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How does the Experience Economy Affect the Entrepreneurial Dynamics?

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Abstract

This paper is the first step to study the entrepreneurs within the “experience economy” in the provincial municipality of Frederikshavn, Denmark. The research assumes that the concepts of the “experience economy” could change a region's competitive advantage. Some of the challenges to understand the concept and the effect of the current economic slowdown on it are discussed. The author suggests that businesses and cities should be aware that products, services and experiences coexist in the marketplace. The paper affirms that the public sector can play a crucial role in offering experience activities through intrapreneurship. The author proposes that the experience economy is quite related to innovation. Finally, the paper discusses the innovation system concept and a matrix is proposed to analyze the entrepreneurial dynamics in a region.

Keywords: *Experience Economy; Entrepreneurship; Intrapreneurship; Innovation System; Local Development; Economic Geography*

Introduction

An infinite number of authors have tried to categorize today's economic period with names such as the "knowledge economy" (1.320 g.r.)¹, "digital economy" (913 g.r.) "information economy" (873 g.r.), "creative economy" (234 g.r.), "learning economy" (45 g.r), etc. These concepts do not necessarily contradict each other, nor contradict the idea of a "new economy" (3.130 g.r.), however, it certainly complicates things for business leaders and policy makers to focus on issues. During the last few years some urban planners, business consultants and leisure entrepreneurs have been paying particular attention to the concept of the "experience economy" (142 g.r.). (Sundbo, 2007)

The concept can help companies of all types to better understand the current marketplace. Likewise, regional governments can facilitate citizens, to engage in stimulating activities that would make neighbors more satisfied with their communities, as well as bringing in tourism income and potential citizens. However, in both cases the basics of economics can not be neglected. It is not in the scope of this paper to go over the basics needed for business and regional development, but the goal of this paper is to point out the role that experience economy can play in these fields, even in times when the economy is slow.

The author does not use the term "experience economy" to describe the current or upcoming economy (as a whole) as Pine and Gilmore claim (1999, 2007) although he acknowledges that its concept can provide a way to better compete. The author does neither interpret the experience economy as only involving leisure, tourism and culture, but views the term having a broader expression. Experiences are understood as coexisting offerings that share the marketplace with manufactured products and services.

The author follows the line of research marked by Lorentzen (2007, 2008) about the experience economy in small cities, more specifically, the case of Frederikshavn, Denmark.

New Cycles Can Change the Competitive Advantage of Regions.

When humans began to learn the benefits of the agriculture and farming, comparatively to hunting nomads, they gathered around fertile lands. Populations in the most productive lands were able to obtain enough resources to have some of its individuals specialize in such fields as bronze or iron production. When excess production was attained, trade emerged. (Diamond, 1999). Some populations strategically positioned themselves along commercial routes and

¹ g.r. stands for approximated Google Results in thousands, as in early May 2008.

became prosperous towns, where politics, education, technology and the arts flourished. Larger towns brought more possibilities than small ones. Economic hubs attracted more people because people could develop themselves the most in these places. The old adage “money attracts money” seems to have been around for ages.

Adam Smith concluded that *“There are some sorts of industry, even of the lowest kind, which can be carried on nowhere but in a great town”*. That was in 1776, at the genesis of the Industrial Revolution. This age brought mass production accompanied by mass growth of cities. For example, textile production used to be done in homes scattered all across rural areas; with the establishment of the first factories, textile workers eventually had to move to cities in order to work. Many farming communities died away and new neighborhoods in the city popped up. This pattern was followed all throughout industrialized countries.

The industrial revolution drastically changed economics and society. Since this event until today, many economists and statesmen have attempted to better understand the nature of cycles and their ability to change the social order. Economists may disagree about the dates of cycles, some like Milton Friedman even noted that business cycles theories are wrong and that they might be even harmful (M. Friedman, 1999). However a wide range of authors, with such relevance as Marx (1867), Kondratieff (1925, 1935), Schumpeter (1939) or Keynes (1936) firmly believed in these cycles or waves of economic change.

