MARKETING MANAGEMENT

analysis, planning, and control

Philip Kotler

Marketing Management: Analysis, Planning, and Control
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Preface

Surely among the most difficult business decisions are those that have to do with marketing. The variables in a marketing problem do not generally exhibit the neat quantitative properties of many of the problems in production, accounting, or finance. Attitudinal variables play a larger role in marketing; marketing expenditures affect demand and costs simultaneously; marketing plans intimately affect planning in the other business areas. Marketing decisions must be made in the context of insufficient information about processes that are dynamic, nonlinear, lagged, stochastic, interactive, and downright difficult.

These characteristics could serve as an argument for intuitive marketing decision making. Yet to this author and to many colleagues and marketing executives they suggest quite the opposite: they suggest the need for *more* theory and analysis in marketing, not less.

In fact, the past decade has witnessed a rapid growth of quantitative and behavioral tools, concepts, and models that hold great promise in improving marketing decision making. Some of these developments have been published in journals; others have been confined to corporate executive suites. Although they are becoming the prototype for new thinking in marketing, they have not generally made their way into the typical textbook.

This book attempts to synthesize the new marketing thought into a framework that will be helpful to today's and tomorrow's marketing executives. The reader will find three distinct emphases as he studies this text.

A Decision Orientation

This book recognizes that the major function of the business executive is decision making. It focuses, therefore, on the major types of decisions facing the marketing executive in his attempt to harmonize the objectives and resources of the firm with the opportunities found in the market place.

An Analytical Approach

This book does not provide answers so much as ways of thinking about and analyzing recurrent marketing problems. Descriptive material is held to a minimum in order to permit the greatest freedom for developing the analytical content of marketing.

A Reliance on Basic Disciplines

This book relies heavily upon the basic disciplines of *economics, behavioral science,* and *mathematics.* Economics provides the fundamental tools and concepts for seeking optimal results in the use of scarce resources. Behavioral science provides fundamental concepts and findings for the interpretation of buyer and executive behavior. Mathematics provides the means of developing explicit statements about the relationships among variables in a problem.

* * * * *

The twenty-three chapters in this book are organized into four parts, corresponding to the administrative processes of analysis, organization, planning, and control. Part 1 deals with the analysis of marketing opportunities and begins with an examination of the powerful marketing concept—its meaning, elements, and relevance to the contemporary business scene. The marketing concept emphasizes that company planning must take its start from a consideration of opportunities in the market place. Chapter 2 discusses the major markets and forces that define a company's opportunities, while Chapter 3 shows these markets to be made up of distinguishable segments that present different opportunities to the firm. The ultimate unit in the market place—the buyer—is the subject of Chapter 4, which attempts to conceptualize the behavioral processes by which each buyer translates his needs into buying decisions. Chapter 5 examines how markets and market segments can be measured quantitatively so that their attractiveness can be appraised and an appropriate allocation of marketing effort can be determined.

Part 2 considers the activities that marketing managers perform in the pursuit of marketing opportunity. How business defines its goals and sets up an organization for their accomplishment is the subject of Chapter 6. Chapter 7 examines marketing planning as the firm's means of adapting its long-run resources to its opportunities. The ultimate unit of marketing planning—the decision—is discussed in Chapter 8, which explores how modern decision theory can be used to improve marketing performance. Chapters 9 and 10 spell out the important roles of marketing information and marketing model-building in the development of marketing strategy. And Chapter 11 emphasizes for contrast the importance of the non-analytical process known as creativity in heightening the marketing executive's sensitivity to new opportunities and novel strategies.

Part 3 turns to the major marketing decisions facing the firm. Chapter 12 sets the stage by developing the normative principles for making decisions on the level, mix, allocation, and strategy of marketing effort. The next seven chapters consider specific marketing decision areas: product policy (Chapters 13 and 14), price (Chapter 15), channels (Chapter 16), physical distribution (Chapter 17), advertising (Chapter 18), and sales force (Chapter 19). Chapter 20 discusses how various marketing decisions must be tempered by legal and political factors that have evolved for the protection of business and consumers.

Part 4 deals with the firm's need for continual control measures to insure the achievement of its objectives. Chapter 21 develops the theory of market-

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Analyzing Marketing Opportunities

Marketing management is the study of how business firms can best adapt resources and objectives to outside opportunities. These opportunities provide the proper starting point for marketing planning, and they form the subject matter of Part 1.

Chapter 1, "Marketing Management and the Marketing Concept," examines the contemporary rationale for orienting company planning and effort around the needs of target markets. Chapter 2, "Markets and the Marketing Environment," examines how broad market characteristics and trends provide the initial definition of the firm's opportunities. Chapter 3, "Marketing Segmentation," shows that most markets are made up of distinguishable submarkets with enough differences among them to lead a firm to consider differentiating or concentrating its marketing effort. Chapter 4, "Buyer Behavior," carries the analysis of markets to its ultimate unit, the individual buyer, and examines how and why he buys as he does. Finally, Chapter 5, "Market Measurement and Forecasting," examines the problem of quantifying the size and importance of different markets and submarkets as a prelude to the selection of target markets and the allocation of company resources.

chapter 1

Marketing Management and the Marketing Concept

American industry pours out each year over $600 billion worth of goods and services. Out of the factories, offices, and shops rolls an incredible avalanche of automobiles, insurance services, shoes, bread, radios, homes, missiles, machinery, and a million other goods and services that somehow find their way into homes and businesses in every part of the world.

Most of these goods and services are made available before being ordered by specific customers. They find their way into homes and businesses through the workings of a gigantic and complex marketing apparatus manned by specialists in the art of finding customers for goods. Marketing is traditionally viewed as the business function entrusted with the task of finding customers.

At the same time, marketing is increasingly recognizing another, somewhat converse responsibility. Marketing's short-run task may be to adjust customers' wants to existing goods, but its long-run task is to adjust the goods to the customers' wants.

This last point, that production must start with customer needs, is embodied in the *new marketing concept* that is revolutionizing the approach of businessmen to the problems of achieving viable business growth. It enlarges the role of marketers from one of selling what has been produced to one of influencing what is being produced. Marketing may stand officially at the end of the assembly line, but unofficially its influence must be felt on the drawing boards.

THE CONTEMPORARY MARKETING TASK VIEWED HISTORICALLY

The new view of marketing's task arises out of a consideration of the evolution of the American economy. The first stage was characterized by a scarcity of goods and services, and the central problem was to increase output. To this end, the major emphasis was placed on increasing productive efficiency. The business leaders of this era were engineers and innovators like Whitney and Carnegie, and the firms were heavily oriented toward production.

In the second stage, the scarcity of goods was less pronounced and the real opportunities for profit lay in the rationalization of the industrial structure through mergers and financial consolidations. In this era, lawyers and financiers, men like Mellon and Morgan, gained ascendancy in business enterprises through skillful financial consolidation.

The third and present stage of the economy is marked not by a scarcity of goods, but by a scarcity of markets. The major problem of most firms is to find sufficient customers for their output. While it is not true, at least

Elgin's problem was that it held on to an obsolete concept of marketing. This concept is rooted in the notion that firms perform three separate tasks in the pursuit of profit: they raise money, produce (or acquire) products, and sell them. The first task is called finance; the second, production; and the third, marketing.

In many companies, this sequence represents the order of tasks not only in time but also in importance. According to a top executive at Pillsbury, ". . . not too many years ago the ordering of functions in our business placed finance first, production second, and sales last." [2] Marketing's responsibilities began after the products spilled off the production lines; they ended when the products were sold.

According to this view, marketing is selling. The selling job itself consists of a number of activities. The company has to determine its potential buyers (marketing research). The company's products have to be favorably impressed upon the minds of buyers (advertising). The company may have to call and persuade buyers personally (personal selling). Agreements have to be drawn up and arrangements made for shipping the goods (pricing, negotiation, and physical distribution).

For a long time, these activities were carried on in different company departments. There was an advertising department, a sales department, a marketing research department, and so on. The managers of these departments usually recognized their common purpose and coordinated their activities to some degree on a formal or informal basis. Some companies moved in the direction of more formal coordination and established a single head over these activities, typically the sales manager, to whom the advertising manager and marketing research manager reported.

But the movement toward coordinating marketing activities did not necessarily expand the view of the marketing task. There are many companies today that possess all the trappings of a modern marketing operation but none of the substance. In these companies, marketing still is considered the department whose responsibilities begin and end with selling the existing products. Management treats its factories, resources, and product line as more or less fixed and holds marketing responsible for ringing up sufficient sales to keep production going.

This view lingers even in the latest official definition of marketing prepared by the American Marketing Association:

> MARKETING—The performance of business activities that direct the flow of goods and services from producer to consumer or user.[3]

Again we see the suggestion that the activities known as marketing begin with a set of goods and end with their sale.[4]

[2] Robert J. Keith. "The Marketing Revolution," *Journal of Marketing*, XXIV (January 1960), 35-38. The *Journal of Marketing* is the national quarterly publication of the American Marketing Association.

[3] *Marketing Definitions: A Glossary of Marketing Terms*, compiled by the Committee on Definitions of the American Marketing Association, Ralph S. Alexander, Chairman (Chicago: American Marketing Association, 1960), p. 15.

[4] Other definitions of marketing are summarized in the following statement: "It has been described by one person or another as a business activity; as a group of related business activities; as a trade phenomenon; as a frame of mind; as a coordinative,

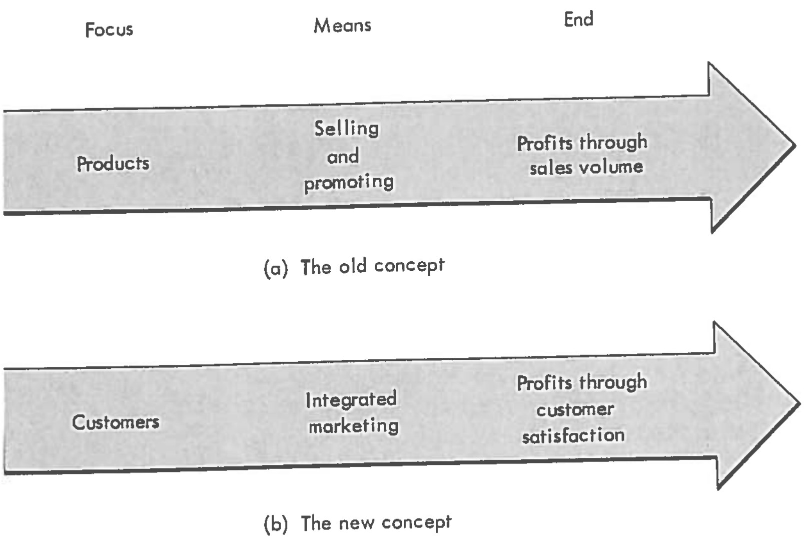

FIGURE 1-1
The old and new concepts of marketing

The New Concept of Marketing

As already noted, the new marketing concept replaces and to some extent reverses the logic of the old one. The two views are contrasted in Figure 1-1. The old concept starts with the firm's existing products and considers marketing to be the use of selling and promotion to attain sales at a profit. The new concept starts with the firm's existing and potential customers; it seeks profits through the creation of customer satisfaction; and it seeks to achieve this through an integrated, corporate-wide marketing program. These are the three pillars of the new marketing concept.[5]

CUSTOMER-ORIENTED FOCUS

The new marketing concept holds that firms can gain more by being oriented outward toward the market instead of inward toward the products. We hear:

> Under the marketing concept, the customer is at the top of the organization chart.
>
> A company should prefer a franchise over a market to a franchise over a plant.
>
> Look at the company through the customer's eyes.
>
> "Instead of trying to market what is easiest for us to make, we must find

integrative function in policy making; as a sense of business purpose; as an economic process; as a structure of institutions; as the process of exchanging or transferring ownership of products; as a process of concentration, equalization, and dispersion; as the creation of time, place, and possession utilities; as a process of demand and supply adjustment; and as many other things." (Marketing Staff of the Ohio State University, "A Statement of Marketing Philosophy," *Journal of Marketing*, XXIX [January 1965], 43.)

[5] The newer marketing concept has been described in many ways. See *The Marketing Concept: Its Meaning to Management*, Marketing Series No. 99 (New York: American Management Association, 1957).

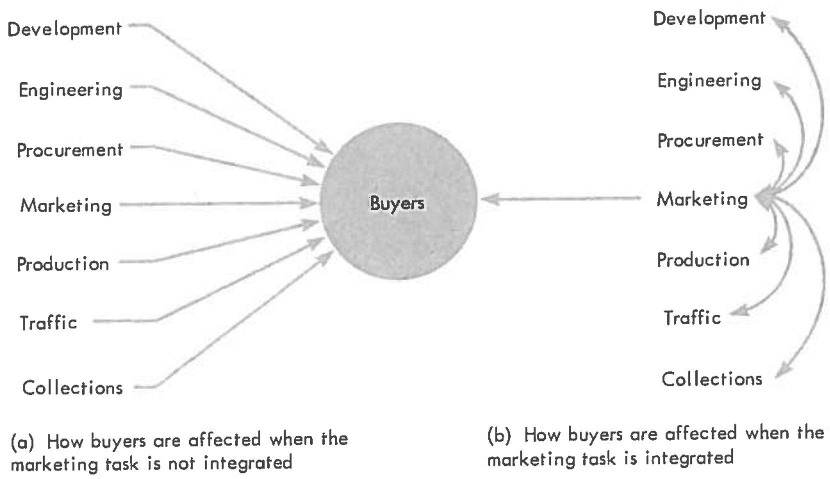

FIGURE 1-2
Contrast between nonintegrated and integrated marketing

seen through the buyers' eyes. This conception is illustrated in Figure 1-2b.

There is less unanimity on how much authority marketing should have to carry out its expanded responsibility. At least three different positions are taken. The most popular position is that the chief marketing officer should have formal authority only over the sales force, advertising, and marketing research; that is, the traditional marketing functions. Yet he should have close relationships with the other departments and should be backed by a president who has embraced the marketing concept. This position is illustrated in Figure 1-3a.

An advanced position holds that the chief marketing officer should have authority over certain additional departments whose efforts affect customers closely. The areas usually mentioned in this connection are research and development, physical distribution, purchasing, credit, and public relations. This view of integrated marketing is shown in Figure 1-3b.

The most radical position is that the chief marketing officer should direct the entire company operation. Marketing would be the only line function, and all the others would be staff functions. Dominance by marketing would insure the use of a customer logic in the operation of all departments.

The last two positions have become a reality in some large consumer-goods companies. Yet, these extreme positions go beyond the essential spirit of the marketing concept, and would not be appropriate in many companies. They involve a conception of marketing's authority which has engendered much antagonism to the new marketing concept. What is essential in the marketing concept is that customer logic should permeate the various parts of the company and that marketing should seek an integration of various customer-impinging company activities into a well-coordinated program. How this is to be secured is not part of the concept.

PROFIT THROUGH CREATING CUSTOMER SATISFACTION

When it is proposed that all company functions operate on a customer logic, the question immediately arises whether profits are to be sacrificed to sales. A substantial increase in sales is no cause for management satisfaction if it is accompanied by a decline in profits.

How far should a company go in trying to meet customer needs and desires? This is not an easy question to answer. One of the world's best-known department stores, Marshall Field & Company of Chicago, goes pretty far and still makes a good profit. Its employee manual reads:

> The customer is always right if she thinks she is right.
> We are more interested in pleasing a customer than in making a sale.
> Every sale of merchandise or services includes the obligation to accept the article for credit, refund, exchange or adjustment promptly and courteously to the customer's satisfaction.
> We sell only merchandise of the best quality obtainable at the price.
> We offer merchandise in a broad assortment from lowest to the highest price at which the quality, fashion and value measure up to our store's standards.
> We strive to give completely satisfactory service to every customer.

One large steel company makes a special point of meeting customer needs. It will incur extra production and delivery costs in order that customers or potential customers get a needed delivery on time. Although the company often loses money on such orders, this service is expected to lead in the long run to a profitable sales relationship with its customers.

Yet the desire to please customers can be carried too far. Each company must determine the breakeven point for itself. The slow-moving, money-losing items found in almost every company's product line often were born in the desire to cater to every possible customer taste. An overabundance of salesmen results from the belief that customers should have salesmen almost on call. The executive vice-president of Pillsbury's consumer-product division, in his description of Pillsbury's evolution from a production- to a marketing-oriented company, had this to say:

> When we first began operating under this new marketing concept, we encountered the problems which always accompany any major reorientation. . . . The idea was almost too powerful. The marketing concept proved its worth in sales, but it upset many of the internal balances of the corporation. Marketing-oriented decisions resulted in peaks and valleys in production, schedules, labor, and inventories.[8]

He then described how Pillsbury has been moving toward a new stage where marketing policies are tied closer to profit goals through long-run profit planning.

Thus, the third pillar of the marketing concept is the achievement of good profits by giving the customer what he wants. In an economy marked by intense competition and rapid changes in customer wants, profits must be founded on producing customer want-satisfaction. A customer orientation is the logical basis for profit planning in a consumer-sovereign economy. This is the basis on which many of the most successful companies in America, such as General Electric, International Business Machines, Procter and Gamble, Scott Paper, and Du Pont, have operated at a profit.

What Is Marketing?

We have examined the new marketing concept in this detail in order to define the point of view of this book. Marketing is more than the set of

[8] Keith, *op. cit.*

activities undertaken by a company to sell its products. Our definition is:

> Marketing is the analyzing, organizing, planning, and controlling of the firm's customer-impinging resources, policies, and activities with a view to satisfying the needs and wants of chosen customer groups at a profit.

This definition is used for three reasons.

It suggests the three main elements of the modern marketing concept; that is, integrated marketing . . . to create customer satisfaction . . . at a profit.

It suggests the "marketing-mix" idea [9] through its reference to the management of customer-impinging resources, policies, and activities, and the "market-segmentation" idea [10] through its reference to chosen customer groups.

It specifies that marketing comprises the administrative activities of analysis, organization, planning, and control. The four parts of this book correspond with these four activities.

Questions and Problems

1. Do you think the marketing concept should provide the major orientation for every company? Could you cite companies which do not particularly need this orientation? Which companies need it most?

2. What will the marketing challenge be if the American economy continues to move from abundance to affluence? Will the marketing job be harder, easier, or nonexistent?

3. Offer a definition of the basic business of each of the following large companies: (a) General Motors; (b) Bayer's (maker of aspirins); (c) Massachusetts Investors Trust (a mutual fund); (d) Sears; and (e) *Time* magazine.

4. Do you think the railroad passenger business is doomed? Why or why not? Could the passenger business be made profitable through adoption by management of the marketing concept? Give illustrations.

5. What do you think are the major alternative approaches to the study of marketing?

[9] See Chapter 12.
[10] See Chapter 3.

evokes a special constellation of needs, attitudes, and images. It is neither obvious how soap is purchased nor obvious how it is used. Therefore, besides being understood in general behavior terms, buyer behavior must be researched in its product-market context.

The ultimate aim of a firm should be to develop a theory of how its market works. This means knowing who its customers are, what they want, how they buy, and how they use and react to the product. Included is the need to know how various marketing variables, such as price, product features, advertising message, and corporate image, affect the buyer. This aim is never perfectly realized, if for no other reason than because attitudes and behavior change, but it is nevertheless a worthy goal for the marketer.

It is customary to dissect customer behavior into separate compartments marked economic, psychological, and sociological. We cannot avoid doing some of the same later on in this discussion, but we shall start by viewing the buyer in the context of a total action system called *the buying process*. Then we shall note that the buyer never goes through the buying process alone; he is always influenced by others, those present either physically or mentally—people whom we shall call *buying participants*. Finally, we shall want to consider why he makes the buying decisions he does; that is *the theory of buyer choice*.[3]

Stages in the Buying Process

Of the dozens of categories of human action—working, sleeping, voting, eating, breathing, arguing, buying, and so forth—the one of primary interest to the marketer is buying. As an act, buying is typically more complicated than breathing or sleeping but probably less complicated than choosing a job or a wife. But the buyer's decision-making process can be very simple or very elaborate—contrast the purchase of a package of cigarettes with the purchase of a new home. The decision made by United Air Lines in 1965 to order Boeing jets instead of Douglas jets was complicated indeed. William A. Patterson and his executive committee spent months of agonizing appraisal before deciding to commit the bulk of a $750 million investment to Boeing.[4]

The buying decision seems the telling act as far as the seller is concerned, but this is a mistaken view. The buying decision is only one act in a larger process that begins before, and ends after, the decision. Marketers must comprehend the whole process, not just the purchase decision step, in order to do an effective job of meeting customer wants.

The stages of the buying process, in considerably simplified form, are illustrated in Figure 4-1. The customer is seen as going from a *felt need* to *prepurchase activity* to a *purchase decision* to *use behavior* to *postpurchase feelings*. Each step along the way poses a significant challenge to marketing management, both in understanding what is happening and in building an effective marketing program to capitalize on what is happening.

[3] The behavior of buyers toward new products, called the consumer adoption process, is discussed in Chapter 14, pp. 342-48.

[4] "United Air Lines $750-million Decision," *Chicago Sun-Times*, April 11, 1965, pp. 73, 77.

FIGURE 4-1
Stages in the buying process

FELT NEED

The starting point of the buying process is a felt need. It may be a specific need for a spring hat or a vague need for excitement or diversion. It may be a basic physiological need for food or a psychological need for security. It may be a need that is intense or casual, highly conscious or only vaguely conscious. It may be a need that arose spontaneously, or was created by social or business processes.

