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Beyond Goods and Services

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BEYOND GOODS AND SERVICES

Staging experiences and guiding transformations

"Beyond the world of goods and services lies the world of experiences and transformations—distinct economic offerings with implications for the strategic fortunes of giant corporations and entrepreneurial start-ups alike."

Long-held conceptions of commerce often blind organizations from seeing fresh, new sources of value. In particular, three deep-rooted notions that form the traditional building blocks of strategic thinking—products, markets, and processes—unduly influence how we view the world of business. As a result, visions of *uniform output* (products) for *aggregations of anonymous customers* (markets) that require *stabilized work* (processes) drive the development of most business strategies.

Numerous business models perpetuate this tripartite world-view. For example, Michael Treacy and Fred Wiersema, in their book *The Discipline of Market Leaders*, put forward the most recent version of what Michael Porter and others advanced in the past.[1] They encourage organizations to choose between the generic strategies of "product leadership" (high differentiation), "customer intimacy" (market focus), and "operational excellence" (low-cost processes).

However, this product-market-process triad obscures important matters that organizations need to understand, assimilate, and exploit for strategic advantage. There are times when new vocabulary is needed—when alternative language helps executives see the world differently. Now is such a time, as "product" is too sweeping, "market" too vague, and "process" too ill-defined to provide a meaningful framework for discerning new sources of value.

Putting Product in Perspective

"Product" has come to mean anything offered in exchange for monetary value, rather than only tangible, manufactured "goods." People too often use "product" when referring to the other kinds of economic offerings, specifically commodities (fungible offerings that provide the raw materials for goods) and, worse, services (intangible offerings for which goods are the components). But words matter. In particular, for insurance companies, banks, telecommunication firms, and other service providers, the constant reference to their offerings as products and to themselves as product leaders yields an assembly-line mindset. This is a mistake, as a service is a delivered set of activities—there simply is no tangible product anymore. For service-based companies, their processes are their offerings, delivered in response to individual needs.

Just as the industrial economy, based on goods, supplanted the agricultural economy, based on commodities, developed nations are now moving full-bore into the service economy. That means that the vast majority of GDP, employment, and most importantly, consumer demand are in fact in services. Masked perhaps by the rampant overuse of the term "product" to encompass everything from lard to landscaping, goods are rapidly being commoditized—meaning that buyers don't care who makes them, only that they get them at the lowest possible price—while services are growing like weeds. On the demand side, consumers will save by buying at Wal-Mart in order to take their families out to eat once a week. On the supply side, the bulwarks of the industrial economy (like GE, IBM, and Xerox) are finding that the only source of real growth is in services.

Consider the paragon of the past economy, the automobile industry. Traditional product features now compete with multiple service options to attract customers.

"Strategic leaders must understand that as goods and services are commoditized, buyers increasingly desire new economic offerings to which the term 'product' cannot possibly be applied."

Auto makers and their distributors compete on who offers the best warranty, on the quality and cleanliness of dealer service areas, on the speed of an oil change, on financing and lease terms, and so forth. (Quick: Does GM make more profit on the car itself or on its financing?) The rise of mega-dealers and Internet auctions are harbingers of the commoditization of the automobile and the continuing rise of the good as a mere component of the overall service.

So while the term "product" never was appropriate for service providers, it is increasingly outdated for goods manufacturers! For most businesses, more employees are now involved in the delivery of services wrapped around their goods than in the actual production of the goods themselves. Another reason more and more manufacturers find themselves in the service business is because of the rise of mass customization, which automatically turns a good into a service. Mass customizers no longer inventory finished goods but deliver them on demand; they no longer sell to an anonymous, homogenous market but serve real live, breathing customers; and they provide the intangible service of helping customers figure out what they want. Many companies find this a difficult transition to make, because to do so means giving up their cherished view of the product-based world.

