Retail Design and the Experience Economy: Where Are We (Going)?

Ann Petermans and Koenraad Van Cleempoel
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Ann Petermans, PHL University College and Hasselt University, Belgium
Koenraad Van Cleempoel, PHL University College and Hasselt University, Belgium

Abstract: The retail sector is increasingly focusing on experiences, because of the proven importance of creating emotionally engaging experiences for in-store consumers (e.g. Shaw & Ivens, 2002). Since economics (and marketing) are progressing from a goods to a service dominant logic (Vargo & Lusch, 2004), inducing ‘experiences’ has become a means of communication as well as a possible differentiation strategy. In this current ‘Experience Economy’ (EE from now onwards), customers look for personal, intuitive relationships with brands and retailers (Pine & Gilmore, 1999, 2008). Experiences are the new source for value creation. But the concept of Pine & Gilmore’s EE is being criticized. The literature that emphasizes the importance for retailers to focus on experiences often lacks definitions of central concepts and empirical support (e.g. Bäckström & Johansson, 2006). Furthermore, experiences are always context- and situation-specific (Dewey, 1938). This implies that ‘experiences’, as conceptualized in Pine & Gilmore’s first generation EE, do not necessarily work in a European retail context. The present parameters for creating and directing memorable experiences are authenticity and originality. Design of retail environments should be directed towards values and creating appropriate ‘atmospheres’. Whereas the company was the frame of reference for value creation in the first generation EE, in the current second generation (Prahalad & Ramaswamy, 2004a) the dialogue between customers and businesses forms the basis for the co-creation of values which are meaningful and truly unique for the individual customer. This Ph.D. project aims to link the body of knowledge of an EE with the growing discipline of retail design. Because retail design is an emerging discipline in the field of interior design, it may well benefit from valuable and relevant input of several other disciplines, such as marketing, which, in their turn, may learn from specific methodologies of design research.

Keywords: Retail Design, Interior Design, Experience Economy, Values, Co-Creation

Introduction

Competing in today’s global market has become increasingly difficult. In a world where homogenization of products and services is widespread, retailers and manufacturers continuously (need to) look for differentiation strategies. Since economics (and marketing) are progressing from a goods to a service dominant logic, inducing experiences has become a means of communication as well as a possible differentiation strategy. In the current ‘Experience Economy’, customers look for personal, intuitive relationships with brands and retailers (Pine & Gilmore, 1999, 2008). The present parameters for inducing memorable experiences are authenticity and originality. Design of retail environments should be directed towards values and creating appropriate ‘atmospheres’, since experiences are the new source for value creation for customers.

In order to be able to create and direct memorable experiences, retailers need to be on the same wavelength as their customers, not only for determining the functional needs of a retail environment, but also to understand what appeals emotionally to their target group(s).

From a theoretical viewpoint, it is clear that the developments in economics and marketing, in combination with the possibilities offered by Retail Design, open interesting perspectives for designers, retailers and consumer researchers alike. In practice however, until now relatively few companies have adopted the perspective of the customer experience (Gentile et al., 2007).

This contribution aims to link the current body of knowledge of an Experience Economy with the growing discipline of Retail Design. Examples of two retail stores will illustrate how the theory of the first and second generation Experience Economy can be translated into design practice.

Basic Concepts

Retail Design

‘Retail Design’ is a fast emerging discipline in the field of Interior Design. The term ‘Retail Design’ covers several aspects that need to be considered when designing retail stores, e.g.: tangible elements (store frontage, carpeting, fixtures, …) and intangible elements (temperature, scents, colors, …) or an understanding of what will work aesthetically within the environment; an understanding of how different store dimensions will perform functionally and commercially; thinking about how the store’s design
can be built to budget and meet regulations concerning the use of a public space (Kindleysides, 2007).

Since design has gained in status in retail management, it is argued that the role of Retail Designers has progressed from plain shopfitting to the provision of inspiration to customers (Bäckström & Johansson, 2006).

