



## Experience innovation

Co-creating value with users

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Mikko Rask | Petteri Repo | Päivi Timonen





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## **Experience Innovation**

Co-creating value with users

[Elämysinnovaatio – arvon luominen yhdessä käyttäjien kanssa]. **Juha Oksanen, Minna Lammi, Torsti Loikkanen, Mikko Rask, Petteri Repo, Päivi Timonen**. Espoo 2012. VTT Technology 38. 49 p.

## **Abstract**

This report documents results of a study focusing on linkages between innovation, the experience economy, and society. At the heart of the study is the challenge to understand the factors and mechanisms that are critical for the development of new product and service concepts with an experience dimension across different sectors. In addition, specific attention is paid to ways in which users are engaged in co-creation of experiences and also in innovation activities and the development of new offerings in the context of the experience economy.

Based on a literature review, the study provides an overview of the development of the experience economy as a phenomenon and outlines a definition of the concept of innovation that is compatible with the specific characteristics of experiences as intangible and highly individual factors. The approach adopted from the outset underlines the need to broaden the prevailing perspective on experience and innovation. Accordingly, the study does not focus on extreme, high-arousal experiences or innovation in narrowly defined creative industries, but rather the role that intangible experiences, high and low, play in new offerings across sectors, and how experiences are taken into account in the development of different types of offerings.

The study introduces a new typology that enables the mapping and visualisation of experience innovation on two dimensions: one describing the intensity of participation in experience, and the other the context dedicated to the experience. The typology is applied and elaborated in four cases. Furthermore, four case studies are reported to highlight issues related to experience innovation and co-creation from a company perspective. Analysis of the latter-mentioned cases results in an indicative checklist of questions to consider when a company is looking for ways to integrate experience, facilitating elements and settings in new offerings.

### **Keywords**

Experience, innovation, value creation, co-creation

## Elämysinnovaatio

Arvon luominen yhdessä käyttäjien kanssa

[Experience innovation – Co-creating value with users]. **Juha Oksanen, Minna Lammi, Torsti Loikkanen, Mikko Rask, Petteri Repo, Päivi Timonen.** Espoo 2012. VTT Technology 38. 49 s.

## Tiivistelmä

Tämä julkaisu perustuu VTT:n ja Kuluttajatutkimuskeskuksen yhdessä toteuttamaan elämysinnovaatioita ja elämystaloutta koskeneeseen tutkimushankkeeseen. Tutkimuksen innoittajana on ollut pyrkimys tunnistaa, nostaa esiin ja ymmärtää olennaisia elämyksellisiin tuote- ja palvelukonsepteihin sekä niiden kehittämiseen liittyviä tekijöitä ja mekanismeja. Tässä yhteydessä huomiota on kiinnitetty erityisesti siihen, kuinka käyttäjät osallistuvat ja kuinka heitä voidaan osallistaa elämysten yhdessä luomiseen ja uuden tarjoaman kehittämiseen taloudessa, jossa aineettomilla tekijöillä on entistä suurempi rooli.

Kirjallisuuskatsaukseen perustuen julkaisussa kuvataan lyhyesti elämystaloutteen ja sen nousuun liitettyjä erityispiirteitä. Tekstissä hahmotellaan myös innovaatio-käsitteen määritelmää, joka ottaa huomioon elämysten aineettomuuden ja elämysten kokemiseen liittyvät yksilölliset tekijät. Yhtenä keskeisenä lähtökohtana tutkimuksessa on ollut laajentaa vallitsevaa näkökulmaa elämyksiin ja innovaatioihin – hiukan kärjistäen voidaan sanoa, että elämys on tyypillisesti ymmärretty lähinnä vahvoja tunteita herättävänä kokemuksena kun taas innovaatio on nähty markkinoilla saatavilla olevana uutuustuotteena. Vastakohtana edellä mainituille, tutkimuksen keskiössä eivät ole niinkään äärimmäiset, oletusarvoisesti voimakkaita kokemuksia herättävät elämykset tai innovaatiot kapeasti rajatussa ”luovien toimialojen” kontekstissa, vaan aineettoman kokemuksen rooli yleisemmin osana uutta tarjoamaa eri sektoreilla sekä elämysulottuvuuden ja yhdessä luomisen rooli kehitettäessä uusia elämyksellisiä tuotteita ja palveluita.

Julkaisussa esitellään hankkeen aikana kehitelty typologia, jonka avulla elämysinnovaatioita voidaan luokitella kahden ulottuvuuden suhteen; yhtäältä elämyksen voimakkuuden, intensiteetin ja toisaalta elämyksen kokemisympäristön, kontekstin mukaan. Luokittelua sovelletaan sekä käyttäjän ja kuluttajan näkökulmaa luotaavissa tapaustutkimuksissa että enemmän yritysten näkökulmasta aihetta lähestyvissä case-kuvauksissa. Tapausesimerkkien pohjalta on muodostettu muistilista yrityksille, jotka ovat kiinnostuneet löytämään tapoja yhdistää elämyksiä mahdollistavia elementtejä ja puitteita uusiin tuotteisiin ja palveluihin.

**Avainsanat** Experience, innovation, value creation, co-creation

## Preface

This report is about innovation and innovation policy in the context of the emerging experience economy. The study was carried out by VTT Technical Research Centre of Finland (VTT) and the National Consumer Research Centre of Finland (NCRC). The study considers (1) the characteristics and basic mechanisms of the experience economy as a phenomenon, (2) the experience dimensions of innovations and “experience innovations”, (3) the consequences of investments in experience dimension for competitiveness of firms, and (4) the broader societal impacts of the emerging experience economy. Furthermore, an objective of the study has been to examine the role of users, consumers and customers in development of new offerings, using more or less consciously the experience dimension.

The interaction between researchers of VTT and the National Consumer Research Centre has been intellectually inspiring and has enriched the report. We have also benefited from discussions with a number of people during the project. Particularly, we would like to thank Jon Sundbo, Dany Jacobs and Wolfgang Polt for sharing with us their inspiring views and expertise on innovation and experience economy. We are also very much indebted to the case company representatives we had the opportunity to interview during the course of the project. Thanks to the cases, we were able to reflect in real world settings upon theoretical ideas brought forward in the literature.

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# **1. Introduction – Characteristics and mechanisms of the experience economy**

This report sums up the key messages and recommendations of the study on experience innovation carried out by a research team consisting of researchers from the VTT Technical Research Centre of Finland (VTT) and the National Consumer Research Centre of Finland (NCRC).

At its core, the study concerns the role of innovation and innovation policy in the context of the emerging experience economy. The experience economy is a new phase in economic development and can be understood as the latest step in the development of economies from primary production to industrial manufacturing and further from the manufacturing phase, via service economy, towards an economy in which economic activities and value are increasingly based on intangibles and co-creation. This shift, driven by knowledge and innovations, forms a general context for understanding the nature of the emerging experience economy, and it also gives a context for related policy analysis.

The relevance of the experience economy in economic and innovation policy-making arises from the growing importance of experience-related economic activities in the national economy. Experience industries are among the fastest growing industries, and industries where experience is a core product count for 8–12% of GNP and employment. Moreover, experiences are sold as additions to goods and services. The values of these additions are, however, unknown because they are not measured in economic terms (Sundbo and Darmer 2008). Estimations of the economic importance of creative industries are available, for example, from the UK. The definition and business areas of creative industries differ from the experience economy, but several areas are overlapping and hence UK figures are also indicative with respect to the experience economy. Creative industries accounted for 7.9% of GDP in 2000 in the UK. Exports of creative industries contributed £8.7 billion to the balance of trade in 2000, equating to 3.3% of all goods and services exported (Creative Industries Fact File, UK, 2002).

The main hypotheses of this study are that the diversification of the economy towards an experience economy presents new business and employment opportunities and that a proactive innovation-driven approach plays a critical role in reaping the benefits of arising experience businesses. Accordingly and tentatively, the development towards an experience economy should be taken into account in

innovation policy making. We consider briefly the needs and possible measures of such policy-making in the concluding chapter of the study.

Researchers have been investigating technological innovation and the innovation process in manufacturing for decades. However, what have deserved less attention are non-technical innovations and the non-technical aspects of innovation (Jacobs, 2007). To shed light on issues less visible in the innovation literature, we have analysed specificities of innovation processes in the experience economy. At the heart of our approach is the challenge of understanding the factors and mechanisms that are critical for the development of such new offerings across industries that facilitate co-creation of experiences for individual users.

The key questions addressed in the report are as follows: (1) What are the characteristics and basic mechanisms of the experience economy as a phenomenon; (2) What is the experience dimension in new offerings, that is, in innovation; (3) Does investment in experience-related innovation lead to a competitive advantage for firms and how does this take place; and (4) What are the broader societal impacts of emerging experience economy.

The main interest in this study is not in narrowly defined creative industries as such, but rather in the role of intangible experiences across sectors and offerings, that is, whether and how companies active in different sectors can benefit from experience and innovate accordingly. In the conclusions, the role of innovation policy in the promotion of companies, to gain from dimensions related to experiences, is also approached from this more generic perspective.

The explorative nature of this study is reflected in the structure of the report. Starting from a shared base on the experience economy, the consumer-oriented NCRC research team progressed to expand on the high arousal focus on innovation experiences – making a case for the development of low-arousal experiences and discussing the settings for experiences.

