

An interview with B. Joseph Pine II

Interview by Alistair Craven



B. Joseph Pine II is an internationally acclaimed author, speaker, and management advisor to *Fortune 500* companies and entrepreneurial start-ups alike. He is co-founder of Strategic Horizons LLP, a thinking studio dedicated to helping businesses conceive and design new ways of adding value to their economic offerings.

Mr. Pine and his partner James H. Gilmore wrote *The Experience Economy: Work Is Theatre & Every Business a Stage* (Harvard Business School Press, 1999). This best-selling book demonstrates how goods and services are no longer enough; what customers want today are experiences – memorable events that engage each customer in an inherently personal way. Published in ten languages, the book also shows how businesses can create value by embracing theatre as an operating model to stage unique experiences.

Prior to beginning his own company, Mr. Pine held a number of technical and managerial positions with IBM. One of his many assignments was key to the effective launch of the Application System/400 computer system, for which he managed a team that brought customers and business partners directly into the development process of the system.

Your website states that Strategic Horizons is a "thinking studio committed to helping executives see the world differently." Can you elaborate on your raison d'être for us?

B. Joseph Pine II:

We have a particular worldview about what is going in business, and want to convert executives to that worldview! So in essence, we're proselytizers who observe what is going in the world of business and then develop frameworks that make sense of what's happening, so that executives can think through the possibilities and determine what is best for them.

Before you started your own business you worked for IBM. What were some of the key challenges you faced in your role?

B. Joseph Pine II:

Multiple roles, actually! I managed to change jobs within IBM every 18 months or so, which always gave me new challenges and a fresh perspective.

One of those roles, back in 1986-88, was to create and manage the group that brought customers and business partners into the development process of the AS/400 minicomputer (now known as the iSeries Midrange Servers). One of the lessons I learned from that experience was that every customer

was unique. We had designed the system for a large, homogenous market of general-purpose minicomputer users that simply did not exist.

Moving from there to strategic planning (where I first encountered what is now *Strategy & Leadership*, whose editorial board I later joined), I read Stan Davis' book *Future Perfect* and realized his concept of "mass customizing" was exactly what we needed to incorporate into our plans. We did that, and when IBM sent me to MIT for a year to get my masters degree, I spent the entire year studying this concept, and back at IBM turned my thesis into my first book.

Yes, your 1993 book *Mass Customization: The New Frontier in Business Competition* is well known. It looked at the shift companies are making from mass producing standardized offerings to mass customizing goods and services. Do the ideas you brought to the table still stand firm today?

B. Joseph Pine II:

Absolutely! While progress hasn't been quite as fast as I envisioned, it's amazing how far we've come in the twelve years since I published the book (and the eighteen years since Stan coined the term). There are now thousands of companies that mass customize, and nary an industry that hasn't been affected by the shift. The big missing piece at that time, of course, was the Internet. Its rise means companies can instantly – and cost-

effectively – communicate with millions of customers, learn what each desires, and then produce a unique offering for each customer. And to think that the world's premier mass customizer, Dell Inc., wasn't even mentioned in the book! (As an IBMer, I was in denial. . . .)

I continue to believe, and we're already seeing, that mass customization will be as important to the 21st century as mass production was to the 20th.

Your 1999 best-selling book *The Experience Economy: Work Is Theatre & Every Business a Stage*, co-authored with your partner Jim Gilmore, argues that goods and services are no longer enough and that what customers actually want are experiences. Can you explain exactly what you mean by this concept?

B. Joseph Pine II:

Experiences are distinct economic offerings, as distinct from services as services are from goods. They are memorable events that engage each person in an inherently personal way, and – given that goods and services are rapidly commoditizing – experiences are both what consumers desire today and what companies need to offer to create economic value. So just as we shifted from an Agrarian Economy based on commodities to an Industrial Economy based on goods, through a Service Economy, now we are shifting to an Experience Economy, where experiences are becoming the predominant economic offering.

An article in *Business Week* recently claimed that innovation moves offerings up the "experience chain" and used an example of yours called "the coffee progression." Can you run us through this example and its relevance to your experience economy proposition?

B. Joseph Pine II:

Sure. Coffee at its core is a commodity – coffee beans that one extracts from the ground. If you pay attention to the futures price of coffee, you'll know that in 2001 coffee actually hit a 100-year low in price. That's what happens to commodities – they go down in price over time. If you convert that future price per ton to a per cup basis, you'll find that coffee costs just a couple of pennies or so per cup. Take those beans and grind, roast, and package them as goods and you can charge 5-15¢ per cup, depending on brand, package size, and so forth. Take those ground beans and perform the service of actually brewing a cup of coffee for a customer in a vending machine, kiosk, bodega, or corner diner and you can get 50¢ to a dollar per cup. But surround the brewing

of a highly customized cup of coffee with the distinctive ambience, sensory experience, and sense of theatre that a Starbucks stages, and see how they can command \$2, \$3, \$4 or more per cup of coffee!

“Responding to the forces of commoditization is perhaps the key strategic challenge of our time. Second is finding the wherewithal to transform one's organization to get out of the muck and mire of the old ways of doing things and learn to think – and act – differently.”

That is one industry with four distinct economic offerings, each with its own distinctive price band. And in virtually every industry you can see this same Progression of Economic Value, as we call it, starting with the core commodity of the industry, the goods for which it provides the raw material, the services that enhance those goods, and the experiences that surround them all and provide the most economic value.