Christopher Freeman and Carlota Perez, following Schumpeter’s model, pointed out these cycles and named them techno-economic paradigms² (1986). These paradigms are more than just incremental or radical innovation, but a description of how the whole economy can be affected by certain innovation. These paradigms have tremendous consequences on our societies, and have a direct correlation to the composition and geography of human populations.

A good case in point is railway transportation and how it impacted for example, the city of Saint Louis, called two centuries ago, the “New York of the East”. When, Chicago policy makers made the train arrive to Chicago in 1852, it made boom the city. St. Louis, dependent on the steam boat system sunk. (Taylor, 1997)

² See figure 1 on appendix with the five techno-economic paradigms updated by Perez (2008)

Living on the Eve of a Different Economy?

Perez (2004) warns policy makers and business leaders to seriously take the effect of different techno-economic paradigms on the economy. In February 2008 in an Urban Development Conference in San Francisco, she stressed that there is only a small window of time in which governments and firms need to get it right; a window that might soon close. (Perez, 2008)

Perez is not alone. After reviewing popular literature and research on a broad field of subjects it seems she is not alone. As mentioned above, there is an uncountable number of authors talking about a different society which is changing the usual partners. For example, Thomas Friedman (2005, 2006), in his latest best-seller book presents ten compelling reasons that explain how today's economy and society have tremendously changed. For the skeptical, he tells how people in other times, such as when the printing machine or the light bulb were introduced, also thought they were living in normal times, without realizing that they were witnessing radical innovations that would change the fate of humankind.

Over the last few years, there have been many changes. Probably one of the most relevant is that there is a large portion of the worldwide population that has become aware of the infinite possibilities any field offers. This is combined with the fact that there are high levels of consumption on living new experiences. Nowadays, with a high GDP per capita in multiple regions, people want (and are able) to spend less on basic products and services and more on a higher quality of life and exciting experiences.

Concerning the experience economy, Pine and Gilmore (1999), argue there have been different economic waves; the agrarian economy, the industrial economy, the service economy and the current experience economy. They indicate that we have reached the peak of the service economy, and even if people do not call it by this name yet, the current economy is shifting to the "experience economy". Obviously, they are not the first ones to discuss how people value living new experiences. Carú and Cova (2003) openly criticize Pine and Gilmore for going over an issue already known in the marketing field at least since "*Holbrook and Hirschman's pioneering article of 1982*" discussed emotional experiences linked to products and services. Focusing on contemporary examples, German sociologist Schulze in 1993, already argued for the idea of the "experience society". An earlier example is Alvin Toffler. In 1971, he criticized how "*economists have great difficulty imaging alternatives to communism and capitalism*", and how they could only envision the economy in the terms of scarcity of

resources. In his first book, he talked about the upcoming “experiential industry”, in which people in the “future”, would be willing to allocate high percentages of their salaries to live amazing experiences (Toffler, 1971). His description of these fantastic experiences, were surely amazing for the early 70’s, but compared to today’s standards, they seem like typical vacations or Friday nights to the generation born after his assertions. Toffler used the term “experiential industry”, Schulze the “experience society”, while Pine and Gilmore “experience economy”. This paper uses the term created by Pine and Gilmore, although the author stresses the importance of keeping a broad and inclusive vision, as many authors talk about the importance of looking for experiences.

Perez points out that the information and communication technology (ICT) is the current techno-economic paradigm (Perez, 2004). The author argues that there is an overestimated interplay between the ICT and the experience economy. The computing industry (hardware and software) had and has a strong relationship on the possibilities of offering leisure (games, music, videos) or experience individual learning. In similar way the internet did not only enable another channel for business communication, as many considered. No one knew all the possibilities that the internet could offer; the opportunity for people to live and enhance their own experiences. Even renowned authors like Krugman, in 1998 commented “*by 2005 or so, it will become clear that the Internet's impact on the economy has been no greater than the fax machine's.*” Not even Pine and Gilmore around those years paid too much attention to the internet phenomenon in their 1998 and 1999 publications. A decade later, the author believes there are reasons to believe there has been a reciprocal relationship between the two concepts.