Needs have also been called wants, wishes, motives, urges, drives; distinctions between these terms are not worth making here. What they all have in common is that they represent a state of tension. A need is something that a person seeks to satisfy or reduce, and presumably some object or activity will do this.

Many attempts have been made to pass judgment on the importance of different human needs, with the implication that a great number of them are frivolous or unessential.[5] It is true that most of modern man's needs are not related to survival; he can get along on very little. Buddhists and some other religious groups have tried to establish that happiness is a matter of curbing desires rather than indulging them; however, Western man generally has chosen to expand his desires and his means of gratifying them.

Most of Western production and marketing is based on the premise that human wants are insatiable in their variety:

> Since all stoves cook, washing machines wash, and all foods eliminate hunger, selection today is not based on these characteristics but on the refinements by which they perform their tasks according to socially defined criteria. These desirable characteristics have come to be values in themselves.[6]

Marketers do not pass judgment on wants. Rather, they consider it their responsibility to satisfy them insofar as they are able. Admittedly, they go beyond this and stimulate new, specific wants. Some quarrel with the philosophical implications of wants that business stimulates for the purpose of maintaining employment and profits; [7] but the persuasion powers of business are not absolute, and in a free economy, the consumer, rather than someone else, selects the wants that he will satisfy.

The significance of felt needs for the marketer is to suggest that purchases are born in a set of motivations far more fundamental than the

[5] See, for example, Vance Packard, *The Waste Makers* (New York: David McKay Company, Inc., 1960).

[6] M. E. John, "Classification of Values That Serve as Motivators to Consumer Purchases," *Journal of Farm Economics*, November 1956, p. 957.

[7] John Kenneth Galbraith, *The Affluent Society* (Boston: Houghton Mifflin Company, 1958), chap. XI.

of deliberateness and rationality they show in prepurchase activity. Some buyers exhibit a rationalistic style; they actively seek information on values and prices, make mental or manual calculations, and generally do not act until they can rationalize their choice to their satisfaction. Others are more casual or impulsive in their purchases.

Prepurchase activity is supposed to create a sequence of state-of-mind changes that bring the buyer closer to the act of purchase. These stages have been described as:

Awareness→Knowledge→Liking→Preference→Conviction→Purchase [9]

The central idea is that as the buyer moves from product awareness to product knowledge, liking, preference, and conviction, each succeeding stage increases the probability that he will move soon, in time, to action to satisfy his need.[10]

The significance of prepurchase activity for the marketer is the awareness that needs incubate for a time before crystallizing in purchasing action. During this time the buyers are ripe for information and stimulation concerning product values. They watch for advertisements, listen to salesmen, and heed the opinions of acquaintances. During this period the firm's communications program represents an investment in trying to guide the receptive person's attention to the values of the firm's product. The communications can inform and persuade, but only infrequently are they sufficient to trigger buying action. This is why advertising is so necessary and yet so difficult to evaluate.

PURCHASE DECISION

Not all felt needs are destined to be satisfied. People grow weary of some, which wither away along with the tension. Other needs linger on indefinitely, unable for various reasons to culminate in a purchase. A need may become a pleasant fantasy satisfying in itself. But most felt needs that have a reasonable relationship to the person's means eventually drive the person to gratify them. His investigations and exposures and dawdling end in the act of making a purchase.

The purchase decision is really a set of decisions. At the very least it may involve a *product*, a *brand*, a *style*, a *quantity*, a *place*, a *dealer*, a *time*, a *price*, and a *way to pay*. Figure 4-2 illustrates some of the components of a buyer's decision to purchase a typewriter. Six different decision issues are shown. Given only these six decision issues and the two or three choices he can make regarding each, he can travel down 48 ($1 \times 2 \times 2 \times 3 \times 2 \times 2$) different decision paths. The one he actually travels down is hardly something he himself plans at the start of his decision trip. As he comes to each new fork in the road he is influenced by a host of factors, some highly personal, some circumstantial, and a few highly economic or social in character.

The manufacturer's problem of operating profitably in an economy replete with choice becomes apparent from this diagram. His sales will

[9] Robert J. Lavidge and Gary A. Steiner, "A Model for Predictive Measurements of Advertising Effectiveness," *Journal of Marketing*, XXV (October 1961), 59-62.

[10] For a critical appraisal, see Kristian S. Palda, "The Hypothesis of a Hierarchy of Effects: A Partial Evaluation," *Journal of Marketing Research*, February 1966, pp. 13-24.

depend upon his producing the right number of desk and portable typewriters, electric and manual typewriters, blue, gray, and tan typewriters, and having all of them in the right places and available on the right terms. Overproducing each product variant can guarantee against stockouts, but secures sales at the expense of profit. His real problem is to forecast how many of each, say, thousand buyers will travel down each decision path. It is difficult to predict this for the individual buyer, but it may be feasible for the aggregate of buyers, even if the forecast only amounts to projecting the distribution of past decisions.

But let us return to the buyer. Each decision path will strike him as having some risk attached. The amount of risk perceived by a consumer depends on the *amount at stake* and the *degree of subjective certainty* that he will do well.[11] People try to reduce the perceived risk by seeking information.[12] The final selection of a path by the consumer will reflect his balancing of expected rewards, costs, and risks.

For the marketer the significance of the purchase decision is that it is really a composite of decisions. The buyer agonizes over several decisions, not just one. The decision on portability may be just as grueling as the decision to buy a typewriter in the first place.

The marketer can do two things about this. He can create more informative communications, written and oral, so that some decisions can be made with more confidence. For example, he can spell out more clearly for the buyer the circumstances under which a desk typewriter makes more sense than a portable, or an electric typewriter than a manual. The marketer can also develop a package offer so that one decision obviates the need for several. A movie-camera manufacturer recognized that many sales were being lost because people were afraid to make separate decisions on a movie camera, projector, film, lighting equipment, and screen; he assembled and advertised a complete home movie kit so that only one decision had to be made and had great success.[13]

USE BEHAVIOR

As we said earlier, the marketer's interest in the buying process should not end with the sale of the product. The product was purchased not for its own sake but for its ability to satisfy a felt need. Attention should therefore be directed to how the product becomes articulated into the larger need system and activity system of the buyer.

Much can be learned by studying how buyers use the product. Who uses the product; how is it used; where is it used; when is it used; with what other products is it used? Consider these questions in connection with the household use of frozen orange-juice concentrate. Someone in the household, usually the wife, prepares the juice when a need for it is felt. The preparation usually take place in the morning but also occurs, though with less frequency, at other times in the day. The preparation is

11 Donald F. Cox and Stuart U. Rich, "Perceived Risk and Consumer Decision Making—The Case of Telephone Shopping," *Journal of Marketing Research*, November 1964, pp. 32-39.

12 Raymond A. Bauer, "Consumer Behavior as Risk Taking," in *Dynamic Marketing for a Changing World*, ed. Robert S. Hancock (Chicago: American Marketing Association, 1960), pp. 389-98.

13 Walter Talley, "Marketing R & D," *Business Horizons*, Fall 1962, pp. 31-40.

typically time-consuming, because the can must be opened, the contents added to a measured amount of water, and the mixture stirred or shaken before use. Because of these processing requirements, children generally do not prepare it, nor does the husband. So its use depends upon the housewife's decision to prepare it. Its greatest use is as a prelude to breakfast. It is also used, though less frequently, with other meals or at snack time. Most of the pouring is done in the kitchen, and the drink is consumed there or in the dining room. Children are apt to consume more than other members of the family. They are expected to drink a minimum of juice for health reasons; yet they are discouraged from overdrinking it because it is expensive.

From this bare outline of how frozen orange-juice concentrate is used, a number of insights can be gained that might improve the marketing process. Any innovation which would help ease the preparation chore might increase consumption and sales. One possibility is to develop a can that opens more easily so that children can make the juice themselves; another is to merchandise plastic juice containers at a very low price or as a premium so that the housewife has a proper receptacle for the juice. Use behavior also suggests that households do not think enough about drinking orange juice at times other than breakfast. This suggests the possible value of an advertising campaign showing people drinking orange juice on the tennis court, on the patio, and in the family room. The point is that orange juice competes with other thirst quenchers like milk, soda, coffee, and tea, and the marketer's job is to associate the use of orange juice in drinking situations other than breakfast time.

Boyd and Levy have suggested that there is value in thinking about the *consumption systems* in which a product is imbedded. The consumption system describes "the way a purchaser of a product performs the total task of whatever it is that he or she is trying to accomplish when using the product." [14] Preparing orange juice is part of the larger consumption system of ministering to the family's food needs. The housewife sees her task as providing nutritious and enjoyable food experiences within the confines of a limited time and money budget for food making. Orange juice is chosen because it delivers nutrition and enjoyment; the concentrate may be used because it does not require much effort. She might be ready to replace it with something that gave comparable values and was easier to use, such as chilled orange juice in cartons. Her interest is not in the particular product but in the contribution it makes to certain tasks which she must perform within larger systems of consumption activity.

The significance of use behavior for the marketer is to broaden his perspective of the opportunities latent in the product and the marketing of it. The product is imbedded both functionally and symbolically in one or more consumption systems. The manufacturer of desks for the home must recognize that the consumer will be interested in articulating the desk with other furnishings and into some pattern of family activity, requirements, and usage. The manufacturer of cigarettes can benefit by viewing the product as part of one system used by the individual to mitigate his tensions and as part of another system he uses to achieve social recognition. View-

[14] Harper W. Boyd, Jr., and Sidney J. Levy, "New Dimensions in Consumer Analysis," *Harvard Business Review*, November-December 1963, pp. 129-40.

5. It might persuade more retail salespersons to select Du Pont when the choice is left to them.[19]

The subsequent field experiments carried out by Du Pont were designed in part to measure these separate effects.

ANDREASEN MODEL. The second example of a customer behavior model is shown in Figure 4-4.[20] It is a richly detailed elaboration chiefly of stages 2 and 3 of the buying process (prepurchase activity and the purchase decision). It can be described in terms of four components: information, filtration, disposition changes, and outcome.

The input stimuli consists of *information* about competing products and their varying attributes, such as price, availability, and so forth. This information is carried to the prospective customer through impersonal sources (principally advertisements), independent impersonal sources (popular articles or television or radio programs), advocate personal sources (principally salesmen), and independent personal sources (family members, friends, associates).

The information is subject to selection and distortion by the individual buyer. He *filters* it in a unique way based on his constellation of attitudes and prior information.

The filtered information, along with other factors, affect the *disposition* of the prospective buyer toward the product. The other factors are the strength and quality of the wants, the degree to which it is expected that the object will satisfy the wants, the personality of the buyer, and so forth. Theoretically, the buyer's disposition toward the object can be measured along a continuum ranging from rejection (minus one) through neutrality (zero) to selection (plus one).

The *outcome* of this information processing by the prospective buyer may take one of three forms: selection, search, or no action. If a selection decision is made, the buyer will probably acquire the object unless he is forced to a holding position by objective constraints, such as insufficient funds, prior needs, or capacity limitations. Or he may delay the purchase pending other decisions on brand choice or outlet choice. When these constraints are overcome, he acquires the product, and his experience with it has a feedback on his disposition toward repeating the purchase. On the other hand, the individual may make a search decision, which amounts to a continuation of active prepurchasing activity such as gathering information. According to Andreasen, the amount of search will be a function "of want-strength, the perceived quantity and quality of information initially received and those aspects of personality related to intelligence and need for cognitive clarity." The third possible outcome may be no action, the individual deciding neither to select the product nor to search for further information. However, in this state he is still likely to have a heightened perception to environmental cues concerning the product.

Andreasen's model ties together several elements of the buying process. It suggests various points at which marketing management can make contact with the prospective buyer through thoughtful communications.

[19] *Ibid.*, p. 164.

[20] Alan R. Andreasen, "Attitudes and Customer Behavior: A Decision Model," in *New Research in Marketing*, ed. Lee E. Preston (Berkeley, Calif.: University of California Institute of Business and Economic Research, 1965), pp. 1-16.

against every man." Fear of this war leads men to unite with others in a corporate body. The corporate man tries to steer a careful course between satisfying his own needs and those of the organization.

MARKETING APPLICATIONS OF HOBBESIAN MODEL. The import of the Hobbesian model is that organizational buyers can be appealed to on both personal and organizational grounds. The buyer has his private aims; yet he tries to do a satisfactory job for his corporation. He will respond to persuasive salesmen, and he will respond to rational product arguments. However, the best "mix" of the two is not a fixed quantity; it varies with the nature of the product, the type of organization, and the relative strength of the two drives in the particular buyer.

Where there is substantial similarity in what suppliers offer in the way of products, price, and service, the purchasing agent has less basis for rational choice. Since he can satisfy his organizational obligations with any one of a number of suppliers, he can be swayed by personal motives. On the other hand, where there are pronounced differences among the competing vendors' products, the purchasing agent is held more accountable for his choice and probably pays more attention to rational factors. Short-run personal gain becomes less motivating than the long-run gain which comes from serving the organization with distinction.

The marketing strategist must appreciate these goal conflicts of the organizational buyer. Behind all the ferment of purchasing agents to develop standards and employ value analysis lies their desire to avoid being thought of as order clerks and to develop better skills in reconciling personal and organizational objectives.[62]

Summary

Marketing planning is inevitably based on a set of assumptions concerning what the buyer is like. If the view of the buyer or the buying process is oversimplified, the company may do a poor job or miss opportunities for doing a better job.

The buying process has five stages, all of which have significance for the marketer: a felt need, prepurchase activity, the purchase decision, product use, and postpurchase feelings. There are also various participants in the buying process, such in influencers, deciders, buyers, and users; they play various roles in family and industrial purchasing. Before a purchase is made, buying influences must be translated in the buyer's mind into purchasing responses. There have been many theories of how this happens—among them the Marshallian economic model, the Pavlovian learning model, the Freudian psychoanalytic model, the Veblenian social-psychological model, and the Hobbesian organizational-factors model.

It turns out that the "black box" of the buyer's mind, although

62 For an insightful account, see George Strauss, "Tactics of Lateral Relationship: The Purchasing Agent," *Administrative Science Quarterly*, September 1962, pp. 161-86.

complicated, is not so black after all. Light is thrown in various corners by these models. Yet no one has succeeded in putting all these pieces of truth together into one coherent instrument for behavioral analysis. This, of course, is the goal of behavioral science.

Questions and Problems

1. Choose a product and analyze the behavior of buyers in the market for that product. Specifically, when, where, and how do they buy? How do they make their choices? Is some particular model especially useful for interpreting buyer behavior in this market?

2. The stage in the buying process called prepurchase activity has often been broken up into successive states of mind: awareness, knowledge, liking, preference, and conviction. Do you think each successive state is necessarily associated with a higher probability of purchase?

3. Name some factors which are likely to influence (a) the amount of family task specialization in purchasing and (b) the relative amount of authority held by the husband versus the wife in making major purchase decisions.

4. Indicate how various family consumption systems have been affected by the advent of television.

MARKETING MANAGEMENT

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Preface

What is *Marketing Management* all about?

The American edition of *Marketing Management* is the world's leading marketing text because its content and organisation consistently reflect changes in marketing theory and practice. This new European edition of *Marketing Management* has been inspired by the American edition and explores the challenges facing European marketing practitioners. Increased global competition for business in European markets has led to a need for firms to develop market offerings that are especially tailored to meet the requirements of individual countries and customers. In the sellers' markets of yesteryear, competition was less pronounced and many firms concentrated on becoming cost-effective performers. This led to the formation of a mindset known as the *least-cost production paradigm*.

The paradigm change to and towards buyers' markets calls for marketers to provide customers with what they want and has become a challenge for supplying firms. It usually requires additional costs and may also involve substantial changes to their *modus operandi*. Additional costs are entailed as firms seek to meet customer-perceived value requirements. This normally entails offering a carefully tailored package of product and service benefits, and places increased importance on relationship marketing. The task of marketers is to discover accurately what their targeted customers want and then to develop appropriate market offerings by effective applications of the marketing mix. The marketing of services has assumed a great importance in most developed western economies and increasingly across the world as the leading emerging economies gather strength. Service benefits have become of greater importance as a means of increasing the customer-perceived value of offerings made by traditional product marketing firms.

The onward march of digital technology has had a profound effect on the practice of marketing. Firms now sell goods and services through a variety of direct and indirect channels. Mass advertising is increasingly giving way to new forms of communication as information and communication technologies (ICT) gather momentum. Communication has become truly two-way and customers are reporting more and more to other customers what they think of specific companies and market offerings using email, blogs, podcasts and other digital media to do so.

In response, companies are moving from managing product or service portfolios to relationship marketing. They do so by managing customer portfolios, compiling databases on individual customers in order to be able to fine tune their offerings and messages to meet bespoke needs. They are replacing traditional sellers' market product and service standardisation with more sophisticated marketing. The drive toward effectiveness (meeting the individual requirements of customers) is potentially expensive if pursued in an undisciplined fashion. Marketers are paying increased attention to efficiency and developing marketing metrics to measure their performance on key operative functions such as customer profitability and lifetime value. Monitoring payback on specific marketing decisions can be difficult due to the nature of the variables that influence customer buying behaviour and the contextual dynamics and complexities of individual markets. However, it is important for firms to seek improved methods to measure the return on their marketing investment and its impact on shareholder value.

As companies change their thinking in the light of emerging customer demands in buyers' markets, so they give increased attention to changing their marketing organisation. Marketing is increasingly being seen as a company-wide rather than a functional activity. It drives the company's vision, mission and strategic planning. Marketing is about identifying and consistently delivering appropriate customer-perceived value offerings to targeted customers. This involves a host of vital decisions such as who the company wants as its customers; which of their needs to satisfy; what products and services to offer; what process to design; what communications to send and receive; what channels of distribution to use; and what partnerships to develop. Marketing can only succeed when all functions in an organisation work in a holistic way as a team with the single aim of consistently pleasing or delighting their customers by balancing the concepts of effectiveness and efficiency.

Marketing management

In order to achieve this successfully, marketers practise marketing management on a national, international and often global scale. Marketing management is the development, design and implementation of marketing programmes, processes and activities that recognise the breadth and interdependencies of the business

The importance of marketing

The first decade of the 21st century challenged companies to prosper financially or even to survive in the face of an unforgiving economic environment. Marketing is playing a key role in addressing those challenges. Finance, operations, accounting and other business functions will not really matter without sufficient demand for products and services so the company can make a profit. In other words, there must be a top line for there to be a bottom line. Thus financial success often depends on marketing ability.

Marketing's broader importance extends to society as a whole. Marketing has helped introduce and gain acceptance of new products and services that have eased or enriched people's lives. Successful marketing builds demand for products and services, which, in turn, creates jobs. By contributing to the bottom line, successful marketing also allows firms to engage more fully in socially responsible activities.[2]

Companies of all kinds – from consumer product manufacturers (mobile phones from Nokia or Ericsson, or cars from BMW or Porsche), to service providers like health-care insurers (Bupa) or hotels (Premier Inn or Club Med), from non-profit organisations (Amnesty International) to industrial product manufacturers (Airbus or Siemens) – all use marketing to understand their core customers and grow their businesses.

Marketing is a complex set of tasks as well as a philosophy of business and it has been the Achilles heel of many formerly prosperous companies – like Christian Lacroix, Waterford Wedgewood and Land of Leather. The role of marketing is always to think customer. Peter Drucker confirms the importance of this customer focus:

> **The purpose of business is to create a customer. The business enterprise has two – and only two – basic functions: marketing and innovation. Marketing and innovation produce results; all the rest are costs. Marketing is the distinguishing, unique function of the business.**

Today, when top management are surveyed, their priorities are often: finance, sales, production, management, legal and people. Missing from the list: marketing and innovation. When one considers the trouble that many business icons have run into in recent years, it is easy to surmise that Drucker's advice would have helped managers to avoid the problems they face today.[3]

Marketing during challenging economic times

The economic recession of 2008 onwards brought budget cuts and intense pressure from senior management to make each euro of marketing spend count. It was important for marketing to respond swiftly and decisively. More than ever, marketers need to understand and adapt to the latest marketplace developments. At greatest risk are firms that fail to carefully monitor their customers and competitors, continuously improve their value offerings and marketing strategies, and satisfy their employees, stockholders, suppliers and channel partners in the process.

Marketing managers have to rethink and reorient their marketing efforts to deliver customer satisfaction within competitive markets. Many market leaders, such as Nokia, realise that they cannot afford to relax their marketing effort as their leadership is challenged by fast and agile competitors like Samsung, and changing consumer tastes. The big European brand winners are companies like Zara and BMW, companies that really understand marketing and how to satisfy changing consumer needs. Awareness of changing consumer and business trends and the use of marketing expertise to change before, or react to, these trends is a core requirement.