In a world where homogenization of products and services is widespread, retailers and manufacturers are continuously on the look-out for differentiation strategies. Retail Design can play an important role in this process, since it is being accepted that a physical retail environment can have as much effect upon the consumer’s perceptions as the quality of the product(s) itself. Therefore, it is of growing importance for retailers to be on the same wavelength as their customer(s), not only to determine the functional needs of a retail store, but also to understand what appeals emotionally to customers (Inman & Winer, 1998; Underhill, 1999). For instance, customers in today’s retail stores ask and expect more than just being satisfied with the purchased brand or product and the delivered service level. They look for value; therefore, value creation is currently seen by many authors as the key to long-term retailer success (Babin & Attaway, 2000; Sweeney & Soutar, 2001).

A retailer can strive to create value by building personal, intuitive relationships with the customer, in order to let the customer feel allied with the brand or retail store (Pine & Gilmore, 1999, 2008). When trying to reach this goal, retailers need to be aware of the importance of designing exciting retail environments, which create personal and memorable customer experiences.

The multiplicity of the Retail Design discipline, in combination with the fact that it is still an emerging discipline, makes it clear that Retail Design may well benefit from valuable and relevant input of several other disciplines, such as marketing and psychology.

**Experience Economy**

**Background – The Changing Role of the Customer**

The development of the ‘Experience Economy’ can be considered as a manifestation of various shifts in society. During the last decades, Western societies have experienced a transition from what Cornelia (1992) calls ‘a social regulation system’ to a ‘system of communicative self regulation’. In a traditional social regulation system, the company was considered as the frame of reference for value creation. Companies acted autonomously, with little or no interference from consumers. The customer was considered as a passive partaker.

In the meantime however, customer’s reality has changed. Due to changes in economy, large groups of people in Western societies have experienced increased prosperity. This change in economic situation, profile and status implied that economics (and marketing) needed to keep trace with this ‘progression of economic value’. Consequently, the ‘social regulation system’ evolved into a ‘system of communicative self regulation’ (Cornelis, 1992). In this concept, companies and customers start communicating about what customers exactly want and how these wants can be translated into practice (Boswijk et al., 2007). This change involved a shift in the role of the customer: he evolved from a passive, isolated and unaware partaker to an active, connected and informed participant in the company-customer relationship (Prahalad & Ramaswamy, 2004a). The impact of this change in customer’s role is manifest in different ways. Firstly, customers in 2008 have access to unprecedented amounts of information; consequently, they can make more informed decisions. Secondly, the worldwide access to information implies that customers can learn more about prices, products, technologies, … from all around the world. This can change the rules of business competition: e.g. whereas businesses in the past could vary the price of products from one location to another, the present evolutions seem to limit this possibility in the future. Thirdly, human beings always seem to have (had) a natural desire to band together with like-minded others around common interests, experiences, … The rise of the Internet, and developments in telephony and messaging create enormous possibilities to share opinions and feelings with other people. In other words: while institutions like the government, church, employers, … used to give direction to people’s lives in the past decennia, today, customers fill-in their own life, with the help of the ‘networks’ they participate in. These networks (or different contexts the customer is active in) help the customer to give direction to his life (Prahalad & Ramaswamy, 2004a; Boswijk & Peelen, 2008).

The change in customer’s role has forced companies to reexamine the traditional system of company-centric value creation. In what follows, the different stages of “Experience Economy” are discussed.

**First Generation Experience Economy**

The concept ‘customer experience’ was coined in 1982 by Holbrook & Hirschman as a new experiential approach to consumer behavior. The importance of various variables, which were neglected until then, was re-considered (e.g.: the role of emotions in behavior). However, it lasted until 1999 before this concept came to the fore in the management discipline, in Joseph Pine & James Gilmore’s book ‘The
experience economy: work is theatre and every business a stage'.