Similarly, the product mindset ensconced in so many service providers greatly limits the discovery of new sources of value, so much so that services are rapidly commoditizing as well. Long-distance telephone service is sold solely on price. Airplanes have become cattle cars, while travel agencies scramble to survive as airlines reduce commissions to mask their long-term margin erosion. Meanwhile, the possibility of booking all travel directly via the Internet looms on the strategic horizon. Such disintermediation, while distinct from commoditization, is another trend eliminating many service jobs. Information and telecommunications technologies enable the direct connection of supplier and buyer, bypassing one or more links in the economic value chain. And it is always service jobs that are disintermediated.

Combined with a third trend—the automation of many service jobs such as telephone operators, bank clerks, gas station attendants, and the like—these dynamics are beginning to hit the service sector with the same force and intensity that reduced employment in the U.S. goods sector from over 50 percent to under 20 percent during the 20th century. If it is just a "product" after all, why not produce it with the fewest number of people? Why not interact with buyers completely through technology and eliminate that pesky human element from all processes? Why not go around the next link in the value chain—what possible value could it add to my "product"?

Strategic leaders must understand that as goods and services are commoditized, buyers (whether consumers or businesses) increasingly desire new economic offerings to which the term "product" cannot possibly be applied. (These offerings have always existed, but the "product" mindset has kept even those who offer economic value beyond goods and services from fully recognizing how much their offerings differ in both form and substance.) The first new (or newly identified) offering occurs when a company intentionally uses goods as *props* and services as the *stage* for *engaging* the customer in such a way that it creates a *memorable event*. Its economic offering is no longer the goods or services themselves, but the ***experiences*** they create.

Experiences are as distinct from services as services are from goods. One company that recognizes that staging experiences is what it offers is the Walt Disney Company. Its Orlando cast members (never the "employees" of a goods manufacturer, nor the "associates" of a service provider) engineer (make that imagineer) *everything*—sights, sounds, tastes, smells, and textures—to ensure that each *guest* (never "customer" or "client") is immersed in the completely unique experience that is Disney World.

Likewise, the emergence of thematic dining motifs spawned the growth of a wide array of what have been called "eatertainment" establishments: Planet Hollywood, Dave & Buster's, the Rainforest Cafe, and so forth. The food and service at these places are arguably no better than at other eateries that charge half the price, but here they are used as mere props for a dining experience explicitly designed around engaging themes.

Airlines like British Air and Virgin Atlantic also use commoditized services (the travel itself) as a platform to stage a unique en-route experience that changes the burdens of a long trip into a respite from the traveler's everyday frenzy. In the words of former BA chairman Sir Colin Marshall, the "commodity mindset" 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." But what BA does "is to go beyond the function and compete on the basis of providing an experience."[2]

The way out of the commodization trap in which so many service companies find themselves is to move up an echelon of value and stage an experience. But experiences are not the utmost in economic offerings. Just as customizing a good automatically turns it into a service, so customizing an experience turns it into something distinct. If you design an experience so in tune with what an individual needs at an exact juncture in time, you cannot help but *change* that individual—guiding him to (and through) a life-transforming experience. ***Transformations*** are a fifth economic offering, whose value far exceeds that of any other.

While experience offerings are less transient than services, they do end. Goods can be reinvented as memorabilia and services performed as reminders of the encounter, but often the participant wants something even more lasting—beyond what any experience alone can offer. The buyer of a fitness center membership pays for pain in hopes of gaining greater physical well-being. Similarly, when people pay psychiatrists hundreds of dollars an hour to be asked probing, personal questions, they long for a new understanding of self. These exercise routines and counseling sessions are merely means of *eliciting* transformations desired by the individual *aspirant* (what we call the buyer of a transformation). The individual is the offering—the buyer of the transformation essentially is saying, "Change me."

In the healthcare industry, a sick patient wants more than pharmaceutical goods, medical services, or a hospital experience—he wants to be well. In management consulting, an unprofitable company wants something beyond informational goods, advisory services, or educational experiences—it wants to grow. Transformational offerings that address these vital needs are valued more highly than the goods and services that form the basis of the same industry. Consider consulting, where project methodologies (bound copies of physical goods) and project team facilitators (on-site management services) command far less in fees than large-scale change offerings such as intervention experiences and programmatic transformation campaigns.