The business-oriented VTT research team proceeded to look at experiences as a competitive factor for businesses, once again highlighting the importance of the relationship between consumers and businesses when developing innovations. A checklist noting issues to be covered when businesses involve users in experience innovation is presented as an outcome of the analysis. The concluding section of this report brings together learning points from both strands of research and suggests ways to approach experiences in innovation.

## 2. Conceptual perspectives on experience innovation

To start with, we clarify our understanding of the two key terms of this study, 'innovation' and 'experience', as both words are used with a high variety of meanings in different contexts. In this report, innovation is understood in broad terms as "*something new with added value*" (Jacobs 2007, 32 italics added). The definition includes two crucial elements characterising innovation, namely (1) some sort of newness (in time, in context of use etc.) in comparison to the existing supply, and (2) expectation of some additional value by users. In practice, the latter point means that success or failure of innovation depends substantially on the potential users' assessment of the value of the innovation – in other words, success is not inscribed into the concept of innovation. The definition put forward by Jacobs (ibid.) does not restrict us to a certain category of innovation but enables us to include all types of innovation (technical, non-technical, product, service, marketing, design, experience etc.)

In the case of the term 'experience', we follow Sundbo (2009a), according to whom "experience is a mental (emotional) product, (...) a process in the mind of the receiver". Consequently, he defines "experience as a mental journey which leaves something immaterial – a memory or a sensation". Experience appears differently in different sectors. It is a core activity in primary experience sectors such as tourism and the hospitality industry, the PC and console game industry, sports and theatre, to name a few. The role of experience in businesses is not limited to the primary experience sectors, though. In principle, experience can be an important element or add-on in products and services in all business sectors. So far, however, discussion on experience has centred on those sectors in which provision of frameworks for experiences is more or less the core of the business. In our opinion, the discussion has also been biased towards momentary, hedonistic pleasures marked by extraordinary and high-arousal sensations, whereas analysing the role of experience in people's everyday activities or as part of a firm offering across industries has been in the background (cf. Sundbo 2009b also Helkkula 2010, 21).

By combining the above said, experience innovation is used here to shed light on those dimensions of a new product – including here goods, services, and concepts – and user-product interaction that make it meaningful for a user. Furthermore, the term draws attention to requirements which experience places on R&D, product development and design when considered seriously in the innovation process. By focusing on the experience dimension, we on the one hand intentionally draw attention to intangible aspects in company offerings and on the other to the role of user(s) in value creation. These aspects have remained, until recently, on the periphery in the innovation literature, which has traditionally been interested in the “supply side”, that is, in the activities of a firm, networks or an individual innovator in the innovation process and the creation of new offerings.

Value and value creation are other critical concepts when exploring the role of experience in new offerings. Boztepe (2007a, 515) provides a good working definition for the value of a product, which according to her refers to “the practical or symbolic result created through user-product interaction, where a product’s value pertains to the experiences associated with that product”. The definition highlights “users’ experiences with the product, observed consequences provided by the interaction with the product, and users’ subjective interpretations what constitutes value” (Boztepe 2005, 3). From this perspective, it is also obvious that value is co-created in a specific socio-cultural context, or as expressed by Boztepe (2007b, 58), value “arises from interaction between user and product within a particular socio-cultural setting”.

The definition above draws attention to those facets of value and value creation that, to large extent, have been neglected in product and manufacturing centred theories, highlighting the significance of exchange value. Recently, particularly in service science, the literature has criticised production and product-focused theories for not being able to recognise and account for the role of customers and users in value creation. For instance, Vargo and Lusch (2004a, 2004b, and 2008) have argued that the traditional goods-dominant logic tends to fail to recognise that customers are always involved in the creation of value. In contrast to this, Vargo and Lusch stress that customers have an important role to play in value creation. At the same time it is worth keeping in mind that businesses also significantly contribute and “change the customers’ opportunities to co-create value” by making value propositions (Sandström et al. 2008, 114).

Indeed, in order to find new ways of achieving added value, companies are increasingly complementing their traditional product and service-focused offerings with an experience dimension. This does not take place only in sectors like design, tourism, leisure and fashion. Leading-edge companies in maturing growth markets, such as telecoms, consumer electronics or automotives, are becoming seriously aware that their competitive advantage lies increasingly in their ability to provide and combine intangible elements into their existing offerings, form touch-points for interaction with customers, and in this way offer users of products and services opportunities for meaningful experiences.

## 2.1 Data and methodology

The study is explorative and qualitative in its approach, while building on three distinct but complementary sources of information: a literature review, case studies, and a survey. A review of existing literature was carried out by the whole research team in a desktop study phase. Based on the literature and insights from prior studies, an experience typology for mapping of experience innovation was constructed. The typology will be presented more in detail in Chapter 3.

In the case studies, we advanced along two lines – one addressing more in detail user and consumer views on experiences, and another the company perspective on development and the provision of frameworks supporting experience and value-creation. Respectively, the data for the case studies comes from two different sources. The first four cases highlighting the consumer viewpoint are based on prior work and were analysed anew from an experience point of view, while the material for company-focused cases was collected during the research process by interviewing company representatives and gathering and analysing publicly available material. When selecting the cases, we relied on our understanding, bearing in mind the two central factors of the experience typology (context and intensity of experience) and variety. A range of cases is used to illuminate the subject of the study from various angles. At the same time, the common challenges of the case study approach apply when it comes to representativeness of individual instances or a tendency to select successful rather than less successful or even failing cases, to examine the phenomenon in focus.

A literature review, case studies and an example of a Danish survey targeting experience industries allowed us to design a pilot survey to probe for the experience dimension in new company offerings introduced to the market recently. The sample consisted of a randomised selection of company exhibitors ( $n = 219$ ) in four general and trade fairs organised at Helsinki Fair Centre in early 2009. The survey had two goals: to provide complementary data highlighting company perspective and to design and test new questions, taking into account the special characteristics of experience and what it means for company innovation processes. The survey was carried out in March-April 2010 using a browser-based software tool for data collection.

Because of the low response rate of the survey, its results have, however, had limited value in the analysis. The low percentage of responses may reflect problems either in the questions on the questionnaire, in definitions of the sample, or in both. Already, the case study interviews suggested that experience and its connection to a company's concrete offering can be difficult to grasp. In an interactive interview situation, the interviewer has at least an opportunity to try to reformulate an idea or question so that it becomes understandable to the interviewee. In the case of a survey, a comparable opportunity is not available if the topic, questions or reply options are incomprehensible after reading through the accompanying text. It is also possible that a seed of failure for the survey was planted in our decision to form the sample from exhibitors at the selected fairs. At first sight, this

seemed an attractive option to get in touch with companies with new offerings to offer to the market. In practice, however, there is a large amount of screening needed before the exhibitor lists are useful as a survey sample with correct contact points and information; the lists have to be cleaned because a large number of companies participating in fairs are actually importers and retailers, or agents of foreign principals or foreign firms without a permanent location in Finland. Even for domestic companies with a developed new offering, the availability of contact information is not guaranteed.

## **2.2 Different meanings of the experience economy**

This chapter gives an overview of the various perspectives of the development of the experience economy and innovation in the literature. As Sundbo and Darmer (2008) accentuate, the experience economy is a multidisciplinary issue, consisting among other things of organisational and managerial aspects. Because the topic is broad, the literature also spans from innovation research to business economics, consumer research, marketing and management research, and design, to research on arts and entertainment, tourism and other types of leisure-time research. Various contributions in different disciplines shed light on activities of commercial business organisations as they pay increasing attention to experiences as a way "to engage customers, to create and support brands and to differentiate themselves from the competition" (Edvarsson et al 2007, 170, see also Voss 2003, 26).

Alanen (2007) provides a good starting point for a review of origins of the experience economy concept in the literature. He distinguishes between three different approaches in research, in which "experience plays an exceptionally important role along with purely utilitarian properties" and classifies relevant studies on the basis of their cultural home base. A continental European strand of research examines the issue from a societal perspective with a strong German accent. The American research tradition is associated more with branding and has close linkages to the idea of business potential, while research that has emerged in the Nordic countries during the last ten years is, according to Alanen (*ibid.*), a combination of the first two approaches, focusing on "how experiences are produced and how contexts or frameworks are created for them". In our view, the latter label could also include research on experiences made in the Netherlands which has been growing in recent years (e.g. Boswijk et al 2007, Jacobs 2007).

Parallel to Alanen, Bille (2010) pays attention to the co-existence of different approaches and theories in the Nordic discussion on the concept of the experience economy. She traces the roots of the current concept back to three different theoretical sources focusing respectively on 1) experiences as a source of value creation for companies; 2) creative industries and their economic size and growth rates; and 3) research on creative class and the importance of creativity in economic development. In the opinion of Bille (*ibid.*), the current understanding of the experience economy in the Nordic countries is a mix of these various approaches.



She argues further that the constituent words of the concept – experience and economy –do not lend themselves to clear definitions and many definitions prevail for both in discussion about the experience economy. Moreover, Bille notes that the ambiguous concept embraces quite different kinds of markets in which value creation takes place in very different ways and that only some experience markets are growing significantly in comparison to growth in overall consumption. Notwithstanding these critical issues raised by Bille, we argue that the Nordic discussion has managed to bring forth certain important aspects of the economy in which experiences contribute to growth opportunities not just in industries which offer experiences as their primary products, but also as an add-on for goods and services in other industries as well.