What would you say to those who disagree with this concept and who claim that in a hypercompetitive marketplace – coupled with the information and product knowledge consumers can gather from the Internet – "experiences" come a distant second to getting the best deal at the best prices and in the shortest space of time?

B. Joseph Pine II:

What's really happening is the bifurcation of all marketplaces. Sometimes consumers indeed want it at the lowest possible price and the greatest possible convenience – hello, commoditization! – while at other times they want to spend not only their money, but their time in an engaging experience. And which times individual customers want it which way is completely up to them! (there's that customer uniqueness again.) So there will be some companies that can compete successfully at the low-cost commodity game, but generally only one or two per industry. Others will need to shift up the Progression of Economic Value to stage

engaging experiences for their individual customers.

What have you learned since *The Experience Economy* came out?

B. Joseph Pine II:

One thing is how much harder it is keeping up with exemplars pushing forward the concepts than it was with *Mass Customization!* Perhaps the greatest lesson is a key principle of the *Experience Economy* – that the experience IS the marketing. Any company – whether commodity trader, goods manufacturer, service provider, or even an experience stager itself – can use experiences to generate demand for its core offerings. Such experiences – think Volkswagen's Autostadt, the Guinness Storehouse, the Heineken Experience, or the ING Direct Cafés – get people to spend their time, attention, and money in a place (whether real or virtual) that the company controls, which greatly increases the chances that they'll buy that company's offerings, either right then or at a later date. Many companies are now shifting advertising dollars to such marketing experiences, including B2B marketers like Case Construction with its Tomahawk Experience Center (where prospective customers get to play with the construction equipment).

From your work with several *Fortune 500* clients, what would you say were the top strategic challenges facing senior managers today?

B. Joseph Pine II:

Well, as I've already made clear, responding to the forces of commoditization is perhaps the key strategic challenge of our time. Second is finding the wherewithal to transform one's organization to get out of the muck and mire of the old ways of doing things and learn to think – and act – differently. Third is generating the creativity, competencies, and courage required to innovate new (and new kinds of) economic offerings. Finally – and this will give you more than a clue to what we're now working on for our next book - Jim Gilmore and I believe that the new business imperative for executives everywhere is to render their offerings to be perceived as authentic by their prospective customers.

Could you expand on that idea?

B. Joseph Pine II:

In a world of paid-for experiences, people increasingly question what is real and what is not. And more and more, they want to buy the real from the genuine, not the fake from the

phony. In other words, authenticity is becoming the new consumer sensibility – the buying criteria by which consumers choose what to buy and from whom to buy it. Therefore, in addition to the old imperatives of supplying availability, controlling costs, and improving quality, companies must now learn the new business discipline of rendering authenticity.

During September you will be holding your "thinkAbout" event in Keystone, Colorado. What are the reasons behind this event and what do you expect to achieve from it this year?

B. Joseph Pine II:

This will be our eighth annual thinkAbout, an event that forces us to practice what we preach by staging an engaging B2B experience for those interested in pushing forward the boundaries of the Experience Economy. It also gives us an opportunity to generate new ideas, frameworks, and techniques for fulfilling our mission of helping executives see the world differently. And we gear it to giving our participants – there are no "attendees" at this experience! – practical new ideas for their businesses.

We move it around every year from place to place, such as Las Vegas, Hollywood, and Times Square, so our participants can experience the best (and sometimes the worst) experience stagers in that place as part of the event, and thereby learn principles that they can apply to their own business. Last year we even staged it inside of the Cerritos Library in Cerritos, California, which won our Experience Stager of the Year (EXPY) award the previous year. (Other winners of the coveted EXPY award, by the way, are the American Girl Place, the Geek Squad, Joie de Vivre Hospitality, LEGO System, and ChartHouse Learning.)

This year we're bringing it to top of the Rocky Mountains to provide, one, a worthy venue for management guru Tom Peters, our special guest this year; two, a natural setting in which to explore authenticity and our other key focus areas; and three, to let our participants encounter the Experience Design Place of Starizon, a company that embraces all of the principles we wrote about in *The Experience Economy* and uses them to transform its clients into premier experience stagers themselves. Starizon completely turns the normal consulting model on its head, and so it's not to be missed.

Looking back over the last century, which business leaders do you believe have most changed society and how we live today?

B. Joseph Pine II:

There have been so many! Let me start with Henry Ford, who brought together the system of mass production, which enabled America to become the #1 economic power in the world while transforming industry after industry around the world. Then think of Taiichi Ohno, who created the Toyota Production System and taught us all the techniques of Continuous Improvement. And add to them Michael Dell, who more than anyone else showed us how to efficiently serve customers uniquely through mass customization.

Let's not forget the man Walt Disney, who almost single-handedly – even though he always said it began with a mouse – ushered in the Experience Economy through the creation of the world's first theme park exactly fifty years ago. Other experience pioneers include Peter Morton and Isaac Tigrett, who invented the theme restaurant in 1971 with the Hard Rock Café; director George Lucas, who showed how digital technology could transform the movies (and most other experience media as well); and Steve Wynn, who transformed Las Vegas from mere gambling mecca to truly the Experience Capital of the World.

Finally, outside of your professional life, what interests you and why?

B. Joseph Pine II:

Even though it's the expected answer, I'll start with my family, whom I cherish, particularly as my daughters are finishing their high school years and will soon be leaving the nest. And, I'll bet, an unexpected answer: apologetics, the defence of the Christian faith, which I study and teach. And I'll throw in one more, perhaps not unexpected, answer: golf, which I love to play as I strive to, just once in my life, get down to a single-digit handicap. □