The Economic Pyramid (Exhibit 1) shows that beyond the world of goods and services lies the world of experiences and transformations—distinct economic offerings with implications for the strategic fortunes of giant corporations and entrepreneurial start-ups alike. The inexorable march of competitive forces drives the advancement of economic offerings over time: commodities are extracted from the environment to make goods, then delivered as services, which are scripted to stage experiences, which then guide those persons or enterprises in a transformation.

Some will argue that what we call experiences and transformations are really just a sub-class of services. But there is too much disparity between eating at McDonald's and firming up at a fitness center, or between cleaning a suit and cleansing a soul to be classified as a single economic offering. To fully discern the distinctions, realize that both goods and services are generally uneventful. Experiences, on the other hand, are *memorable*—buyers pay explicitly for sensory encounters—while transformations are *aspirational*. Buyers of transformations seek to be guided toward a specific aim and to sustain a lasting effect from their experiences.

While goods are traditionally inventoried and services delivered on demand, experiences *unfold over a duration of time* and transformations must be *sustained through time*. And finally, while goods are standardized and services delivered for a specific individual, both exist completely outside the recipient. The new economic offerings we identify are *inherently personal*. Experiences occur only within the individual, while transformations go even further and actually change the individual buyer.

When we talk of an economic offering that reaches *inside* of individual buyers in such a fundamental way, not only must we protest the use of "product," we must also consign the concept of "market" to its appropriate time and place.

Relegating the Idea of Market

The term "market" originally referred to a place where people physically gathered to sell and purchase wares during particular periods and under specific circumstances. The advent of the Industrial Revolution, and with it the system of mass production introduced the notion of "mass markets" and led to the re-conceptualization of markets as *any aggregation* of *potential* customers. And while the concept and reality of mass markets have fragmented into segments and niches, the marketing practices of today still operate under this principle of aggregation—that multiple customers comprise every market.

Only a few places—commodity pits, The New York Stock Exchange, border towns in Mexico—remain true markets. Yet the term still pervades our business thinking. Consider recent interest in electronic commerce and the Internet. While cyberspace represents a radically different arena for business activity, turning a marketplace into what Harvard professors Jeffrey Rayport and John Sviokla have coined "marketspace," few enterprises have become commercially viable in the digital frontier.

Might the problem lie in maintaining a market-oriented mindset, when the term is simply not relevant to ascertaining the wants and needs of individuals online? Could a commercial bonanza be waiting for those companies that convert their portion of this space into experimental customer-places by using the personal nature and direct dialogue of the medium to its fullest? After all, goods and services are always purchased one at a time by individual customers, not by markets, and experiences and transformations occur only inside of those same individuals.

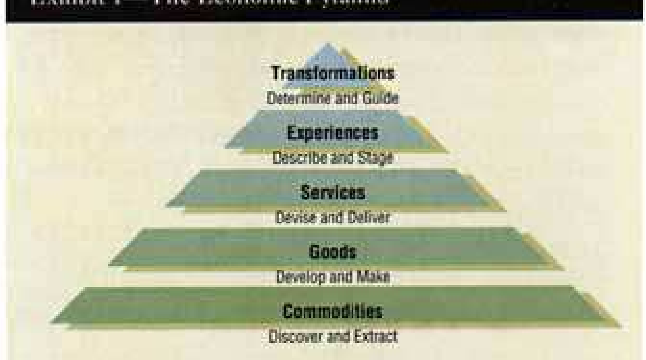
Any aggregation of unknown buyers into market groupings mis-approximates the needs of individual customers by working with averages and forecasts. We relegate the term "market" back to just those places where the *trading* of pure commodities still occurs, for only in such places do actual buyers remain unknown. Providers of goods and services should know the individual people or companies buying their offerings. Too often, however, strategists think solely in terms of markets, without differentiating individual buyers and the different types of relationships that need to be formed to earn their business. That's left for the sales force to figure out, without the benefit of a strategic context that defines how buyers are to be treated.