In Finland, the experience economy has been studied so far mainly in the context of tourism. The Lapland Centre of Expertise for the Experience Industry and the University of Lapland have, in fact, introduced the concept to the domestic discussion and tourism business, as well as pioneering the development of training and management applications inspired by ideas of the experience economy. The Lapland Centre of Expertise for the Experience Industry's view on the phenomenon is crystallised in the Experience Pyramid, which is a practical tool to analyse, understand and enhance the experience-based elements of a product covering both customer experience and elements of the product (Tarssanen & Kylänen 2005).

## **2.3 A short history of the experience economy concept**

The traces of discussion about an 'experience turn' in culture and society can be dated back into the 1950s, 1960 and 1970s — if not even further back in history. Arguably, marketing people and companies, trying to reach selected groups of consumers, have been acutely aware of the significance of meaning and experiences attached to products and services, as well as of the need to frame offerings so that they match existing patterns of differently favoured experiences. In fact, Morris B. Holbrook (2006, 715), who is one of the inventors of the experiential approach in consumer research, argues that there is a distinguishable lineage all the way to the ideas of Adam Smith and Alfred Marshall, in the early twentieth and in the eighteenth century, respectively.

### **2.3.1 The growth of income and welfare as drivers of the experience economy**

Closer to the present day, Alvin Toffler, in his book *Future Shock* (1970), predicted that the accelerating pace of socio-economic and technological change would be accompanied with a deep-going cultural shift emphasising the significance of experiences and their production. According to Toffler, as "man's elemental material needs" are increasingly satisfied, "more sophisticated gratifications" draw peo-

ple's attention, leading to an economy characterised by "psychologization" and the emergence of "experience industries" with new types of professionals engineering and designing experience production (ibid. 229–236). In the business research, Morris B. Holbrook and Beth Hirschman (1982) drew attention to emotional experiences linked to products and services. Dissatisfied with existing theories and perspectives on consumer decision-making, they developed, in the early 1980s, an approach focusing on "the "three Fs", or "fantasies (dreams, imagination, unconscious desires); feelings (emotions such as love, hate, anger, fear, joy, sorrow); and fun (hedonic pleasure derived from playful activities or aesthetic enjoyment) as key aspects of the consumption experience" (Holbrook 2006, 714–715).

Gerhard Schulze, a German sociologist, introduced the term 'experience society' in his study *Die Erlebnisgesellschaft – Kultursoziologie der Gegenwart* in 1993. Since its publication, Schulze's book has had a clear impact on the discussion on ongoing cultural transition characterised by the search for experiences. A main argument of the book concerns the changes in value perceptions, as Schulze argues that *Erlebnenswert* (experience value) is replacing use and monetary values in significance as a consequence of growing prosperity. This change simultaneously creates a new expanding market for experiences. In his foreword to the 2005 edition of the book, Schulze considers the central argument of the original edition to be still valid and, in his opinion, development towards the experience society is on its way (in Germany) – despite increased unemployment, global competition for the location of company activities, and reforms made in long-term unemployment and welfare benefits in recent years.

### **2.3.2 The advent of experience in marketing**

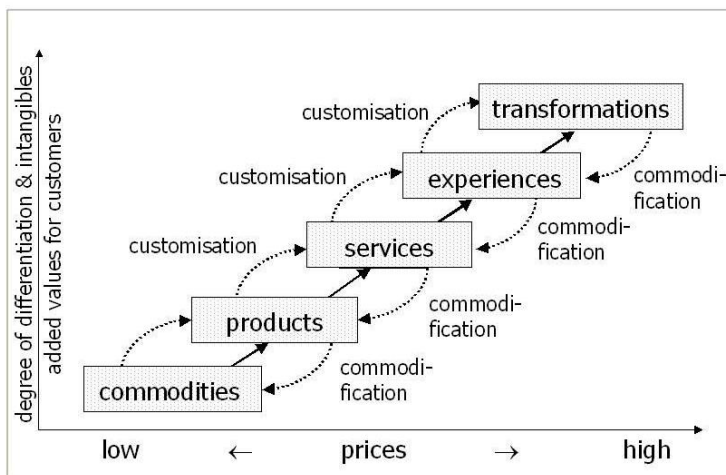
Parallel observations concerning the perceived value of experiences by consumers have been made in the field of marketing and management research. At about the same time as Schulze, Faith Popcorn, an American marketing figure, published *The Popcorn Report* (1992), in which she foresees a trend in people's behaviour towards what she calls a 'fantasy adventure' characterised by "a momentary, wild-and-crazy retreat from the world into an exotic flavour". According to Holtorf (2006, 163), Popcorn's central idea underlines the increasing significance of those aspects of offerings that link "the safe and familiar with adventurous, exotic or sensual twists" – that is, a product's appeal springs from a successful combination of familiar and adventurous elements.

Overall, experience as a key term was gaining ground in various management research disciplines during the 1990s. For instance, experiential marketing and brand experience raised attention within marketing research internationally and in Finland.

### 2.3.3 The rise of the experience dimension onto the business agenda

It was Joseph Pine and James Gilmore's book *Experience Economy: Work is a Theatre and Every Business a Stage*, published in 1999, which made the experience economy a fashionable term among the wider audience. As shown above, Pine and Gilmore were not the first to come up with the central ideas of the new type of economy, emphasising the role of intangibles and experiences. They, however, succeeded in providing an easy to adopt description about an experience-driven economy with strong linkages to marketing and brand development. To a large extent, their key argument is similar to ideas presented earlier, for instance by Schulze, even if with an American focus and flavour.

Pine and Gilmore (1999) emphasise that economists have typically connected the experience dimension only to services, but not manufacturing industries. They argue that experiences, in fact, constitute a distinct economic offering, which by their essence differ both from services and from goods, and also involve a higher degree of differentiation and intangibles, as can be seen in Figure 1 below.



**Figure 1.** Economic development from commodities to experiences and transformations, and its impact on prices and customer value according to Pine and Gilmore (Jacobs 2007, 39).

The key elements in Pine and Gilmore's thinking is succinctly summarised by Jacobs (2007, 39):

*“The more an economy develops, Pine and Gilmore (1999) state, the more it includes economic activities in upper right corner of the diagram. In other words, economic activities become less tangible, but as a rule their added value increases. A normal product or service may be consumed and forgotten rapidly whereas*

*a nicely designed product is cherished, get everybody's attention, and may commit a higher price. "While commodities are fungible, goods tangible, and services intangible, experiences are memorable", i.e. a special experience is not easily forgotten, while with transformations – enabled for example by education, a more healthy lifestyle, coaching activities, aesthetic surgery - the consumers themselves are transformed and in this way to become the product of the process themselves. The result of this transformation - added value – as a rule is not taken away that easily."*

Furthermore, Jacobs notes that progression of economic value, as described by Pine and Gilmore, is observable in many industries.

#### **2.3.4 Emergence of the experience business**

Pine and Gilmore (ibid.) consider the experience economy as a new stage in the economic and business offering, which is characterised by producing, marketing and selling mass-customised goods and services. The experience industry is rapidly turning into an important business area, as companies are looking for new sources of added value in their economic offering (see Figure 1). Furthermore, digital information and communication technologies have increasingly become a means of production and delivery for experiences. In the words of Pine and Gilmore (1999), an experience occurs when a company uses services as the stage – and goods as props – for engaging individuals in a way that creates a memorable event.

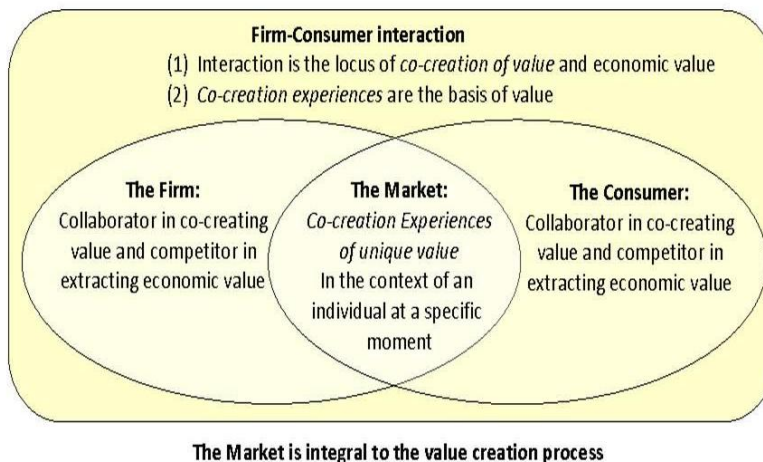
#### **2.3.5 Products as storytellers and the attention economy**

Rolf Jensen's book *The Dream Society: How the Coming Shift from Information to Imagination Will Transform Your Business* (1999) introduced a new dimension to the discussion of experiences. According to Jensen, at that time director of the Copenhagen Institute for Future Studies, consumers are nowadays increasingly buying stories along with products. He argues that in the contemporary consumer culture, people tell stories through the products they buy. He also foresees a shift in value propositions from a product's content or utility value towards a situation in which a product is rather an embodiment of the story to be told.

In the "attention economy" (Davenport and Beck 2001), the attention of consumers becomes a scarce resource for which companies compete. As a consequence, suppliers wage a competitive battle for a strong and recognisable position in the minds of their customers (Ries and Trout, 1986; Jacobs 2007). Even more publicity specialists and consultants are racking their brains to find new, surprising ways of catching consumers' attention, for example through guerrilla marketing, buzz marketing, and publicity (Jacobs 2007).