This last section has specified that there are different economic waves, techno-economic paradigms or important changes to acknowledge. The author has expressed the interplay between the ICT and the experience economy. In the next section, some notions of the experience economy will be discussed.

Characteristics of the Experience Economy

The author does not fully coincide with “the discoverers” of the experience economy.³ They envisioned the experience economy as following a linear evolution from the agrarian economy to the industrial economy and then the services economy (Pine & Gilmore, 1999, 2007). The author believes that it is somewhat extreme to assert that our current world

³ Starting with the fact that Pine and Gilmore prefer to call it “Experience Economy” using capitals.

economy can be described by the search for amazing experiences. For example, the world's biggest companies are dedicated to banking, energy or retailing (Forbes, 2008), while it is unclear how much of its activities would be allocated to the experience economy. Furthermore, it does not seem prudent to dismiss the importance of the service and industrial sectors or even the agricultural sector.

It is crucial to recognize that people have always looked for experiences. Once upon a time, wealthy people fantasized about being able to cross the Atlantic on a commercial flight and today they fantasize about going for a space walk. Low income people dreamt of having a TV, today they dream of crossing the Atlantic. It is important to realize that philosophers, social scientists, government officials and especially entrepreneurs have acknowledged during ages that people desire to live new and exciting experiences. Therefore this phenomenon has been quite heavily studied and can be related to an infinite number of theories and authors.

In fact, the author believes that in order to work more efficiently with the concept of the experience economy, three general points should be agreed upon.

- First, manufactured products, services and experiences are interrelated in the marketplace. While Pine & Gilmore used didactical examples to differentiate the offerings of manufactured products, offerings of services and offerings of experiences, actually the three are interrelated to a certain extent (See figures 2 and 3). Over the last few years experts have observed that the product and service sectors are “*becoming more interrelated*” (OECD, 2000) The same trend of interrelation can also be seen with experiences which are bundled with products and services. This trend of combining products and services relates to the “integrated solutions” approach (Windahl & Lakemond, 2006). The author believes this concept can also be useful for combining products, services and experiences.

- Second, the experience economy is linked to a healthy economy. As Pine & Gilmore (1999, 2007) and Toffler (1971) are the first to point out, the desire and ability to pay for experiences is something that evolves in rich regions and/or with a large middle class population. Consequently, the principles related to offerings of experiences should differ in every region as each region have different GDP per capita, as well as different cultural tastes. Because personal wealth and income across regions change overtime, the marketplace (for products, services and experiences) changes with related intensity. Besides that, a study of the Danish Ministry of Economic and Business Affairs, pointed out that even in the same regions,

“a number of factors suggest that the culture and experience economy grows at a faster rate than general growth in boom periods and less in periods of recession” (OEM, 2003).

Once the two previous points are accepted, the author believes it is possible to establish the third one:

- The experience economy sector is highly dependant on innovation. Because the experiences are supposed to be unique, they have to be different every time. It is harder to create customer loyalty in the experience field than for other products and services. For example, when someone likes a certain brand of mayonnaise this individual will keep buying the exact same product regularly, or when someone hires the services of a lawyer it can easily be a client for several years. However in the case of a concert, people rarely attend the exact same concert twice; musicians and producers know it. Experience activities need to innovate constantly. That would support the idea that all possible theories and tools related to innovation should be taken into account in order to survive in a market that is always ready for action.

Innovation is thus crucial for the experience economy. This paper will look at the concept of systems of innovation and investigate how it can contribute to this discussion⁴. The research assumes that the basics of the experience economy could be an efficient concept for private and public development (especially at the regional and local levels). In the next sections the issue will be further discussed. Before that, an anecdote will be presented to explain how to approach different urban development theories and a balanced way to consider these issues.