Skilful marketing is a never-ending pursuit. As Jay Conrad Levinson, author of *Guerrilla Marketing*, noted: 'Marketing is not an event, but a process . . . It has a beginning, a middle, but never an end, for it is a process. You improve it, perfect it, change it, even pause it.

to change. Professor Christian Gronroos of the Hanken Swedish School of Economics in Finland proposed a definition that encompasses customer value, relationship marketing, services marketing and the promise concept.[9]

> **Marketing is a customer focus that permeates organizational functions and processes and is geared towards making promises through value propositions, enabling the fulfillment of individual expectations created by such promises and fulfilling such expectations through support to customers' value-generating processes, thereby supporting value creation in the firm's as well as its customers' and other stakeholders' processes.**

Managing exchange processes between companies and consumers and/or business-to-business customers calls for a considerable amount of work and skill. *Marketing management* takes place when at least one party to a potential exchange manages the means of achieving desired responses from other parties – fulfils promises. Thus we see **marketing management** as *the art and science of choosing target markets and getting, keeping, and growing customers through creating, delivering, and communicating superior customer value.*

Some business people who don't understand marketing think of marketing as 'the art of selling products', or simplistically equate it with **advertising**. Both of these are marketing tactics visible to the consumer. Many people are surprised when they hear that selling is *not* the most important part of marketing and that not all companies have large advertising budgets. Selling and advertising are aspects of the tip of the marketing iceberg. Most of what occurs in marketing happens before the customer sees an advertisement or meets a sales representative. These are the representation of the marketing strategy rather than the totality of marketing. Just like an iceberg, over 80 per cent of marketing occurs out of sight of the consumer. Advertising and sales are the final rather than the beginning stages of marketing. Take Benetton and Zara – two companies that view marketing very differently. Zara succeeded through a core understanding of the customer whereas Benetton's over-focus on advertising damaged the business.

Zara and Benetton

Benetton, which for years had focused on provocative advertising, had to rethink its marketing strategy when new fast-fashion competitor Zara entered the young fashion market and started capturing market share and brand loyalty through a comprehensive marketing strategy. Zara understood the new pattern of consumer behaviour of teenagers and young adults – markets that craved new styles quickly and cheaply and were happy with concepts such as 'fast fashion' and 'disposable clothing'. Zara produces around 12,000 styles per year (compared to the average of 3,000), which means that fresh fashion trends reach the stores quickly. A typical Zara's customer visits a Zara shop 17 times a year compared to the average of three times per year for other fashion shops.[10] Zara studied customer needs and saw that global supply network management – getting the fashion into the shops quickly (Chapter 17) was critical to success. It also decided to use its shop and the purchasing process as the company's main image vehicle (Chapter 18), rather than the more traditional focus on advertising (Chapters 19 and 20). Zara's advertising budget is 0.03 per cent of its revenues,[11] which is very different from Benetton, which focused on creative advertising, spending €80 million on advertising alone. Benetton has now seen the errors of its ways, investing over €160 million in modernising its global supply chain. Zara has become the world's largest clothing retailer, by focusing on understanding consumer needs and behaviour and by providing value to the customer.

Core marketing concepts

Needs are the basic human requirements such as those for air, food, water, clothing and shelter. Humans also have strong needs for recreation, education and entertainment. These needs become *wants* when they are directed to specific objects that might satisfy the need. A German consumer needs food but may want a sandwich, while a consumer in China needs food but may want rice. Wants are shaped by our society.

Demands are wants for specific products or services backed by an ability to pay. Many people want a Mercedes; only a few are able to buy one. Companies must measure not only how many people want their offering, but also how many are willing and able to buy it.

These distinctions shed light on the frequent criticism that 'marketers create needs' or 'marketers get people to buy things they don't want'. Marketers do not create needs: needs pre-exist marketers. Marketers, along with other societal factors, influence wants. They might promote the idea that a Mercedes would satisfy a person's need for social status. They do not, however, create the need for social status.

Some customers have needs of which they are not fully conscious or that they cannot articulate. What does it mean when the customer asks for a 'powerful' lawnmower or a 'peaceful' hotel? The marketer must probe further. We can distinguish five types of needs:

1 Stated needs (the customer wants an inexpensive car).
2 Real needs (the customer wants a car whose operating cost, not initial price, is low).
3 Unstated needs (the customer expects good service from the dealer)
4 Delight needs (the customer would like the dealer to include an onboard GPS navigation system).
5 Secret needs (the customer wants friends to see them as a savvy consumer).

Responding only to the stated need may shortchange the customer.[23] Consumers did not know much about mobile phones when they were first introduced, and Nokia and Ericsson fought to shape consumer perceptions of them in terms of size, shape and usage. To gain an edge, companies must help consumers learn what they want.

Segmentation, target markets and positioning

Not everyone likes the same cereal, restaurant, university or film. Therefore, marketers start by dividing the market into segments. They identify and profile distinct groups of buyers who might prefer or require varying product and service mixes by examining demographic, psychographic and behavioural differences among consumers.

After identifying market segments, the marketer decides which present the greatest opportunities – which are its *target markets*. For each, the firm develops a *market offering* that it *positions* in the minds of the target buyers as delivering some central benefit(s). (See Chapters 10 and 11.) Volvo develops its cars for buyers to whom safety is a major concern, positioning its vehicles as the safest a customer can buy.

Offerings and brands

Companies address customer needs by putting forth a **value proposition** – a set of benefits that satisfy those needs. The intangible value proposition is made physical by an *offering*, which can be a combination of products, services, information and experiences.

A *brand* is an offering from a known source. A brand name such as German-based T-Mobile carries many associations in people's minds that make up its image: mobile phone, network availability, mobile phone accessories, convenience, cost and billing, and customer service along with its distinctive logo. All companies strive to build a brand image with as many strong, favourable and unique brand associations as possible. (See Chapters 12 and 13.)

Marketing insight *(continued)*

These comprise new orders, production, employment, supplier deliveries, inventories, prices, new export orders, imports and backlogs of orders. The production index is used to help predict industrial production. The prices index is used to help predict the producer price index. The new orders index is used to help predict factory orders. The employment index is used to help predict manufacturing employment. And the supplier deliveries index is a component of the leading economic indicators index. This signals expansion when the index is above 50 and contraction when below. The ECRI index is provided by the Economic Cycle Research Institute, which maintains well over 100 proprietary indexes for 20 major economies.

Managers need to focus on three major activities to advance business cycle management:

1 Developing and deploying forecasting capabilities to anticipate movements and key turning points in the business cycle;
2 Applying well-timed business-cycle management strategies and tactics across the functional areas of the organization in a synergistic and integrative fashion;
3 Over the longer term, building a recession proof organization with an orientation toward business-cycle management, an executive team with a high degree of economic and financial market literacy, a facilitative organizational structure and a supportive organizational culture.

Source: Peter Navarro (2009) Recession-proofing your organization, *MIT Sloan Management Review*, 50(3), 45–54.

Consumer sophistication

Consumers are more marketing-savvy with many cynical about marketing efforts – inundated with hundreds of pitches a day, and increasingly suspicious of business promises.[44] Professor Stephen Brown from the University of Ulster suggests that 'Today's consumers were trademarked at birth and brought up on branding'.[45] Children as young as three can recognise brand logos, and the average child sees between 20,000 and 40,000 commercials a year.[46] Consumer sophistication is reflected in:

- **Greater ease in interacting.** Today's buyers can place orders from home, office or mobile phone, 24 hours a day, seven days a week, and quickly receive services and products at their home or office. Customers can also track and monitor their orders worldwide. DHL provides a tracking service online so that the customer knows where their parcel is at any time.
- **Technically savvy consumers.** Many customers are now technologically savvy, interactive, mouse clicking, engaged and intelligent. Consumers are using technology in ways that marketers are only beginning to understand. Across Europe, around 60 per cent of Germans and Britons are online. More than seven in ten Dutch, Swedish and Danish households have a personal computer.[47] Europe showed the highest growth in social networking reach among the major global regions during 2010.[48] The iGeneration

(a jocular allusion to the popular iPod boom, experienced by the internet generation) are people who grew up with computer technology as normal. They have no memory of (or nostalgia for) pre-internet history; they take the internet for granted, accept the utility of services such as email, Wikipedia, search engines and social media such as Facebook and YouTube. The term 'Generation Now' has been coined to reflect the urge for instant gratification that technology has imparted. This is the most connected generation ever, with several European countries, including the United Kingdom, having more mobile phones than people.

- **Self-expression and interaction.** Rather than companies providing information to customers – what can be called 'top down' – the internet generation wants to discover new things for themselves and then share their discoveries. The 'me-to-we' generation wants to connect and share, and has created an online world that operates beyond traditional boundaries. User-generated content allows customers to express themselves online. YouTube and social networking sites such as Facebook bring together people with a common interest but also allow consumers to share information. Social networking and the internet in general have had a dramatic impact on the way marketers have to define and interact with their customers. Young adults are moving away from other mediums to social networking. This has been driven by web 2.0 technologies, broadband penetration and also ubiquitous digital cameras and camera phones (see Figure 1.4).
- **A substantial increase in buying power.** With an increased ability to offer advice on products and services, the internet, social networking and other technologies, such as mobile phones, notebooks and iPads, fuel personal connections and user-generated content and increase the power of the consumer.[49] Some 35 per cent of young, first-time car buyers consider the internet their most important shopping tool.[50] In the hotel sector, browsing the internet and checking hotel information on Trip Advisor is now the norm. Trip Advisor is a customer-to-customer advice and discussion forum. In 2010 it became the first travel site to have more than 40 million monthly users providing reviews and opinions, making it the world's largest travel site. With sites like price.com and lastminute.com consumers are only a click away

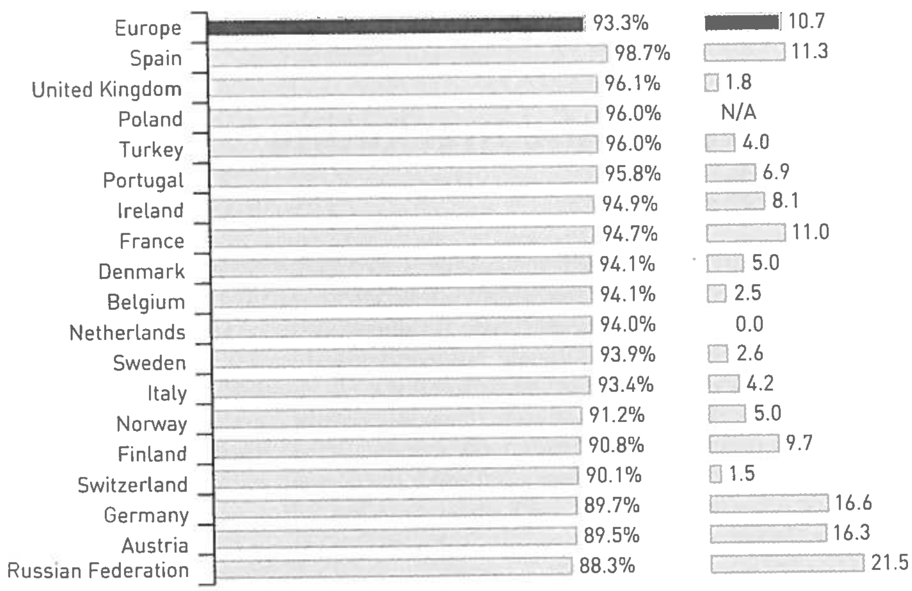


Figure 1.4 Reach of social networking sites by market in Europe
Source: Panel only data, comScore Media Metrix, Dec. 2011 vs Dec. 2009.

from comparing competitor prices and product and service attributes. Business buyers can run a reverse auction in which sellers compete to capture their business. They can readily join with others to aggregate their purchases and achieve deeper volume discounts.

- **An amplified voice to influence peer and public opinion.** The internet can be used as a vehicle to influence companies. Kryptonite, a company that makes high-priced bicycle locks, found itself in an awkward position when several blogs showed how the firm's U-shaped locks could be easily picked using only a Bic pen.[51] With the instructions posted on the internet, many consumers were able to open the iPhone to any network despite the desire of the company to use only one network.
- **Co-creation.** Much of consumer experience with brands and companies now involves co-creation, where the consumer and the company combine to define, create and shape their experience of the product or service. BMW encourages buyers to design their own models from among 500 options, 90 exterior colours and 170 trims. Around 80 per cent of BMW cars are co-created with the customer. This links to **customisation** where customers have an input into the design role, customising the product or service to suit themselves, where traditionally products and services were designed by companies. Companies can produce individually differentiated products or services, whether they are ordered in person, on the phone or online, thanks to advances in factory customisation technology and the increased sophistication of databases, computers and the internet. For a price, customers can customize their M&M sweets by colour and even apply short personalised messages (see www.mymms.com/default.aspx) and the same can be done with Heinz tomato ketchup bottles (www.myheinz.com).[52]
- **Self-service technologies.** More and more companies are choosing to provide self-service technology options for their customers. Self-service checkouts at supermarkets, self-check-ins at airports, cinema ticket collection and online investment trading have all proliferated. Self-service should be a choice for customers rather than a cost-saving exercise by the company. Many self-service technologies have been designed without any marketing input. Take the ATM – what would it look like if it had been designed and managed by marketers rather than technologists?

Understanding the marketing philosophy

The marketing philosophy or concept is one of the simplest ideas, but it is also one of the most important, and one that is often difficult for a company to embrace. At its very core is customer satisfaction. Satisfied customers are more valuable, more likely to purchase more, and more likely to relate positive word of mouth. The **marketing concept or philosophy** states that the organisation should strive to satisfy its customers' wants and needs while meeting the organisation's profit and other goals. In simple terms, 'the customer is king'.

This marketing philosophy needs to be adopted by the whole company, from top management to the lowest levels and across all departments of the organisation. The customers' needs, wants and satisfaction should always be foremost in every manager's and employee's mind.[53]

Many companies have not progressed to a marketing concept but are challenged to move from the old-fashioned product or sales concept.

The marketing philosophy

The marketing concept or philosophy emerged in the mid-1950s.[55] Instead of a product-centred and sales-oriented 'make-and-sell' philosophy, business shifted to a customer-centred, 'sense-and-respond' philosophy. The marketing task is not to find the right customers for your products or services, but to design the right services and products for your customers. Dell Computers does not prepare a perfect computer for its target market. Rather, it provides product platforms on which each person customises the features they desire in their computer. Customising the outside panel of the computer also allows customers to customise the look of the computer.

The marketing concept holds that the key to achieving organisational goals is being more effective than competitors in understanding the target market's needs and in creating, managing, delivering and communicating superior customer value to that chosen target market(s).

Theodore Levitt of Harvard Business School explored the contrast between the selling and marketing philosophy and noted that

> **Selling focuses on the needs of the seller; marketing on the needs of the buyer. Selling is preoccupied with the seller's need to convert his product into cash; marketing with the idea of satisfying the needs of the customer by means of the product or service and the whole cluster of things associated with creating, delivering and finally consuming it.[56]**

The box below highlights the key characteristics from each era which can be used to discover the dominant concept within an organisation.

Breakthrough marketing

The key characteristics of the production, sales and marketing eras

Production era (1870–1930)

P1. Demand exceeds supply. There are shortages and intense hunger for goods.
P2. There is little or no competition within product markets (between firms selling the same goods to the same markets).
P3. The company, not customers, is the centre of focus for a business.
P4. Businesses produce what they can produce and focus on solving production problems.
P5. Businesses produce limited product lines.
P6. Products sell themselves. Wholesalers and retailers are unsophisticated in their selling and marketing.
P7. Profit is a by-product of being good at production.

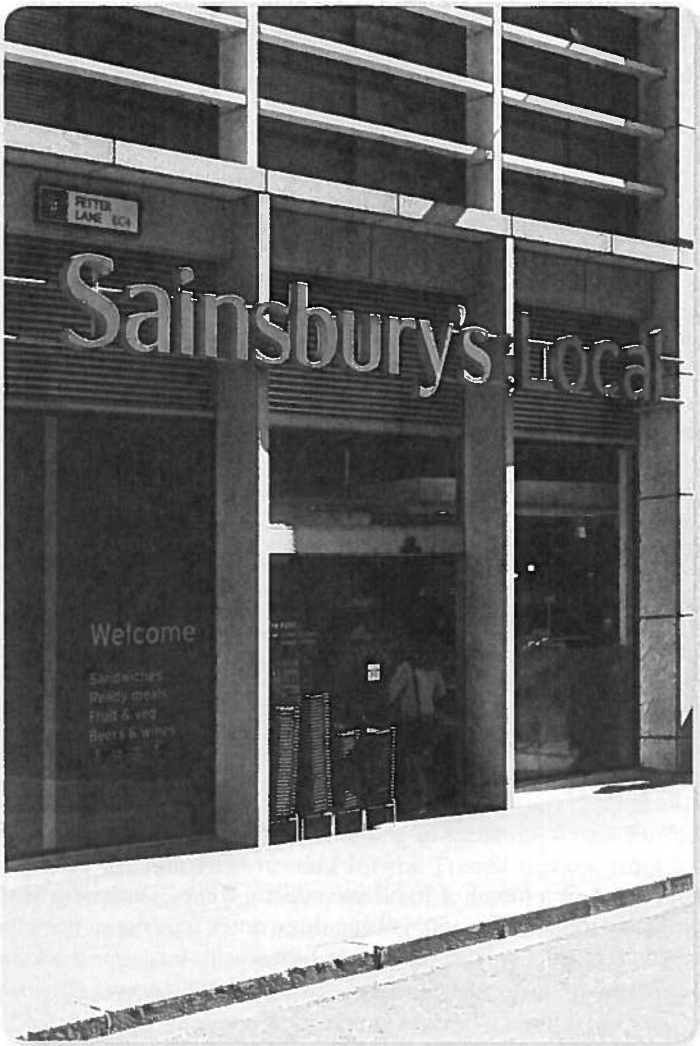
Sales era (1930–50)

S1. Supply exceeds demand.
S2. There is competition within product markets.
S3. Businesses are conscious of consumers' wants and some market research is done.
S4. Businesses must dispose of the products they produce and therefore focus on selling.
S5. Businesses produce limited product lines.
S6. Hard selling is necessary, backed by advertising.
S7. The primary goal of the firm is sales volume; profit is a by-product.

Marketing era (1950 onwards)

M1. Supply exceeds demand.
M2. There is intense competition within product markets.
M3. The customer is at the centre of a company's business; the purpose is to satisfy customers' needs and wants.
M4. Customers determine what products are made. Businesses focus on marketing problems.
M5. Businesses produce extensive product lines.
M6. A wide range of marketing activities are used and coordinated to satisfy customers' needs.
M7. Businesses focus on profit rather than sales volume.

Source: N. Ellis, J. Fitchett, M. Higgins, J. Gavin, L. Ming, M. Saren and M. Tadajewski (2011) *Marketing: A Critical Textbook*, London: Sage, modified from Jones, D.G.B. and Richardson, A.J., The myth of the marketing revolution, *Journal of Macromarketing*, 27(1), pp. 15–24, p. 18.



Sainsbury's come to your neighbourhood to offer a convenient but relatively expensive local shopping opportunity.
Source: © Justin Kase z03z/ Alamy

Wind and Rangaswamy see a movement towards 'customerising' the firm.[8] Mass customisation introduces a *new paradigm* whereby companies seek to fragment the market through economies of scope.[9] Customers become integral to the market offering and design processes, with more sophisticated customers undertaking simulations to answer 'what-if' questions. Market offerings are assembled from valued components or attributes to develop unique customer-perceived value to meet individual needs.

Mass customisation, like one-to-one marketing, requires new organisational thinking. Every customer interaction provides an opportunity to learn more about the customer's needs and to adapt existing company offerings to meet changing circumstances. True customer service leads to strong relationships and an enhanced lifetime value experience for customers. Every employee becomes a marketer, as the whole firm networks to provide the right collection of customer-perceived value attributes and benefits for customers.

Customerisation combines operationally driven mass customisation with customised marketing in a way that empowers consumers to design the customer-perceived value offering of their choice. The firm no longer requires prior information about the customer, nor does the firm need to own manufacturing. The firm provides a platform and tools, and 'rents' out to customers the means to design their own market offerings. A company is customerised when it is able to respond to individual customers by customising its market offerings and messages on a one-to-one basis. In the United Kingdom, Towels R Us offers customised towels, roller towels and dressing gowns. Customers can choose from a large range of logos and can add their own messages. Sanford Brands[10] offers to customise pens manufactured by Parker, Sharpie, Waterman, Papermate and Berol. Nike ID enables clients

Not all attempts to target children, minorities or other special segments draw criticism. Colgate-Palmolive's Colgate Junior toothpaste has special features such as coloured striped paste designed to get children to brush longer and more often. Other companies are responding to the special needs of minority segments.[40] Thus the issue is not *who* is targeted but rather *how* and *for what.* Socially responsible marketing calls for targeting that serves not only the company's interests but also the interests of those targeted. Many countries also place restrictions on the content and timing of advertising to children. Cadbury's dropped its 'Get Active' promotion that encouraged children to exchange chocolate packaging wrappers for school sports equipment when critics pointed out that 5,440 wrappers would be needed to obtain one football goal.[41]

Creating differentiation and positioning strategies

No company can be successful if its market offerings (product/service packages) resemble every other product and offering. As part of the strategic brand management process, each offering must represent a compelling, distinctive perceived-value offering in the mind of the target market.

A crucial pillar of marketing strategy is market customisation or as it is more generally known STP – *segmentation, targeting* and *positioning.* A company discovers different needs and groups in the marketplace (*segmentation*). It selects those *targets* it can satisfy in a competitive way, and then *positions* its offering so the *target* market recognises the company's distinctive offering and image. For market offerings to be successful in current buyers' markets, they need to be developed and differentiated against competitive offerings if a company wants to achieve a sustained competitive advantage (SCA). The creation of a strong brand reputation to generate a lasting SCA involves an active consideration of one or a combination of cost leadership, differentiation and combined cost and brand acceptance opportunities.

Yves Saint Laurent

Founded in 1961, Yves Saint Laurent is one of the greatest fashion names of the late twentieth century. Throughout the years, the ground-breaking designs of the couture house created innovative pieces of clothing. Yves Saint Laurent was the first couture house to launch, in 1966, the modern concept of luxury women's *prêt-à-porter*, in a collection called 'Rive Gauche'. It was followed in 1969 by a Rive Gauche men's ready-to-wear line. The Yves Saint Laurent Rive Gauche boutiques were soon opened throughout the world, allowing fashion-conscious working individuals to wear the Yves Saint Laurent designs. This represented the first step in making luxury labels accessible to a wider public.