### 2.3.6 Co-creation of experiences by firms and consumers

According to Prahalad and Ramaswamy (2004), Pine and Gilmore's book on the experience economy managed to draw attention to the consumer experience, but their approach was still company-centric and, as a consequence, the role of consumers remained rather passive. Prahalad and Ramaswamy (ibid.) develop an interactive model of firms and consumers where experiences are essentially a result of joint action: co-creation between firms and consumers (Figure 2. below). Co-creation of consumer-company interaction is the locus of value creation. However, experience does not refer here to any special emotional dimensions, but rather just to experience (e.g. of patients) that should be integrated in co-creation between firms and consumers.



**Figure 2.** Co-creation of consumers and company interaction in the market (Prahalad and Ramaswamy, 2004).

### 2.3.7 The experience economy in different research traditions: a summary of the literature

Among the main trends in the literature is a shift from manufacturing towards the services and manufacturing plus services business models; a shift from a tangible production mode towards ICT and knowledge-driven intangibles and an immaterial production mode, a knowledge economy; a shift from standardised mass products to customised, tailor-made and personalised products; a shift from supply-driven products towards demand-driven products in which “users are producers and producers are users” in co-creation. In conclusion, the ongoing shift as understood in the literature is taking place from the fulfilling of physical needs to the fulfilling of

mental and emotional needs, and a transformation from supply-driven to demand-driven, as described in Table 1 below (Boswijk et al., 2007).

**Table 1.** The shift from the fulfilling of physical needs to the fulfilling of mental and emotional needs, and the transformation from supply-driven to demand-driven approaches, and contributing schools of thought (Boswijk et al., 2007).

Phase	Supply-driven	Refined supply-driven	Supply-driven and demand-driven	Demand-driven and supply-driven	Demand-driven
<i>Dominant logic</i>	Mass production	Mass customization	Co-creation	Support Economy	Communicative self-creation
<i>Characteristics</i>	Large-scale uniform production aimed at economies of scale	Large-scale modular production aimed at economies of scale and at a limited choice for the customer; Staging and scripting	Manufacturer and consumer spend time together; the focus is on the commercial co-creation of experience	Federations of offering parties form a support network and respond to the demand	The individual shapes his life, together with others and looks for meaningful experiences that will guide his life meaning and substance
<i>Representatives of this school</i>	Traditional economists, e.g. Smith and Keynes	Pine & Gilmore	Prahalad & Ramaswamy	Zuboff	Boswijk, Thijssen & Peelen

In conclusion, along with a growing interest in the experience dimension as a phenomenon, an increasing volume of studies focusing explicitly on experience as a central element of value creation have been published in recent years. In this study, we rely particularly on views developed by Pine and Gilmore (1999) on the experience economy, as well as on insights by Prahalad and Ramaswamy (2003; 2004) on co-creation of experiences in a framework of experience environments. We particularly look for experiences relating to people's everyday practices and such forms of innovation that let users participate in the innovation process. We believe our approach can reveal something about experiences and experience innovations that, in our minds, have received too little attention - and therefore also uncover new experience business potential.

### 3. Experience dimensions of innovation

Among the starting points and preliminary hypotheses of the research team was the notion that debates about experience innovations tend too often to focus on extreme experiences that take place when people participate in an adventure safari, go to an amusement park, or play highly stimulating internet games. On the basis of earlier studies, and in order to pay attention to different and more neglected types of experiences innovation, a typology was constructed, with case-study-based learning in mind. The typology used in our case studies is presented in Figure 3 below and has been published in Timonen et al. (2009).

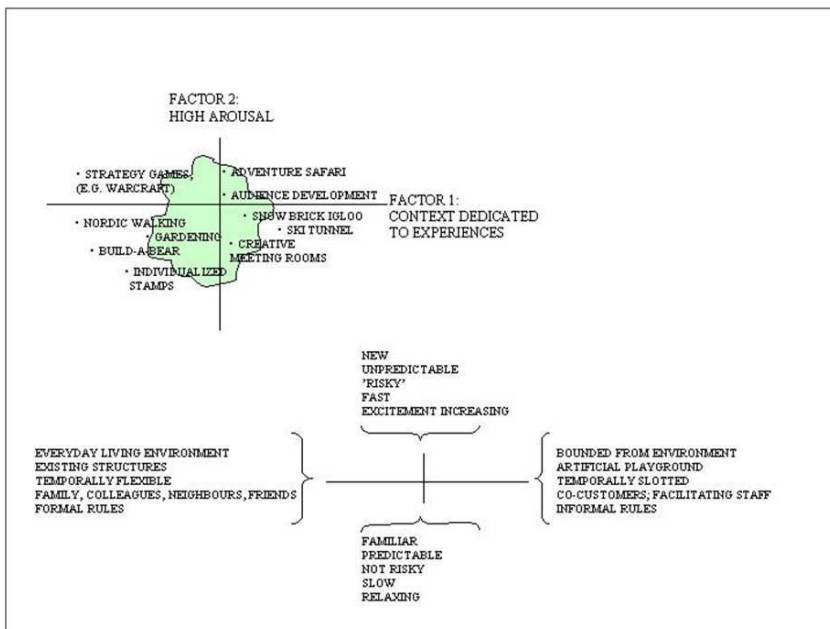


Figure 3. Typology of experience innovations.

Figure 3 incorporates two dimensions. First, there is the intensity of participation in the experience. Intensity relates to newness, unpredictability, risk, excitement, uncontrollability, and other ‘fear factors’ known from psychological studies (see e.g., Slovic et al. 2001; Cornelius 1996). The other dimension is the context dedicated to the experience. This relates to the stage for the experience. A dedicated stage is artificial, is bounded from the environment, is temporally slotted, and bears formal scripts. An amusement park serves as good example of such a stage (cf. Pine & Gilmore 1999).

The typology presented above was constructed on the basis of theoretical distinctions, and its relevance was tested by incorporating classic examples of experience innovations from the literature and from a series of research presentations in the Nordic Conference on Experience, which was held in Vaasa, Finland, in 2008.

On the way to elaborate and test our argument that high-arousal experiences perhaps receive too much attention in experience innovations, and that this is unfortunate as low-arousal experiences could be at least as important from the perspective of business potential, we explored case studies carried out within the field of leisure to bring in and exemplify lessons from the domains of consumer studies and user involvement in product development. The relevant case studies are indicated in Figure 4 below.

<b>Non-Dedicated Context</b> *everyday living environment	<b>High Arousal</b> *new & unpredictable		<b>Dedicated context</b> *bounded & artificial
	Mobile video	Amusement park	
	Nordic walking	Ski tunnel	
	<b>Low Arousal</b> *familiar & predictable		

**Figure 4.** Toward an increasing focus on low-arousal and everyday experiences.

We next elaborate on the typology by reporting first four case studies. We use the case of high-arousal and contextually dedicated amusement parks as a starting point for extending the notion of experience development to other domains. Amusement parks are in many ways forerunners in experience creation and are often mentioned in the literature discussing the experience economy. The contrasting three case studies, which focus on the development of a ski tunnel, mobile video and Nordic walking, have been carried out at the National Consumer Research Centre. These cases show how experiences can be developed in less dedicated contexts and with less intended arousal. They allow for more user crea-



tivity and repetition of experiences. All the cases involve experience creation in which both firms and users have participated.

### 3.1 High and low-arousal innovation cases

#### 3.1.1 The amusement park

The amusement park has a history of several centuries, from European outdoor amusement centres and gardens to the currently predominant American amusement or theme park variant. During its modern history, the amusement park industry has been renowned for its innovativeness. Every new season brings with it new rides, carousels or shows. Novelty and excess are essential features of the industry. It lives up well to its heritage, which is closely linked to the entertainment industry (Clavé 2007; Samuelson & Yegoiants 2001).

The amusement park case represents the development of a dedicated setting for high-arousal experiences and, accordingly, a hedonistic way of consumption. Although visitors experience the amusement park personally or co-experience it together with companions, they are expected to perform according to a script and within the given setting. In other words, the features of the park are central when providing experiences.



**Figure 5.** A ride in an amusement park (©Petteri Repo).

This case shows that experiences can be created for great numbers of people within dedicated contexts. Such experiences are carefully scripted and can offer high-arousal experiences. Experience development is provider-led.

### 3.1.2 Ski tunnel

The world's first ski tunnel was built in Vuokatti in Finland in 1997, to provide stable training conditions for competition skiers. It is open during the summer season and during winter when outdoor conditions are too cold for skiers. The track profile of the tunnel was designed to be demanding to suit athletes.

The Finnfoam Paippi is an example of a ski tunnel developed in a different way. It is actually a tube consisting of concrete elements that have been assembled on land to provide skiers with standard weather conditions throughout the year. Furthermore, the low track profile and track arrangements for different paces make skiing comfortable for skiers at different skill levels.



**Figure 6.** Cross-country skiing indoors (©Petteri Repo).

Indeed, the tunnel is designed to promote a cross-country skiing culture rather than to support the careers of competitive skiers. Families with children are welcomed as they introduce their youngsters to the sport. Similarly, pensioners are welcomed as they are likely to mediate the skiing culture to younger generations. Even the age groups in between are seen to represent the skiing culture rather than competitive skiing. Exercise and better health are considered by-products of this focus on culture (Repo & Kotro 2008).