Current Debate in Denmark: Richard Florida vs. Joel Kotkin

Right now in Denmark, there is an interesting fight going on which might have similar echoes worldwide. The contenders are, on one side, some local governments, and on the other side the big corporation executives, with Dansk Industri (Danish Industry) as its most notable organization.

The recognized author, Richard Florida was invited by Biz-Art and Erhvervsudvikling (business development linked to the local government) of the municipality of Vejle to give a conference on February 27, 2008. He became renowned in the world for pointing out to policy

⁴ An infinite number of issues/theories affect innovation (creativity, social capital, property rights, markets, etc). The author uses the SI as it is somewhat rooted in an economic geography approach.

makers that if they were interested in thriving in the “creative economy”⁵ they should attract creative people. Creative people prefer authentic “cool” places, where technology, tolerance and talent can stay alive (Florida, 2002). Danish academia and government officials at all levels have been taking Florida’s ideas about the “Creative Class” quite seriously during the last years, so the presentation was quite popular.

Many influential business people in Denmark are fed up with the ideas of the “creative class” and how they are influencing policy makers. Dansk Industri found Joel Kotkin, who has been against Florida in few arenas over the last months. The group organized conferences in the two largest Danish cities, four weeks after Florida’s presentation to counteract his effect. Kotkin received an impressive positive backing by the Danish media.

During the conference, Kotkin never mentioned Florida, but it was clear in the pamphlets and power point presentation that the conference was about going “*beyond the creative class*” and “*further than the hip and the cool*”. Overall, Kotkin was criticized by the attending local leaders; however some points are worth mentioning here. Kotkin’s thesis is that a city’s economy comes first, and then culture and the arts follow afterwards. To give a graphic example, in one of his articles, he explains how the city of New Orleans, was allocating money for the idea of the “cultural economic initiative” instead of securing the levees, when Katrina swept through the city (Kotkin, 2005, 2008). In his presentation he underscored the importance of the manufacturing industry.

Kotkin was as polite to the ones who paid for his presentation, as Florida was for the ones who paid for his. These experts, one born in New York and another in New Jersey, in the opinion of the author, basically said to each different public what they wanted to hear. Basically, if anyone wants to spend his resources doing cool cultural things for the city, hire Florida. If someone on the opposite side wants to let the markets work and let the city basically concentrate in building infrastructures, hire Kotkin.

To sum up, the author agrees that cities should support entertainment and culture for its citizens, keeping in mind that potential citizen might be attracted by how nice and fun a city is (Florida, 2005). However, policy makers should be careful not to overemphasize the “cool” factor before the economy. (Kotkin, 2005, 2008)

This anecdote about the “Kotkin vs. Florida debate” (Florida, 2007) is shared in order to point out how important is to keep a balance of different thoughts. All in all, the same thing

⁵ Note that even the UN has recently published a report called “The Creative Economy” (2008)

can happen with the experience economy. For example, Pine and Gilmore, have a deep expertise and passion about the experience economy. However, they clearly understand that the “basics” of business come before the experience economy, as they affirm in the introduction of their latest book:

“One important note: while the imperative for authenticity may dominate managerial attention, it is not an absolute. Companies such as Kmart, United Airlines, or General Motors should not be focusing on rendering anything authentic or staging experiences when they are still flailing around for an effective supply chain, maintaining high cost structures, or providing lesser-quality products. Such companies should concentrate on the basics.”

(Gilmore and Pine, 2007)

Therefore, there is an intimate relationship between the experience economy and the conditions of the economy in all areas. This does not mean that staging experiences should be excluded from companies or cities, but instead it suggests that of course, a company that has a broken accounting, or a city with a precarious bridge, needs to fix these things first. The author adheres to Pine and Gilmore to argue that the experience economy is an important contribution for both the private and public sectors. The author stresses the role the public sector has to play, as seen in Figure 4.

