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## What Business



## are you Really In?

In the Experience Economy, the customer expects to be transformed by the product or service. CEOs will need to rethink the transformative value of their company's offerings.

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



Consider, however, that basic but perhaps most oft-consumed staple: the lowly coffee bean. A true commodity in every sense of the word: It is a produce grown on the land; fungible; stored, sold, and bought in bulk-and you can find its price every morning in [The Wall Street Journal's](#) listing of futures prices. Companies that harvest coffee or trade it on the futures market receive a little more than \$1 per pound, which translates into 1 or 2 cents a 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 5 and 25 cents a cup. 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 \$1 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 ambiance or sense of theater-and consumers gladly pay anywhere from \$2 to \$5 for each cup.

### Beyond Goods and Services

Experiences are a distinct economic offering, as distinct from services as services are from goods, but one that, until now, went largely unrecognized. When someone buys a good, he receives a tangible thing; when he buys a service, he purchases a set of intangible activities carried out on his behalf. When he buys an experience, he pays to spend time enjoying memorable events that a company stages to engage him in a personal way.

Experiences include vacationing at one of [Disney's](#) theme parks, dining at a theme restaurant such as the Hard Rock Cafe, or shopping at experiential destinations such as [Universal CityWalk](#) in Los Angeles. Just as the Service Economy supplanted the Industrial Economy earlier this century, it too is now peaking and being replaced by an Experience Economy.

Don't equate experiences with entertainment; that's only one aspect. Consider travel. Former [British Airways](#) chairman Sir Colin Marshall noted in the [Harvard Business Review](#) that the "commodity mind-set"



means thinking any "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, Sir Colin continued, "is to go beyond the function and compete on the basis of providing an experience." The company uses its base service (the travel itself) as a stage for a distinctive en route experience-one that changes the burdens inherent to any long trip into a respite from the traveler's everyday frenzy.

And don't assume that being in the business of staging experiences applies only when selling to consumers. Individuals comprise all businesses, 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, carry badges, and drive around in old cars, turning a normally humdrum activity into a memorable encounter. Similarly, many companies hire theater troupes to turn otherwise ordinary meetings into improvisational events. And business-to-business marketers increasingly orchestrate elaborate venues for selling.

### So What's a Chief Executive to Do?

Moving beyond commodities, goods, and services to being in the business of staging experiences greatly increases the value rendered to customers. But most companies are so far removed from this that they must beware a fundamental axiom: The easiest way to turn a service into an experience is to provide poor service-thus creating a memorable encounter of the unpleasant kind. And the surest way to provide poor service is to treat individual clients via rote, impersonal activities that do not vary no matter who they are or what they really need.



Customers have received such treatment ever since service providers embraced the very same principles of mass production that manufacturers used to dramatically lower costs. And it's become even worse as the forces of commoditization that hit manufacturing now attack services as well. So service providers reengineer their call centers to reduce call time and downsize already harried front-line staff to save on fixed costs and overhead. The end result? Their people spend less time with clients, and the time they do spend no longer delivers the same level of service. By focusing on costs at the expense of what clients want, they're really commoditizing themselves. Why should customers pay a higher price for demonstrably poorer service?

But the inverse principle holds true: Mass customizing a service can be a sure route to staging a positive experience. [Progressive Insurance](#) of Cleveland, for example, places its claims adjusters in vans outfitted with a PC, satellite uplink, and everything else needed to efficiently resolve a claim from the actual accident site. While the other party may wait days or weeks for his insurance company's adjuster to fit him into the schedule, the Progressive claimant finds his particular needs handled right then and there. He receives not only a check, but perhaps a cup of coffee as well, and if need be, time to settle his emotions inside the van and reassure loved ones of his safety, or arrange for a ride, over the adjuster's cell phone. Because Progressive mass customizes its claims service to the specific individual insured, its offering goes beyond the expected service to provide an experience appropriate to the physical and emotional needs of the claimant.

### But Is That Enough?

Companies that wish to enter the Experience Economy should first get their act together by mass customizing their goods and services. But what about customizing the experience itself? 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 layer on top of experiences, just as they layer experiences on top of services.



With transformations, the economic offering of a company is the individual person or company changed as a result of what the company does. With transformations, the customer is the product. The individual buyer of the transformation essentially says, "Change me." The company's economic offering is the individual.

Therefore, the exact form and content of any particular transformational offering has to be considered very carefully. The transformation elicitor must first understand its customers' aspirations before it can hope to affect the right change in particular traits-whether they be physical, emotional, intellectual, or spiritual-within that individual. These aspirations center not on some external

good or service, but on the customer himself and what he wants to become.

Consider Lifeline Systems of Cambridge, MA, which provides offerings that encompass aspects of goods, services, experiences, and transformations. At the core of its offering for the "personal response industry" lay a variety of devices that are worn, carried, or left lying on a table. If the user presses the device's button a signal goes through the telephone line to a 24-hour monitoring center. There, trained monitors assess the nature of the call and, if necessary, dispatch the appropriate responder—friend, relative, or public emergency personnel—to handle the situation. Fewer than 5 percent of the calls require emergency assistance, the ostensible reason for having the service. Rather, most people call when feeling isolated or lonely, and talking to someone at the center enhances their daily lives at times of greatest need. Most of their customers—the ones who actually pay Lifeline—are family members for whom the offering relieves them of worry. That's Lifeline's true business.