Regardless of how narrowly defined the markets are conceived, seeing the world through market lenses will commoditize any good, leaving it to compete solely on the basis of supply and demand. The defined "market" for which each was designed is simply not relevant enough to the unique needs of individual customers to command a premium price for differentiated value. Buyers will inevitably treat any offering like a commodity if they feel treated like a piece of market.

To begin understanding how buyers of each economic offering should be treated, the term "customer" should be reserved for buyers of manufactured goods. (See the sidebar "Ample Waves of Grain" on page 18.) Service providers must go beyond the manufacturer's understanding of customers, lest their offerings, too, be commoditized. Even recognizing specific customers as the mass-customizing manufacturer does, is not enough. The service provider must spend time *interacting* with customers to understand their *unique* needs, and then customizing the *use* of goods on their behalf.

The only means to truly differentiate a service is to

Exhibit 1—The Economic Pyramid



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Ample Waves of Gain

Recognizing experiences as a distinct economic offering provides the key to future economic growth. Economic pessimist Jeremy Rifkin is right to suggest fewer workers will be needed to deliver services in the future, just as past innovations have greatly reduced the need for factory workers to produce goods, and before that for farm workers to harvest agricultural commodities. But those who decry the automation of jobs are wrong in believing the overall demand for labor will decrease. The future waves of economic growth will provide ample opportunities to generate more wealth and create new jobs. Indeed, the masses will be employed by those businesses that recognize and intentionally create experiential output as a distinct economic offering—and learn to do it well.

Even higher paying jobs will accompany experiences that understand, articulate, and ensure specific transformations. The intentions required for transforming an aspirant—determining new aims, guiding the individual, strengthening resolve, and persevering with the aspirant—are more exacting and elusive than those needed for the buyer of any other economic offering.

To enrich any offering with greater intention, we suggest focusing on four universal elements that together separate actual businesses from mere business plans:

Exhibit 2—The New Competitive Landscape

	Commodities	Goods	Services	Experiences	Transformations
Origination	The *material* is the offering.	The *product* is the offering.	The *process* is the offering.	The *encounter* is the offering.	The *individual* is the offering.
Execution	*Extracting* is the core activity of the trader.	*Making* is the core activity of the producer.	*Delivering* is the core activity of the provider.	*Scripting* is the core activity of the stager.	*Guiding* is the core activity of the elicitor.
Correction	A *poor site* triggers further exploration.	A *problem* triggers fixing mistakes.	A *reaction* triggers a response.	*Forgetting* triggers preservation of memory.	A *relapse* triggers stronger resolve.
Application	A *trade* connects in markets.	A *transaction* connects with customers.	An *interaction* connects with clients.	A *bond* connects with guests.	*Persevering* connects with aspirants.

- **Origination**—work that generates value from something new.
- **Execution**—work that generates value from something done.
- **Correction**—work that generates value from something improved.
- **Application**—work that generates value from something used.

Everything that is eventually offered for commerce must *originate* from somewhere and/or something. Commodities are extracted from animal, mineral, or vegetable substances, providing the wellspring for a stream of new goods and services, and now experiences and transformations. The supplier must *execute* some key activity in order to establish the dominant theme of each offering. And since any offering is prone to error, the company must then *correct* its flaws or failures. The offering is improved until *applied* to a specific person or enterprise. At that point, it is exchanged for monetary payment and put to use to fulfill an individual want or need.

Every business needs a strategy for managing these four dimensions of value generation. As Exhibit 2 illustrates, companies must define their economic offerings in terms of the work performed for specific types of buyers. Moving beyond the humdrum world of products, markets, and processes, companies must systematically examine the new competitive landscape and fill it with company-unique intention. Each company must define its own offerings, core activities, corrective triggers, and buyer relationships to first explore and then exploit for strategic advantage.

