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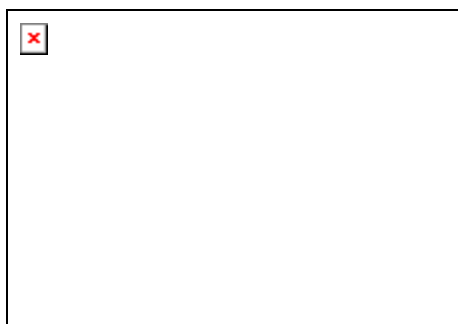
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ADAM SMITH, MEET MICKEY MOUSE

Just as the service economy trounced the Industrial Age earlier this century, now it is time for us to make way for the experience economy, argue Joseph Pine and James Gilmore.

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Vacationing at Disney World, dining at the Hard Rock Cafe, shopping at Universal CityWalk in Los Angeles or surfing the Net on the browser of one's choice. Experiences are a distinct economic offering, as distinct from services as services are from goods, but one that until now has gone largely unrecognised. Just as the service economy supplanted the industrial economy earlier this century in developed nations, it too is now peaking and being replaced by an experience economy. When someone buys a good, they receive a tangible thing; when they buy a service, they purchase a set of intangible activities carried out on their behalf. But when they buy an experience, they pay to experience an event that a company stages to engage them in a personal way.



Every business can be a stage for offering economic experiences. Whether selling to consumers or companies, firms must recognise that goods and

services are no longer enough they are increasingly treated like mere commodities. Customers now want experiences. But to what end? Experiences offer enjoyment, knowledge, diversions and beauty, but more than the desire for these memorable qualities drives the emerging experience economy. For not all experiences are fun, nor enlightening, nor distracting, nor breathtaking.

TO WHAT END?

Why, for example, do people pay good money to join fitness centres, only to experience physical pain? Why do people spend a hundred dollars an hour with psychiatrists only to be asked, "Well, what do you think?"? Why do people pay admission to attend public seminars on spiritual topics with tens of thousands of like-minded churchgoers? And why do young managers leave salaried jobs to spend tens of thousands of dollars to attend business school?

" Airlines and hotels will (one can only hope) get into the business of transforming business travellers into well-rested road warriors equipped for the next day's battles "

One reason answers them all: to be affected by the experience. The experiences we have affect who we are, what we can accomplish, and where we are going and increasingly we will ask companies to stage experiences that change us. As human beings, we have always sought out new and exciting experiences from which we could learn and grow, develop and improve, mend and reform. But as the world moves through the experience economy, much that was previously obtained through non-economic activity will increasingly be found in the domain of economic commerce. And that is different: we now pay a fee for what we once sought for free.

The changing nature of labour also drives demand for these different kinds of economic experiences. With the physical demands placed on workers so-called hard labour decreasing with the decline of agrarian and industrial age activity in our economy, people seek fitness from venues other than the workplace. It is, after all, those with desk jobs who most often visit health clubs after work, not bricklayers. Pursuing what, exactly? More than the experience itself: to become different. While experiences are less transient than services, often the individual participating wants something more lasting than a memory. He wants something beyond what any good, service or experience alone can offer. The buyer of a fitness centre membership pays for pain, in hope of gaining greater physical well-being through an ongoing exercise regimen. Individuals return to psychiatrists to be asked probing, personal questions, only if progress towards a certain goal is evidenced. People head for business school because the knowledge gleaned, skills acquired, and, yes, experiences endured positively affect their careers. People encourage their spouses to go on religious retreats as long as the latter demonstrate that they become more spiritual or more loving.

These exercise routines, counselling sessions, learning courses and religious excursions are merely means of eliciting something of greater desire and value than the experience itself. In the healthcare industry, a sick patient

wants more than pharmaceutical goods, medical services or even a hospital experience he wants to be well. The same goes for management consulting, where a struggling company wants something beyond information goods, advisory services or even educational experiences it wants to grow.

As economic activity shifts further and further away from goods and services, those that stage experiences alone without considering the effect their experiences have on guests and designing events in such a way as to create the desired change will eventually find their experiences commoditised. The second time you experience something will be marginally less enjoyable than the first time, the third time less enjoyable than that and so on until you finally notice the experience doesn't engage you nearly as much as it once did. Welcome to the commoditisation of experiences, best exemplified with the increasingly voiced phrase "Been there, done that".

