

HOW DO ECONOMIES CHANGE?



As goods and services become commoditized, the customer experiences that companies create will matter most.

Experience Economics

The term Experience Economy was first described in an article published in 1998 by B. Joseph Pine II and James H. Gilmore, titled "The Experience Economy". In it they described the experience economy as the next economy following the agrarian economy, the industrial economy, and the most recent service economy.

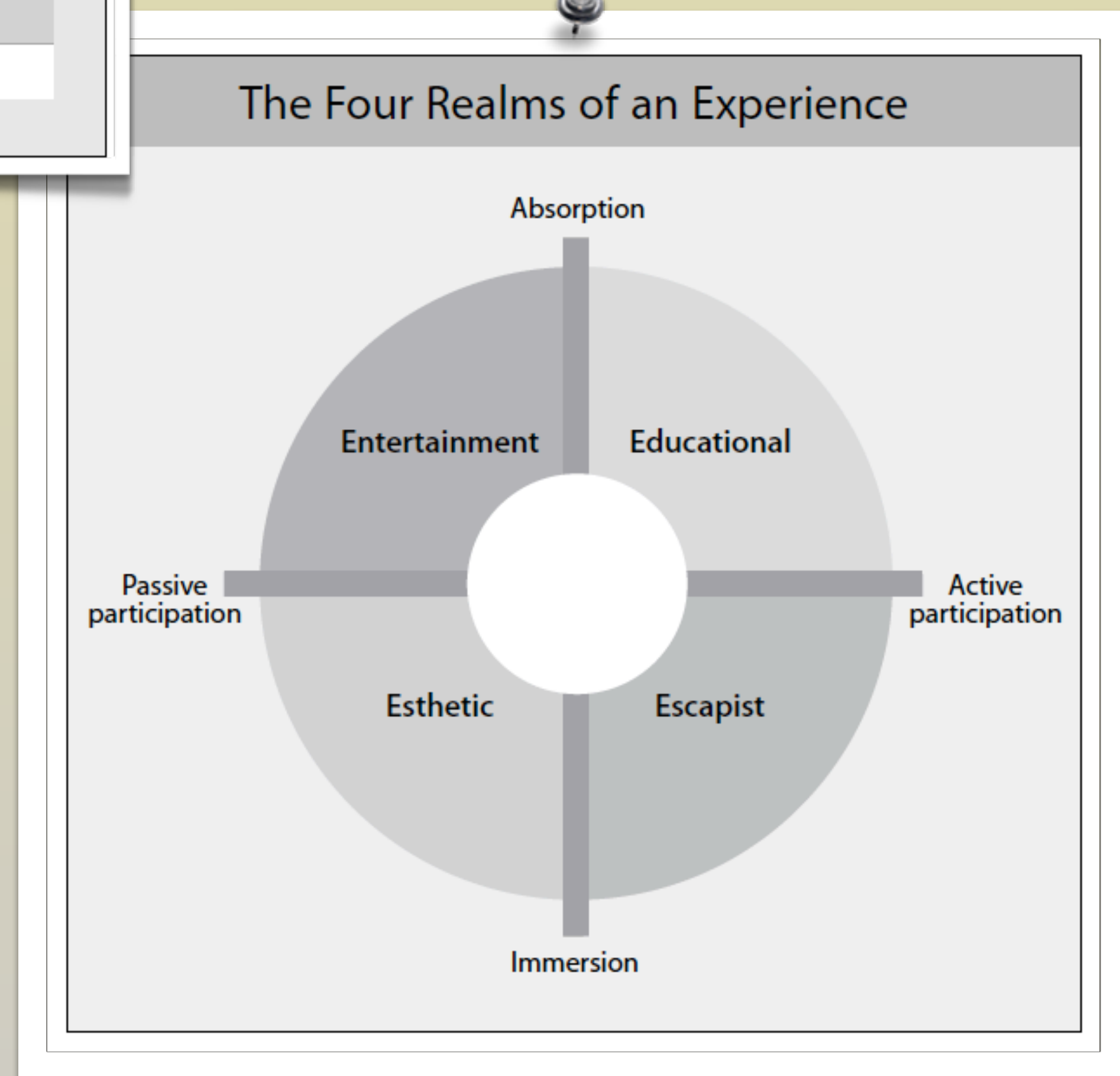