The performance of commodity suppliers like Cargill and Archer Daniels Midland demonstrates that companies can compete successfully at the lower echelons. Drawing upon the four universal elements of work, these firms excel at the primary value-generating work required of commodity-based companies: discovering new substances, extracting materials efficiently, exploring alternative sites, and trading in markets. Only a remnant of agricultural and mining companies survive from the competitive attrition of previous eras. Access to true marketplaces is critical to success, and poor selection of both sourcing and market sites can spell disaster for these commodity extractors.

Location theory and practice, however, no longer play as vital a role in the success of goods-based businesses. Efforts are still made to optimize plant, warehouse, and distribution sites, but these facilities are not the source of sustained strategic advantage. Instead, value must be generated from developing new inventions, making products efficiently, fixing mistakes, and transacting with customers. Research and development efforts must constantly invent new solutions to old problems. Efficiency—and quality—in manufacturing, whether performed with craft production or more modern techniques, is critical to success. And transactions must satisfactorily meet the needs of customers.

Two hundred years ago, in *The Wealth of Nations*, Adam Smith decried services as "unproductive labour"—merely a means required to complete a transaction for goods. The eventual recognition of services as a distinct economic offering led to wholly new economic enterprises and entire service industries. These service providers found ways to perform highly valued activities that manufacturers left for the customer to do. Their tasks were devising new operations, delivering processes efficiently, providing responses, and interacting with clients.

Innovation in services is not found in the isolation of the R&D lab but in face-to-face interactions with individual customers. Two-way communication—genuine dialogue—is needed to ensure the routine delivery of outstanding service operations.

Similarly, mere operations management will not suffice in the staging of experiences. Text and subtext for an entire sequence of events need to be designed, converting routine interactions into memorable encounters by describing new scripts, staging encounters efficiently, preserving memories, and bonding with guests. Any business can advance from providing services to staging experiences if it understands that that is in fact the business in which it competes and assimilates sensory dimensions into its operations.

Transformations are perhaps the most difficult offering to supply, for the elicitor must not only be intentional about its own processes, but its activity must also help the buyer learn to act with intention. They are the most valued offering, for they address the ultimate source of all other needs: why the buyer wants what he wants. Witness the ever-increasing price of healthcare, higher education, and management consulting—offerings that enable the buyers to breathe, think, and create meaning in their lives.

"The recognition of five echelons of economic offerings, the demise of our traditional understanding of markets, and the need to be richly intentional about how work is performed open up the possibility of truly new strategies for moving beyond goods and services as the primary source of revenues."

make each customer a specific *client*. Is there a real difference between a customer and a client? Absolutely, for a customer receives value directly from a good—using it himself. A client, however, derives value only through an agent, who uses goods as a means to deliver a service. In turn, buyers of experiences become *guests* at places where goods and services are used to stage a personal encounter. The experience stager must create a *bond* with the buyer, converting ordinary service spaces into personal *places*. Such intimate relationships are a prerequisite for offering transformations.

The *aspirant* must be engaged in personal *purposes* as well, yielding a fundamentally different kind of encounter. The transformation elicitor stages a series of experiences to help the buyer persevere toward a common goal. The work performed is fundamentally different than any other economic offering.

Getting Intentional with Processes

The widespread influence of Total Quality Management and Business Process Reengineering has familiarized most organizations with the idea of designing and managing work processes. These business improvement programs usually involve process-mapping—or more accurately, activity-mapping—tools to help workers perform their jobs better. In most instances, however, these exercises are a delineation of *what* activity is performed instead of a detailed description of *how* the work should be performed. The resulting work processes lack a sense of *intention*. Merely performing an activity is not enough; its performance must be done in order that some effect is ultimately manifested by the buyer of the final offering. Everyone can, for example, detect the difference between a receptionist who merely takes names and calls for parties, and a greeter who warmly welcomes each visitor and performs otherwise identical tasks with style and color. The encounter in the lobby, however brief, affects the guest and can set a different tone for the entire meeting that follows—and perhaps even the outcome.