Behind the development of the ski tunnel were experienced skiers. They were inspired by the world's first ski tunnel, indoor slalom facilities, ice hockey stadiums and swimming pools. As experienced skiers, they knew what kinds of conditions non-competitive skiers would enjoy. In this respect, they were hobbyists who adhered to methods of empathy with future users (Kotro 2007; Koskinen et al.2003).

User involvement, that is, involving themselves and their peers, was not intense, yet it played an important role in the development of the tunnel.

This case shows that low-arousal experiences can be created within dedicated settings. It also indicates that a dedicated setting may give opportunities for a number of different kinds of experiences. Approaching consumer involvement from both creative and hedonistic perspectives can be useful and can also contribute differently the development and provision phases of experiences.

### 3.1.3 Mobile video

It became technically possible to watch streaming video on mobile phones in Finland in the early 2000s. Industry players were then searching for ways to build a business around mobile video. It was thought that users would enjoy having the possibility to watch video content whenever and wherever they liked.



**Figure 7.** Co-experiencing karaoke in the subway (©Petteri Repo).

We participated in the search for novel uses by carrying out one of the first studies of mobile video. Altogether, 13 users were given mobile phones to try out this novelty service for a week, and were asked to report their experiences in a diary.

They performed according to our instructions and their initial enthusiasm turned into boredom within two days (Repo et al. 2006). Watching television shows and humorous video clips was not considered particularly exciting.

However, during the study, we observed that users had begun to watch videos in unintended ways. In effect, they used the mobile phones and the videos to create experiences, or co-experiences to be more exact (Repo et al. 2006). Singing karaoke with friends and watching cartoons with small children transformed the private use of mobile telephony into social use. In particular, singing karaoke in a metro or in a school cafeteria represents an intentional challenge to social norms.

This case shows that high-arousal experiences can be created outside dedicated settings. It also indicates that it can be useful to leave room for user creativity when developing experiences. Setting the stage for an experience need not mean that this stage has to be carefully excluded from everyday life. The study also pinpointed experience design implications of which the developers of mobile video had been unaware.

### 3.1.4 Nordic walking

Walking is a prime example of an everyday activity that requires neither specific skills nor specific equipment. This has changed in the past years, however, as a market for different genres of walking, including Nordic walking, have emerged. Nordic walking has been a commercial success in Finland, and it has spread extensively from virtually no practitioners to 450 000 practitioners within a few years (Kansallinen liikuntatutkimus 2005–2006).



**Figure 8.** Walking with sticks (©Petteri Repo).

One characteristic of Nordic walking is that it involves some degree of regularity and planning in the walking activity. There are also sporty elements, such as an increased focus on equipment, including walking sticks, sports clothes and shoes, which distinguish Nordic walking from ordinary walking. Even though Nordic walking is often done for its own sake, different types of walks and walkers are defined in relation to the motivation to walk and the skills involved (see Oksanen-Särelä & Timonen 2005).

The concept of Nordic walking was developed and actively promoted by stick manufacturers, together with sport institutes and recreational associations, and, to varying degrees, by the walkers themselves. Walkers are not just adopting the sticks and various fashions of using them, but in so doing they are also actively involved in producing and reproducing Nordic walking. That does not only refer to the symbolic dimension of the activity, but also to an active process in which the frame or some parts of it are adopted as part of the user's own walking practices. The appropriation of Nordic walking thus encompasses both the ideas and activities adopted. Nordic walking is an interesting case of creating a sport out of an ordinary, everyday activity.

This case shows that mundane, low-arousal experiences can be turned into a commercial experiences that take place outside dedicated settings. It also shows that the creativity of consumers and associations can be integral when developing experience innovations.

## **3.2 Experience as a competitive factor in business**

In addition to the above-presented four cases in the field of leisure, we implemented four case studies looking particularly at a company perspective of experience – thus complementing the other side of co-creation of experiences. The aim was to elaborate on characteristics of development of products and services which, one way or another, seem to contribute to and involve a recognisable user experience. Specific questions in the cases concerned how the experience dimension is taken into account in the development phase and how it has been woven into company offerings.

Furthermore, a survey was carried out to get a more encompassing picture of the role of experience in a company offering. However, because of the low response rate, the results of the survey are not presented separately but referred to in the conclusions of this section below.

### **3.2.1 SmartUs by Lappset**

Lappset, a Finnish company known for its wooden playground equipment with an easily recognisable design, introduced a new product family, SmartUs, in 2005, integrating ICT technology into playground equipment. SmartUs playgrounds combine traditional playground games such as grid-based jumping games and pole-based running games with opportunities opened up by ICT. In effect, the

concept provides for a new type of interactive learning environment, spurring physical and intellectual development through play. The core idea of SmartUs was developed by a multidisciplinary research team, bringing together experts from Lappset and collaborating actors. The resulting concept was tested extensively with users.

As a technical solution, SmartUs is a platform. Physical elements – such as central stations with displays, poles using RFID technology, and jumping grids operating with sensor technology – installed in an outdoor or indoor environment provide a visible configuration and dedicated setting for the offering. In addition to the “hardware”, there are ICT-enabled ready-made games and game creating tools, as well as web services for users.



**Figure 9.** iStation, RFID- and sensor-based iGrid installed in a playground (©Lappset).

The idea of co-creation is embedded in the SmartUs concept; school-aged children, who are the typical users of SmartUs learning environment, can develop their own play content either on their own or under the guidance of a teacher, through a dedicated software solution. The combination of traditional play elements with ICT technology also lets players escape or extend the physical limits of a playground, the dedicated setting of experience, by providing them with an online environment to connect with other players and even to participate in contests in which the success of players is linked to activity on geographically remote physical playgrounds.

The case highlights the role of learning opportunities in meaningful experiences and how this can be consciously integrated into the development of new types of products; support for players' physical development and creativity are vital ele-

ment of the SmartUs concept. At the same time, the ICT-aided learning environment concept provides for communality; that is, for an opportunity to do things together and to co-create the content of play, which are important elements of experience.

### 3.2.2 Tourists building their accommodation

SnowBrick, a small family business in Finnish Lapland, provides tourists visiting the Arctic Circle wintertime with a unique opportunity to overnight in an igloo built with their own hands. The history of the Luminite service concept goes back to the early 1990s, when the owner of a Rovaniemi-based architecture office decided to focus on resource abundance in winterish Lapland – snow and the opportunities it opens in skilful hands for design and building. In the beginning, the company developed a snow building method based on mould-designed snow brick, as well as smaller moulds for snow decorations and a set of tools for the design of snow.

The development of techniques and tools for snow design, together with a thorough know-how of snow as a building material, subsequently turned out to be a critical factor for the development of the Luminite service package. The original idea for the concept came from a local tour operator, who wanted to offer tourists visiting Lapland a new type of accommodation experience. The company designed a number of different versions of an easy-to-use igloo assembly kit before finding the feasible model which was patented and put into use.



**Figure 10.** A group of tourists building igloos (©SnowBrick).

As an experience offering, Luminite is modular; the visiting tourists can build their own igloos assisted by guidance from SnowBrick staff; they can overnight in the

igloo built with their own hands and, in addition, there is an opportunity to use smaller moulds and tools to design various figures from snow alongside the igloo building. Depending on their wishes, the customers can select a combination most suitable for them – either having the total service package, including building the igloo and staying overnight in it, or having the experience of building an igloo after which they continue to the next attraction, or alternatively arrive and spend the night in a ready-made igloo. Necessary accessories (sleeping bags etc.) are included in the service.

As a service targeted at tourists, SnowBrick's Luminite concept exemplifies several aspects of experience innovation and includes entertaining, aesthetic and learning aspects wrapped in a well thought-out process. The igloo provides a high-arousal out-of-the-ordinary experience of accommodation, compared to a regular hotel room. The concept links technological and non-technological elements into a distinctive experience offering and actively involves tourists in the production of experience through the building of an igloo. This is an exemplar of co-creation of experience as discussed by Prahalad and Ramaswamy (2004). Using and forming snow with specific tools and building an igloo offer tourists a first-hand opportunity for learning by doing – an important element of a memorable experience. The use of snow as a building material also highlights the sustainability of the concept. The fact that all these activities take place in a specific surrounding near the Arctic Circle in Lapland underlines the significance of the dedicated context for experience. As a whole, the attractiveness of the offering is based on the uniqueness of the experience leaving a long-lasting memory.

### **3.2.3 Development of warehouse trucks with truck drivers**

Rocla is a manufacturer of warehouse trucks, counterbalance trucks and automated guided vehicles (AGV). In addition to tangible products, the company supplies a wide range of services to maintain high availability of equipment within a customer equipment fleet. Although Rocla intends to be a technological forerunner in its business, virtually all competitors use by and large the same technologies in manufacturing trucks (batteries, driving units, electronics, etc.). Hence, in order to succeed in competition, the company has to differentiate itself in some ways other than technologies. Rocla has done differentiation by introducing a design-driven new business concept, thanks to which the company has gradually moved from a laggard position to a forerunner in its market niche in recent years.

The design-driven concept at Rocla is more than design in its traditional meaning, emphasising mainly visual elements. Besides the design, the concept encompasses high usability and ergonomics, user-friendliness, intelligent solutions of trucks, and also safety, well-being, pleasure and emotions, as well as health aspects for truck drivers – drivers should have the opportunity to feel good in their work, which eventually pays off in increased productivity.





