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## 29 Experience goods

*Michael Hutter*

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The notion of 'experience goods' appears in two strands of literature. The first one originates with Nelson (1970) and links consumer behaviour to information: in order to estimate the utility of an unknown good, the consumer has a choice of searching for information about the good or experiencing the good. Experience goods, in this theoretical tradition, are goods with high search costs. The second strand of literature was triggered by attempts to redefine the set of sectors that make up the economy by introducing a 'creative sector' whose branches or industries are characterized by unusually high rates of product change, by high growth rates and by contributions to productivity in the rest of the economy (DCMS, 1998; UNCTAD, 2008). The common feature of these branches is seen in individual 'creative acts', but it has also been argued that the consumer's experience (Bille and Lorenzen, 2008; Bille, 2009) is the decisive feature. The notion of 'experience goods' appears to be of increasing theoretical and practical relevance.

### **Experience as a means to an end**

According to Nelson (1970), consumers who are in the market for goods, but have incomplete information about the benefits obtained from consuming them, have two alternatives to find such information: they can search for available external signals regarding the expected benefits, or they can experience the good and thus generate their own internal information. Experiences in this model are experiments to discover something about the true state of the world that, once attained, will lead to stable choices. Three categories of goods are distinguished: (1) goods with easy search characteristics, whose quality attributes can be *inspected* before buying, like nails; (2) goods with high search costs which lead the buyer to *experience* the good in order to determine the quality, like movies and wine; (3) goods whose effects depend on *credence* even after the experience, like health services and spiritual services (Benz, 2006; Darbi and Karni, 1973).

Nelson (1974) pointed to a particular branch of services that provides additional information to uninformed buyers, namely advertising. In the case of goods with experience qualities, advertising can only state and repeat the claim, any further information about the good must be gathered by the consumer. But there are other sources of additional information, and the issue widens to a new look at transaction behaviour: 'How are additional information sources like a signal or a third opinion introduced in the actors' decision problem?' asks Benz (2006, p. 1). Bergemann and Välimäki (2006) not only distinguish between 'informed' and 'uninformed' buyers; they also attribute 'sophistication' to the search process;

The demand curve in the part of the population that has already learned its preferences is similar to the standard textbook case. Those buyers who are uncertain about the true quality of the product behave in a more sophisticated manner. Each purchase incorporates an element of information acquisition that is relevant for future decisions. The value of this information is endogenously determined in the market. (Ibid., p. 3)

The recognition of search sophistication links the literature to earlier models that integrated the 'consumption skills' of buyers. Scitovsky (1976) distinguished between goods that evoke comfort and goods that evoke a sensation of novelty and discovery. The novel experiences have 'beneficial accompanying effects' for the entire economy. Becker and Stigler (1977) interpreted knowledge and competence in consuming cultural experiences as a capital asset: consumers invest in such capital in order to develop the 'taste' that allows them to choose the most effective experiences (see Hutter and Shusterman, 2006).

Very recent contributions demonstrate that experience characteristics are applicable in a wide product spectrum, ranging from the selection of automobiles (Paredes, 2006) to online-dating experiences (Frost *et al.*, 2008). In these more recent contributions, the distinction between experiences as experiments and experiences as goals in themselves becomes blurred.

### **Experience as an end in itself**

During the 1990s, experiences began to attract economists' attention for their own contribution to aggregate production. Business scholars suggested that experiences accompany every consumption act, and that the provision of pure experiences constitutes a profitable new business field. Pine and Gilmore (1999) distinguish four 'realms', namely entertaining, educational, aesthetic and escapist experience goods. They focus on instructing the reader how to set up or improve commercial performances that generate more valuable experiences, rather than exploring the wider implications of the phenomenon. A similar interest in instructing entrepreneurs how to produce the most effective experience goods motivates Boswijk *et al.* (2007) and Sundbo and Darmér (2008). Andersson and Andersson (2006, p. 83) focus on product characteristics: they emphasize the intangibility, inseparability, heterogeneity and perishability of experience goods.

The wider implications of distinct experience goods emerged in the context of a policy-driven debate on expanding the notion of the 'cultural sector' to a 'creative sector'. Particularly in the UK, it was claimed that branches of industry that produce goods and services with a high degree of novelty show above-average growth rates, and that they lead to a higher rate of product change in many other branches (Smith, 1998). Such positive externalities are arguments for public support. The arguments are strengthened by technological properties. Experience goods frequently consist of information symbols stored on some carrier medium, like paper or computer file. Because of the public-good properties of information, there are low marginal costs of technical reproduction and high economies of scale in efficient distribution.<sup>1</sup> In 1998, the UK's newly founded Department of Culture, Media and Sports published a *Creative Industries Mapping Document* that identifies 11 branches as parts of a sector named 'creative industries'. The common feature is the 'creative act', which generates products with new content and new features. An enhanced version of the DCMS definition, which has found worldwide attention and triggered policy decisions in many countries, was suggested by UNCTAD (2008) in a report that explored the growth of exports and imports in creative industries products. According to this definition, the sector combines four subsectors, namely heritage, arts, media and creative services, which include design, fashion, advertising and architectural services.

