

Batten Briefings

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A quarterly discussion of innovation,
entrepreneurship, and business change

Frontiers of the Experience Economy

by James H. Gilmore

A few years ago, I saw some teenagers at a Wal-Mart putting quarters into one of those elaborate gumball machines with flashing lights, spiraling tubes, and cascading chutes—a roller coaster of sorts for gumballs. They were feeding coin after coin into the machine only to watch gumball after gumball circle around and around. And they weren't consuming the gumballs after they came out! What were they buying? An experience.

This gumball-spiraling episode struck me as an iconic representation of the emerging Experience Economy. Today, consumers increasingly desire neither goods nor services but sensation-filled experiences that engage them in a personal and memorable way.

Roll over, Adam Smith. Writing at a time when most people worked on farms extracting commodities from the land, Smith denied in his seminal *The Wealth of Nations* that services were a distinct form of economic output; they were just something one did for free in order to get goods to market. He would be dumbfounded to see an economy based on commercialized services, let alone experiences.

The Progression of Economic Value

Over the last two hundred years, we have witnessed a shift from an Agrarian Economy based on extracting commodities, to an Industrial Economy based on manufacturing goods, to a Service Economy based on delivering services, and now to an Experience Economy based on staging experiences. One can observe this progression of economic value in many industries. Consider, for example, chickens.

Today, one can still buy commodity chickens from various mail-order outfits. Little chicks cost about \$1.15 apiece. I know a family in my church that orders from McMurray Hatchery, raises the chickens, and pays an Amish family to butcher them. Of course, this used to be the dominant method for acquiring poultry, but most of us no longer buy

continued on page 6

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CURIOSITY, GOALS,
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INSIDE

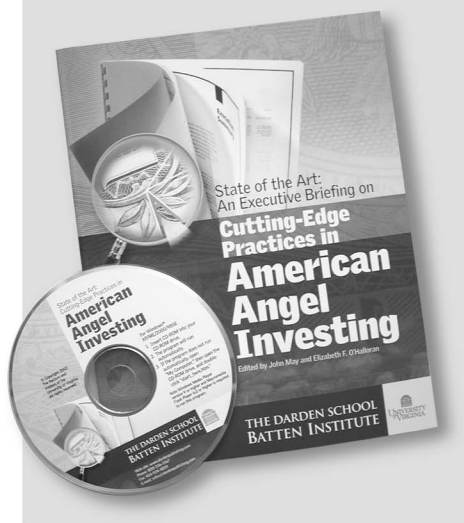
Page 2: Liquidity and Control

Page 3: The Rise of Structured Angel Investing

Page 8: The Extended Enterprise



STATE OF THE ART: AN EXECUTIVE BRIEFING ON CUTTING-EDGE PRACTICES IN AMERICAN ANGEL INVESTING This volume contains firsthand accounts of developing a collective approach to investing in entrepreneurial ventures. The book is intended for new investors, community leaders, entrepreneurs, and aspiring angels. (Available from www.dardenpublishing.com)



Frontiers of the Experience Economy

continued from page 1

commodity chicken. We buy chicken as a packaged good, processed and frozen by Tyson Foods and available for \$1.99 per pound at the grocery store. Or we buy from a chicken-cooking service like Chick-fil-A or KFC, for \$1.99 for a few pieces. For a chicken experience, we might frequent a place called Medieval Times, located in eight resort cities in the United States, and pay \$45 (plus \$5 for premium seating) to watch a knight-jousting competition while we eat chicken. This is an admission-based experience wrapped around a piece of chicken breast. As we progress from commodities to goods to services to experiences, we get less and less chicken at higher and higher prices. (And no silverware for the experience, because it is, after all, Medieval Times!)

Charging for Time

One way to determine what business you're in is to consider what you charge for: If you charge for raw materials, you're in commodities; if you charge for physical things, you're in goods; if you charge for activities you perform on behalf of another, you're in services; but if you charge for the time people spend with you, then you're in experiences. Today, consumers seek to spend less time and money on goods and services, but they want to spend more time and money on compelling experiences.

The failure of the dot-com revolution was, in part, a failure to find ways to charge people for time. So much money was invested in Internet ventures with no plan to charge people for the time they consume online. That is changing,

with game sites like EverQuest.com and business-to-business sites like wgsn.com, a provider of up-to-the-minute news on fashion trends.

Greek entrepreneur Stelios understands about charging for time. He has launched a network of easyInternetcafé venues throughout Europe (and one in the United States, on New 42nd Street in New York), where you go to a kiosk, put in a dollar, retrieve a small ticket with a password, find a computer terminal, and key in the password. The amount of time you get for a dollar depends on how busy the network is. Stelios is charging people explicitly for the time they spend online.

Admission-fed venues abound, like American Girl Place, which charges \$25 for a ticket to a 70-minute musical called *Circle of Friends*, \$16 to \$18 for a meal in its Café, and \$10 for a hair appointment for the doll (to restore its hair to its original condition). Ciudad de los Niños (Kids City) charges an admission fee to an entire shopping mall where children play-shop and play-work. Vans has launched a network of Skateparks, where customers pay a \$40 annual membership fee, plus \$4 to \$11 per two-hour skateboarding session. Atlantis, a resort in the Bahamas,

charges people who aren't guests just to tour the place! In New Zealand, the country that introduced bungee jumping to the world, people pay to go zorbing, an adventure that involves being strapped into a huge ball and then pushed down a hill.

Industries Waiting to Be Invented

What experiences await invention? I see the greatest possibilities in four sectors. The first, the entertainment industry, has already been established, but there are still many opportunities to create new-to-the-world experiences in this sector. Witness all the sports entertainment at ever proliferating ESPN Zone venues, the big-screen productions at IMAX theatres throughout the world (including one at Jordan's Furniture in New England), motion-simulation rides at iWerks, and the like.

The second sector involves going beyond traditional financial services to offer broader "wealth care" experiences, which can help customers better manage monetary assets by translating them into more meaningful expressions of life and living. Think of your financial adviser playing the computer simulation game *The Sims* with you instead of turning up at your home with reams of paper showing

numbers and pie charts.

The third sector is the convergence of travel and shopping. Call it "retail tourism," wrapping mundane goods and services transactions with sensory attractions that result in destination experiences. The Mall of America in Minneapolis and the Forum Shops in Las Vegas attract millions of visitors per year; ditto Bass Pro Shops Outdoor World experiences and rival Cabela's megastores. And there's more: many dental practices now double as day spas!

Finally, current health-care practices must be pushed aside in favor of "life tending." Offerings in this sector must move beyond mere physiological treatment at the time of illness to the ongoing monitoring of wellness across multiple dimensions of self—as spouse, lover, parent, athlete, student, worker, caregiver, and so forth.

Eventually, the world will become so saturated with experiences, as it has with goods and services, that yet another form of economic output will emerge: transformations. In a Transformation Economy, businesses will charge not just for experiences but for the demonstrated outcomes based on those experiences. This next step in the progression of economic value will create yet more opportunities for innovation. How soon a Transformation Economy emerges will depend on how quickly businesses conceive, design, and introduce successful new experiences.

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This article is adapted from Gilmore's presentation to first-year Darden students in August 2003.