**Figure 11.** Roclac warehouse truck in use (©Roclac).

In accordance with extensive focus on the design-driven concept, cultural aspects and differences in values and preferences of truck drivers are seen as important aspects to be taken into account in product development. Information on these issues is collected using different methods. Close observation of work processes and customary practices in an actual warehouse working environment has become an integral part of Roclac's design process, as has spending leisure time with the truck drivers. Accordingly, in product development, Roclac uses the different preferences of drivers to develop solutions that allow drivers to tailor trucks in various ways –for instance a driver can choose between a more traditional driving wheel and a Playstation type of joystick to control a truck.

Furthermore, health issues for truck drivers are of importance in product development. The data on the behaviour, motivation and health conditions (e.g. heart pulse) of drivers is collected during working days. For example, in the warehouse, the daily movement of drivers is followed by helmet cameras. The collected data is recorded, analysed and used in drawing conclusions about what should be improved or done differently, and how products, user interfaces, and logistics should be further changed and developed. The aim is to simplify the human-technology interface and lower the threshold to be able to drive a truck without reading the manual.

To summarise, Roclac's design-driven concept has brought the end user, a truck-driver, into focus in product development in a business-to-business context. The case highlights the importance of small experiences in an everyday working environment with potentially large gains – attention paid to truck drivers' preferences has a positive influence on their productivity and at the same time helps Roclac to differentiate its offering from competitors in mature markets.

### **3.2.4 Lures for the fishing experience**

The history of Rapala provides an illuminating example of the development of a global business based originally on a user-made innovation. Lauri Rapala, a Finn earning a living for his family through forest and farm work and fishing, invented an off-centre fishing lure in the 1930s when looking for ways to increase his catch. Since then, the company has grown from a family business into a stock listed enterprise and has become a leading brand in the fishing industry globally.

The strong reputation on the market does not, however, stand on its own, but requires continuous product development. Rapala focuses on producing fishing equipment for people fishing in their free time. The market is global, which sets certain requirements for the development of lures: the company has to offer an array of different kinds of lures fitting highly variable conditions and environments, and locally differing fish populations. The typical ways of using lures also differ from market to market, and cultural differences and preferences concerning, for example, the colours of lures, have to be taken into account as well.

Besides fishing lures, hooks and lines, the company has extended its brand coverage to products related to fishing – such as knives and tools for fishing, fishing clothes and bags and shades. Most of these products are sold under the Rapala brand through the company's own distribution network. The company also uses other ways to stay in touch with fishermen and would-be fishermen; for instance, fishing games (Rapala Fishing Frenzy) for consoles stand as a testimonial to the breadth of the company's efforts to provide a fishing experience no matter what the time and place.



**Figure 12.** A compelling fishing experience (©Rapala VMC Oyj)

Concerning the development of new lures, the company has set up a systematic process to collect and develop further ideas for future products. Besides in-house R&D, distributors and sales representatives across the world have a key role in the identification of local needs. Product ideas originate usually either from professional fishermen with whom the company co-operates, or from Rapala's own employees. Sponsorship for a network of fishing guides and professional fishermen supports brand visibility and marketing, and at the same time provides a significant contact point with lead users (cf. von Hippel 1988 on the concept of the lead user).

Lures and other fishing gear under the Rapala brand contribute to the fishing experience, but the experience dimension is not discussed as such in product development. Experience is more like a "by-product" of a successful development process, in which quality and function are the key priorities. From this point of view, it is important to ensure beforehand that the lures stand up to expectations among fishermen. Therefore, new lures are extensively tested by fishermen before official launch in order to fine tune them according to users' preferences.

In conclusion, it is evident that Rapala was user-driven long before the issue became fashionable. The company has found viable ways to integrate user-born ideas and a lead-user approach into its product development processes. The experience dimension is also deeply embedded in the total offering of Rapala, regardless of the fact that, in lure development, the issue is not explicitly targeted. Besides the company's contribution through its products to the actual fishing expe-

rience, interest and communality among fishermen and would-be fishermen are raised by products such as console games and a brand-named fishing club. Sponsorship of professional fishermen with a good track record in fishing contests can also be interpreted as contributing to the overall experience offer provided by Rapala gear for fishermen.

### **3.2.5 Conclusions drawn from the company cases**

In light of the case studies and the survey implemented, the potential importance of intangible experiences for value creation and for competitiveness is still rather a new issue for Finnish companies. When asked, firms recognise that there may indeed be a connection between experiences and their offering, but the connection is often not obvious at first sight. Evidently, the role and salience of experience varies between the firms; it seems to be more common to see experience as an add-on to the offering, in which key features relate to the function. Conversely, in some cases, experience is the key element of a company's provision. The survey respondents were also asked to assess the importance of various factors for their products' market potential on a scale from 1 to 5 (1 = not at all important and 5 = very important). In particular, user-friendliness, visual design, attention to environmental issues, and safety were assessed as important, whereas features related typically to high-arousal experiences, such as risk and excitement, were less so.

The experience environment – as can be anticipated – differs from case to case. Rocla's forklifts are used exclusively in a dedicated context, that is, in warehouses involving formal scripts for behaviour and framing experience physically and temporally. SnowBrick's Luminat service concept is tightly tied to a geographically dedicated context, the village of Sinettä in Rovaniemi in Finnish Lapland. Furthermore, the Luminat concept includes scripts framing the experience both time wise and in the form of preplanned action for tourists. The actual context of the experience, a meaningful event, is, however, an evolving one, as tourists are actively involved in the building of igloos and an igloo village where they over-night.

The SmartUs learning environment by Lappset has at its core a dedicated context for experience, consisting of physical elements of a playground installed in an outdoor or indoor environment. The borders of the experience context in SmartUs are, however, permeable, thanks to a combination of traditional playground elements with ICT, which provides the players with a spatially and temporally extended context of experience through an online environment. When it comes to Rapala's lures, it is principally a non-dedicated context in which lures are used and in which an experience may take place, as long as a fisherman has access to a water environment (river, lake, sea etc.). Then again, at a closer look, the actual set of lures that a fisherman has may well qualify as an experience, as there are large numbers of different lures for different fish species and fishing in different environments. What is common in all our case examples is that the context, no matter whether it is dedicated or not, plays a distinct role in the experience.

Further, the possibility to modify and to customise a product or a service according to the user's needs and wishes is an increasingly significant aspect of companies' offerings. The opportunity to shape a product can be understood as a part of the co-creation of an experience in interaction with a user. Rocla, for instance, addresses different preferences of the warehouse truck drivers in the product development, and offers drivers the possibility to tailor a truck in various ways. SnowBrick's Luminite concept for tourists arriving in Lapland is genuinely modular, allowing the tourists to modify their own role and activity in the building of an igloo, thus having an impact on the actual frame of experience co-creation. SmartUs, a new type of learning environment combining traditional playground equipment with ICT by Lappset, allows school children to develop their own play content. Rapala offers fishermen not only lures, but a large variety of other products related to fishing, which makes it possible for each fisherman to build a set matching their own needs and taste.

The importance of learning as part of experience is another topic emerging from the cases and getting support from the survey results as well. The learning aspect is inbuilt in Lappset's SmartUs learning environment, as in Snowbrick's Luminite concept; tourists coming mainly from abroad have an opportunity to have a first-hand experience of using snow as a building material. Fishing is an activity with a long learning curve, and novel products such as Rapala's lures continuously open up new prospects for learning. Use of Rocla's forklifts in a warehouse environment by warehouse workers shows that learning can be closely integrated in everyday work practices in a business-to-business context as well.

A critical conclusion arising from the case analysis concerns the experience concept itself and how to understand it in first place. Lappset's SmartUs learning environment, Rapala's lures and Rocla's forklifts explicitly challenge the narrow view of experience as a phenomenon characterised first and foremost by the uniqueness of a momentary event invoking high-arousal emotions. Contrary to that, it seems that in the analysed cases, companies aspire to create product concepts that offer users a framework and building blocks for meaningful experiences and inspiration over a longer period of time, while simultaneously supporting and encouraging repeated use of the products. This feature seems to be typical, especially in cases in which experience is an 'add-on' element attached to the use of a product, rather than the major selling point in itself. On the other hand, SnowBrick's Luminite service concept shows that offering frames that support unique experiences is part and parcel of business-like tourism in which experience is the core of a product (cf. Sundbo 2009b).

The observation above poses a question about product features which, if used over an extended time, provide frames for continued experience and support the user's commitment with activity products that use involves. We are approaching here an opaque borderline between the characteristics of use of a specific product and issues related to the way users identify themselves – the process of learning to use and master a product is usually intertwined with a specific activity, which may have a strong impact on a person's view of themselves. This type of interpretation comes close to Pine and Gillmore's (1999) discussion about transformation

as a new stage in value creation; consumers and users are not only experiencing momentary emotions, but are also changed for good by the experience. This view was well highlighted in one of our cases, as the interviewee was elaborating on the linkage between experience and the firm's offering. According to him, instead of a fleeting experience, he would like to see their product become a more integral part of the life of users, or a hobby – an element belonging to communality and everyday life marked with continuity and development rather than a single, unique memorable event.