Pine & Gilmore present experiences as a new economic offering, which emerges as the next step after an economy of commodities, goods and services. Since experiences are the new source for value creation, and consequently, the next possible competitive advantage for companies, Pine & Gilmore (1999) describe different features of an experience. Experiences, so they explain, in the first place have to be memorable; by induceing experiences, a company can emotionally, physically, intellectually and sometimes also spiritually ‘connect’ with customers. Secondly, the very basis of creating experiences is choosing an appropriate theme, which appeals to the customer and characterizes the company. Every aspect of the company (communication, merchandise, ...) has to be consistent with the subject of the experience. Thirdly, negative elements, which can divert customer’s attention, need to be removed. Fourthly, effective experiences try to appeal to customer’s senses: the better an experience appeals to customer’s senses, the more memorable the experience becomes. Fifthly, given the very nature of experiences, Pine & Gilmore state that it is self-evident that experiences are personal. Since every experience is the consequence of the interaction between an organized ‘event’ and the (physical, mental, emotional, ...) condition the customer at the time of the interaction is in, no two persons can experience an ‘experience’ in the same way. Sixthly, Pine & Gilmore state that customers need to pay for experiences; as long as a company does not ask a price for an experience, the experience cannot be considered as an economic offering. Asking customers to pay for an experience would force companies to do the best they can in offering experiences.

Creating and directing memorable experiences is more than just adding ‘amusement’ to an existing company offer. It forces companies to appeal to customer needs and wants, and to involve them. In order to make their point, Pine & Gilmore defined four ‘realms of experiential value’, which can be added to a company offer. These dimensions vary, based on the customer’s active or passive participation and on absorption or immersion in the experience.

Illustration 1: Pine & Gilmore’s Realms of Experiential Value, Source: Pine & Gilmore, 1999

Whereas a lot of experiences are mainly restricted to one of the domains, the optimal experiences are those experiences which combine elements of the four dimensions (Pine & Gilmore, 1999).

In the years after Pine & Gilmore’s publication, several other authors focused their attention on the customer experience as a new lever for value creation (Gentile et al., 2007). Pine & Gilmore’s conceptualization of the (first generation) Experience Economy made clear that, according to their viewpoint at the time of publication of their work (1999), the company still was the frame of reference for value creation. Their conceptualization of the Experience Economy however also initiated a critique.
Second Generation Experience Economy

At the beginning of the 21st century, the company-centric approach of the first generation Experience Economy was criticized, because this business model seemed to have propelled (over) commercialization and consumerism. Customers in the 21st century want to be more than mere ‘consumers’; they want to achieve goals in life, realize ideals and contribute to aspects they value important (Nijs & Peters, 2002).

In other words: parallel with the shift in the role of the customer at the beginning of the 21st century (as described earlier in this paper), also customer’s needs and wants changed. Economy needed to keep trace with this change in perspective. Consequently, instead of the top-down approach, as practiced in the first generation Experience Economy, consumers nowadays start communicating with companies about what they want to ‘experience’; through dialoguing, both parties search for the best possible solution.

This change in perspective was reflected in the management discipline by the work of Prahalad & Ramaswamy (2004a), who refer to it as the ‘next economic practice’.

In this ‘second generation Experience Economy’, the dialogue between customers and businesses forms the basis for the co-creation of values which are meaningful and truly unique for the individual customer. Vargo & Lusch (2004) indicate that ‘value starts with the supplier understanding customer value-creating processes and learning how to support customer’s co-creation activities’.

In order to be successful in this new framework for value creation, companies need to focus on the set of building blocks, defined by Prahalad & Ramaswamy (2004a). These authors refer to these building blocks as the ‘DART model of value creation’. Each of the characters in the model’s name has a specific meaning. The ‘D’ stands for ‘Dialogue’. Dialogue implies interactivity between customer and company; it is more than solely listening to the customer’s story. The ‘A’ stands for ‘Access’, and refers to access to information and tools. The ‘R’ stands for ‘Risk Assessment’, and this refers to the freedom to exchange information with the customer concerning possible risks involved in the co-creation process. Since customers become active co-creators, a company needs to decide if customers will also be responsible for risks. Finally, the ‘T’ stands for ‘Transparency’, and refers to transparency of information. In the company-centric thinking of the first generation Experience Economy, only the information the company wanted to spread out came to customer’s knowledge. In the second generation Experience Economy however, as all information becomes increasingly accessible, creating new levels of transparency becomes very important for companies.

By using the building blocks of the DART model, designers, retailers and marketers will be in a better position to excel in engineering value structures that are set up to enhance customer’s experience (Prahalad & Ramaswamy, 2004b; Tsai, 2005).

