

Who's Afraid of the Experience Economy?

Great brand experiences drive better business outcomes, during the pandemic and beyond.

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It feels like much more than a year has passed since hordes of frantic shoppers from North America to Asia, impelled by first-wave coronavirus fears, stripped supermarket shelves of ... toilet paper. As experts from INSEAD and elsewhere **hastened to explain**, these waves of panic buying were only superficially about bathroom hygiene. The real motivator was control, or rather the lack thereof. Their equilibrium rocked by the unexpected life-altering force of Covid, global consumers reached out for useful and familiar products to anchor them psychologically against rapidly rising uncertainty.

It's an extreme example, but an instructive one if one wants to understand consumer behaviour. Products rarely become hits for pragmatic, rational reasons alone. They almost always fulfil an emotional function as well. Traditionally, it was the marketing department's job to frame and convey these deeper values. However, the arrival of digital technologies and the internet tipped the balance of power in consumers' favour and thereby upped the ante. Companies would now have to get serious about integrating their *emotional* value proposition into everything they did. The **empathic innovation of professional designers** would be essential to this effort. A 1998 article in *Harvard Business Review* gave a name to the nascent shift: "the experience

economy".

One year into Covid and counting, however, **some are questioning** whether the experience economy is still viable. Do branded experiences have a future in the hermetic age of lockdown? Tim Kobe, founder and CEO of strategic and experience design firm **Eight Inc.**, argues – perhaps unsurprisingly but persuasively nonetheless – that they very much do. Referring to Abraham Maslow's famous **hierarchy of needs**, he told me in a recent episode of the INSEAD Knowledge podcast, "With this time, we've sort of gone beyond the physiological needs that we have ... People are looking for some of those needs that are fulfilled at a higher level in the pyramid, and that's the belonging, connectivity to people, self-esteem."

Yet in Kobe's experience, transitioning to the experience economy raises resistance in most established companies. Corporate leaders are uncomfortable reconfiguring so much of their business around something as fickle and unquantifiable as human emotion. That's why he and **Roger Lehman**, a trained psychoanalyst, wrote **Return on Experience**, a monograph that alternates full-colour imagery of Eight Inc.'s most iconic projects with Q&A-style chapters exploring how and why great experiences improve business outcomes. Kobe and Lehman also delve into themes such as risk, complexity and empathy that are central to the

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experience economy.

Steve Jobs's appetite for risk

Eight Inc. is still best known for designing the original concept behind Apple's retail shops. Eight Inc.'s direct collaboration with Steve Jobs lasted from the late 1990s, with Jobs freshly returned to the CEO role at the company he co-founded, until the intensification of his illness in 2011.

As the first Apple Store (in McLean, VA) prepared to open, it was widely believed that Jobs was taking too big a risk. Apple's share of the computer market was only two percent at the time; mainstream opinion on Wall Street held that Apple's money would be better spent keeping shareholders happy through dividends. Even Jobs himself, a man known for unflinching self-belief, wasn't deaf to the detractors. Kobe tells how Jobs, perched on a table in the pilot store just hours before its grand opening, mused aloud, "Guys, what happens if nobody comes tomorrow?"

But Jobs was able to compartmentalise his jitters, boldly pressing ahead with a design for Apple's pioneering 5th Avenue store in NYC that defied all retail best practices. "It was in a basement, former car park. It had no product display in the window. And it was open 24 hours a day. Those were all fundamental faux pas if you're looking at conventional retail practice," Kobe said. The goal was not differentiation for its own sake, but to create an environmental experience that authentically reflected (and helped define for the public) Apple's core brand values: accessibility, openness, possibility, human connection, technological innovation. Of course, Jobs was on to something. A 2014 study showed that Apple stores were the most profitable in the US retail space, netting an annual **US\$4551** in sales per square foot.

Companies can pivot to experience even if they don't have the vision of a Steve Jobs, as long as they're willing to look at themselves through customers' eyes. Kobe tells the story of Globe Telecom, a Philippines-based client that had fallen into the best-practices trap – trying to do the same thing as their competitors, only better. To shake things up, Kobe suggested to Globe executives that their company was not a telco at all but rather part of the entertainment industry. "You just happen to sell pipes to fulfil the entertainment. Why don't we focus on the things people actually care about? People care about the emotion that comes from the entertainment you create," Kobe recalled himself saying. Once leaders warmed to the new strategic direction, they diversified the company's offerings to include music, television and theatrical production. Since the reinvention, Globe went from 23 percent market share to 56 percent in the

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Philippines.

Risk and relatedness

In both *Return on Experience* and the podcast conversation about the book, Lehman's commentary adds an intimate knowledge of what makes organisations tick – or, in academic parlance, a "systems psychodynamic perspective". Lehman observed that the risks of entering the experience economy touch off "social defences" that organisations develop in order to protect themselves from threat, similar to the psychological defence mechanisms we employ as individuals to preserve our ego.

"If you're not aware of those social defences in your organisation, you're going to be blocked. People are not going to be able to move into that risk because of the fear or the threat. So the role of a leader is to be able to recognise, acknowledge and discuss the risk," like Jobs sitting on the table in the first Apple Store. "Be aware of the risk, take it into consideration, don't deny it, but don't become frightened and withdraw from it," Lehman advised.

In Lehman's view, moving into the experience economy also requires understanding the conceptual difference between "relatedness" and "relationship". Relatedness refers to the transactional, instrumental purposes that bring people together. For example, Lehman mentioned a certain grocery store near his house in France that he'll sometimes stop into if he's passing by and needs a carton of milk. The general disinterest of the staff, the confusing layout – everything about the uninviting atmosphere leads Lehman to think, "I just got to get out of this place. Get my milk as quickly as I can and go."

"Whether it's a car dealership, an Apple Store or a local grocery, we are always in an 'experiencing' state," Lehman argues. "It might be unconscious, but we register and respond either positively or negatively to those experiential moments."

As luck would have it, a market just opened in Lehman's neighbourhood with a much more intuitive spatial design and employees who were only too happy to help him find his beloved but elusive cottage cheese. This new store provides an experience that evokes a sense of relationship, or "human interaction, as well as this feeling that this organisation, in my example, this grocery store, somehow presents itself in a way that resonates with me, that I feel comfortable, I feel engaged".

Experience starts from within

According to Lehman, a firm's primary relationship is with its own employees. "I don't think there are

many organisations that are successful with their customers but not with their employees,” he said. Recently, an executive told Lehman she was approached for a mental-health conversation by someone who wasn’t one of her direct reports. When the executive asked the employee why she didn’t speak to her own boss, she replied that she had. After one minute of listening to his team member talk about her struggles with Covid-related stress, the boss interjected, “Well, I’m glad you got that off your chest, now let’s get back to work.”

“I don’t believe there’s a person on this planet who hasn’t experienced some sort of loss in the past year or 15 months,” Lehman said. “I think loss is really important for us to acknowledge and discuss. If we don’t, it hinders us from continuing our emotional journey.”

Roger Lehman is an Emeritus Senior Affiliate Professor of Entrepreneurship and Family Enterprise at INSEAD and a programme director of the **Executive Master in Change**, an executive degree programme at INSEAD.

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