Economic enterprise is made more engaging when those who perform the activity fill it consciously and thoroughly with intention. Every movement becomes a meaningful action when richly designed with intention in mind. The work is completed with a clearly understood beginning, middle, and end. Without intention, work becomes dull, monotonous, and cliché-ridden.

Process excellence is found only when someone has decided how to *act* in a way that stands out amidst the otherwise banal flow of business activity. This is important not only to the performance of experiential and transformational work—the farmyard, shop floor, and service counter can be equally devoid of intention. Any offering will be most valued when a company has become intentional with even the most mundane dimensions of the processes that supply it.

Standard Parking of Chicago, for example, has done just that with something many people treat as a commodity—airport parking! Each floor at its O'Hare Airport garage is decorated with murals of different Chicago sports franchises—the Bulls on one level, the Blackhawks on another, and so forth. And a different tune pulsates throughout each floor. Music is selected *in order that* guests can immediately identify when they are on the right floor and not merely as sonic background. Walls are painted, *in order that* guests remember the spot in which they parked. What they pay for is far more than an ordinary parking service.

You Are What You Charge For

Successful leaders don't focus their energies on where they fit in the latest management model. Those cited in any model seldom use the very framework categorizing them as a tool to prompt strategic decisions, for the models are almost always *post hoc* rationalizations of *ad hoc* activity. The fate of an enterprise does not hinge on how correctly it categorizes itself as a product leader, intimate customizer, or excellent operator. What matters is what business the company is in and how well it explores and exploits the environment in which it competes.

We do not wish to see executives use the framework presented here just to argue over whether they are providing services, staging experiences, or eliciting transformations. That is not our intent. Any such debates should serve only as a means to discover new ways of generating value. Our model aims simply to define a new competitive landscape for the strategic options facing any enterprise today. A business is ultimately that for which it collects revenue, and it collects revenue only for that which it decides to charge.

The recognition of five echelons of economic offerings, the demise of our traditional understanding of markets, and the need to be richly intentional about how work is performed open up the possibility of truly new strategies for moving beyond goods and services as the primary source of one's revenues. Today, any organization and the strategic analysis it employs must consider the implications of experiences and transformations:

◆ ***Recognizing*** how new experiential and transformational elements can be added to charge a higher price for existing goods and services (by adding higher echelon elements to enhance the value of lower echelon offerings).

◆ ***Identifying*** which goods and services will command higher prices as critical resources to experience stagers and transformation elicitors (by repositioning lower echelon offerings to support the fast-growing and more profitable higher echelon offerings of others).

◆ ***Eradicating*** current practices of providing experiential and transformational elements for free merely as a means to sell more goods and services (by redefining these elements as higher echelon offerings whose value can command a distinct price).

◆ ***Commoditizing*** the competition by using goods and services to create new experiential and transformational offerings (by explicitly charging higher echelon prices for higher echelon offerings).

These strategic probes point only to the beginnings of exploration. The most successful companies are always those in which the people ask the most challenging questions of themselves. They do not pretend to be something they are not. Rather, they know competitive forces merely function as a means to more fully understand their calling: What business are we truly in?

"Too often, strategists think solely in terms of markets, without differentiating individual buyers and the different types of relationships that need to be formed to earn their business."

Notes and References

1. Michael Treacy and Fred Weirsema, *The Discipline of Market Leaders: Choose Your Customers, Narrow Your Focus, Dominate Your Market* (Reading, Mass.: Addison Wesley, 1995).

2. Steven E. Prokesch, "Competing on Customer Service: An Interview with British Airways' Sir Colin Marshall," *Harvard Business Review*, November-December 1995, p. 103.

3. See J.F. Rayport and J.J. Sviokla, "Managing in the Marketspace," *Harvard Business Review*, November-December 1994, pp. 141-150, and "Exploiting the Virtual Value Chain," Harvard Business Review, November-December 1995, pp. 75-85. Despite our disagreement with which terms these authors should have used when combining "marketplace" and "cyberspace," we find their ideas and frameworks exemplary and in line with what we promote.

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