Whereas the first generation focused on the company offer and considered experiences as a means to stimulate company profitability, in the second generation the focus has shifted to customer’s demand, customer relationship management and the co-creation of meaningful experiences (Prahalad & Ramaswamy, 2004a; Boswijk & Peelen, 2008).

The second generation Experience Economy clearly puts the needs and wants of the customer central. The customer is being looked at as an individual human being, with personal norms, values, goals in life, who wants to play an active role in the company-client relationship. Therefore, the present parameters for creating and directing memorable experiences are authenticity and originality (Boswijk & Peelen, 2008; Pine & Gilmore, 2008).

When creating and directing memorable experiences, retailers must keep in mind that the retail experience needs to deliver value to customers, since perceived value is being characterized as the essential outcome of marketing activity (Mathwick et al., 2001). When a retail experience succeeds in delivering value to the customer, it can become the key to long-term success (Sweeney & Soutar, 2001).

However, retailers cannot neglect the importance of functionalities: empirical research attempts concerning customer experiences made clear that customers seek for an adequate balance between utilitarian (functional) and experiential (hedonic) value (Fiore & Kim, 2007; Gentile et al., 2007).

Designing Experiences in Retail Store Environments

How can designers translate the theoretical knowledge concerning Retail Design and the Experience Economy into design practice? In what follows, two successful retail stores illustrate how retail stores can be designed or adapted following the theoretical ‘guidelines’ of the first and second generation Experience Economy.

Case Study First Generation Experience Economy: Starbucks

Starbucks Corporation is an international coffee and coffeehouse chain, founded in Seattle in 1971. Starbucks is the largest coffeehouse company in the world, with over 15000 stores in 44 countries (Starbucks Coffee Company, 2008). It not only sells coffee and other hot and cold drinks, but also snacks,
coffee accessories and gift items. By creating a ‘memorable Starbucks experience’, the company aims to create loyal customers.

Illustration 2: Starbucks at Suny Fredonia, New York,

Starbucks wants customers to look at their stores as a so-called ‘third place’ to spend time, besides home and work. Different store design elements support creating a memorable Starbucks experience. Starbucks stores for instance are equipped with stuffed chairs and tables with hard-backed chairs, in order to offer a more enjoyable interior. The design also focuses on making use of rich, warm colors and attractive graphics. In-store music is also carefully selected. The company imposed a non-smoking policy for almost all of its stores worldwide, in order to prevent the coffee aroma from being adulterated. For similar reasons, Starbucks asks its employees not to wear strong perfumes (Starbucks Corporation, 2008). All these elements support the Starbucks experience by appealing to customer’s senses. The store does a lot of effort in trying to create a harmonious design entity as part of an appropriate atmosphere for customers.

Several Starbucks stores also provide free electricity and wireless Internet access for their customers. These actions are additional efforts from Starbucks to create a ‘cocoon of cosiness’ and keep the customer longer in the store. By offering free electricity and Internet access, Starbucks hopes that customers no longer have reason to go home.

Next to the ‘traditional’ coffee, other hot drinks and accessories, Starbucks also recently created a ‘Starbucks Entertainment’ division and the ‘Starbucks Hear Music’ brand. By enlarging their traditional offer with these products, the company also tries to market books, music and film in order to add (more) value for its customers and make the customers able to take the Starbucks experience home (Starbucks Coffee Company, 2008).

Case Study Second Generation Experience Economy: Build-A-Bear Workshop

Build-A-Bear Workshop is a retailer that sells customizable teddy bears and other stuffed animals. The company was founded in 1997. At the end of 2006, Build-A-Bear had opened more than 300 stores worldwide.

In the Build-A-Bear stores, customers can create their own teddy bears. The fact of being able to create one’s own bear, choose the sound it will utter, and consequently stuff it, stitch, fluff, dress and name it as the customer wants, creates a unique customer experience (Pine & Gilmore, 2008; Build-A-Bear Workshop Benelux, 2007).