In 1999, the Gucci Group (the luxury division of the PPR Group, the official trading name of a French luxury goods company organised around six operating branches: Fnac, Redcats Group, Conforam, CFAO, Puma and Gucci Group),[42] acquired Yves Saint Laurent. Since then the brand has been repositioned at the top segment of the luxury goods market. Under the management of Valérie Hermann, appointed CEO in 2005, and Stefano Pilati, creative director since 2004, the brand has renewed the exceptional legacy of its founder while bringing a contemporary approach to its collections, which combine elegance, top-quality fabrics, refined and discreet but recognisable details.

Today Yves Saint Laurent's collections include women's and men's ready-to-wear, shoes, handbags, small leather goods, jewellery, scarves, ties and eyewear. They are may need to go further. Consider these other dimensions, among the many that a company can use to differentiate its market offerings:

- **Personnel differentiation.** Companies can have better-trained employees. Singapore Airlines is well regarded in large part because of its flight attendants. The sales forces of such companies as BMW, Bose, Cisco,[58] de Beers and Shell enjoy an excellent reputation.
- **Channel differentiation.** Companies can more effectively and efficiently design their distribution channels' coverage, expertise and performance. The leading European supermarkets such as Carrefour and Tesco have developed highly effective and highly efficient distribution strategies.
- **Image differentiation.** Designer jewellery (Cartier). Even a seller's physical space, such as international airports' shopping malls and departure lounge shops, can be powerful image generators.

The purpose of positioning

Professional positioning is of benefit to a supplier as it enables a company to invest its resources and skills in the right marketplace. As such, it is both an *effective* and an *efficient* strategy. The right market offering is being placed on the market and professional know-how is applied to achieving this cost effectively. As Figure 10.8 shows, this is also an activity that results in advantages for customers as market offerings are *effective* in satisfying their requirements in dynamic market conditions when they have a choice of suppliers. Additionally, they enjoy an *efficient* buying experience in the marketplace as they select the branded purchase that they perceive as representing the best value.

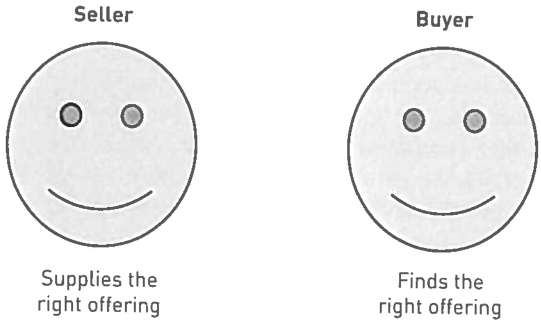


Figure 10.8 Two satisfied and happy people – perfect positioning

SUMMARY

1 Target marketing includes three activities: market segmentation, market targeting and market positioning.

2 Markets can be targeted at four levels: segments, niches, local areas and individuals. Market segments are large, identifiable groups within a market. A niche is a more narrowly defined group. Globalisation and the internet have made niche marketing more feasible to many. Marketers appeal to local markets through grassroots marketing for trading areas, neighbourhoods and even individual stores.

3 More companies now practise individual and mass customisation. The future is likely to see more self-marketing, a form of marketing in which individual consumers take the initiative in designing market offerings and brands.

4 There are two bases for segmenting consumer markets: consumer characteristics and consumer responses. The major segmentation variables for consumer markets are geographic, demographic, psychographic and behavioural. Marketers use them singly or in combination.

value (see Chapter 10). Value is heavily influenced by buyers as they have a choice of supplier and usually demand more for their money. The concept of *customer-perceived value* has become a matter of increasing concern in the marketing literature. It is imperative for suppliers to offer buyers in competitive markets what they want if they are effectively to generate profitable business. Several empirical studies have sought to explore this in practice. Gounaris et al. researched the relationships between customer value, satisfaction and purchase intentions.[8] Their research suggested that delivering superior customer value enables a firm to achieve favourable ('buy me') behavioural intentions. In contemporary buyers' markets, the concept of CPV has become a vital concern for marketers as it stresses the importance of both the traditional product (tangible) and service (intangible) attribute and benefit components of a market offering.

How then do customers ultimately make choices? They tend to be perceived as value maximisers, within the bounds of search costs and limited knowledge, mobility and income. Customers estimate which market offering will deliver the most perceived value and act on it. A challenging task for market-oriented companies is to define, develop and deliver customer-perceived value when this is often notoriously difficult to define. In many respects, it is a matter of perception and sensitivity.

The truth about beauty creams

On 12 May 2008 a TV programme in the United Kingdom conducted an investigation into the beauty cream market with the intent of discovering whether anti-ageing creams really worked. Such market offerings promise eternal youth to women and the UK market is reputed to be worth €1 billion. As the regulating law stands at present, companies competing in this market do not have to put their creams through accredited scientific tests as they are classed as cosmetics rather than medicines. Nonetheless, they do have to be careful as to the claims they make for their preparations. In 2007 L'Oréal was required by the UK Advertising Standards Authority to withdraw an advertisement campaign that claimed to reduce wrinkles in an hour.

Five creams were selected and given to five women to try for a month. At the start of the test, each of the women was examined by a dermatologist and plastic surgeon to determine the start state of their skin. Table 11.1 summarises the branded creams that were selected for testing.

After a month the women were re-examined by the dermatologist and the plastic surgeon and the performance of the competing cream treatments was evaluated. Despite using pseudo-scientific copy in their marketing efforts ('the science bit'), no real change was observed in the state of the women's skin. While there was evidence of some slight surface improvement, there was no evidence of significant deep skin improvement. There was little to choose between the cheapest and most expensive. The experts advised that the best way to look after skin was to stay out of the sun, use a sunblock, eat healthily, see that sufficient vitamin C was in their diet and avoid anti-wrinkle creams!

Table 11.1 Anti-ageing cream test brands

Brand	Price of total package (£)
Boot's No. 7 Protect and Perfect	70
Dior Capture XP Range	252
Nivea Visage	20
L'Oréal DermGenesis	70
Olay Regenerist Range	80
Simple Protect Moisturising Cream	5

Given the potential disadvantage of having an unhappy customer, it is critical that marketers deal with the negative experience effectively.[32] Beyond that, the following procedures can help to recover customer goodwill:[33]

1 Set up a seven-day, 24-hour freephone 'hot line' (by phone, fax or email) to receive and act on customer complaints.
2 Contact the complaining customer as quickly as possible. The slower the company is to respond, the more dissatisfaction may grow and lead to negative word of mouth.
3 Accept responsibility for the customer's disappointment; never blame the customer.
4 Use customer-service people who are empathetic.
5 Resolve the complaint swiftly and to the customer's satisfaction. Some complaining customers are not looking for compensation so much as a sign that the company cares.

Market offering (product and service) quality

Customer satisfaction has a key quality dimension. Customer-perceived quality (CPQ) relative to customer-perceived price (CPP) defines customer-perceived value (CPV). However, what exactly is quality? Various experts have defined it as 'fitness for use', 'conformance to requirements', 'freedom from variation', 'the purchase attributes that the customer perceives', and so on. In sellers' markets, quality was usually seen to be a production concern, but in the buyers' markets of today, it is a vital concern of marketers. The American Society for Quality Control defines quality as 'the totality of features and characteristics of a product or service that bear on its ability to satisfy stated or implied needs'. This is a customer-centred definition. Thus a seller has delivered quality whenever the product/service offering meets or exceeds customers' expectations. A company that satisfies most of its customers' needs most of the time is called a quality company. However, it is important to distinguish between *conformance* quality and *performance* quality (or grade). A Lexus provides higher performance quality than a Hyundai: the Lexus rides more smoothly, goes faster and lasts longer. Yet we can say that both a Lexus and a Hyundai deliver the same conformance quality if all the units deliver their respective promised quality.

Stockholm's smoothly running and exceptionally clean metro system, the *Tunnelbannen*, found in the late 1990s that cutting costs was not enough. Quality for customers had to be taken into account. It took a new direction and found a better balance between quality and price, adopting a new overall objective – to attract more passengers by offering higher quality.[34]

The drive to produce goods that are superior in world markets has led some countries – and groups of countries – to recognise or award prizes to companies that exemplify the best quality practices, such as the Deming Prize in Japan, the Malcolm Baldrige National Quality Award in the United States, and the European Quality Award.

Impact of quality

Product and service quality, customer satisfaction and company profitability are intimately connected. Higher levels of quality result in higher levels of customer satisfaction, which support higher prices and (often) lower costs as the volume of sales increases. Studies have shown a high correlation between relative product quality and company profitability.[35] Companies that have lowered costs to cut corners have suffered when the quality of the customer experience suffers: for example, a local private dentist who fails to invest in improving patients' experience by regularly updating equipment and the furnishings in the waiting room. Customer-perceived quality is clearly a vital key to customer-perceived value creation and customer satisfaction.

distributing the products and services, but also of taking phone calls from the customer, travelling to visit the customer, paying for entertainment and gifts – all the company's resources that go into serving that customer.

When a company does this for each customer, it can classify customers into different profit tiers: *platinum customers* (most profitable), *gold customers* (profitable), *iron customers* (low profitability but desirable for volume) and *lead customers* (unprofitable and undesirable). The company can then move iron customers into the gold tier and gold customers into the platinum tier, while dropping the lead customers or making them profitable by raising prices or lowering the cost of serving them. More generally, marketers must segment customers into those worth pursuing and those potentially less lucrative customers that should receive little attention, if any at all.

Customer portfolios

Marketers are recognising the need to manage customer portfolios, made up of different groups of customers[39] defined in terms of their loyalty, profitability and other factors. One perspective is that a firm's portfolio consists of a combination of 'acquaintances', 'friends' and 'partners' that are constantly changing.[40] The three types of customer will differ in their product needs, their buying, selling and servicing activities, and their acquisition costs and competitive advantages.

Another perspective compares the individuals who make up the firm's customer portfolio to the stocks that make up an investment portfolio.[41] In marketing, as in investments, it is important to calculate the *beta*, or risk–reward value, for each portfolio item and then diversify accordingly. From this perspective, in order to maximise the portfolio's risk-adjusted lifetime value, firms should assemble portfolios of negatively correlated individuals so that the financial contributions of one offset the deficits of another.

Customer lifetime value – conceptual dream or real-time activity?

As competition in buyers' markets intensifies, it becomes increasingly important for companies to retain their customers as long as they can, and preferably for their lifetime. Winning new customers to replace lost ones is not an easy option. So why do customers defect? In short, because they did not like what was on offer. The customer-perceived value (CPV) package failed to achieve a satisfactory experience. Generally speaking, there are two main reasons why customers defect to a competitor.

The first is a breakdown in trust. Companies should not take their customers for granted but rather should revere them and treat them with respect. While it was Mahatma Ghandi who was the first to coin the phrase 'The customer is king', today most marketers recognise its truth. The concept of customer-perceived value should be interpreted as a task to provide the right customer value package all the time. Mistakes will occur and then they need to be rectified promptly and effectively if customer loyalty is to be retained. Too often the horror stories seem to come from the same sectors: the financial sector, the utilities, satellite TV aerial companies, builders and garages, to name but a few of the cases aired in consumer TV programmes such as the UK BBC's *Watchdog*.

The second reason is a general failure of companies to interface successfully with their customers. The marketing philosophy and culture should be recognised and practised by all in a company. The whole organisation represented by the brand does its job either well or badly. Modern times call for a coordinated team effort to ensure that customers do not experience any problems and are not just satisfied but delighted.[42]

'Chinmusic' is not enough!

Many companies claim to be deeply concerned about customer care. But several do not pay enough attention to delivering customer-perceived value constantly. While the sensitive use of loyalty programmes can prove useful, they are no substitute for failing to recognise constantly the kingship of customers. Companies need to keep their eyes constantly on the alert to avoid becoming myopic in today's highly competitive global markets. Many have found that thinking about the long-term value or lifetime value and hence profitability of loyal customers helps to concentrate their strategy and actions.

The concept of **customer lifetime value** (CLV) and its associated metrics (see Chapter 22) has been developed to express the financial importance of long-term customer retention.[43] Several models have been devised to make a realistic assessment of the profitability of loyal customers, but in reality comparatively few companies actively operate effective CLV metrics. So for many it remains a wonderful ambition but a pipe dream, for in practice too few are held accountable for maximising customers' overall value.[44]

Cultivating customer relationships

Maximising customer-perceived value means cultivating long-term customer relationships. Companies are now moving away from wasteful mass marketing to precision marketing designed to build strong customer relationships[45] (see also Chapter 1). Today's economy is supported by information businesses. Information has the advantage of being easy to differentiate, customise, personalise and dispatch over a variety of networks at incredible speed.

But information flows both ways. For instance, customers now have a quick and easy means of comparison shopping by using specialist internet websites. The internet also facilitates communication between customers. Websites such as Amazon.com enable customers to share information about their experiences with products and services.

Customer empowerment has become a way of life for many companies that have had to adjust to a shift in the importance of their customer relationships. The marketing insight box describes some of the changes that companies have made in their marketing practices as a result.

Marketing insight

Company response to customer empowerment

Often seen as the flag bearer for marketing best practices, Procter & Gamble's chairman, A. G. Lafley, created shock waves for marketers with his Association of National Advertisers' speech in October 2006. 'The power is with the consumer,' proclaimed Lafley, and 'marketers and retailers are scrambling to keep up with her. Consumers are beginning in a very real sense to own our brands and participate in their creation. We need to learn to let go.' In support of his contention, Lafley pointed out how a teenager had created an animated spot for Pringles snacks that was posted on YouTube; how Pantene, the hair care products company, had created a campaign that encouraged women to cut their hair and donate the clippings to make wigs for cancer patients.

Other marketers have begun to advocate a 'bottom-up', grassroots approach to marketing, rather than the

Websites such as Yahoo! Music that empower visitors, allow them to post comments or pictures, or encourage the formation of active communities can benefit companies and customers alike.
Source: Text and artwork copyright © 1998 by Yahoo! Inc. All rights reserved.

demands on their value offerings as product/market offering life cycles shorten under the fierce pressure of global competition.

The Pine and Gilmore thesis, although elegantly expressed as a theatrical metaphor, has a serious flaw. Unconstrained customer expectations in rigorous buyers' markets are unrealistic for most suppliers which have to make a profit. Weissman and Mosby[66] believe that the solution to the problem of ever-escalating expectations lies in sustained effective market communications. It is a matter of convincing customers that a good company really does offer a better CPV package. However, what happens when the key distinguishing experience becomes increasingly difficult to discern?

Companies have long realised the necessity of building and sustaining brand reputations by satisfying their customers. However, the experience economy notion implies something a lot more aspirational and personal. Peters[67] refers to this as 'dream fulfilment' – the next rung on the quality–service–experience ladder. Companies seeking to 'get up close and personal' to their customers often experience difficulty in knowing if their brand is sufficiently positively differentiated.

A key question for companies to think through is: just what constitutes a business experience? What do they need to offer to succeed? Neither of these questions was addressed by Pine and Gilmore in their original text. For an experience to be effective it has to engage an individual in its delivery. It is a two-way event. It is an act that implies co-creation between a provider and the customer; the result is a memorable experience that has a high level of CPV. As a result, customers will be prepared to pay a premium price.

According to Prahalad and Ramaswamy,[68] deregulation, emerging markets, new forms of regulation, convergence of technologies and industries, and ubiquitous connectivity have changed many facets of the business world. These factors have changed the nature of consumers. Today they are informed, networked, active and global. These factors have also changed the nature of companies, which are now able to fragment their value chain in ways that were not possible in the past.

These contextual changes in markets are enabling a new form of value creation, *co-creation*, in which value is not created exclusively in the firm and then exchanged with the customer, but is co-created by the firm and the customer. As a result, the world of business is moving away from a company- and product-centric view of value creation towards an experience-centric view of the co-creation of customer-perceived value. High-quality interactions that enable an individual customer to co-create unique experiences with the company are the key to unlocking new sources of competitive advantage. Products or, as this text argues, market offerings are merely artefacts around which compelling individual experiences are created.[69]

Hence companies such as Costa Coffee, Pret A Manger and Starbucks provide a value 'experience' as well as providing their key market offerings.

Marketing memo

Key steps in the co-creation process

1. Define clear objectives for the project.
2. Discover who are the right customers to involve in the process.
3. Work with customers to discover what they really want to include in a market offering.
4. Design market offerings-systems jointly to meet those customers' needs. This includes selecting the partners to be included in a company's network.
5. Decide how to share the customer-perceived value.
6. Overcome internal resistance to change – with seller, buyer and partner organisations.

Sources: www.onedegree.ca/2007/09/co-creation-1s.html; www.promisecorp.com.

Generally speaking, the best approach is to provide consumers with the opportunity to create their own story, as a successful market offering is part of the larger narrative of customers' lives. Harley-Davidson has achieved this effectively with its HOG website. However, not all purchasing 'experiences' need such a pronounced emphasis on the experiential attributes of a CPV offering. Commodity items such as bread, confectionery and salt are likely to require less perceived value in terms of quality and experiential attributes. Here the main emphasis will usually be on price. However, wise companies should not forget that a too cavalier approach towards commodity customers will result in desertion to the competition. The experience economy is a relationship marketing concept that needs to be interpreted by providers, in an appropriate way for their market activities. It is a matter of fine tuning market offerings in terms of customer effectiveness and provider efficiency and with regard to the wider societal implications of marketing activities, as argued by the 'critical' movement.[70]

The empowered customer

As buyers' markets intensify, so customers increasingly expect more value for their money. Wise companies seek to discover what their customers want and then attempt to deliver more than their customers expect if they intend to develop profitable brands.[71]

European Commission activity

The past US president John F. Kennedy[72] once said, 'Consumers, by definition, include us all ... yet they are the only important group ... whose views are often not heard.' The European Commission is working hard to change this. Empowered consumers are viewed as good for Europe's economy as they encourage companies to work hard, compete and provide quality offerings in the marketplace. The concept is also seen as a way of breaking down the barriers between Europe's national markets. The internal market in Europe will offer empowered consumers more choice. The Commission has established a new system – the European Consumer Market Watch – to investigate whether various sectors of the economy are delivering the information, choice and value for money consumers deserve.

EU cross-border initiatives

Legislation has been passed to cut charges for roaming – making calls from a mobile phone when abroad – to levels commensurate with the incurred costs. A Single European Payments Area has been set up to facilitate payments and transfers, and the Commission has campaigned to make it easier for consumers to access, assess and compare banking services.

Market paradigm change

Most markets are characterised by an excess of providers, thus empowering consumers through the mechanism of their choice of supplier. Paradoxically, and reflecting the past sellers' market conditions, much of the literature on consumer empowerment focuses on consumers' efforts to regain control of their consumption processes from providers. However, many suppliers now set out to achieve success by seeking to empower consumers. The mechanism by which this takes place consists of researching and providing what consumers want – that is, the right mix of quality, price and experiential attributes and benefits. This provides many 'old school' suppliers with a conundrum, as most traditional marketing techniques are market centric. Gross rating points, for example, define message delivery volume. Even the 4Ps (product, price, place and promotion) speak more to how a company wants to conduct business than to how consumers want to engage with the brand. Integrated marketing requires a deep knowledge of consumers' habits, needs and passions. Regular market research should be viewed by providers as an investment decision that enables them to know what mix of CPV attributes and benefits to include in their offerings, and not as a cost decision to be cut as soon as fortunes falter.

Marketing to the empowered consumer

Until recently there was an observable distinction between traditional brand and direct marketing activity. The former focused on creating awareness and share of mind mainly by means of TV, radio and print advertising. The latter concentrated on inspiring a specific action and share of wallet via mail, telemarketing and email. This distinction is rapidly fading as providers realise that both skill sets need to be integrated and directed to securing customer engagement. However, most marketers are still organised around their traditional product lines, markets or technologies. As consumers take up the new technologies that give them fingertip control of how, when and if they want to be marketed to, marketers should seriously reconsider the traditional 4P mantra, and engage customers on their own terms.

To achieve this requires the adoption by providers of a customer-centric organisational philosophy that really does put the customer at the centre of functional activity.[73] The new mantra should emphasise the question: why should consumers buy from an organisation when they can favour several competitors? It is surprising how many companies allow their agency partners to assume too great an influence over their marketing activity. Marketers need to take a more interactive, cross-disciplinary approach to campaign planning that integrates all the activities necessary to develop the required mix of customer-perceived value attributes.

Interactive marketing

(See also Chapters 4, 17 and 18)

The term 'interactive marketing' was first proposed by Deighton,[74] who described it as 'the ability to address the customer, remember what the customer says and address the customer again in a way that illustrates that we remember what the customer has told us' (see Chapter 18 for more discussion of this channel). It should be noted that interactive marketing is not the same thing as online marketing, although interactivity is facilitated by internet technology. The ability to 'get up close and personal' with customers is boosted when it becomes possible to collect and analyse customer information over the web. Amazon has developed interactive marketing to a fine art and suggests books that fit customers' purchasing profiles.