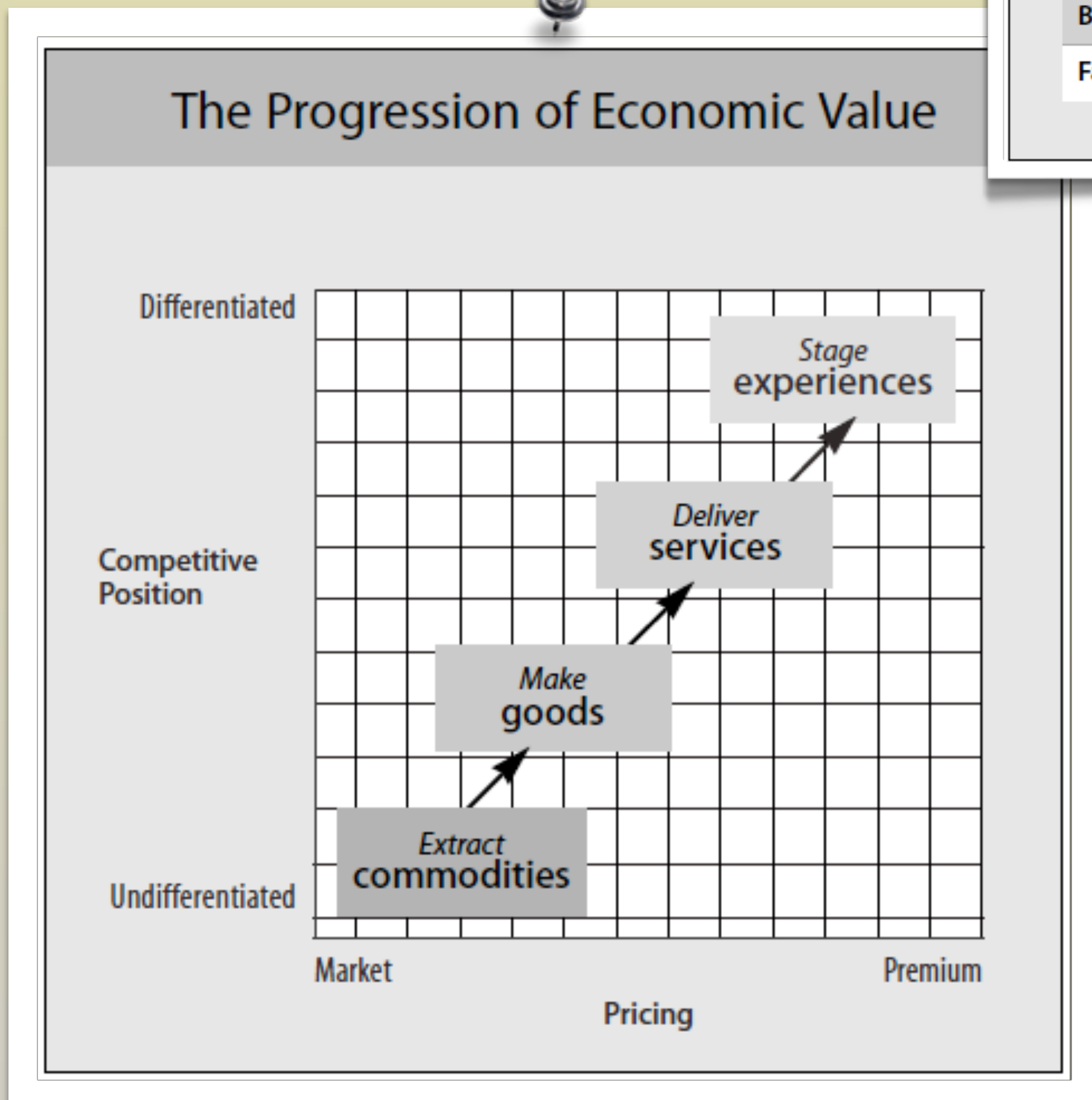
A core argument is that because of technology, increasing competition, and the increasing expectations of consumers, services today are starting to look like commodities. Products can be placed on a continuum from undifferentiated (referred to as commodities) to highly differentiated. Just as service markets build on goods markets which in turn build on commodity markets, so transformation and experience markets build on these newly commoditized services, e.g. Internet bandwidth, consulting help.

