procedures etc.)
Principle 4: Memorabilia

• Products that creates memories
• Are important for the meaningful experience (after the experience is over)
• Souvenirs or merchandise: could be an important income factor
• Not just for memories; also to show others to generate conversation
• Could also be given away
Principle 5: Five senses

• The more an experience engages the senses, the more memorable it will be
• Easiest way: add taste sensations (simply by serving food and drinks)
• Be careful not to overwhelm the customer with sensory input – map the effect of each cue on the senses
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