LIFE EXPERIENCES AND ALL THAT

The way out of the commoditisation trap for experiences remains the same as it is for goods and services: customise it. When you customise 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 customise an experience you automatically turn it into a *transformation*, which companies build on top of experiences (you've heard the phrase "a life-transforming experience") just as they build experiences on top of a service and so forth. Transformations are a distinct economic offering, the fifth and final one in the progression of economic value beyond commodities, goods, services and experiences.

By staging a series of experiences, companies are better able to achieve a lasting effect on the buyer than through an isolated event. It is the revisiting of a recurring theme, experienced through distinct and yet unified events, that transforms. As multiple experiences emerge and compete for guests, companies staging these events will begin to realise that any experience can become the basis for a new offering that elicits a transformation.

Such transformation offerings will emerge across almost every industry that today views itself as part of the service sector. Healthcare providers will shift past performing fee-for-service procedures to gaining fees based on making or keeping people well. Airlines and hotels will (one can only hope) not only straighten out their all-too-often-horrible experiences, but get into the business of transforming business travellers into well-rested road warriors equipped for the next day's battles. And, to complete just a short list of what will come, computer service companies and system integrators will surround their present offerings with capabilities of transforming customers that have well-running equipment into enterprises that use the equipment to run their businesses well.

And why not? Their competitors management consultants and outsourcing firms are already making the move to offering transformations. Many understand that customers no longer want tangible reports, intangible analyses or memorable workshops that yield recommendations on what they should do. They're a start, but none of them by themselves make the customer become a better company. Rather, consulting customers aspire to become better businesses and want to engage companies that yield sustained

results.

THE WHEAT FROM THE CHAFF

As with experiences, some will surely argue that what we are calling transformations are really just a sub-class of services. But there is just too much disparity between eating at McDonalds and firming up at a fitness centre, between providing information reports and partnering in business outcomes, and between cleaning a suit and cleansing a soul, to be classified as a single economic offering. As shown in the table, transformations are indeed a distinct economic offering, as distinct from experiences as experiences are from services (and services are from goods, and... well, you get the idea).

" Who wouldn't pay more to be guaranteed that they would lose those 30 pounds, gain those five extra inches of pure muscle around the chest or develop washboard abs "

Identifying this new offering requires using words not normally associated with businesses and their economic output. But just as it took years for now familiar terms of the service economy such as intangible products, clients, delivering on demand to fall trippingly from the tongue, so too it will be a while before the new vocabulary of experiences and transformations will become second nature.

But to discern the distinctions amongst all five economic offerings fully, consider the following: while commodities are fungible, goods tangible, services intangible and experiences memorable, transformations are effectual. All other economic offerings have no lasting consequence beyond their consumption and even the memories of an experience fade over time. But buyers of transformations seek to be guided toward some specific aim or purpose, and transformations must elicit that intended effect. That's why we call such buyers aspirants they aspire to be some one or some thing different. Without a change in attitude, performance, characteristics or some other fundamental dimension, no transformation occurs. And this change should be not just in degree, but in kind; not just in function, but in structure. The transformation affects the very being of the buyer.

While companies store commodities in bulk, inventory goods after production, deliver services on demand and reveal experiences over a duration of time, they must sustain transformations through time if they are to take hold, to change the aspirant genuinely. If a change losing weight, stopping a bad habit, or becoming financially secure, say, on the consumer side, or lowering fixed expenses, stopping wasteful practices, or becoming insulated from exchange rate fluctuations on the business side is not sustained, then it is not really transforming, but merely a momentary uptick along the same old journey.

Likewise, any relapses or digressions reduce the measure or intensity of the transformation actually attained. Finally, where commodities are natural,

goods standardised, services customised for a specific customer, and experiences inherently personal, transformations are individual. The offering does not exist outside the changed traits each aspirant desires; it is that change itself. Experiences are events to which the individual reacts and thereby creates a memory, but transformations go much further, actually changing the being of the buyer, whether a consumer or business. Because an experience is inherently personal, no two people can have the same one the effect differs based on past experiences and current state of mind. So, too, no individual can have the same transformation twice by the second time they aren't the same individual they were the first time! People value transformations above all other economic offerings because this fifth offering addresses the ultimate source of all other needs: why the buyer desires the commodities, goods, services and experiences he purchases.

