

Create Economic Value

with engaging experiences

by B. Joseph Pine II and James H. Gilmore

The best way to market any product is with an experience so engaging that potential customers can't help but pay attention — and pay up as a result.

Imagine a bank branch like no other. Customers frequently walk in just to chat with bank personnel. Non-customers walk by and decide the place looks so inviting they can't help but drop in. When they do, they're promptly offered coffee. They lounge around, read newspapers, access the internet, talk with friends, or just stare out the window.

Not a single financial transaction occurs. The bank doesn't provide any means of doing so. Yet that single branch yields over \$200 million in new accounts and mortgages within a year of opening.

Make it personal and relevant

Such a place actually exists: the ING Direct Café on 49th Street in New York, between Madison and Park. More a genuine café than a bank branch, this place was inspired by the Toronto offices of ING Direct — which despite having no physical branches and completing all transactions via mail, phone, and internet — consistently serve coffee to people who drop by. The company, a North American arm of the huge Dutch financial conglomerate, decided a café was a great way to entice people to walk in so that financially savvy and surprisingly friendly baristas could engage them in conversation about their financial needs, and explain ING Direct's capabilities for savings accounts and mortgages.

Amazingly, it works. Consumers literally turn over tens of thousands of dollars to ING Direct thanks to a cup of good coffee. So successful was the company's first full café in Manhattan — placed below the company's backup call center — that it opened a second in Philadelphia, which yielded over \$100 million in new accounts in just its first six months, and more recently a third one in Los Angeles.

But why did it work? Because ING Direct realized that financial services had become so commoditized, only an engaging experience would expose customers to its financial offerings.

Abandon commoditized offerings

Few industries have become as commoditized as financial services over the past three decades. Consumers have been pushed out of branches — first by automatic teller machines, then by voice response systems, then by the internet. Yet the branch is the very place where financial institutions can stage an engaging experience. Have costs been lowered? Yes, but at the same time financial institutions are struggling to build relationships with consumers that go beyond a focus on transactions.

Is it any wonder financial offerings have become, for many, mere commodities to be bought and sold on price, price, price?

Consider, however, a true **commodity**: the coffee bean. Last year its price on the futures market hit a fifty-year low — because that's what happens to commodities over time; they go down in price. Converting the futures price

\$2000

MILLION

in new accounts and mortgages within a year of opening.





to a per-cup basis, we find that those who treat coffee as a commodity receive about a penny per cup. That's it. 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 five and 25 cents a cup (depending on brand and package size). Brew the ground beans in a vending machine or run-of-the-mill diner, corner coffee shop, or bodega and that **service** now sells for fifty cents to a dollar per cup.

Offer a distinctive experience

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, espresso bar, or ING Direct Café — where the ordering, creation, and consumption of the cup embodies a heightened ambience or sense of theatre, and consumers gladly pay anywhere from \$2 to \$5 for each cup. Businesses that ascend to this fourth level 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.

Envision a new level of economic value

It's crucial to understand that experiences are a *distinct economic offering*, as distinct from services as services are from goods. Experiences result when a company uses tangible goods as props and intangible services as the stage for engaging each customer in an inherently personal way, and thereby create a memory, the hallmark of every experience.

Experiences include vacationing at one of Disney's theme parks around the world, dining at theme restaurants such as the Hard Rock Cafe, staying at boutique hotels like one of Ian Schrager's properties, and shopping at experiential destinations such as Universal CityWalk in Los Angeles.

Or sipping a cup of coffee at the ING Direct Café. This company, above all other financial institutions, understands a fundamental dictum for creating demand today: *The experience is the marketing.* The best way to market any

product is with an experience so engaging that potential customers can't help but pay attention — and pay up as a result by buying that product.

Increase marketing ROI significantly

While the company doesn't reveal its own finances, we're very confident in saying that ING Direct — along with many others that use experiences to generate demand for their offerings — more than covers the costs of the marketing experiences it has created. You know what that means? With no outgoing marketing expenditures — but rather a profit — the denominator in the return on investment equation is zero, yielding *infinite ROI* on its marketing budget.

Such is the case in the emerging Experience Economy. Your opportunity is clear. If you provide the economic value consumers want today, going beyond commoditized products and services to staging engaging experiences, then you will be economically rewarded. ■

Experiences are a distinct economic offering, as distinct from services as services are from goods.



Strategists, award-winning business executives, and faculty members, B. Joseph Pine II (top) and James H. Gilmore pioneered "staging," a method to provide lasting, personalized customer experiences. Co-authors of The Experience Economy: Work Is Theatre & Every Business a Stage and The Experience IS the Marketing, they also founded Strategic Horizons, LLP, to help businesses conceive and design new ways of adding value to their economic offerings.