The approach of identifying a common feature in the production of creative industries products, namely the 'creative act' of the author-producer, has its counterpart in

identifying a corresponding feature on the consumption side, namely the 'experience' of the consumer-user (Power, 2009). Such an approach is more in line with neoclassical theory which considers the preferences of buyers to be the driving force of economic value creation. It is most intensely discussed and tested in the Northern European countries. According to Bille and Lorenzen (2008), the approach was triggered by Pine and Gilmore's 'discovery' of experiences as value creations in their own right.<sup>2</sup> The notion of experience applies to the set of industrial branches identified by the DCMS or the UNCTAD report, but it also applies to branches for touristic experiences and for experiences in watching and participating in sports and games. Bille and Lorenzen (2008) suggest that the experience economy creates value in (1) branches that have experience as the primary goal and where artistic creativity is essential to its production as in theatre, music, visual arts, literature, film, computer games (*creative experience areas*), (2) branches that have experience as the primary goal, but where artistic creativity is not essential, as in museums, libraries, cultural heritage sites, natural and green areas, restaurants, the pornography industry, spectator sports (*experience areas*), and (3) areas where artistic creativity is essential but which do not have experience as a primary goal, as in design, architecture and advertising (*creative areas*) (see Bille, 2009). The sector includes legal as well as illegal services; it includes pure information goods, like books, as well as all kinds of combinations with physical impact, from pornography to hiking tours. Bille and Lorenzen (2008) criticize the notion of experience goods because of its potential pervasiveness and immeasurability: just about every good consumed has some experience content. This critique corresponds to the charge that 'creative acts' are part of the most humdrum production processes. The indeterminacy can be reduced by applying both criteria at the same time: experience goods are mainly demanded for their direct mental effects on the user, rather than their instrumental effects, and the value added in their production lies mainly in the creativity of their authors, irrespective of the media used up in the process.

### The search for experience goods

The shift toward goods that contain experiences in their own right brings renewed attention to the consumer's search phase. Experience goods, in order to remain attractive, are continuously changed. Novels, music pieces or TV shows are varied on a yearly, monthly or even daily basis in order to appear at the same time familiar and mildly surprising to their prospective buyers.<sup>3</sup> In consequence, it is not enough to try out the good once in order to appreciate its properties because the next movie, song or news item consumed will be different, even if it uses the same media format.

Under such conditions, the difficulty consists in finding out something about a good that cannot be consumed on an experimental basis because to experience it once would exhaust total consumption. The producers, therefore, will provide signals about the qualities of new detective stories, videogames and music albums without enabling the interested consumer to actually enjoy the desired experience. The methods for doing so operate on three levels: (1) advertising messages make claims about the features of novel experience goods; (2) the consumer gets limited access to the good, constrained by trial periods, by providing excerpts of the experience, or simplified demonstration versions. Such experimental experiences seem to be an effective tool. They are increasingly offered since digital technology permits a sophisticated management of such limited access

rights; (3) publicly stated preferences, based on reputation, are used as predictors for one's own experience.<sup>4</sup> The reputation of 'experts' is gained in institutions that specialize in quality comparisons between very specific types of experience goods, be they opera performances, hiking tours or sculptures.

The generation of expert networks is enforced by the growth of creative industries branches (see Potts *et al.*, 2008). One of the subsectors of the creative industries, the mass media, provides opinions that are perceived as independent of producers: media companies, mainly newspapers and TV networks, employ experts to make their judgements about a particular novel product known. They also report on public recognitions of quality, like the awarding of prizes or the success of events and tours. From the multiplicity of messages, weighed with the degree of reputation attributed to the sender of the message, consumers derive the information that then prompts them to spend a portion of their disposable income on experiences that are new to them.

In addition, there is a benefit that draws not only on numbers, but on mutual exchange of signals: everyone who has already seen a new movie or played a new game can also talk about it, and rate their own experience. The well-known impact of 'word-of-mouth' signals stems from such reciprocal interaction between past and potential users within differentiated peer groups and may lead to 'social contagion'.<sup>5</sup> As the user offers information to prospective users, s/he generates future credit if the actual experience is rated positively, or is discounted if the experience was disappointing. This effect is multiplied in the quality signals of external experts: their judgements add to the enjoyment of an experience. The total utility for the consumer increases.

### Conclusions

Experiences, first introduced as a limited extension of the standard rational choice model, appear to be destined for a larger role. In contemporary information-intensive economies, 'experience industries' constitute an economic subsector in its own right. Experience goods, interpreted as products that contain regularly varied information inducing new mental experiences in their users, pose interesting theoretical challenges. Information is needed to enable informed choices by future consumers, and such information draws its effectiveness from consistent value rankings within networks of experts, which are perceived as independent of commercial interests. The expert valuations gain a marketable value in themselves as they are experienced by the consumers and their communication networks. Both notions, scales of quality and networks of communication, pose new challenges to economic theory.

### Notes

1. See Hutter (2003) on the characteristics of 'information goods'.
2. A short English version is provided in Bille (2009).
3. The relevance of surprise is already noted in Pine and Gilmore (1999). See also Hutter (2011).
4. Andersson and Andersson (2006, p. 108) see the reputation of 'professional certifiers' as most relevant for reducing consumers' expectation uncertainty.
5. See Kretschmer *et al.* (1999). Empirical evidence for the effect of word of mouth is presented in De Vany (2004).

### See also:

Chapter 9: Awards; Chapter 16: Creative economy; Chapter 19: Criticism.

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## Further reading

I recommend for further reading: Boswijk et al. (2007), Power (2009) and Scitovsky (1976).

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*Edited by*

Ruth Towse

*Professor of Economics of Creative Industries, CIPPM, Bournemouth  
University, UK and Professor Emerita, Erasmus University Rotterdam,  
The Netherlands*

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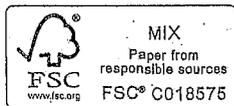
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