The classification for each stage in the evolution of products is:

- A commodity business charges for undifferentiated products.
- A goods business charges for distinctive, tangible things.
- A service business charges for the activities you perform.
- An experience business charges for the feeling customers get by engaging it.
- A transformation business charges for the benefit customers (or "guests") receive by spending time there.

Proceeding to the next stage more or less requires giving away products at the more commodified level. For instance, to charge for a service such as new car warranties, one must be prepared to give away new cars to replace "lemons". And to charge for transformations, one must be prepared to risk not being paid for the time one spends working with customers who don't "transform".

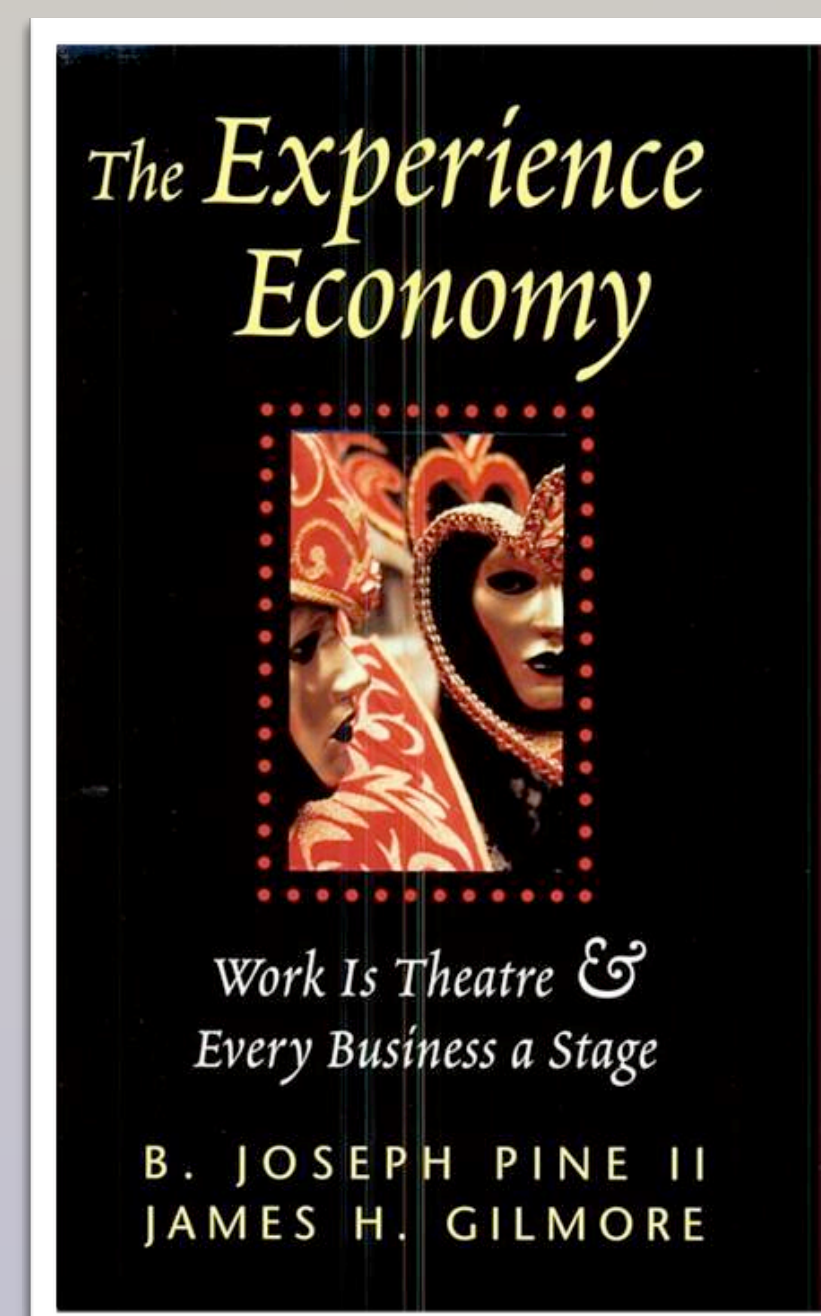
Economic Distinctions				
Economic Offering	Commodities	Goods	Services	Experiences
Economy	Agrarian	Industrial	Service	Experience
Economic Function	Extract	Make	Deliver	Stage
Nature of Offering	Fungible	Tangible	Intangible	Memorable
Key Attribute	Natural	Standardized	Customized	Personal
Method of Supply	Stored in bulk	Inventoried after production	Delivered on demand	Revealed over a duration
Seller	Trader	Manufacturer	Provider	Stager
Buyer	Market	User	Client	Guest
Factors of Demand	Characteristics	Features	Benefits	Sensations