Returning to more traditional experience products, from a company perspective, integration of the experience dimension in an offering poses a challenge to finding a working balance between stimulating and challenging experience on the one hand, and safety, risk-taking and responsibility on the other. If the products offered are "too safe", they are easily no longer interesting or attractive enough for potential customers – people are looking for experiences that in some way exceed average, whatever that may mean for different persons. We may guess that the centrality of challenge and stimulus offered differs between offerings and is probably most heightened in a case in which the product is essentially tailored to contribute to the customer experience, that is, in genuine experience products. Even in products in which experience is more of an add-on, the challenge and stimulus inscribed into the product can be an important feature in triggering a decision to try and buy it in the first instance, as well as being an important element of product use at a later stage.

The four cases show that there is hardly one predominant model for user involvement in the development of new offerings, providing frameworks and building blocks for experiences. Rather, each and every company has developed its own practices to take into account users and their perspectives in the innovation process. Some of the cases – especially SnowBrick and Lappset, but also Rocla to some extent – seem to confirm Sundbo's (2009a, 13) conclusion that the development of experience innovation in comparison to service innovation tends to resemble more often a laboratory type of approach to creative work. This has certain implications for user involvement at different stages of the innovation process; according to Sundbo (*ibid.*), in the case of experience innovation, idea generation and concept development are often dominated by experts, while users are involved at later stages to test and to give feedback on new product ideas, pilot versions and prototypes.

Especially when developing more radical ideas diverging qualitatively from the existing offering, there may be a tendency to rely on in-house or external experts' critical know-how, whereas users are directly involved only in later stages. Profound expertise in a field and business area can be a crucial factor enabling new and even radical product ideas to emerge in the first instance. Innovation is usually also personified – individual champions are important for the creation of new innovative ideas and their development into new offerings. This is not the whole truth though, and there is a place for users in the innovation process, as von Hippel has argued since the mid-1970s (see for example von Hippel 1978).

Today, a growing number of firms tap into user experience and insights. Rapala has, for example, a systematic process for the integration of lead users, professional fishermen, in the development of new lures from idea generation onwards. It is worth remembering that in comparison to amateurs, a common trait for lead-users and experts alike is their profound experience on a subject matter – to develop thorough know-how usually demands immersion in the subject over a long period of time. Overall, the development of actual innovations rarely if ever conforms to a linear process, but involves feedback loops and linkages with a variety of actors along the line.

In general, the cases studied highlight the need to reconsider innovation from a broader perspective than has been the case until very recently. In particular, there is a need to get rid of the prevailing implicit equation of innovation activity with formal research and development processes. The narrow focus could still be justified in times when innovation was predominantly discussed and studied in the context of manufacturing industries and large companies with dedicated R&D units for the development of new products and processes. The limitations of this point of view have become evident in parallel with increasing interest in the existence and forms of innovation in other sectors, among smaller companies and start-ups as well as in intangible offerings. These changes in understanding innovation can be seen not only in the focus of innovation research, but also in the development of innovation policy and innovation statistics.

Innovation intertwines closely with all aspects of business, and interaction between companies and service providers on the one hand and users and customers on the other, as the cases analysed show us. In the same way, experience, if taken seriously, cuts across various dimensions of a company's activities and offering. Consequently, there is no one-fit-for-all solution available for experience innovation, nor a straight-forward answer to the question of how companies should take into account in their new offerings the users' need for individualised consumption and personalised experiences. Tarssanen and Kylänen (2005, 141–142) have caught the core of the challenge that companies are facing when engaged in the experience business: *"how to produce personalized situations and settings [for] customers without forgetting the business"*. The tricky issue here concerns the ways in which companies manage to cater for customers' needs for personalised experiences, while simultaneously doing profitable business.

On the basis of the case analysis, Figure 13 below, outlines a checklist of dimensions that all are relevant for the development of new products with an explicit or implicit promise of experience involved. The checklist consists of four separate but simultaneously interrelated entities; an experience dimension and product characteristics, as well as an innovation dimension and business aspects.

Each dimension includes an indicative list of items in order to give a more concrete idea of questions to consider when looking for a feasible way to integrate experience-facilitating elements and settings into new products.



**Figure 13.** Dimensions to be considered in experience innovation.



## **4. Conclusions, policy recommendations and further research needs**

### **4.1 Socio-economic impacts of the emerging experience economy**

The experience economy is an emerging stage of economies in the structural shift from primary production, via manufacturing, towards and beyond a service and knowledge economy. This transition is characterised by a shift from a tangible production mode towards an intangible and immaterial production mode, and a move from standardised mass products to customised, tailor-made and personalised products; a move from supply-driven products towards demand-driven products (“users are becoming producers and producers users”); and a move from the fulfilling of physical needs to the fulfilling of mental and emotional needs. First and foremost, the transition towards the experience economy requires a change in the focus of innovation and thinking of value creation, from the product and service to the “individual’s co-creation experience”, as Prahalad and Ramaswamy (2003, 13) point out.

The relevance of the experience economy and innovations for industrial and innovation policy-making arises from the growing importance of the experience economy. Experience industries are among the fastest growing industries: industries where experience is a core product are estimated to account for 8–12% of GNP and employment. Moreover, experiences are sold as additions to goods and services, the values of which are, however, unknown because they are not measured in economic terms. Estimations of the economic importance of creative industries are available, for example, from the UK. The definition and business areas of creative industries differ from the experience economy, but several areas overlap and hence the UK figures are also indicative with respect to the experience economy. Creative industries accounted for 7.9% of GDP in 2000. Exports of creative industries contributed £8.7 billion to the balance of trade in 2000, representing 3.3% of all goods and services exported.

The emerging economy, highlighting the significance of meaningful experiences, relates to the structural shift of modern economies towards a service and knowledge economy. This transition is taking place especially in developed industrialised economies. Accordingly, the broad societal impacts of the experience

economy and related policy-making also need a more detailed examination in the future.

## **4.2 The experience dimension and user-driven innovation**

A basic hypothesis of this study is that the diversification of the economy towards an experience economy gives new business and employment opportunities, and that a proactive innovation-driven approach plays a critical role in reaping the benefits of the growing experience businesses. Accordingly, the development towards an experience economy shall also be promoted by innovation-driven policy-making. The needs for and requirements of such policies are briefly discussed in this chapter.

In order to get a better understanding of the role of experience in new offerings, we carried out eight case studies and implemented a survey targeting companies. The majority of the case studies related to leisure time activities of people, while some considered the experience dimension in a business-to-business context. The innovations discussed in the study are less connected to high-tech or technological innovations per se. Instead, the emphasis is more on innovative concepts of products: services or business concepts developed by the case companies. This does not, however, mean that the solutions of these innovations are not of high quality; on the contrary. The cases explicitly show that innovation is a holistic phenomenon. It is not limited to technological development nor tangible products, but covers non-technological development and intangible dimensions alike. In conclusion, the experience dimension in these kinds of innovations has important implications for policy-making, as discussed below.

### **4.2.1 The role of users in the development of experience innovations**

Experience in innovation may relate to different aspects such as design of products, emotional experiences of customers or users of products, new business ideas in offering quite novel leisure time solutions for families, and so on. This conclusion receives support from international studies on experience innovations. For example, according to the much explored Starbucks case, their service experience is based on the customer experience: “we have built an emotional connection with our customers” (Michelli 2007).

The interaction between company and consumer as “a locus of co-creation experiences of unique value” (Prahalad and Ramaswamy 2004), receives support from the case examples in this study. It is useful to leave room for user creativity when developing experience innovations. Gardening is a good example in which active life creates pleasure (Lammi & Timonen 2007)

The experience dimension relates not only to products aimed at consumers but also to employees, as shown in the case of a Finnish forklift manufacturing firm, Rocla, presented in this report. Rocla has explored extensively the values and views of truck drivers by using a participatory observation technique along with

surveys, and has developed a cabin technology and driver-truck interface addressing their values and practical wishes. Experience is also present in the retail concept of IKEA, based on placing the customer in the experience rooms, to co-create the experience prior to purchase, and get the customer's interpretation of the hyper-reality delivered in the experience room (Edvardsson et al 2007). Zara is another well-known example of a retail business in which the experience dimension is interwoven into business logics; thanks to a fast fashion concept, the company produces twelve collections per year, with 3–6 weeks from design to retail.

The study supports the conclusions that, in the case of experience innovations and in companies providing products and services for consumers, a better understanding of craft consumer and consuming is crucial to the practice of value creation (Campbell 2005). The case studies of this study confirm that amateurs and their skills can be of great importance in modern consumerism. The idea of craft is of growing importance in today's consumption.

Hobby magazines are an important part of hobbies and leisure time, and they are also an easy and natural way to approach and meet markets in a user-driven way. Users have strong ties to hobby magazines, and magazines follow closely the tastes of readers. Companies could even learn from the user and reader-driven approach of hobby magazines.

### **4.3 The impact of experience innovation on competitiveness**

In today's global business environment, the competitiveness of companies is determined much according to the differentiation from the competitors by some special features that provide added value for customers. The development and sophistication of technology and improved technical solutions has been, for a long time, a key means to differentiate offerings in a market context. However, as Prahalad and Ramaswamy (2003, 13) note, variety and a continuous increase in functions and combinations embedded in products "has not necessarily resulted in better consumer experiences". There is something missing there. Discussion on the experience economy has brought to light the role that intangible elements and emotions play in competitive advantage.