Cadbury/Schweppes (now demerged as Cadbury was acquired by Kraft in January 2010) used interactive marketing to raise awareness of its use of 100 per cent genuine flavours for its 7Up soft drink in the United States. Visitors to the brand name's website are able to personalise the rabbits who serve as the drink's TV advertising mascots. They can personalise the rabbits with an array of costumes and helpfully provided burps. Text-to-speech technology enables consumers to create custom messages to transmit to others by email. In the United Kingdom, Britvic has held the 7Up franchise since 1987 but has not used sophisticated interactive marketing techniques.

Many companies are now starting to show an interest in how they could extend the benefits of information and communications technology in their marketing activities.[75] As more and more households sign up for broadband in the United Kingdom and TV advertising goes online, providers are starting to show a deep interest in Web 2.0, the second phase of the internet, where consumers can move from information and search to content and user-generated interactivity (see Chapter 4). Problems remain, however, in relation to such issues as payment for the server capacity and bandwidth for commercial and free-to-air broadcasters.

Another interesting development is the use of mobile phones to revive coupon redemption. Procter & Gamble, Del Monte and Kimberly-Clark have joined up to explore the viability of a mobile marketing venture in selected supermarket stores. The companies offer marketing software that consumers can download to their mobile phones, which will present redeemable coupons for discounts on certain products.

mix knowledge with effective market operations or know-how is a massive challenge for companies as there are no easy answers or quick fixes.

Emotional turn

Emotions matter as they can be fashioned to influence and change attitudes in marketing communications. They affect the way in which an audience can sense their past, present and future: all can seem bright, dull or darkened by emotional outlooks. *Emotional turn*, or as it is sometimes known *affective marketing* (also *affective economics*), emphasises the emotional engagement that marketers seek to gain with their target audiences. Recent advances in the study of neurological and psychological insights – originating from brain scanning and neurological experiments – on basic emotional processes in the brain have led marketers to assess their application potential. Hansen and Christensen and others have brought together much of the theory and understanding of the role that emotion plays in advertising and marketing communications.[77] Their work provides a solid underpinning for all marketers who wish to understand the interactions between feelings, moods and emotionally based reactions to advertising, market offerings, brands and hence consumer choice.

Today marketers influence people differently from in the era of sellers' markets, when companies tended to place the emphasis on rational messages to further their intentions. As consumer choice has increased following the explosion of buyers' markets, marketing practitioners have sought to connect with their targeted audiences by means of emotional communications.[78] As buyers' markets become ever more fiercely competitive, marketers are now seeking to achieve customer engagement. Many might wonder what the practical difference is between engagement and connecting emotionally. The answer lies in the realisation that consumers have a lot more market power today. The concept of engagement recognises this power and seeks to share it between consumers and marketers. As a consequence, consumers are key parties to co-creating their perceived-value offerings. So leading marketers in the experience economy are seeking to engage all five senses in their brand building and are viewing this as the leading edge of their marketing.

Emotion triggers

Emotion lies in the acceptance and perception of many customer-valued brands. It can be expressed in many different forms in advertising. In the United Kingdom, Tesco has used celebrities in soap drama type advertisements to engage with their audience. These have included actresses Prunella Scales and Jane Horrocks in a long-running series. Marks & Spencer has featured the model Twiggy in several of its seasonal clothes videos.

The main appeals designed to elicit emotional responses are as follows:[79]

- **Fear.** This is generally used in one of two ways. First, it is used to demonstrate the negativity and undesirability of certain behaviours that might put the individual and society in danger. Many governments brief marketers to help them with important messages such as the dangers inherent in drinking and driving. Financial firms sponsor TV dramas on the commercial channels and invite viewers to take care of their families in every advertising break. Secondly, fear is used to shame audiences. Examples here would include anti-dandruff shampoos and anti-ageing cream advertisements.
- **Humour.** This draws attention and stimulates interest and is widely used throughout Europe. Marketers, however, should always realise that what is amusing and funny in one culture may not transfer to another. The Walkers' series of TV advertisements featuring Gary Lineker, the ex-international footballer and current TV soccer presenter, in amusing situations did much to boost the company's sales of potato crisps.
- **Animation.** Recent and dramatic advances in animation technology provide the opportunity to register effectively with both child and adult audiences. Children appreciate mini-stories featuring their favourite TV and film characters. Adults laugh at the 'Ask Churchill the dog' screenings.

The Experience Economy

Work Is Theatre & Every Business a Stage

B. JOSEPH PINE II
JAMES H. GILMORE

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Contents

PREVIEW

Step Right Up

OVERSTOCKED! UNDERSOLD. Ten, 20, 30, 40 percent discounts. Half off everything! Buy one, get one free. Free financing for a year. Guaranteed lowest prices! Going out of business sale. . . . In a word: Commoditized.

This book offers an escape from the all-too-easy practice of competing on the basis of price. While customers love a sale, businesses perish from relying on low prices as a means of hawking their offerings. That approach worked for years, indeed decades, as economies of scale associated with mass producing goods and services resulted in a corresponding cost savings with every successive price reduction. But in industry after industry, that system of competition no longer sustains growth and profitability. You know it; we all know it. But what do we do about it?

We wrote this book for those searching for new ways to add value to their enterprises—fully aware that executives and managers have been bombarded with business books with the same aim. We've all been continuously improved, reengineered, and downsized. We've embraced time-based competition and the one-to-one future. We're now demassified, informationalized, digitized, and, yes, even mass customized—perhaps self-organizing and thriving on chaos to boot. Every business competing for the future is customer-centric, customer-driven, customer-focused, customer-yadda-yadda-yadda. So what's new?

This is new: Experiences represent an existing but previously unarticulated *genre of economic output.* Decoupling experiences from services in accounting for what businesses create opens up possibilities for extraordiand worthy of debate. But it is clear that we cannot retreat from the impending reality of the Experience Economy already surrounding us. Commendable or deleterious, virtuous or immoral, natural or artificial—these are all choices we make as together we create this new economy.

Those who decried previous economic shifts—two centuries ago to the Industrial Economy and in the past twenty years to the Service Economy—failed to stop the progression of economic value to higher-echelon offerings. It happened despite their protestations. Therefore, we believe that the moral emphasis should not lie on whether commerce should shift to experiential offerings. If societies are to seek continued economic prosperity, they must stage experiences to add sufficient value to their economies to employ the masses (goods and services are no longer enough). The moral emphasis must be placed instead on *what kinds of experiences will be staged.* The business executive, like everyone else, must in the end concern himself with the ultimate aims of man. That will be our focus in Chapters 9 and 10, as we explore the business world when experiences become commoditized, and the fifth, and final, economic offering—transformations—comes to the fore. You won't want to miss these last two chapters, nor the encore, for the implications for your business, whatever it is today, may be profound. And we won't back away from stating what we believe when it is the right thing to do.

We hope all readers discover a clear and compelling articulation of the new competitive landscape for the strategic options facing their enterprises. But even more, we hope you personally find the tools to begin staging compelling experiences and guiding vital transformations for your customers, present and future.

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DECEMBER 1998

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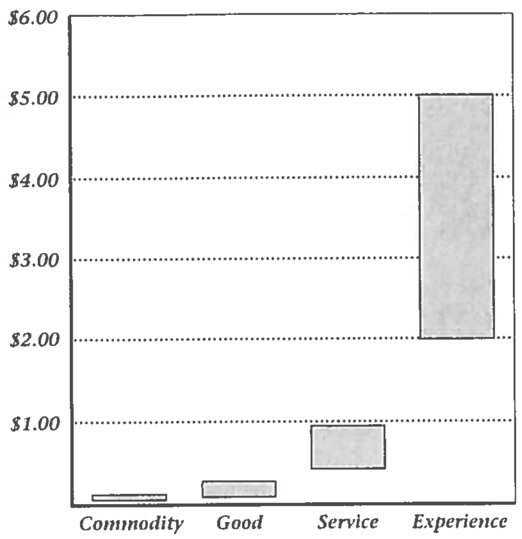
Figure 1-1. Price of Coffee Offerings



Or more. Immediately upon arriving in Venice, Italy, a friend asked a hotel concierge where he and his wife could go to enjoy the city's best. Without hesitation they were directed to the Cafe Florian in St. Mark's Square. The two of them were soon at the cafe in the crisp morning air, sipping cups of steaming coffee, fully immersed in the sights and sounds of the most remarkable of Old World cities. More than an hour later, our friend received the bill and discovered the experience had cost more than $15 a cup. Was the coffee worth it, we asked? "*Assolutamente!*" he replied.

A NEW SOURCE OF VALUE

Experiences are a fourth economic offering, as distinct from services as services are from goods, but one that has until now gone largely unrecognized. Experiences have always been around, but consumers, businesses, and economists lumped them into the service sector along with such uneventful activities as dry cleaning, auto repair, wholesale distribution, and telephone access. When a person buys a service, he purchases a set of intangible activities carried out on his behalf. But when he buys an experience, he pays to spend time enjoying a series of memorable events that a company stages—as in a theatrical play—to engage him in a personal way.

Experiences have always been at the heart of entertainment, from plays and concerts to movies and TV shows. Over the past few decades, however, the number of entertainment options has exploded to encompass many, many new experiences. We trace the beginnings of this experience expansion to one man and the company he founded: Walt Disney. After making his name by continually layering new levels of experiential effects onto cartoons (he innovated synchronized sound, color, three-dimensional backgrounds, stereophonic sound, audio-animatronics, and so forth), Disney

Iridium, the Cypress Club, Medieval Times, and the Rainforest Cafe, respectively.[2] In each place, the food service provides a stage for layering on a larger feast of sensations that enchants consumers.

The "commodity mind-set," according to former British Airways chairman Sir Colin Marshall, means mistakenly thinking "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." What British Airways does, he continued, "is to go beyond the function and compete on the basis of providing an experience."[3] The company uses its base service (the travel itself) as a stage for a distinctive en route experience, one that gives the traveler a respite from the inevitable stress and strain of a long trip.

Even the most mundane transactions can be turned into memorable experiences. Standard Parking of Chicago plays a signature song on each level of its parking garage at O'Hare Airport and decorates walls with icons of a local sports franchise—the Bulls on one floor, the White Sox on another, and so forth. As one Chicago resident told us, "You never forget where you parked!" Trips to the grocery store, so often a burden for families, become exciting events at places such as Bristol Farms Gourmet Specialty Foods Markets in Southern California. This upscale chain "operates its stores as if they were theatres," according to *Stores* magazine, featuring "music, live entertainment, exotic scenery, free refreshments, a video-equipped amphitheater, famous-name guest stars and full audience participation."[4] Russell Vernon, owner of West Point Market in Akron, Ohio—where fresh flowers decorate the aisles, restrooms feature original artwork, and classical music wafts down the aisles—describes his store as "a stage for the products we sell. Our ceiling heights, lighting and color create a theatrical shopping environment."[5]

Companies stage an experience when they engage customers in a memorable way

Consumers aren't the only ones to benefit from experiences. Businesses are made up of people, and business-to-business settings also present stages for experiences. A computer installation and repair firm in Minneapolis dubs itself the Geek Squad. Its "special agents" costume themselves in white shirts with thin black ties and pocket protectors, carry badges, and drive around in old cars, turning a normally humdrum service call into a memorable encounter. Similarly, many companies hire theatre troupes to turn otherwise ordinary meetings into improvisational events (an example is the Minneapolis-based Interactive Personalities, Inc., which stages rehearsed plays and "spontaneous scenes" with audience members and displays computer-generated characters that interact in real time).[6] And business-to-business marketers increasingly orchestrate elaborate venues for

Table 1-1. Economic Distinctions

Economic Offering	Commodities	Goods	Services	Experienc
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 durat*
Seller	*Trader*	*Manufacturer*	*Provider*	*Stager*
Buyer	*Market*	*User*	*Client*	*Guest*
Factors of demand	*Characteristics*	*Features*	*Benefits*	*Sensations*

the simple descriptions given below. And if you think your offerings could never be commoditized—think again. A haughty spirit goes before a great fall (in prices).

Commodities

True commodities are materials extracted from the natural world: animal, mineral, vegetable. People raise them on the ground, dig for them under the ground, or grow them in the ground. After slaughtering, mining, or harvesting the commodity, companies generally process or refine it to yield certain characteristics and then store it in bulk before transporting to market. By definition, commodities are *fungible*—they are what they are. Because commodities cannot be differentiated, commodity traders sell them largely into nameless markets where some company purchases them for a price determined simply by supply and demand. (Companies do of course supply gradations in categories of commodities, such as different varieties of coffee beans or different grades of oil, but within each grade the commodity is purely fungible.) Every commodity trader commands the same price as ment in traditional buying and selling. Its capability for friction-free transactions enables instant price comparisons across myriad sources. And its ability to quickly execute these transactions allows customers to benefit from time as well as cost savings. In today's world of time-starved consumers and speed-obsessed businesses, the Internet increasingly turns transactions for goods and services into a virtual commodity pit.[17] Web-based businesses busy commoditizing both consumer and business-to-business industries include the following:

- www.appliances.com (appliances)
- www.priceline.com (airline travel)
- www.narrowline.com (advertising space)
- www.necx.com (computer components)
- www.getsmart.com (financial services)
- www.insweb.com (insurance)
- www.compare.net (consumer goods)
- www.energymarket.com (natural gas and electricity)
- www.netmarket.com (virtually all goods and services households buy)

In addition to such commoditization, service providers face a second adverse trend unknown to goods manufacturers: *disintermediation.* Companies such as Dell Computer, Streamline, USAA, and Southwest Airlines increasingly go around retailers, distributors, and agents to connect directly with their end-buyers. Decreased employment in these intermediaries, as well as bankruptcies and consolidations, invariably results. And a third trend further curtails service sector employment: that old boogeyman *automation,* which today hits many service jobs (telephone operators, bank clerks, and the like) with the same force and intensity that technological progress hit employment in the goods sector during the twentieth century. Today, even professional service providers increasingly discover that their offerings have been "productized"—embedded into software, such as tax preparation programs.[18]

All this points to an inevitable conclusion: The Service Economy is peaking. A new, emerging economy is coming to the fore, one based on a distinct kind of economic output. Goods and services are no longer enough.

Experiences

The newly identified offering of experiences occurs whenever a company intentionally uses services as the stage and goods as props to engage an individual. While commodities are fungible, goods tangible, and services

The second (vertical) dimension of experience describes the kind of *connection,* or *environmental relationship,* that unites customers with the event or performance. At one end of this spectrum lies *absorption*—occupying a person's attention by bringing the experience into the mind—at the other end *immersion*—becoming physically (or virtually) a part of the experience itself. In other words, if the experience "goes into" the guest, as when watching TV, then he is absorbing the experience. If, on the other hand, the guest "goes into" the experience, as when playing a virtual reality game, then he is immersed in the experience.

People viewing the Kentucky Derby from the grandstand absorb the event taking place before them from a distance. Meanwhile, people standing right up against the rails in the infield are immersed in the sights, sounds, and smells of the race itself as well as the activities of the other revelers around them. A student inside a lab during a physics experiment is immersed more than when he just listens to a lecture; seeing a film at the theatre with an audience, large screen, and stereophonic sound will immerse a person in the experience far more than if he were watching the same film at home on video.

The coupling of these dimensions defines the four "realms" of an experience—entertainment, education, escape, and estheticism, as shown in Figure 2-1—mutually compatible domains that often comingle to form uniquely personal encounters. The kind of experiences most people think of as *entertainment* occur when they *passively absorb* the experiences through their senses, as generally occurs when viewing a performance, listening to music, or reading for pleasure. But while many experiences entertain, they are not all, strictly speaking, *entertainment,* defined by the *Oxford English Dictionary* as "the action of occupying a person's attention agreeably; amusement."[3] Entertainment provides not only one of the oldest forms of experience (surely jokes have been around at least since the beginning of humankind) but also one of the most developed and, today, the most commonplace and familiar. (The "unproductive labourers" Adam Smith singled out were all entertainers: "players, buffoons, musicians, opera-singers, opera-dancers, &c.") As the Experience Economy gears up, people will look in new and different directions for more unusual experiences. At the same time, few of these experiences will exclude at least some momentary entertainment by making people smile, laugh, or otherwise enjoy themselves. But there will also be an opportunity for those enterprises staging these experiences to add to the mix components of the other three realms of experience: the educational, the escapist, and the esthetic.

Entertainment is passively absorbed through the senses

The Educational

As with entertainment experiences, with education experiences the guest (or student, if you prefer) absorbs the events unfolding before him. Unlike entertainment, however, education involves the active participation of the individual. To truly inform a person and increase his knowledge and/or skills, educational events must actively engage the mind (for intellectual education) and/or the body (for physical training). As Stan Davis and Jim Botkin recognize in *The Monster Under the Bed:*

> The industrial approach to education . . . [made] teachers the actors and students the passive recipients. In contrast, the emerging new model [of business-led education] takes the market perspective by making students the active players. The active focus will shift from the provider to the user, from educat-*ors* (teachers) to learn-*ors* (students), and *the educating act will reside increasingly in the active learner, rather than the teacher-manager.* In the new learning marketplace, customers, employees, and students are all active learners or, even more accurately, interactive learners.[4]

Judith Rodin, the seventh president of the University of Pennsylvania, also recognizes the active nature of education, as well as the fact that learning occurs not just in the classroom. In her 1994 inaugural address she proclaimed, "We will design a new Penn undergraduate experience. It will involve not only curriculum, but new types of housing, student services, and mentoring, to create a seamless experience between the classroom and the residence, from the playing field to the laboratory. I am committed to having this in place for students entering Penn in the fall of 1997. That class—the Class of 2001—will be our first class to have an entirely new experience—the Penn Education of the Twenty-First Century."[5]

While education is serious business, that doesn't mean that educational experiences can't be fun. The term *edutainment* was coined to connote an experience straddling the realms of education and entertainment.[6] Bamboola, a 28,000-square-foot facility in San Jose, California, stages an education experience for children ten years of age or younger by giving them the wherewithal to engage in "developmentally appropriate" spontaneous play. For an $8.95 admission fee ($3.95 for toddlers and only $1.95 for accompanying adults), kids dig for fossils, artifacts, and even a full-scale dinosaur skeleton in the outdoor jungle garden and sand pit. They prepare their own food in an interactive kitchen and dress up in playclothes in Grandmother's Attic. They can also climb rocks and boulders and play dozens of skill-based games.[7] Randy White, head of the firm that designed Bam-

With education experiences a guest absorbs the events unfolding before him while actively participating

boola, White Hutchinson Leisure & Learning Group in Kansas City, Missouri, told us that "while Bamboola is a lot of fun, it's really about helping kids learn in a way that exercises their creative muscles. Each play area provides multiple learning experiences, including math concepts at the playhouse, mapping skills from the maze, and even principles of physics with the water table."

The Escapist

Memorable encounters of the third kind, *escapist experiences,* involve much greater immersion than entertainment or education experiences. In fact, they are the polar opposite of pure entertainment experiences. The guest of the escapist experience is completely immersed in it, an actively involved participant.[8] Examples of environments that are essentially escapist include theme parks, casinos, virtual reality headsets, chat rooms, or even a game of paintball played in the local woods. Rather than playing the passive role of couch potato, watching others act, the individual becomes an actor, able to affect the actual performance.

The guest of an escapist experience actively participates in an immersive environment

Enhancing the inherent entertainment value of a movie, for example, might be accomplished not only with larger screens, bigger sound, cushier chairs, VIP rooms and so forth, but also by having customers actually *participate* in the thrill of movement. Myriad companies now bring such experiences to a neighborhood near you via motion-based attractions. One such attraction is part of the American Wilderness Experience in California, where a film that presents the world from an animal's point of view is supplemented by the sensation of flowing forward and backward, pitching and yawing, shuddering, lurching, and sometimes even rotating 360 degrees.[9]

Early stars of this genre include Tour of the Universe, a group flight through outer space from SimEx of Toronto; Magic Edge, a simulation of a military dogfight for multiple players in Mountain View, California, and Tokyo; and Disney's Star Tours, a simulation of a heroic battle for galactic domination based loosely on the Star Wars movies.

Most such escapist experiences are essentially motion simulator rides based on popular adventure or science fiction movies. Additional examples include "Back to the Future: The Ride" and "Terminator 2: Battle Across Time" hosted at Universal Studios in Orlando, "Aladdin's Magic Carpet" at Walt Disney World, and "Robocop" and "Days of Thunder" of Iwerks Entertainment of Burbank.[10] These rides perfectly express the shift from Service to Experience Economy. It used to be, "You've read the book, now go see the movie!" Today, it's "Now that you've seen the movie, go experience the ride!"[11]

Despite the appellation, guests participating in escapist experiences do not just embark *from* but also voyage *to* some specific place and activity worthy of their time. For example, some vacationers, no longer content to bask in the sun go rollerblading, snowboarding, skysurfing, white-water kayaking, mountain climbing, sports-car racing or take part in other extreme sports.[12] Others try their hand at the time-honored art of gambling—to the tune of more than $500 billion a year in the United States alone—not just to forget all their troubles and forget all their woes but because they really enjoy the visceral experience of risking their money in opulent surroundings for a chance at greater fortune. Others want to escape their already-made fortune to see what it's like conversing with the common man. Dallas Cowboys quarterback Troy Aikman, for instance, told *Sports Illustrated* why 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."[13] While a celebrity may value an experience that turns him into an ordinary Joe, many escapist experiences, such as computer-based sports games, let the average person feel what it's like to be a superstar.