What business is a prison really in? [Corrections Corp. of America](#), based in Nashville, provides private detention and correction services to various local, state, and federal governments. Bureaucratic wardens might view this only as the service of keeping inmates out of society for the length of their sentences. But when asked by [Chief Executive](#) ("The P&G of Prisons," May 1998) to describe his company's "product," CEO Doctor Crants responded that CCA produced "quality corrections, which involve not just housing people but also creating...some positive impact on the chances that those inmates will have a better life after they leave our facility than they otherwise would."

Once the Experience Economy has peaked, the Transformation Economy will take over. Then, the basis of success will be in understanding the aspirations of individual consumers and businesses, and guiding them to fully realizing those aspirations. Fitness centers and personal trainers, psychiatrists and surgeons, universities and management consultants—all are already in the business of transforming their customers, and are rewarded far more handsomely for their endeavors than mere service providers or even experience stagers. So what about your industry? Is it ripe for shifting up the Progression of Economic Value?

### Exploring New Economic Opportunities

Let's examine how the insurance industry, as just one readily discernible example, makes the transition through successive economies. In the Transformation Economy, carriers will ensure policyholders—that is, aspirants will secure an actual event, situation, or outcome. For example, [Skandia](#) of Stockholm, Sweden, introduced an insurance concept that they call Competence Insurance. Flowing out of the company's focus on intellectual capital, it aims to eliminate the problem of workers falling behind in the level of competence and knowledge required as their jobs change over time. At various points in a worker's life, he or she can draw on the insurance fund to take time off from work and pay for education or skills training, before a crisis occurs.

Business-to-business provider MMI Cos. of Deerfield, IL, has also shifted to transformations. The company insures hospitals and physician's practices against malpractice and other risks. Rather than just pay for lawyers and claims against policyholders, MMI works hard at ensuring their doctors don't get sued in the first place. Health-care institutions cannot buy MMI's insurance without simultaneously agreeing to participate in programs that encompass data gathering and analysis, education courses, and hands-on consulting that together help ensure that doctors, health-care professionals, and health administrators become less of a risk by focusing on a system of care delivery geared toward safety and quality. Every year MMI analyzes how well each institution progressed, and adjusts its programs to respond to changes in the industry, with the emphasis on improving clinical care. As CEO Rick Becker said, "In today's litigious society no one can eliminate all possibilities of a lawsuit. But we're not interested in a business becoming a customer unless that business is interested in becoming less of a risk."

In my work with clients, I frequently describe how mass customization automatically turns goods into services: They are no longer inventoried but produced on demand; they are no longer standardized but created for a particular customer. And part and parcel of Mass Customization is the intangible service of helping customers figure out what they need right now. I am often asked, into what, then, does mass customization turn services?

Managing satisfaction—the gap between what customers expect and what they receive—will not be enough. The gap will create opportunities to surprise customers in memorable ways. [Ritz-Carlton](#), for instance, has its associates write down any preferences (such as for hypoallergenic pillows or for a squeezed lime in [Pepsi](#)) and presciently fulfills these preferences on subsequent stays at any of its hotel properties. Industrial soap manufacturer [ChemStation](#) of Dayton, OH, for example, independently analyzes customer needs and then has its chemists create unique formulations to precisely meet those needs. It further presciently delivers the formulation into its own plastic storage tanks—with the ChemStation logo and brand colors emblazoned on the front for all to see—before a customer ever has to ask, eliminating any need for the customer to create or even review orders. It aims to surprise its customers, to make them say, "Wow! How did they do that?"

Many commoditized services, such as frequent shopper programs, can be recast along similar lines. Take a retailer's willingness to provide, for example, one free music CD after a dozen purchases. It might eliminate the customer's sacrifice of having to keep another hole-punched proof-of-purchase card in his wallet by using the same free merchandise to surprise unsuspecting consumers with unexpected giveaway celebrations. After-sale services can be replaced by pre-staged experiences.

### **Shifting Forward to New Businesses**

Now, think of your own business. What are the equivalents to insure, assure, and ensure for the industry in which your company now resides? It's unlikely you will find such simple words to describe the path to experiences and transformations-you may even have to invent a word or two-but thinking creatively about what business you are really in will pay dividends as what customers value moves inexorably beyond mere commodities, goods, or services.

Are experiences and transformations really viable economic offerings? Services were at one time denied status as a distinct economic offering: Adam Smith decried services as "unproductive labour"-activities required only to bring commodities or goods to market. Even though the United States entered a full-blown service economy decades ago, many manufacturers still view services as merely a means to sell more goods. Service providers tend to make the same mistake-using experiences and transformations solely to increase the attractiveness of their current offerings, without charging explicitly for what their customers truly value. This is expected and perhaps even necessary, as marketing hype tends to precede operational reality. But those firms that shift beyond manufacturing goods and delivering services to staging experiences and guiding transformations will ward off the commoditization that threatens businesses everywhere. Those that do not will find themselves subject to the vagaries of a very competitive and ruthless marketplace.

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