PEOPLE AS PRODUCTS

Indeed, 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 isn't the materials it uses, nor the physical things it makes. It's not the processes it executes, nor the encounters it orchestrates. When a company guides transformations, the 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 of all 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. Aspirations of course relate to customer expectations; but here the expectations centre not on some external good or service, but on the customer himself, about what he wants to become. Once the experience economy has run its course, the transformation economy will emerge. Then, the basis of success will be in understanding the aspirations of individual consumers and businesses and guiding them to fully realising those aspirations.

" If consultants viewed themselves as truly transformers of businesses, they would ensure each client actually achieved its stated strategy or risk losing their fees "

YOU ARE WHAT YOU CHARGE FOR

Very few of the companies that naturally change people or companies, however, are truly in the transformation business. Far too many view their offerings as mere services, and, as a result, far too often fail to elicit the transformation (or capture the full economic value delivered when it is elicited). More important, few charge for the transformation itself. Being in the transformation business means charging for the demonstrated outcome the aspirant achieves the transformation itself not for whatever particular activities the company performs.

If a fitness centre, for example, were truly in the transformation business, it

wouldn't charge (solely) via membership fees or by the amount of time members spend on the machines. Rather, it would charge for meeting the health and well-being aspirations of its members. If the aspirations were not met within a fixed period of time, the fitness centre would not be paid or it would be paid less, on some sliding scale commensurate with the progress achieved. In other words, it would charge not for the pain but for the gain.

Think about what such a business would do differently were it truly a transformation elicitor. First, it would spend much more time up-front, before it agreed to accept an individual as a member on understanding the individual's true aspirations and, more importantly, his current capabilities, both physical and mental. Many people do not have the temperament to hold to a physical regimen and cannot sustain progress toward a defined goal. Indeed, we suspect that many fitness centres derive much of their profits from people who pay their money while rarely encountering pain on the machines. Signing up such people may be profitable for one period, but surely it leads to the costly churn of constantly replacing expiring memberships. Meanwhile, fitness centres lose much greater profits by not charging for the full value gained by those with the mindset to follow-through on their aspirations, as well as by not first changing the temperament of those presently incapable of doing so.

Once a fitness centre determines an individual can both physically and mentally achieve a specific aspiration, then and only then would it lay out what it would charge for a specific achievement, including reaching interim goals along the way. And the amount would be two or three or perhaps even 10 times what such places charge today for mere machine usage. Who wouldn't pay more to be guaranteed that they would lose those 30 pounds, gain those five extra inches of pure muscle around the chest, bench press 250 pounds or (more subjectively) develop washboard abs or perfectly tight buns. And once it made that guarantee, the fitness centre would be sure to design properly the exact right set of experiences it would take to ensure the aspirant achieved his goals and therefore paid in full. Personal trainers earn so much more than fitness centre instructors precisely because they ensure their patrons follow the proper regimen.

NO MORE POWER POINT PRESENTATIONS


Consider also the business-to-business example of management consulting, another industry that typically charges for the time workers spend performing service activities, rather than the actual transformation of clients. If consultants viewed themselves as truly in the business of transforming businesses they would, like fitness centres, spend much more time in the up-front diagnosis phase, understanding the true strategic needs of each client as well as his capacity for change.

They would stop writing analytical documents (the tangible goods of the present-day PowerPoint-driven consulting industry) and start staging memorable events that would enable the management team first to experience what it would be like to live and work in a world where the strategies were achieved, and then to actually create that future world. (While, of course, providing appropriate memorabilia for each experience that would be very different from today's sterile binders.) Most importantly, they would follow through to ensure each client actually achieved its stated

strategy or risk losing some or all of their fees. Wholly successful engagements would result in even greater revenue than that received today for mere services.

You are what you charge for. So let's be very clear about this as it applies to each echelon of customer value: if you charge for stuff, then you are in the commodity business. If you charge for tangible things, then you are in the goods business. If you charge for activities you execute, then you are in the service business. If you charge for the time customers spend with you, then you are in the experience business. If you charge for the demonstrated outcome the customer achieves, then and only then are you in the transformation business. So what business are *you* really in?

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