

## How to Profit From Experience

Consider the humble coffee bean. It begins life as a commodity; its current price of about \$3 a pound translates to three or four cents a cup. But then a manufacturer grinds and packages coffee, turning it into a good, selling for five to 25 cents per cup. Brew and serve that coffee in a diner, and you're delivering a service, raising the price to perhaps \$1 a cup.

So coffee can be any of three distinct economic offerings: commodity, good or service. But wait: When coffee is served in the ambiance of a five-star restaurant or an espresso bar — where ordering, creation and consumption assume a heightened ambiance or sense of theater — consumers gladly pay \$2 to \$5 a cup. At a place like Fouquet's on the Champs-Élysée in Paris, a single cup of coffee may run \$15 to \$20. These businesses are able to charge more because they offer a distinctive *experience*.

Experiences are a distinct economic offering, as different from services as services are from goods. Experiences have always been at the heart of entertainment, exemplified by Disney theme parks. For every guest (not "customer" or "client"), Walt Disney World cast members (not "employees") stage a complete production of sights, sounds, tastes, aromas and textures to create a memorable experience. Likewise, at theme restaurants like Planet Hollywood and the All Star Cafe, the food is just a prop for what's known in the industry as an "eatertainment" experience.

Today, however, companies in a wide variety of fields are packaging their offerings as experiences. Former British Airways Chairman Sir Colin Marshall noted in the Harvard Business Review that the commodity mind-set is to "think that a business merely performs 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." In a speech at last November's Comdex computer show, Intel Chairman

Andrew Grove declared that "we need to look at our business as more than simply building and selling personal computers. Our business is the delivery of information and lifelike, interactive experiences."

What distinguishes an experience from a good or a service?

- Goods are tangible and services intangible. But both are decidedly uneventful, while experiences are *memorable*.

- Goods are inventoried and services delivered on demand, while experiences *unfold over a period of time*.

- Goods are standardized and services customized (created in response to individual demand). But both remain at arm's length: outside the customer. Experiences, on the other hand, are *inherently personal*.

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These distinctions explain why experiences have the power to create new and greater economic value. But don't assume that selling experiences is merely a matter of entertaining customers; entertainment is only one kind of experience. Rather, it is about *engaging* them — connecting with them in a personal, memorable way.

Some examples: Paris Miki, a Japanese company, created a computer system for selecting eyeglasses. The system analyzes a digital picture of a customer's face to suggest what shape lens would look best, then allows the customer to complete the design and prints out a picture of him in glasses that have yet to be produced. Clambake Celebrations sells "everything you need for a clambake" that allow customers to stage their own experiences.

Some experiences are about escapism: Computer-based sports games, flight simulators and virtual reality games turn ordinary Joes into superstars. Or the opposite:

Dallas Cowboys quarterback Troy Aikman once told Sports Illustrated that he frequently visits America Online. "I like to go to the Texas Room and chat with people. It puts us on the same level. It's nice, too, having a normal conversation with somebody without them knowing who I am."

Even the most mundane transactions can be turned into experiences. Each floor at O'Hare Airport's parking garage, run by Standard Parking of Chicago, has its own signature song and is decorated with icons of a local sports franchise — the Bulls floor, the White Sox floor, and so forth. As one Chicago resident told us, "You never forget where you parked." Progressive Corp. even makes settling an insurance claim an experience. Its claims adjusters arrive at accident scenes in vans outfitted with everything they need to settle a claim immediately. Inside the van, claimants receive not only a check but also a cup of coffee, "couch time" to settle their nerves and a chance to use the adjuster's cellular telephone to reassure their loved ones.

All of this is evidence of a new, emerging economy. If you think this is an exaggeration, keep in mind that economists once pooh-pooed services, which no less a sage than Adam Smith called "unproductive labour," activities required only to bring goods to market. Today manufacturers understand that services are often the key to establishing their goods' value and forestalling commoditization. Similarly, service providers now use experiences to increase the attractiveness of their offering — to bring customers back to the same airline, bank, hotel or store. This is the natural progression, but as services increasingly become commoditized themselves, more and more businesses will explicitly charge for the memorable encounters they stage, and thereby enter the new experience economy.

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