James H. Gilmore is a graduate of the Wharton School of the University of Pennsylvania and an alumnus of Procter & Gamble. James H. Gilmore is an Adjunct Lecturer at The Graduate School of Business Administration at the University of Virginia. Jim previously served as the 2002-2003 Dean Helen LeBaron Hilton Endowed Co-chair at the College of Family & Consumer Sciences at Iowa State University. He has also lectured at Case Western's Weatherhead School of Management, Cornell's School of Hotel Administration, and Rochester Institute of Technology's College of Applied Science and Technology. Prior to co-founding Strategic Horizons LLP with Joe Pine, Jim was head of CSC Consulting's Process Innovation Practice. In that capacity he became a certified trainer in the Six Thinking Hats and Lateral Thinking techniques of Dr. Edward de Bono; at one point, Jim had trained more people in the United States in the latter coursework than any other instructor. Jim has turned his attention to the next phase in the maturing Experience Economy -- how in a world filled with ever more mediated and staged experiences, an increasingly unreal world, consumers are now making decisions based on how real they perceive various offerings to be. The outflow of those ideas are found in his latest book penned with co-author Joe Pine, *Authenticity: What Consumers Really Want*, published by Harvard Business School Press in late 2007.



B. Joseph Pine II is an author, speaker, and management advisor to Fortune 500 companies and entrepreneurial start-ups alike. He is a cofounder, with James H. Gilmore, of Strategic Horizons, a thinking studio that helps businesses conceive and design new ways of adding value to their economic offerings. Joe Pine worked for IBM in the frozen tundra of Rochester, Minnesota. For the launch of the AS/400 computer system he created a group that brought customers and business partners into the actual development process. Joseph specializes in helping people see the world of business differently. He did that first by promulgating the concept of Mass Customization in his first book, which detailed how organizations didn't have to provide the same thing to everybody, but could give individual customers exactly what they want, at a price they're willing to pay.



The Experience Economy was chosen one of the 100 best business books of all time by 800ceoread in 2009. It shows how businesses should embrace theatre as an operating model to stage unique experiences. It was called "a brilliant, absolutely original book" while a piece in MIT's Sloan Management Review said "The Experience Economy will force managers to change their most basic, cherished assumptions about innovation and strategy".