Escapist experiences are not just about embarking *from* but voyaging *to*

Cyberspace is a great place for such experiences, but many businesses still don't get it. They're heading into the commoditization trap, trying to figure out how to better sell their company's goods and services over the World Wide Web, when in fact most individuals surf the Net for the experience itself. Surprisingly, Pete Higgins, vice president of Microsoft's Interactive Media Group, told *Business Week,* "So far, the Internet isn't a place for truly mindless entertainment."[14] But who wants it to be? The Internet is an inherently *active* medium—not passive, like television—that provides a *social* experience for many. Interactive entertainment is an oxymoron. The value people find online derives from actively connecting, conversing, and forming communities.

Once the domain of mom-and-pop outfits like The Well, it took Prodigy, CompuServe, and America Online (mistakenly dubbed online "service" providers), to bring cyberspace to the masses. AOL won the battle for members primarily because it understood that they wanted a social experience, where they could actively participate in the online environment growing up around them. While Prodigy at one point limited the amount of e-mail its members could send and CompuServe limited member identities to a string of impersonal numbers, AOL allowed its members to pick up to five screen names (to suit the several moods or roles they might want to portray online[15]) and actively encouraged the use of features that connect people: e-mail, chat rooms, instant messages, personal profiles, and "buddy lists," which let users know when their friends are also online. Even before AOL went to a flat-rate pricing scheme in late 1996, more than 25 percent of its 40 million connect-hours each month were spent in chat rooms, where members interacted with each other.[16]

For many, cyberspace provides a welcome respite from real life, an escape from the humdrum routine and the harried rush. But it is unclear whether the near ubiquity of the Internet obviates the need most people have for a physical place set apart from home and work, a "third place," in the words of sociologist Ray Oldenburg, where a person can interact with others he has come to know as members of the same community.[17] These places—pubs, taverns, cafes, coffee houses, and the like—once seemed to be on every street corner of every city, but the suburbanization of society has all too often left people too far apart to commune in this way. Some people now look for community in cyberspace while others use vacations at themed attractions to connect with large masses of people.[18] Still others find a middle ground at Starbucks or other espresso, water, or cigar bars. Or even at a Barnes & Noble, where the innovation of bringing books and coffee together creates a place worth escaping to, for hanging out, browsing, sipping, and talking.

The Esthetic

The fourth and last experiential realm we'll explore is the esthetic. In such experiences, individuals immerse themselves in an event or environment but themselves have little or no effect on it, leaving the environment (but not themselves) essentially untouched. Esthetic experiences include standing on the rim of the Grand Canyon, visiting an art gallery or museum, and sitting at the Cafe Florian in Old World Venice. Sitting in the grandstand at the Kentucky Derby would also qualify. While guests partaking of an educational experience may want to *learn,* of an escapist experience to *do,* of an entertainment experience want to—well, *sense* might be the best term—those partaking of an esthetic experience just want to *be* there.[19]

In esthetic experiences, individuals immerse themselves but remain passive

At the Rainforest Cafe, for example, diners find themselves in the midst of dense vegetation, rising mist, cascading waterfalls, and even startling lightning and thunder. They encounter live tropical birds and fish as well as artificial butterflies, spiders, gorillas, and, if you look closely, a six-block retail and entertainment district Bugis Junction in Singapore, design firm CommArts of Boulder, Colorado, mined the historical trading culture of Singapore to create what cochairman Henry Beer calls "an esthetically pleasing built environment designed to connect the project deeply to the resident culture of Singapore." Seaside architecture, sails, chronometers, and kindred elements fulfill the dominant motif, while bright signage informs and educates guests on the history of the native seafaring merchants known as the Bugis people. Similarly, for the Ontario Mills retail project, CommArts laid out streets and neighborhoods that provide a distinctive esthetic experience drawn from the rich heritage of Southern California. It's not traditionally anchored by large department stores selling goods but by businesses staging large experiences—a thirty-screen AMC movie house, Dave & Buster's arcade/restaurant, and a 3-D UltraScreen theatre. One of its wings houses Steven Spielberg's Gameworks across from the escapist adventures of the American Wilderness Experience. As Beer related to us, "Competition for the retail dollar demands that we create a rich retail theatre that turns products into experiences."

The richest experiences encompass aspects of all four realms. These center around the "sweet spot" in the middle of the framework.[29] America Online's success results not from any one element but from the collective experience it allows each member to enjoy as he sifts through the available options—and crosses the boundaries of the realms of experience. As Steve Case, president and CEO, said in a response to a question about which online areas would generate AOL's future growth, "We don't break it out into separate areas or applications. We see online as a whole packaged experience that we want to bring to consumers. This package increasingly includes some new areas, and more of what we already have—multiplayer games, shopping, and financial services. But what's really going to drive this is the overall experience."[30]

The richest experiences encompass aspects of all four realms

To design a rich, compelling, and engaging experience, you don't want to select and then stay in just one realm. Instead you want to use the experiential framework (depicted in Figure 2-1) as a set of prompts that help you to creatively explore the aspects of each realm that might enhance the particular experience you wish to stage. When designing your experience, you should consider the following questions:

- What can be done to improve the *esthetics* of the experience? The esthetics are what make your guests want to come in, sit down, and hang out. Think about what you can do to make the environment more inviting, interesting, or comfortable. You want to create an atmosphere in which your guests feel free "to be."

- Once there, what should your guests do? The *escapist* aspect of an experience draws your guests further, immersing them in activities. Focus on what you should encourage guests "to do" if they are to become active participants in the experience.
- The *educational* aspect of an experience, like the escapist, is essentially active. Learning, as it is now largely understood, requires the full participation of the learner. What do you want your guests "to learn" from the experience? What information or activities will help to engage them in the exploration of knowledge and skills?
- *Entertainment,* like esthetics, is a passive aspect of an experience. When your guests are entertained, they're not really doing anything but responding to (enjoying, laughing at, etc.) the experience. Professional speakers lace their speeches with jokes to hold the attention of their audience, to get them to listen to the ideas. What can you do by way of entertainment to get your guests "to stay"? How can you make the experience more fun and more enjoyable?

Addressing these design issues sets the stage for service providers to begin competing on the basis of an experience. Those which have already forayed into the world of experiences will gain from further enriching their offerings in light of these four realms.

For instance, while the American Wilderness Experience provides a great stage for three of the realms, its educational aspects could be strengthened to further enrich the experience. Watching playful sea otters behind glass truly entertains, the Wild Ride Theatre enables guests to experience what it would be like to see through the eyes of a frog, owl, or dolphin—pure escapism—and guests can immerse themselves in five California ecosystems, one right after the other, all esthetically pleasing. But there's a noticeable lack of educational instruction integrated into the mix. Signs provide short descriptions of each species of animal on display, but this quickly begets museum-like monotony. Guests encounter no specially designed places set aside for curators to bring animals out into the open so children can examine and discuss them. On occasion, particularly for school field trips, a curator will bring an animal or two out from behind the glass, but even then the guests' experience is not distinctly educational. All of this is surprising, given that the current integration of the entertainment, escapist, and esthetic realms actually create a desire to learn more about various species—a prime reason many families go to the American Wilderness Experience. Strengthening the educational element would make this already praiseworthy experience even better.

Set the stage by exploring the possibilities of each realm

colorfully decorated floors, lavish pregame light shows, and posterboy personalities. Today's NBA gives us Dennis Rodman, the personification of real-life fiction. Video feeds now make it possible to display everyday events at ordinary places—from repair shops to maternity wards—on the World Wide Web, where they can be viewed by anyone anywhere in the world. (Perhaps real life is less like *The Game* than *The Truman Show*—the 1998 film in which Jim Carrey plays a real person who unknowingly lives in a made-for-TV world.)

Eventually, experience orchestration will become as much a part of doing business as product and process design are today. The evidence of its beginnings is everywhere. In restaurants and retail stores, classrooms and parking garages, leading companies are setting the stage for what lies ahead. There are as yet no hard and fast rules to follow when it comes to staging experiences—it's still in its embryonic phase of development. Nonetheless, the practices and results obtained by the pioneering enterprises that are giving it their best efforts make a good starting point from which to explore the nature of successfully staged experiences. Clearly, it's show time!

THEME THE EXPERIENCE

Just hear the name of any theme restaurant—Hard Rock Cafe, House of Blues, Dive!, or the Medieval Times, to name a few—and you know what to expect when you enter the place. The proprietors have taken the first, crucial step toward staging an experience by envisioning a well-defined *theme.*[1] A poorly conceived theme, on the other hand, gives customers nothing around which to organize their impressions, and the experience yields no lasting memory. An incoherent theme is like Gertrude Stein's Oakland: "There is no there there."

Retailers often offend the principle. They talk of "the shopping experience" but fail to create a theme that ties disparate merchandising presentations together into a staged experience. Home-appliance and electronics retailers, for example, show little thematic imagination. Row upon row of washers and dryers and wall after wall of refrigerators merely highlight the sameness of different companies' stores. Shouldn't there be something distinctive about an establishment called Circuit City?

One retailer that does understand the experience of shopping is Leonard Riggio. When the Barnes & Noble CEO began to expand the chain of bookstores into superstores, he hit on the simple theme of "theatres." Riggio realized that people visited bookstores for the same reason they go to the

A theme should fit the character of the enterprise staging the experience

along greater North Michigan Avenue in downtown Chicago. It is a magnificently constructed theme, enduring for generations because it so befits the *walking* shoppers must do to shop and eat there. A crossover to politics supplies an example of a theme that misses the mark: the very moment then-Massachusetts governor Michael Dukakis donned a helmet and stepped into a tank for a photo-op, he lost the 1988 Presidential election. The theme "fighting man" did not fit who he was as a candidate—and voters knew it. If a theme is to succeed, it must be completely consistent with the character of the business that is promoting it. Anything less appears disingenuous and detracts from the experience rather than improve it.

An effective theme must be concise and compelling. Too much detail clutters its effectiveness in serving as an organizing principle for staging experiences. The theme is not a corporate mission statement or a marketing tag line. It needn't be publicly articulated—just as the term "Trinity" appears nowhere in the texts of Scripture—yet its presence is clearly felt. The theme must drive all the design elements and staged events of the experience toward a unified storyline that wholly captivates the customer. That is the essence of theme; all the rest simply lends support.

HARMONIZE IMPRESSIONS WITH POSITIVE CUES

While the theme forms the foundation of an experience, the experience must be rendered with indelible *impressions.* Impressions are the "take-aways" of the experience; the congruent integration of a number of impressions affect the individual and thereby fulfill the theme. Thinking about impressions begins with asking yourself how you would like guests to describe the experience: "It made me feel . . ." or "It was like . . . ." Professors Schmitt and Simonson again provide a useful list, this one delineating six "dimensions of overall impressions"[14]:

1. Time: Traditional, contemporary, or futuristic representations of the theme.
2. Space: City/country, East/West (to which we might add North/South), home/business, and indoor/outdoor representations.
3. Technology: Hand-made/machine-made and natural/artificial representations.
4. Authenticity: Original or imitative representations.
5. Sophistication: Yielding refined/unrefined or luxurious/cheap representations.
6. Scale: Representing the theme as grand or small.

offerings better, just as IBM and others initially gave away services in order to sell their goods. Service providers, consciously or not, recognize the value clients place on the experience, but rather than charge separately for it, they just surround their core services with experiential effects. Theme-based restaurants, for example, still charge for the food when customers come in for the experience.

The transition begins when you *give away* experiences in order to sell existing offerings

Consider Chrysler's new showcase storefront, "Great Cars, Great Trucks" in the Mall of America outside of Minneapolis. Visitors learn about the history of Chrysler and the automobile, and among other activities get to see a tantalizing concept car, play a race car simulation, hear the sounds emanating from different engines, and sit for a picture in a Dodge Viper. The store manager told us that Chrysler designed the showcase "to get out the word to consumers—in a nonthreatening, nonsales environment—about what great cars and trucks Chrysler builds." When we suggested the company should charge admission to the showcase experience, he replied, "Oh no—if we did that, customers would feel they had a right to tell us what they wanted to do here." Exactly what it *should* want customers to do!

Ultimately, a business is defined by that for which it collects revenue, and it collects revenue only for that which it decides to charge. You're not truly selling a particular economic offering unless you explicitly ask your customers to pay for that exact offering. For experiences, that means *charging an admission fee.* Appealing to a buyer's five senses may create a greater preference for your offering versus its commoditized competitors, but unless you charge customers for *using* it—not for owning it—in a *place* you control, your experience is not an *economic* offering. You may design the most engaging experience around your service offering or within your retail establishment, but unless you charge people specifically for watching or participating in the activities performed—just for entering your place,[27] as do concert halls, theme parks, motion-based attractions, and other experience venues—you're not staging an economic experience.[28]

Even if you reject for now the idea of charging admission out of fear, uncertainty, or doubt, it should still be your design criteria. Ask yourself: *What would we do differently if we charged admission?* This exercise will force you to discover what experience will engage guests in a more powerful way. Bottom line: your experience will never be *worth* an admission fee until you explore how to stop giving it away for free.

Movie theatres, whose owners have always recognized they're in show business, already charge admission to see the movies—but what about the theatre itself? Jim Loeks, part owner of the Star movie complex in South-sure route to staging a positive experience. Certainly, customization is not the end all, be all; rather, companies should use it to create *customer-unique value,* the portal through which experiences reach individual customers. An economic offering confers customer-unique value, at its ideal, when it is:

- *specific* to individual customers—brought into being at a particular moment for this precise customer
- *particular* in its characteristics—designed to meet this customer's individual needs (although some other customer may have the same needs and may therefore purchase the same offering)
- *singular* in its purpose to benefit this customer—not trying to be any more or less than, but rather only and exactly, what the customer desires

When a company provides such customer-unique value, it takes an invaluable first step toward creating memorable interactions that stand apart from the routine transactions mass producers foist on their customers.

Progressive Insurance of Cleveland, for example, gives adjusters vans outfitted with a personal computer, satellite uplink, and everything else they may need for the *singular* purpose of efficiently resolving a claim from the site of the accident. While the other party may wait days or weeks for his insurance company's cost-conscious adjuster to fit him into the schedule, the Progressive claimant finds his *particular* needs handled right then and there. He receives not only a check but a cup of coffee as well and if need be, a few minutes to sit down and relax on the couch inside the van and to reassure his family (or arrange for a ride) over the adjuster's (free) cellular phone. Because Progressive customizes its claims service to the *specific* individual insured, its offering goes beyond the expected service to provide an experience appropriate to the physical and emotional needs of the claimant.

Customizing a service can be a sure route to staging a positive experience

AUTOMATIC SHIFTING

The same effect works for goods: Customizing a good automatically turns it into a service. Look at the new General Nutrition Center format GNC Live Well, which aims to attract consumers that would otherwise be lost amidst the plethora of vitamins and extracts and the like at a normal GNC outlet. By customizing orders for vitamins, exercise programs, nutritional supplements, and other related merchandise, GNC has turned its line of goods into an opportunity to fulfill particular nutrition, relaxation, and exercise needs. When purchasing a Custom VitaPak, for example, a consumer is shown a brochure listing nine basic packages, each based on the needs represented by different lifestyles ("On the Road Again" for frequent travelers, "More Alive at 55" for older consumers, and so forth). The customer is then asked to choose the package that comes closest to matching his profile.

Customizing a good automatically turns it into a service

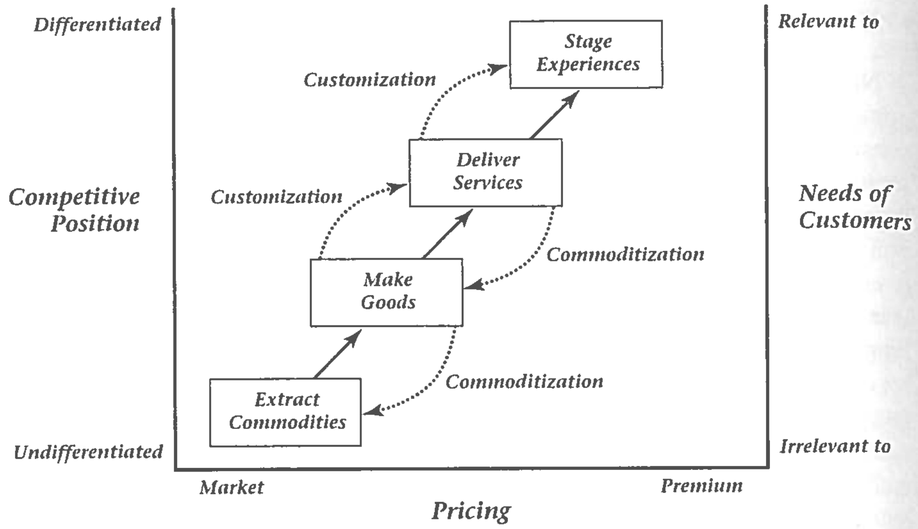
Next the associate describes the set of four to seven vitamins GNC suggests for that profile. Together, associate and consumer may change a selection or two, or even start over again from scratch, until the total package provides only and exactly what that particular consumer desires. The sales associate then enters the consumer's selection into a computer to verify that no nutritional supplement exceeds recommended levels. Within a short time, the consumer walks to a machine where he sees his daily supplements flowing down from bulk bins into a long plastic strip and hears the machine sealing and perforating them into a set of thirty daily packages, each printed with his name and selection information. GNC records every consumer's profile so that it can, if desired, automatically refill the VitaPak once a month via UPS.

Now consider GNC's Custom VitaPaks in light of the classic distinctions between goods and services. Goods are standardized for anonymous customers, while services are customized for a particular individual—check. Goods are inventoried, while services are delivered on demand—check again. Finally, goods are tangible, while services are intangible—and part and parcel of GNC's interaction with customers is the intangible service of helping each one determine exactly what combination of vitamins he or she needs. (Automatically refilling the VitaPaks wraps yet another service around the offering.) So even though at the core of the sale there lies the physical goods of vitamins, selling the Custom VitaPaks themselves means delivering a service. Since like all services this offering is inherently customizable, the Live Well format puts GNC in a better position to stage experiences for individual customers. Indeed, Richard Rakowski, head of New Paradigm Ventures of South Norwalk, Connecticut, which designed the original prototype store for GNC (called Alive!), told us that "Consumers today crave experiences, and the surest route to give them that sensation is through individualization like they used to receive from the corner butcher or baker. That's central to everything we design."

To enter the Experience Economy, first customize your goods and services

BOTH GOODS AND SERVICES, then, automatically shift up the Progression of Economic Value when they are customized, as shown in Figure 4-1. (This shift does not occur for true commodities, however, which, being

Figure 4-1. Shifting Up the Progression of Economic Value



fungible, cannot be materially changed, much less customized.) As a result, companies create offerings more relevant to the wants and needs of individual buyers, differentiate their goods and services from the sea of look-alike competitors, and thereby increase the value provided, and thus the price charged, to users and clients. Businesses that wish to forestall commoditization by entering the Experience Economy should first get their act together by customizing their goods and services.

MASS CUSTOMIZATION

Companies like GNC and Progressive mass customize their offerings. *Mass Customization* means efficiently serving customers uniquely, combining the coequal imperatives for both low cost and individual customization present in today's highly turbulent, competitive environment.[1] Of course, ad hoc customization, in which a company must determine what to do differently every time it changes operations, achieves the same benefits, but at a higher cost. Companies that hope to gain the best of both worlds—the "mass" and the "customization"—must modularize their goods and services. This lets companies efficiently produce standardized modules but

WHAT *DO* CUSTOMERS WANT?

Most companies still resist mass customizing their offerings. Instead, they "manage the supply chain" by placing more and more variety into their distribution channels and leaving it to buyers to fend for themselves. Manufacturers maintain large inventories of finished goods, and service providers maintain excess personnel and provisions to meet an increasingly unwieldy number of potential demands. These practices offer a surefire way to add costs and complexity to operations.

Worse, customers must sort through numerous alternatives to find one that even approximates what they want. Increased variety may enable a few additional buyers to find a good or service that very closely matches their desires, but only at the expense of increased time sorting through alternatives—not an insignificant consideration given, for instance, the 35,000 stockkeeping units, or SKUs, in the typical supermarket. The vast majority of buyers, however, still fail to find an exact match. It all amounts to one bad experience after another.

Producing more and more variety in anticipation of potential, yet uncertain, demand often represents a last-ditch attempt to preserve the Mass Production mindset in the face of rapidly fragmenting markets. *But variety is not the same as customization. Variety* means producing and distributing product choices to outlets in the hope that some customer will come along and buy them. *Customization,* on the other hand, means producing in response to a particular customer's desires. So often businesses overwhelm customers with so much product proliferation that they throw up their hands and walk away rather than go through a lengthy decision-making process with little or no support. Fundamentally, customers do not want choice; they just want exactly what they want. A mass customizer's designed interaction with each individual provides the means for efficient, effective, and (as much as possible) effortless determination of customer needs. To shift up the Progression of Economic Value, whether from goods to services or services to experiences, companies must use such interactions to figure out exactly what their customers want.

Customers don't want choice; they just want exactly what they want

They must then bring that information about a customer's desires directly into operations for efficient, on-demand production or provisioning, effectively turning the old supply chain into a *demand chain*. Remember that mass customizing doesn't mean being everything to everybody; rather, it is doing *only and exactly* what each customer wants, when he wants it. Although a significant up-front investment may be required to

Further, rarely do customer satisfaction surveys even ask for information about the particular needs and wants of whoever fills them out. Rather, they invariably ask buyers to rate how well the company or its personnel performed on a series of predefined categories. Managers gain precious little insight into what buyers truly want and need, as evidenced by what seems to be the most common theme of such surveys: How are *we* doing? What we are doing is inundating customers with incessant surveys that have little impact on what customers truly need. One airline questionnaire of this ilk even had a headline, incredibly, asking travelers to "Help Us Reinvent Our Airline"—an act that either overstates the impact of such generic customer input or underestimates the nature of corporate reinvention.