Particularly in mature markets and markets characterised by abundant supply, competitiveness can seldom be based on a product's or service's function only. Therefore, additional elements to create value and boost customers' willingness to pay are badly needed. In a market context, commoditisation – a process through which goods originally perceived by customers as appealing and distinguishable in terms of attributes and unique value turn into a commodity with little or no perceived difference from the offering of competitors – accompanied by price competition is a constant challenge for firms. In fact, the built-in dynamics of market competition are explicitly taken into account in Pine and Gilmore's (1999) story about economic development from commodities to experiences and further transformations. According to Pine, the higher the degree of differentiation and intangi-

bles that add value for customers, the higher the price premium for the company (see also Kusunoki 2006 for the significance of differentiation in electronics).

The cases explored in this study do not allow us to draw too far-reaching conclusions concerning the hypothesis that the experience dimension has important positive implications to competitiveness for innovating companies. More evidence is needed. Individual examples studied suggest that paying attention to the intangible dimensions of their offering, including experiences, pays off. For example, one of the explored companies, systematically developing and utilising design and experience dimensions in product development, became a success story and was bought by one of the largest global companies in the field. At the same time, it is evident that turning experiences into profitable business is far from a simple task. In conclusion, the experience is, however, not so far broadly recognised as an opportunity for the competitiveness of companies in Finland, and a lot of room exists for awareness-raising and promotion by actors involved in innovation promotion in Finland.

#### **4.4 Policy conclusions and implications**

Key questions of innovation policy-making in the promotion of the experience economy and innovation are related to the rationale of policy, that is, why policies are needed – are there particular reasons for policy intervention in the case of experience innovation. The conventional argument for policy-making is related to market failures, to possible appropriability problems and related uncertainty, indivisibility and asymmetric information about innovations between actors. Tentatively, these arguments seem relevant in the case of experience innovations, although more systematic research is needed for stronger conclusions. Other arguments for policy intervention are related to innovation system failures such as capability failures, network failures, institutional failures, and framework failures. These arguments also seem relevant in the case of the experience economy and innovations. The third argument for intervention is related to spill-over effects, referring to knowledge, network, and rental pullovers, which seem relevant in connection with experience innovations as well.

The traditional technology policy analysis and related policy implications seem insufficient in the case of the experience economy and innovations. This is due to the broad scope of experience innovations, related to the non-technological and intangible nature of experience innovations and to the relevant dimensions of experience innovations, such as emotions, human values, and so on. The experience economy and innovation extend the scope of policy-making towards horizontal policies, including policies related to education, industrial renewal, entrepreneurship, design, and the arts. Accordingly, the promotion of multidimensional collaboration is needed in the creation of innovations and, respectively, multidisciplinary analyses of innovations are also needed.

The recent adjustments made in the focus areas of innovation policy in Finland, such as the demand-oriented and user-involvement policy approach, receive sup-

port from the analysis. User involvement in product design seems to be of key importance, that is, “start thinking from human factors to human actors” (Bannon 1991). Moreover, culture, entertainment, enjoyment, emotions, surprises, experiences of new aspects of life, new places, creativity, and so on, shall be increasingly analysed as having important potential for businesses and for new business concepts. These requirements set new challenges for education and training policies. A user, consumer, and demand-driven approach requires more intensive integration in innovation policies of consumption and production perspectives. On the level of welfare, a shift from physical to mental welfare is a relevant question and shall be considered accordingly at policy level. An extension of the scope of policy towards a horizontal approach is needed, for example between policies promoting innovation, entrepreneurship, and design while simultaneously paying attention to the role of intangibles in value creation.

A distinction between high-tech and low-tech has a limited value, as many experience innovations are not related to technological or high-tech areas but to business innovations in relatively low-tech areas. Accordingly, innovation policy concentrating on high-tech does not look sufficiently for the promotion of experience innovations. There is a clear need for a broad-based and horizontal innovation policy that reaches areas developing less or non-technological business ideas.

The recommendations from von Hippel & de Jong (2010) are certainly also relevant for the promotion of experience innovations and policy-making. The first two recommendations by them relate to the stimulation of networking and collaboration between users, and facilitation of the adoption of user innovations by producers. Moreover, von Hippel and de Jong recommend the facilitation of modular designs of innovations and the improvement of individuals' technical skills.

Overall, innovation in the experience economy is a new research area that needs more detailed exploration from several different aspects in the future. More case studies are needed in different industries for an in-depth understanding of the experience perspective at enterprise level. In addition, there is a need for a closer examination of the opportunities and limitations of producer-user co-creation in the development of new offerings. Furthermore, the experience economy relates to a structural shift towards an intangible and knowledge economy and, accordingly, its impacts require careful statistical considerations, as well as modifications to existing classifications and innovation surveys. Currently, experience is a missing item in innovation metrics, and consequently it is difficult to form an accurate understanding of the extent to which companies are taking user experience and co-creation into account when innovating, and of how the perspective can be integrated into the innovation process. Public actors funding research and development should consider opportunities to add questions on intangible dimensions and experience to their customer surveys. International examples of surveys on experience innovation, such as the survey (Sundbo et al. 2010) implemented by Roskilde University's research group in Denmark, provide valuable insights for more systematic monitoring of experience innovations than is the case today.

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Abstract	<p>This report documents the results of a study focusing on linkages between innovation, the experience economy, and society. At the heart of the study is the challenge to understand the factors and mechanisms that are critical for the development of new product and service concepts with an experience dimension, across different sectors. In addition, specific attention is paid to the ways users are engaged in the co-creation of experiences and also in innovation activities and the development of new offerings in the context of the experience economy.</p> <p>Based on a literature review, the study provides an overview of the development of the experience economy as a phenomenon, and outlines a definition of the concept of innovation compatible with specific characteristics of experiences as intangible and highly individual factors. The approach adopted from the outset underlines the need to broaden the prevailing perspective on experience and innovation. Accordingly, the study does not focus on extreme, high-arousal experiences or innovation in narrowly defined creative industries, but rather on the role of intangible experiences, high and low, play in new offerings across sectors, and how experiences are taken into account in the development of different types of offerings.</p> <p>The study introduces a new typology, which enables the mapping and visualisation of experience innovation on two dimensions, one describing the intensity of participation in the experience, and the other the context dedicated to the experience. The typology is applied and elaborated in four cases. Furthermore, four case studies are reported to highlight issues related to experience innovation and co-creation from a company perspective. An analysis of the latter-mentioned cases results in an indicative checklist of questions to consider when a company is looking for ways to integrate experience-facilitating elements and settings in new offerings.</p>
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Tekijä(t)	Juha Oksanen, Minna Lammi, Torsti Loikkanen, Mikko Rask, Petteri Repo, Päivi Timonen
Tiivistelmä	<p>Tämä raportti perustuu VTT:n ja Kuluttajatutkimuskeskuksen yhdessä toteuttamaan elämysinnovaatioita ja elämystaloutta koskeneeseen tutkimushankkeeseen. Tutkimuksen innoittajana on ollut pyrkimys tunnistaa, nostaa esiin ja ymmärtää olennaisia elämyksellisiin tuote- ja palvelukonsepteihin sekä niiden kehittämiseen liittyviä tekijöitä ja mekanismeja. Tässä yhteydessä huomiota on kiinnitetty erityisesti siihen, kuinka käyttäjät osallistuvat ja kuinka heitä voidaan osallistaa elämysten yhdessä luomiseen ja uuden tarjoaman kehittämiseen taloudessa, jossa aineettomilla tekijöillä on entistä suurempi rooli.</p> <p>Kirjallisuuskatsaukseen perustuen raportissa kuvataan lyhyesti elämystaloutteen ja sen nousuun liitettyjä erityispiirteitä. Tekstissä hahmotellaan myös innovaatio-käsitteen määrittelyä, joka ottaa huomioon elämysten aineettomuuden ja elämysten kokemiseen liittyvät yksilölliset tekijät. Yhtenä keskeisenä lähtökohtana tutkimuksessa on ollut laajentaa vallitsevaa näkökulmaa elämyksiin ja innovaatioihin – hiukan kärjistäen voidaan sanoa, että elämys on tyypillisesti ymmärretty lähinnä vahvoja tunteita herättävänä kokemuksena kun taas innovaatio on nähty markkinoilla saatavilla olevana uutuustuotteena. Vastakohtana edellä mainituille, tutkimuksen keskiössä eivät ole niinkään äärimmäiset, oletusarvoisesti voimakkaita kokemuksia herättävät elämykset tai innovaatiot kapeasti rajatussa ”luovien toimialojen” kontekstissa, vaan aineettoman kokemuksen rooli yleisemmin osana uutta tarjoamaa eri sektoreilla sekä elämysulottuvuuden ja yhdessä luomisen rooli kehitettäessä uusia elämyksellisiä tuotteita ja palveluita.</p> <p>Raportissa esitellään hankkeen aikana kehitetty typologia, jonka avulla elämysinnovaatioita voidaan luokitella kahden ulottuvuuden suhteen; yhtäältä elämyksen voimakkuuden, intensiteetin ja toisaalta elämyksen kokemisympäristön, kontekstin mukaan. Luokittelua sovelletaan sekä käyttäjän ja kuluttajan näkökulmaa luotaavissa tapaustutkimuksissa että enemmän yritysten näkökulmasta aihetta lähestyvissä case-kuvauksissa. Tapausesimerkkien pohjalta on muodostettu muistilista yrityksille, jotka ovat kiinnostuneet löytämään tapoja yhdistää elämyksiä mahdollistavia elementtejä ja puitteita uusiin tuotteisiin ja palveluihin.</p>
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