The entire bear making process takes approximately 20 minutes. Employees in the Build-A-Bear stores (the so-called ‘Master Bear Builders’) are always ready to help customers in the different steps of the bear-making (co-creation) process. The primary target group for the store are families with children, typically aged between 3 and 12. The company founder is persuaded that it is necessary to know how the children evaluate the experience. Therefore, she continuously argues with children of the target group, and she even has established a children ‘advisory board’. These children are frequently being contacted by mail to help her reflect about new ideas.

The company is the global leader in interactive retail (Gouillart, 2006).

Experience Economy in the Retail Design Discipline

The rise of the second generation Experience Economy showed that the Experience Economy has outgrown its pioneer’s stage and that is has become a proper subject of research (Boswijk & Peelen, 2008). So far, several contributions in the field of ‘experiential marketing’, ‘entertaining experiences’ and ‘experienced-based consumption’ have been published, but reliable knowledge about how to provoke the experiences referred to, is scarce (Bäckström & Johansson, 2006). Secondly, there is a lack of a common ground for discussion among different authors, since interpretations and conceptualizations of the central concept ‘experience’ differ from one author to another (Bäckström & Johansson, 2006; Gentile et al., 2007; Desmet & Hekkert, 2007). Thirdly, the literature that emphasizes the importance for retailers to focus on experiences often lacks empirical support (Bäckström & Johansson, 2006; Desmet & Hekkert, 2007). The existing experiential retail literature has focused mainly on the isolated testing of static design elements of retail stores (e.g. music, light, …) (Turley & Milliman, 2000). But experiential concepts do not work in isolation; they function as a holistic mechanism, driving the customer’s retail experience (Healy et al., 2007). The assumed interaction between atmospheric design elements in retail store environments remains largely undefined (Chebat & Babin, 2005; Spangenberg et al., 2005).

Fourthly, since experiences function as a holistic mechanism, it is clear they always are context- and situation-specific (Dewey, 1938). This implies that ‘experiences’, as originally conceptualized by Pine & Gilmore, do not necessarily work in a European retail context. Value changes, as cultural values and norms (and external contextual factors) change (Overby et al., 2005). Therefore, the same ‘experience’ may be assigned a different value by users in different contexts (Boztepe, 2007; Millan & Howard, 2007).

There seems, however, to be a gap between theory and practice as relatively few companies have adopted the perspective of the customer experience (Gentile et al., 2007). Given the growing recognition of this topic, more academic attention is strongly encouraged (Mathwick et al., 2001).

Conclusion

This contribution aimed to making clear that since economics (and marketing) are progressing from a goods to a service dominant logic, creating and directing memorable ‘experiences’ has become a means of communication as well as a possible differentiation strategy.

In the current Experience Economy, retailers need to focus on their customers. Retail Design can play an important role in this process. Since experiences are the new source for value creation, retailers need to strive to create value for the customer by building personal, intuitive relationships. The present parameters for creating and directing memorable experiences are authenticity and originality. The examples of Starbucks and Build-A-Bear Workshop have illustrated how the design of retail environments can be directed towards values and creating appropriate ‘atmospheres’.

References


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**About the Authors**

*Ann Petermans*

Ann Petermans has a Master’s Degree in Communication Sciences. Since research has always fascinated her, she started her career in a Market Research Company. After having worked there for 3 years, in 2004 she turned to scientific research at the research group ArcK of PHL University College. Recently, she started working on her Ph.D. research in the field of “Interior Architecture” (more specifically, Retail Design) at the PHL University College and Hasselt University. Her research focuses on the relationship between Experience Economy and Retail Design. The principles and practices of the ‘experience economy’ more and more are being used in Retail Design, since the creation of memorable experiences seems to have positive consequences for the retail store. However, the Interior Design discipline in general, and the Retail Design discipline in particular, lack a theoretical framework to critically reflect about this economic phenomenon. Moreover, the literature that emphasizes the importance for retailers to focus on experiences often lacks empirical support. This Ph.D. project aims to formulate answers to this knowledge gap.
Koenraad Van Cleempoel
Koenraad Van Cleempoel supervises this Ph.D. research and has established a retail research center (with a retail design research lab) at the department of interior architecture at the PHL University College of the Hasselt University (Belgium).
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