A MORE MEMORABLE MEASURE

As Dave Power III of J. D. Power & Associates says, "when we measure satisfaction what we're really measuring is the difference between what a customer *expects* and what the customer *perceives* he gets."[4] In other words,

$$\text{Customer satisfaction} = \text{What customer expects to get} - \text{What customer perceives he gets}$$

Customer satisfaction measurements essentially focus on understanding and managing customer expectations of what companies already do rather than truly ascertaining what customers really want. While such measurements have their place, companies must do more than merely measure against perception to mass customize effectively. They must understand the nature of *customer sacrifice*—the gap between what a customer *settles for* and what he *wants exactly:*

$$\text{Customer sacrifice} = \text{What customer wants exactly} - \text{What customer settles for}$$

When we understand customer sacrifice, we discern the difference between what a customer *accepts* and what he *really needs,* even if the customer doesn't know what that is or can't articulate it.

Waste occurs with activities or resources that some particular customer does not want

While companies employ total quality management (TQM) techniques to drive up customer satisfaction, they must employ Mass Customization techniques to drive down customer sacrifice. And while TQM programs help reduce the waste associated with mass-produced goods and services—by eliminating redundancies, bottlenecks, and other inefficiencies—focusing on customer sacrifice eliminates the waste that occurs anytime a business performs an activrequest, and answer arises. Finally catching on, the customer begins asking for—what?—Coca-Cola! Learning that the airline does not carry his favorite beverage, the airline finally trains him to *expect* an alternative. Only then can the airline meet expectations. (And, of course, for those few airlines that offer Pepsi, the Coke drinkers sacrifice.)

Less customer sacrifice turns an ordinary service into a memorable event

To the airline, that individual represents another satisfied customer because he *always* receives what he expects. But underneath this faux satisfaction lies a source of innovation that can turn an ordinary airline service into a memorable event: the opportunity to help customers experience less sacrifice. Every time a provider of a good or service interacts with a customer, both parties have an opportunity to learn. Eventually, one party changes his behavior as a result of that learning. Unfortunately, all too often that's the customer. He starts asking for something other than what he really wants—or perhaps he simply goes away.

weight adds to the cost of fuel burned. By linking its demand chain in this way, BA expects to save $5–8 million a year and to pay back its investment in the first year—and that's before it even begins to realize the individualized experience benefits.[1]

SEARCHING FOR UNIQUENESS

No longer should customers settle for standardized goods and services when companies can efficiently deliver, through mass customization techniques, only and exactly what each desires. If your company resists doing so, some competitor surely will soon, forever disrupting the dynamics of your industry. But early entrants often find that ascertaining customer needs that lie buried beneath the surface of countless "how did we do" surveys isn't easy. Indeed, customers have sacrificed for so long that they often have difficulty discussing their exact preferences. Even after the concept of sacrifice has been explained to them, most customers are unable to articulate the gaps between what they settle for and what it is, exactly, that they want.

Some skeptics cite this difficulty as evidence that customers cannot be counted on as sources for new ideas and innovation. The problem with customer input, however, doesn't derive from the inability of customers to identify and articulate their wants and needs; it stems from the context in which companies solicit that input. People tend to answer the questions posed to them. Often, their answers are as much a function of the Mass Production mindset that framed the questions as they are an accurate expression of customer needs. Harvard Business School professors Dorothy Leonard and Jeffrey F. Rayport, proponents of what they call "empathic design" (which is derived from watching customers in their *own* environments), say it this way: "Sometimes, customers are so accustomed to current conditions using company offerings that they don't think to ask for a new solution—even if they have real needs that could be addressed."[2]

Traditional research techniques—such as focus groups, "futures" scenarios, conjoint analysis, and yes, surveys—can still be leveraged to detect customer sacrifice. Just dust off your most recent research studies (which were likely searches for a *commonality* that would only point to shared—and preconditioned—expectations among customers), and examine them anew through a different lens: search for the *uniqueness* within the responses that suggests dimensions of sacrifice previously unnoticed or mistakenly thought insignificant. Even a single customer interaction can provide clues about an otherwise unarticulated sacrifice dimen-

Examine your research studies anew and search for uniqueness

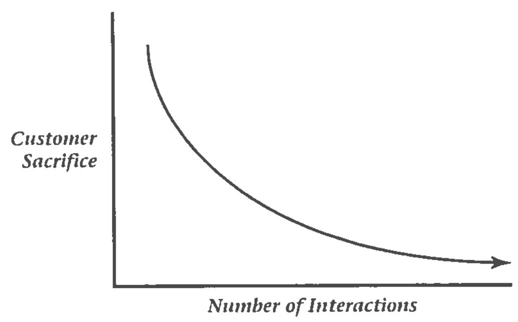
not see a large number of relevant articles the company's software may have deemed too marginal to send along.[4] Helping customers experience less sacrifice in this way allows NewsEDGE to use its customized offering to build a stronger relationship with each customer.

CULTIVATING LEARNING RELATIONSHIPS

A rapidly expanding array of interactive technologies—including e-mail, pagers, electronic kiosks, online services, fax response, and the World Wide Web—is enabling companies to better learn the particular wants, needs, and preferences of thousands, and potentially millions, of individual customers. The combination of mass customization in operations with what marketing gurus Don Peppers and Martha Rogers call *one-to-one marketing* form the basis of a *learning relationship* that grows, deepens, and becomes smarter over time.[5] The more the customer teaches the company, the better it can provide exactly what he wants—and the more difficult it will be for competitors to lure him away. Even if a competitor were to build exactly the same capabilities, a customer already involved in a learning relationship with a firm would have to spend a considerable amount of time and energy teaching the competitor what the current firm already knows. That's why customers of Ross Controls remain so loyal to ROSS/FLEX. A $20 billion division of General Motors (the company that seems to have patented supplier squeezing) won't buy pneumatic valves from anyone else and won't let its suppliers go elsewhere either. James Zaguroli, Jr., president of Knight Industries, relates that when a competitor tried to win his business away from Ross, he told them, "Why would I switch to you? You're already five product generations behind where I am with Ross."

Mass customization and one-to-one marketing enable learning relationships

Figure 5-1. The New Learning Curve



In effect, mass customizers that cultivate such learning relationships drive down a new learning curve, as seen in Figure 5-1. Everyone's familiar with the old learning curve in which costs come down with volume, the very basis of Mass Production. Here, customer sacrifice comes down

Most important, those companies which systematically reduce customer sacrifice—eliminating the negative cues of the relationship—heighten the experience their customers have when using their goods or partaking of their services, thus fulfilling needs left unaddressed by their mass-produced counterparts.

RESPONDING TO DIFFERENT KINDS OF SACRIFICES

Mass Customization bids return to an axiom frequently ignored in the homogenized world of Mass Production: *Each customer is unique,* and all deserve to have exactly what they want at a price they are willing to pay. Customers once were willing to subsume their uniqueness to benefit from the low prices of standardized offerings, but no longer. Companies must therefore efficiently and systematically reduce the customer sacrifice that occurs whenever a unique individual encounters standardized goods or services designed for some imaginary average. Surely no one-size-fits-all approach will serve to eliminate sacrifice—that would run contrary to the very notion of Mass Customization. Indeed, four different categories of sacrifice need attention. Each detracts from an individual's overall experience with a company's offering in a very specific way and this requires a different customization approach if it is to be eliminated.

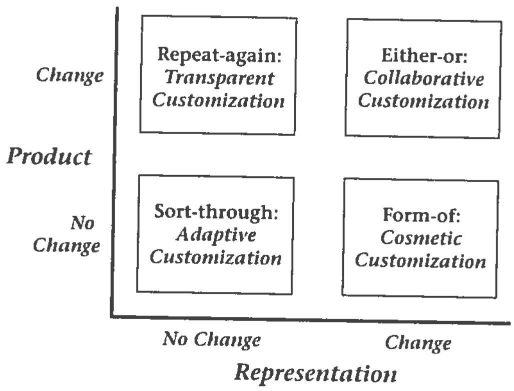
All customers deserve to have exactly what they want at a price they are willing to pay

In response to individual customer sacrifice, mass customizers can change or not change the actual *product*—the functionalities of a good or the dimensions of a service. Similarly, they can change or not change the *representation* of the product—its description, packaging, marketing materials, placement, terms and conditions, name, stated use, or anything else outside of the good or service itself. (Whereas a company's modular architecture lies in the domain of the product itself, the environmental architecture lies in the domain of its representation.) As seen in Figure 5-2, these strategic choices yield four distinct approaches to customization: collaborative, adaptive, cosmetic, and transparent. Each is appropriate for reducing a different kind of sacrifice that, in turn, provides the basis for a particular type of experience.[7]

Collaborative Customization: The Exploring Experience

First, customers sacrifice when forced to make difficult and multidimensional *either-or* choices, such as length versus width, complexity versus functionality, or amount of information versus relevancy. The inability to resolve these trade-offs with mass-produced offerings propels many customers to work with mass customizers such as GNC Live Well, Andersen Windows, Ross Controls, and NewsEDGE, all of which employ *collaborative customization,* a process by which a company interacts directly with customers to determine what they need and then produces it for them. Collaborative customizers let customers explore ways to obtain what they desire in one dimension of the product without having to sacrifice in another dimension.

Figure 5-2. The Four Types of Customer Sacrifice Leading to Four Approaches to Customization



NewsEDGE's customers no longer must receive all articles to read one article; they read increasingly relevant news articles while reviewing fewer total pieces, and they may even experiment with the feedback they provide to see how it alters the selection of future articles. Ross Controls customers no longer must wait months for a new design specification. Instead, they explore with their ROSS/FLEX integrator potential improvements in their process lines through successive, rapidly manufactured prototypes. And Andersen Windows customers no longer have to wait for their homes to be built to see how the windows will look. Instead they get to see the final outcome on a computer screen after having explored myriad possibilities with an Andersen distributor. A host of celebrated companies—Dell in personal computers, The Hartford in insurance, Levi's with its Original Spin jeans, McGraw-Hill's Primis textbooks, to name but a few—embrace collaborative customization as a means of reducing the sacrifice so prevalent when customers face too much choice and unnecessary trade-offs. The end result: a new kind of design experience.

Consider choosing a pair of eyeglasses. Few people can walk into a store and easily figure out exactly what frames they want by wading through the row upon row of empty frames placed on shelf after shelf. Yet Japanese company Paris Miki draws exact eyewear specifications out of each interaction with consumers, thanks to collaborative customization.

The Tokyo-based company, one of the largest eyewear retailers in the world, spent five years developing the Mikissimes Design System. Called the Eye Tailor in the United States, this design tool both eliminates the customer's need to review myriad choices when selecting a pair of rimless eyeglasses and turns the design interaction into an *exploring experience.* The optician first takes a digital picture of the consumer's face, which the Eye Tailor analyzes for distinctive attributes. The system also takes into account a set of adjectives selected by the consumer about the kind of look he desires (formal, traditional, natural, sporty, elegant, etc.). The system then recommends a distinctive lens size and shape and displays the lenses on the digital image of the consumer's face. But this just begins the exploration. The consumer and optician next collaborate to adjust the shape and size of the lenses (by rotating, enlarging, or even using a mouse to create a new curve) until both like the look. In similar fashion, they together select from a number of options for the nose bridge, hinges, and arms until the customer discovers the pair of eyeglasses he desires—exactly. The final step: The optician presents a photo-quality picture of the customer wearing a pair of eyeglasses that have yet to be produced! (One more thing: The customer receives the actual glasses, mass customized, in as little as an hour.)

Collaborative customizers work with their customers to determine what they need and then produce it for them

Collaborative customizers work with individual customers to change first the *representation* of the product and then, once the customer figures out his true needs, the product itself. Customer and customizer thus mutually determine the value to be created. The customizer relinquishes some control of the process, allowing the buyer to participate directly in decision making and even some of the set-up work. As Greg Horn, chief marketing officer at GNC, relates, "Our in-store experience involves customers with products that they designed, creating a level of individual commitment to 'their' product that far exceeds any other method." The seemingly necessary trade-offs found in selecting and using most mass-produced goods vanish when a customer more richly explores his unique needs in this way. Ideally, in addition to getting exactly what he wants, the customer uncovers aspects of his own wants and needs that he never knew existed.

Adaptive Customization: The Experimenting Experience

The second generic kind of customer sacrifice occurs when customers are presented with too many finished goods or too many component parts and must engage in an unwieldy *sort-through* process. Here, companies should adopt the approach of *adaptive customization.* In this case, neither the

Table 5-1. Customization Distinctions

	Customization Approach			
Characteristic	***Collaborative***	***Adaptive***	***Cosmetic***	***Transpare***
Sacrifice addressed	*Either-or*	*Sort-through*	*Form-of*	*Repeat-again*
Nature of offering	*Customized*	*Customizable*	*Packaged*	*Packable*
Nature of value	*Mutually determined*	*Independently derived*	*Visibly demonstrated*	*Indiscernibly fulfilled*
Process characteristics	*Sharable*	*Adjustable*	*Postponable*	*Predictable*
Nature of interaction	*Direct*	*Indirect*	*Overt*	*Covert*
Method of learning	*Conversation*	*Solicitation*	*Recognition*	*Observation*
Basis of experience	*Exploring*	*Experimenting*	*Gratifying*	*Discovering*

More important, why choose to customize at all? Very simple: Customizers stage fundamentally different experiences for customers. They *ing* the thing. Collaborative customizers NewsEDGE and Paris Miki create new newspaper-*reading* and eyeglass-*viewing* experiences. Adaptive customization yields unique Lutron *lighting*, Select Comfort *sleeping*, and Peapod grocery-*shopping* experiences. Hertz offers a distinctive car-*renting* experience through cosmetic customization, while Whirlpool uses this approach to stage a revolutionary new appliance-*delivering* experience for retail dealers and home builders. ChemStation, on the other hand, uses transparent customization to enhance the soap-*dispensing* experience, while Ritz-Carlton uses the same approach to turn a room into a truly memorable *lodging* experience.

All mass customizers create new value in the new Experience Economy. Rival mass producers, lacking any distinctive approach to eliminating customer sacrifice, will quickly find their offerings commoditized. We heard it best expressed some years ago by a Pennzoil Products Company executive who feared the day when people would say "Motor oil is motor oil is motor oil." Such a fate awaits any company that doesn't get its act together by helping customers experience less sacrifice.

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

WELCOME TO THE EXPERIENCE ECONOMY

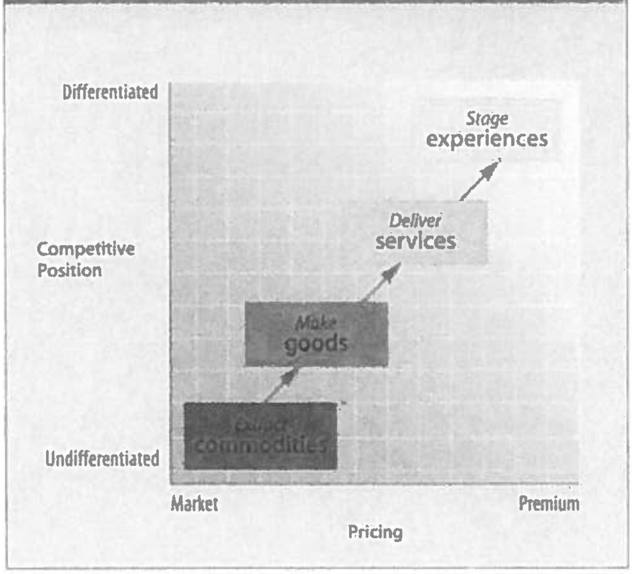
BY B. JOSEPH PINE II AND JAMES H. GILMORE

HOW DO ECONOMIES CHANGE? The entire history of economic progress can be recapitulated in the four-stage evolution of the birthday cake. As a vestige of the agrarian economy, mothers made birthday cakes from scratch, mixing farm commodities (flour, sugar, butter, and eggs) that together cost mere dimes. As the goods-based industrial economy advanced, moms paid a dollar or two to Betty Crocker for premixed ingredients. Later, when the service economy took hold, busy parents ordered cakes from the bakery or grocery store, which, at $10 or $15, cost ten times as much as the packaged ingredients. Now, in the time-starved 1990s, parents neither make the birthday cake nor even throw the party. Instead, they spend $100 or more to "outsource" the entire event to Chuck E. Cheese's, the Discovery Zone, the Mining Company, or some other business that stages a memorable event for the kids – and often throws in the cake for free. Welcome to the emerging *experience economy*.

B. Joseph Pine II and James H. Gilmore are cofounders of Strategic Horizons LLP, based in Cleveland, Ohio. They are coauthors of Every Business a Stage: Why Customers Now Want Experiences, *to be published by the Harvard Business School Press in January 1999. They are the authors of "The Four Faces of Mass Customization" (HBR January–February 1997) and can be reached at pine&gilmore@customization.com.*

Economists have typically lumped experiences in with services, but experiences are a distinct economic offering, as different from services as services are from goods. Today we can identify and describe this fourth economic offering because consumers unquestionably desire experiences, and more and more businesses are responding by explicitly designing and promoting them. As services, like goods before them, increasingly become commoditized – think of long-distance telephone services sold solely on price – experiences have emerged as the next step in what we call the *progression of economic value*. (See the exhibit "The Progression of Economic Value.") From now on, leading-edge companies – whether they sell to consumers or businesses – will find

The Progression of Economic Value



that the next competitive battleground lies in staging experiences.

An experience is not an amorphous construct; it is as real an offering as any service, good, or commodity. In today's service economy, many companies simply wrap experiences around their traditional offerings to sell them better. To realize the full benefit of staging experiences, however, businesses must deliberately design engaging experiences that command a fee. This transition from selling services to selling experiences will be no easier for established companies to undertake and weather than the last great economic shift, from the industrial to the service economy. Unless companies want to be in a commoditized business, however, they will be compelled to upgrade their offerings to the next stage of economic value.

The question, then, isn't whether, but when – and how – to enter the emerging experience economy. An early look at the characteristics of experiences and the design principles of pioneering experience stagers suggests how companies can begin to answer this question.

Staging Experiences that Sell

To appreciate the difference between services and experiences, recall the episode of the old television show *Taxi* in which Iggy, a usually atrocious (but fun-loving) cab driver, decided to become the best taxi driver in the world. He served sandwiches and drinks, conducted tours of the city, and even sang Frank Sinatra tunes. By engaging passengers in a way that turned an ordinary cab ride into a memorable event, Iggy created something else entirely – a distinct economic offering. The *experience* of riding in his cab was more valuable to his customers than the service of being transported by the cab – and in the TV show, at least, Iggy's customers happily responded by giving bigger tips. By asking to go around the block again, one patron even *paid more* for poorer service just to prolong his enjoyment. The service Iggy provided – taxi transportation – was simply the stage for the experience that he was really selling.

An experience occurs when a company intentionally uses services as the stage, and goods as props, to engage individual customers in a way that creates a memorable event. Commodities are fungible, goods tangible, services intangible, and experiences *memorable*. (See the chart "Economic Distinc-

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

tions.") Buyers of experiences – we'll follow the lead of experience-economy pioneer Walt Disney and call them "guests" – value what the company reveals over a duration of time. While prior economic offerings – commodities, goods, and services – are external to the buyer, experiences are inherently personal, existing only in the mind of an individual who has been engaged on an emotional, physical, intellectual, or even spiritual level. Thus, no two people can have the same experience, because each experience derives from the interaction between the staged event (like a theatrical play) and the individual's state of mind.

Experiences have always been at the heart of the entertainment business – a fact that Walt Disney and the company he founded have creatively exploited. But today the concept of selling an entertainment experience is taking root in businesses far removed from theaters and amusement parks. New technologies, in particular, encourage whole new genres of experience, such as interactive games, Internet chat rooms and multiplayer games, motion-based simulators, and virtual reality. The growing processing power required to render ever-more immersive experiences now drives demand for the goods and services of the computer industry. In a speech made at the November 1996 COMDEX computer trade show, Intel chairman Andrew Grove declared, "We need to look at our business as more than simply the building and selling of personal computers. Our business is the delivery of information and lifelike interactive experiences."

At theme restaurants such as the Hard Rock Cafe, Planet Hollywood, or the House of Blues, the food is just a prop for what's known as "eatertainment." And stores such as Niketown, Cabella's, and Recreational Equipment Incorporated draw consumers in by offering fun activities, fascinating displays, and promotional events (sometimes labeled "shoppertainment" or "entertailing").

But experiences are not exclusively about entertainment; companies stage an experience whenever they engage customers in a personal, memorable way. In the travel business, former British Airways chairman Sir Colin Marshall has noted that the "commodity mind-set" 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." What British Airways does, according to Sir Colin, is "to go beyond the function and compete on the basis of providing an experience." (See "Competing on Customer Service: An Interview with British Airways' Sir Colin Marshall," HBR November–December 1995.) The company uses its base service (the travel itself) as the stage for a distinctive en route experience – one that attempts to transform air travel into a respite from the traveler's normally frenetic life.

Neither are experiences only for consumer industries. Companies consist of people, and business-to-business settings also present stages for experiences. For example, a Minneapolis computer-installation and repair company calls itself the Geek Squad. Its "special agents" costume themselves in white shirts with thin black ties and pocket protectors, carry badges, drive old cars, and turn a humdrum activity into a memorable encounter. Similarly, many companies hire theater troupes – like the St. Louis-based trainers One World Music, facilitators of a program called Synergy through Samba – to turn otherwise ordinary meetings into improvisational events that encourage breakthrough thinking.

Today the concept of selling experiences is spreading beyond theaters and theme parks.

Business-to-business marketers increasingly create venues as elaborate as any Disney attraction in which to sell their goods and services. In June 1996, Silicon Graphics, for example, opened its Visionarium Reality Center at corporate headquarters in Mountain View, California, to bring customers and engineers together in an environment where they can interact with real-time, three-dimensional product visualizations. Customers can view, hear, and touch – as well as drive, walk, or fly – through myriad product possibilities. "This is experiential computing at its ultimate, where our customers can know what their products will look like, sound like, feel like before manufacturing," said then chairman and CEO Edward McCracken.

You Are What You Charge For

Notice, however, that while all of these companies stage experiences, most are still charging for their goods and services. Companies generally move from one economic stage to the next in incremental steps. In its heyday in the 1960s and 1970s, IBM's slogan was "IBM Means Service," and the computer manufacturer indeed lavished services – for free –

on any company that would buy its hardware goods. It planned facilities, programmed code, integrated other companies' equipment, and repaired its own machines; its service offerings overwhelmed the competition. But eventually IBM had to charge customers for what it had been giving away for free, when a Justice Department suit required the company to unbundle its hardware and software. The government order notwithstanding, IBM couldn't afford to continue to meet increasing customer-service demands without explicitly charging for them. Services, it turned out, were the company's most valued offerings. Today, with its mainframe computers long since commoditized, IBM's Global Services unit grows at double-digit annual rates. The company no longer gives away its services to sell its goods. In fact, the deal is reversed: the company will buy its clients' hardware if they'll contract with Global Services to manage their information systems. IBM still manufactures computers, but now it's in the business of providing services.

Companies should think about what they would do differently if they charged admission.

It's an indication of the maturity of the service economy that IBM and other manufacturers now make greater profits from the services than from the goods they provide. General Electric's GE Capital unit and the financial arms of the Big Three automakers are cases in point. Likewise, it's an indication of the immaturity of the experience economy that most companies providing experiences – like the Hard Rock Cafe, the Geek Squad, or Silicon Graphics – don't yet explicitly charge for the events that they stage.

No company sells experiences as its economic offering unless it actually charges guests an admission fee. An event created just to increase customer preference for the commoditized goods or services that a company actually sells is not an economic offering. But even if a company rejects (for now) charging admission to events that it stages, its managers should already be asking themselves what they would do differently if they were to charge admission. The answers will help them see how their company might begin to move forward into the experience economy, for such an approach demands the design of richer experiences.

Movie theaters already charge admission to see featured films, but Jim Loeks, part-owner of the Star theater complex in Southfield, Michigan, told *Forbes* magazine that "it should be worth the price of the movie just to go into the theater." Star charges 3 million customers a year 25% higher admission for a movie than a local competitor does because of the fun-house experience it provides. Soon, perhaps, with 65,000 square feet of restaurants and stores being added to the complex, Star will charge its customers admission just to get into the complex.

Some retailers already border on the experiential. At the Sharper Image or Brookstone, notice how many people play with the gadgets, listen to miniaturized stereo equipment, sit in massage chairs, and then leave without paying for what they valued, namely, the experience. Could these stores charge admission? Not as they are currently managed. But if they did charge an admission fee, they would be forced to stage a much better experience to attract paying guests. The merchandise mix would need to change more often – daily or even hourly. The stores would have to add demonstrations, showcases, contests, and other attractions to enhance the customer experience.

With its Niketown stores, Nike is almost in the experience business. To avoid alienating its existing retail channels, Nike created Niketown as a merchandising exposition. It's ostensibly for show – to build the brand image and stimulate buying at other retail outlets – not for selling. If that is so, then why not explicitly charge customers for experiencing Niketown? Would people pay? People have already queued to enter the Niketown on Chicago's Michigan Avenue. An admission fee would force Nike to stage more engaging events inside. The stores might actually use the basketball court, say, to stage one-on-one games or rounds of horse with National Basketball Association players. Afterward customers could buy customized Nike T-shirts, commemorating the date and score of events – complete with an action photo of the winning hoop. There might be more interactive kiosks for educational exploration of past athletic events. Virtual reality machines could let you, as Nike's advertising attests, be Tiger Woods. Nike could probably generate as much admission-based revenue per square foot from Niketown as the Walt Disney Company does from its entertainment venues – and as Disney *should* (but does not) yield from its own retail stores. For the premier company of the experience economy, Disney's specialty retailing outside of its own theme parks disappoints. Its mall stores aren't much different from anyone else's, precisely because Disney doesn't charge admission to them – and so doesn't bother creating the extraordinary experiences it so expertly creates elsewhere.

An entrepreneur in Israel has entered the experience economy with the opening of Cafe Ke'ilu, which roughly translates as "Cafe Make Believe." Manager Nir Caspi told a reporter that people come to cafés to be seen and to meet people, not for the food; Cafe Ke'ilu pursues that observation to its logical conclusion. The establishment serves its customers plates and mugs that are empty and charges guests $3 during the week and $6 on weekends for the social experience.

Charging admission – requiring customers to pay for the experience – does not mean that companies have to stop selling goods and services. Disney generates significant profits from parking, food, and other service fees at its theme parks as well as from the sale of memorabilia. But without the staged experiences of the company's theme parks, cartoons, movies, and TV shows, customers would have nothing to remember – and Disney would have no characters to exploit.

In the full-fledged experience economy, retail stores and even entire shopping malls will charge admission before they let a consumer even set foot in them. Some shopping malls, in fact, already do charge admission. We're not thinking of the Mall of America outside of Minneapolis, which contains an amusement park; it charges for the rides, but the shopping is still free. We're referring to the Gilroy Garlic Festival in California, the Minnesota Renaissance Festival, the Kitchener-Waterloo Oktoberfest in Ontario, Canada, and other seasonal festivals that are really outdoor shopping malls and do indeed charge admission. Consumers judge them worth the fees because the festival operators script distinctive experiences around enticing themes, as well as stage activities that captivate customers before, after, and while they shop. With nearly every customer leaving with at least one bag of merchandise, these festival experiences clearly capture shopping dollars that otherwise would be spent at traditional malls and retail outlets.

The business equivalent of a shopping mall is a trade show – a place for finding, learning about, and, if a need is met, purchasing exhibitors' offerings. Trade-show operators already charge admission to the experiences they create; individual business-to-business companies will need to do the same, essentially charging customers to sell to them. Diamond Technology Partners for instance, stages the Diamond Exchange, a series of forums that help members explore the digital future. Current and potential clients pay tens of thousands of dollars annually to attend because what they gain – fresh insights, self-discovery, and engaging interactions – is worth it. No one minds that in staging the event, Diamond greatly improves its chances of selling follow-up consulting work.

The Characteristics of Experiences

Before a company can charge admission, it must design an experience that customers judge to be worth the price. Excellent design, marketing, and delivery will be every bit as crucial for experiences as they are for goods and services. Ingenuity and innovation will always precede growth in revenue. Yet experiences, like goods and services, have their own distinct qualities and characteristics and present their own design challenges.

One way to think about experiences is across two dimensions. The first corresponds to *customer participation.* At one end of the spectrum lies passive participation, in which customers don't affect the performance at all. Such participants include symphony-goers, for example, who experience the event as observers or listeners. At the other end of the spectrum lies active participation, in which customers play key roles in creating the performance or event that yields the experience. These participants include skiers. But even people who turn out to watch a ski race are not completely passive participants; simply by being there, they contribute to the visual and aural event that others experience.

Some companies will eventually be like trade shows, charging customers to sell to them.

The second dimension of experience describes the *connection,* or environmental relationship, that unites customers with the event or performance. At one end of the connection spectrum lies absorption, at the other end, immersion. People viewing the Kentucky Derby from the grandstand can absorb the event taking place beneath and in front of them; meanwhile, people standing in the infield are immersed in the sights, sounds, and smells that surround them. Furiously scribbling notes while listening to a physics lecture is more absorbing than reading a textbook; seeing a film at the theater with an audience, large screen, and stereophonic sound is more immersing than watching the same film on video at home.

We can sort experiences into four broad categories according to where they fall along the spectra of the two dimensions. (See the exhibit "The Four Realms of an Experience.") The kinds of experiences most people think of as entertainment – watching television, attending a concert – tend to be those in which customers participate more passively than actively; their connection with the event is more likely one of absorption than of immersion. Educational events – attending a class, taking a ski lesson – tend to involve more active participation, but students (customers, if you will) are still more outside the event than immersed in the action. Escapist experiences can teach just as well as educational events can, or amuse just as well as entertainment, but they involve greater customer immersion. Acting in a play, playing in an orchestra, or descending the Grand Canyon involve both active participation and immersion in the experience. If you minimize the customers' active participation, however, an escapist event becomes an experience of the fourth kind – the esthetic. Here customers or participants are immersed in an activity or environment, but they themselves have little or no effect on it – like a tourist who merely views the Grand Canyon from its rim or like a visitor to an art gallery.

Generally, we find that the richest experiences – such as going to Disney World or gambling in a Las Vegas casino – encompass aspects of all four realms, forming a "sweet spot" around the area where the spectra meet. But still, the universe of possible experiences is vast. Eventually, the most significant question managers can ask themselves is "What specific experience will my company offer?" That experience will come to define their business.

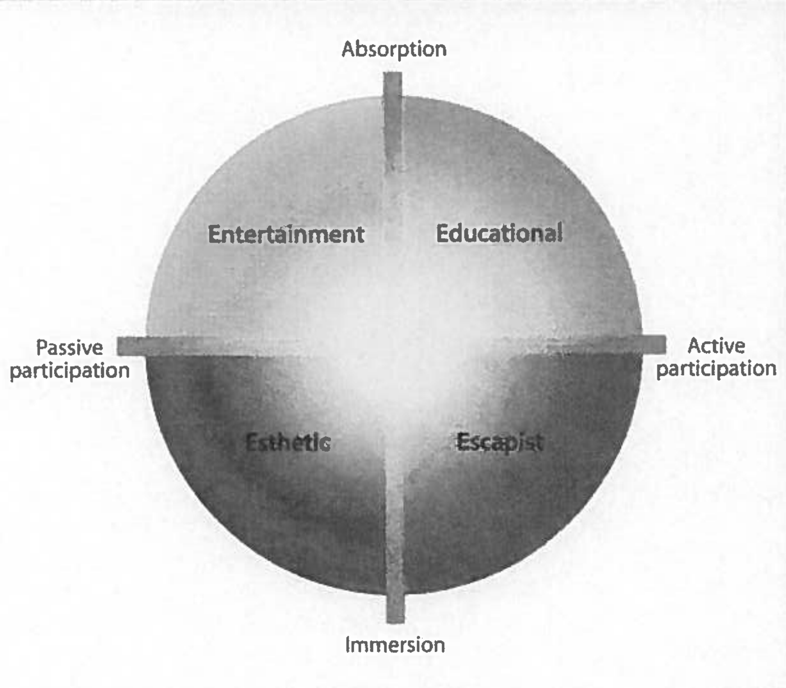
Experiences, like goods and services, have to meet a customer need; they have to work; and they have to be deliverable. Just as goods and services result from an iterative process of research, design, and development, experiences derive from an iterative process of exploration, scripting, and staging – capabilities that aspiring experience merchants will need to master.

Designing Memorable Experiences

We expect that experience design will become as much a business art as product design and process design are today. Indeed, design principles are already apparent from the practices of and results obtained by companies that have (or nearly have) advanced into the experience economy. We have identified five key experience-design principles.

Theme the experience. Just hear the name of any "eatertainment" restaurant – Hard Rock Cafe, Planet Hollywood, or the Rainforest Cafe, to name a few – and you instantly know what to expect when you enter the establishment. The proprietors have taken the first, crucial step in staging an experience by envisioning a well-defined theme. One poorly conceived, on the other hand, gives customers nothing around which to organize the impressions they encounter, and the experience yields no lasting memory. An incoherent theme is like Gertrude Stein's Oakland: "There is no there there." Retailers often offend the principle. They talk of "the shopping experience" but fail to create a theme that ties the disparate merchandising presentations together into a staged experience. Home-appliance and electronics retailers in partic-

The Four Realms of an Experience



ular show little thematic imagination. Row upon row of washers and dryers and wall after wall of refrigerators accentuate the sameness of different companies' stores. Shouldn't there be something distinctive about an establishment called Circuit City, for example?

Consider the Forum Shops in Las Vegas, a mall that displays its distinctive theme – an ancient Roman marketplace – in every detail. The Simon DeBartolo Group, which developed the mall, fulfills this motif through a panoply of architectural effects. These include marble floors, stark white pillars, "outdoor" cafés, living trees, flowing fountains – and even a painted blue sky with fluffy white clouds that yield regularly to simulated storms, complete with lightning and thunder. Every mall entrance and every storefront is an elaborate Roman re-creation. Every hour inside the main entrance, statues of Caesar and other Roman luminaries come to life and speak. "Hail, Caesar!" is a frequent cry, and Roman centurions periodically march through on their way to the adjacent Caesar's Palace casino. The Roman theme even extends into some of the shops. A jewelry store's interior, for instance, features scrolls, tablets, Roman numerals, and gold draperies. The theme implies opulence, and the mall's 1997 sales – more than $1,000 per square foot, compared with a typical mall's sales of less than $300 – suggest that the experience works.

An effective theme is concise and compelling. It is not a corporate mission statement or a marketing tag line. It needn't be publicly articulated in writing. But the theme must drive all the design elements and staged events of the experience toward a unified story line that wholly captivates the customer. Educational Discoveries and Professional Training International of Orem, Utah, stage a daylong course on basic accounting skills to nonfinancial managers. Their exquisitely simple theme – running a lemonade stand – turns learning into an experience. Students use real lemons and lemonade, music, balloons, and a good deal of ballyhoo while they create a corporate financial statement. The theme unifies the experience in the students' minds and helps make the learning memorable.

Harmonize impressions with positive cues. While the theme forms the foundation, the experience must be rendered with indelible impressions. Impressions are the "takeaways" of the experience; they fulfill the theme. To create the desired impressions, companies must introduce cues that affirm the nature of the experience to the guest. Each cue must support the theme, and none should be inconsistent with it.

George Harrop, founder of Barista Brava, a franchised chain of coffee bars based in Washington, D.C., developed the company's theme of "the marriage of Old-World Italian espresso bars with fast-paced American living." The interior decor supports the Old World theme, and the carefully designed pattern of the floor tiles and counters encourages customers to line up without the usual signage or ropes that would detract from that theme. The impressions convey quick service in a soothing setting. Furthermore, Harrop encourages *baristas* to remember faces so that regular customers are handed their usual order without even having to ask.

> To create the desired impression, companies must provide cues that affirm the nature of the experience.

Even the smallest cue can aid the creation of a unique experience. When a restaurant host says, "Your table is ready," no particular cue is given. But when a Rainforest Cafe host declares, "Your adventure is about to begin," it sets the stage for something special.

It's the cues that make the impressions that create the experience in the customer's mind. An experience can be unpleasant merely because some architectural feature has been overlooked, underappreciated, or uncoordinated. Unplanned or inconsistent visual and aural cues can leave a customer confused or lost. Have you ever been unsure how to find your hotel room, even after the front-desk staff provided detailed directions? Better, clearer cues along the way would have enhanced your experience. Standard Parking of Chicago decorates each floor of its O'Hare Airport garage with icons of different Chicago sports franchises – the Bulls on one floor, the White Sox on another, and so forth. And each level has its own signature song wafting through it. "You never forget where you parked," one Chicago resident remarked, which is precisely the experience a traveler wants after returning from a week of travel.

Eliminate negative cues. Ensuring the integrity of the customer experience requires more than the layering on of positive cues. Experience stagers also must eliminate anything that diminishes, contradicts, or distracts from the theme. Most constructed spaces – malls, offices, buildings, or airplanes – are littered with meaningless or trivial messages. While customers sometimes do need instructions, too often service providers choose an inappropriate medium or message form. For example, trash bins at fast-food facilities typically display a "Thank You" sign. True, it's a cue to customers to bus their own trays, but it also says, "No service here," a negative reminder. Experience stagers might, instead, turn the trash bin into a talking, garbage-eating character that announces its gratitude when the lid swings open. Customers get the same message but without the negative cue, and self-busing becomes a positive part of the eating experience.

If airlines truly sold experiences, more passengers would actually shop in the seat-pocket catalogs for mementos of their flight.

The easiest way to turn a service into an experience is to provide poor service – thus creating a memorable encounter of the unpleasant kind. "Overservicing" in the name of customer intimacy can also ruin an experience. Airline pilots interrupt customers who are reading, talking, or napping to announce, "Toledo is off to the right side of the aircraft." At hotels, front-desk personnel interrupt face-to-face conversations with guests to field telephone calls. In the guestrooms, service reminders clutter end tables, dressers, and desktops. (Hide them away and housekeeping will replace these annoyances the next morning.) Eliminating negative cues – by transmitting pilots' offhand announcements through headsets instead of speakers, by assigning off-stage personnel to answer phones, and by placing guest information on an interactive television channel – creates a more pleasurable customer experience.

Mix in memorabilia. Certain goods have always been purchased primarily for the memories they convey. Vacationers buy postcards to evoke a treasured sight, golfers purchase a shirt or cap with an embroidered logo to recall a course or round, and teenagers obtain T-shirts to remember a rock concert. They purchase such memorabilia as a physical reminder of an experience.

People already spend tens of billions of dollars every year on memorabilia. These goods generally sell at price points far above those commanded by similar items that don't represent an experience. A Rolling Stones concert-goer, for example, will pay a premium for an official T-shirt emblazoned with the date and city of the concert. That's because the price points are a function less of the cost of goods than of the value the buyer attaches to remembering the experience.

If service businesses like airlines, banks, grocery stores, and insurance companies find no demand for memorabilia, it's because they do not stage engaging experiences. But if these businesses offered themed experiences layered with positive cues and devoid of negative cues, their guests would want and would pay for memorabilia to commemorate their experiences. (If guests didn't want to, it probably would mean the experience wasn't great.) The special agents of the Geek Squad, for example, stage such a distinctive computer-repair experience that customers buy T-shirts and lapel pins from the company's Web site. If airlines truly were in the experience-staging business, more passengers would actually shop in those seat-pocket catalogs for appropriate mementos. Likewise, mortgage loans would inspire household keepsakes; grocery check-out lanes would stock souvenirs in lieu of nickel-and-dime impulse items; and perhaps even insurance policy certificates would be considered suitable for framing.

Engage all five senses. The sensory stimulants that accompany an experience should support and enhance its theme. The more senses an experience engages, the more effective and memorable it can be. Smart shoeshine operators augment the smell of polish with crisp snaps of the cloth, scents and sounds that don't make the shoes any shinier but do make the experience more engaging. Savvy hair stylists shampoo and apply lotions not simply because the styling requires it but because they add more tactile sensations to the customer experience. Similarly, grocery stores pipe bakery smells into the aisles, and some use light and sound to simulate thunderstorms when misting their produce.

The mist at the Rainforest Cafe appeals serially to all five senses. It is first apparent as a sound: Sss-sss-zzz. Then you see the mist rising from the rocks and feel it soft and cool against your skin. Finally, you smell its tropical essence, and you taste (or imagine that you do) its freshness. What you can't be is unaffected by the mist.

Some cues heighten an experience through a single sense affected through striking simplicity. The Cleveland Bicentennial Commission spent $4 million to illuminate eight automobile and railroad bridges over the Cuyahoga River near a nightspot area called the Flats. No one pays a toll to view or even to cross these illuminated bridges, but the dramatically lighted structures are a prop that city managers hope will help attract tourist dollars by making a trip to downtown Cleveland a more memorable nighttime experience.

Not all sensations are good ones, and some combinations don't work. Bookstore designers have discovered that the aroma and taste of coffee go well with a freshly cracked book. But Duds n' Suds went bust attempting to combine a bar and a coin-operated laundromat. The smells of phosphates and hops, apparently, aren't mutually complementary.

Entering the Experience Economy

Using these five design principles, of course, is no guarantee of success; no one has repealed the laws of supply and demand. Companies that fail to provide consistently engaging experiences, overprice their experiences relative to the value perceived, or overbuild their capacity to stage them will of course see pressure on demand, pricing, or both. One stalwart of the children's birthday-party circuit, Discovery Zone, has had a rough few years because of inconsistent experience staging, poorly maintained games, and little consideration of the experience received by adults, who are, after all, paying for the event. More recently, the Rainforest Cafe and Planet Hollywood have encountered trouble because they have failed to refresh their experiences. Guests find nothing different from one visit to the next. Disney, on the other hand, avoids staleness by frequently adding new attractions and even whole parks such as the Animal Kingdom, which opened in the spring of 1998.

As the experience economy unfolds, more than a few experience stagers will exit the business. It's hard to imagine, for example, that every one of the scores of theme-based restaurants operating today will last into the millennium. Recall that once there were more than 100 automakers in eastern Michigan and more than 40 cereal makers in western Michigan. Now only the Big Three automakers in Detroit and the Kellogg Company in Battle Creek remain. The growth of the industrial economy and the service economy came with the proliferation of offerings – goods and services that didn't exist before imaginative designers and marketers invented and developed them. That's also how the experience economy will grow: through the "gales of creative destruction," as the economist Joseph Schumpeter termed it – that is, business innovation, which threatens to render irrelevant those who relegate themselves to the diminishing world of goods and services.

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"Well, Hayward, everyone is on board but you."