The next section will briefly address a current issue that worries many, and in particular those specialized in the experience economy field. The section is titled with the subject of a blog that will be mentioned below.

What Happens When the Experience Economy Meets the Recession Economy?

The headlines of the business section during the first months of 2008 have been filled with gloom and doom. First, people talked about a slowdown of the economy, now the word “recession” has started to gain respect. This affects the consumption of products, services and perhaps more severely the offering of experiences due to its higher elasticity.

After several years of strong economic growth, Pine and Gilmore in 1999, published “The Experience Economy”. Since then, a decade has passed and many things have changed. The U.S. economy (housing, banking, sinking dollar, income inequality, trade deficit, huge military expenditures, trillionaire debt, etc.) is not a source of happiness for the U.S. citizens. Consumption habits change. *“In March, Americans spent less on women’s clothing (down 4.9 percent), furniture (3.1 percent), luxury goods (1.3 percent) and airline tickets (1.1 percent)*

compared with a year ago.” (Barbaro & Dash, 2008) When writing this article oil prices surpassed the barrier of US\$ 125 a barrel, affecting many industries.

Europe does not have many reasons to celebrate either. While salaries seem stagnant for the majority of the population, the inflation is eating all surpluses. Since 1999, *“prices have risen 22.5 percent in the 27 member states of the European Union, and 18.8 percent in the 15 countries that use the euro”* (Dougherty & Bennhold, 2008). This affects experiences consumption, for example, in Italy leisure and recreation spending fell 5.5 percent. (ibid.)

Back in 1999 (and even last year), Pine and Gilmore and many others, repeatedly began discussing the experience economy with the amazing example of Starbucks (See Figure 2). Telling how they were doing so well not only selling their coffee, but because they sold a whole experience. Today we know that *“is ‘in’: brewing coffee at home, and ‘out’: go to Starbucks”* (Barbaro & Dash, April 2008) and that there are *“fewer lattes runs”* (Mintz, April 2008). Investors have probably noticed that citizens are not as interested in these “cool” coffee experiences anymore, as the Starbucks share has fall from approximately 40\$ to 15\$ in the last 2 years⁶.

The issue of how recession can affect experience activities is not trivial. Many consultants and entrepreneurs specialized in the experience economy have started to worry. For example, in February, Stephanie Weaver (2008) in her blog “Experienceology” dedicated the whole month to explore the question, *“What happens when the experience economy meets the recession economy?”* Specialists and bloggers were invited to share their views. The public took the question seriously. Even Joe Pine (co-author of “The Experience Economy”), who was invited to participate was actively involved in sharing his opinion. They all probably have some bias and tended towards easing people’s fears. This is understandable since these people have allocated years of learning this subject.

In Weaver’s blog, all answers defending the importance of the experience economy were quite reasonable⁷; however it seems that at the moment participants have forgotten to take into account the importance of the big picture. Andersson and Andersson (2006), give clear examples to explain the demand for the arts and entertainment products through time. Although it is quite hard to make economic comparisons over time, when looking at the

⁶ It is clearly difficult for business books to choose a companies as the poster child. This not only happened with Pine and Gilmore’s “The Experience Economy” (1999) and “Authenticity” (2007). Best seller books like “Good to Great” (Collins, 2001) or “In Search of Excellence” (Peters, 1982), also picked some top companies that crashed quarters later.

⁷ I also gave my opinion. Last time blog was checked June 2008.

economic trends during the last century, it seems clear that *“the impact of economic growth on the consumption of recreational goods and services has been substantial”* (ibid). One issue is to look at arts and entertainment consumption, as percentage shares of the total consumption expenditures in developed market economies. From 1975 to 2002 there has been a considerable increase in arts and entertainment consumption in all countries⁸ surveyed (OECD, 2004). Another main factor chosen by Andersson & Andersson (2006), are the annual hours of work from 1870 to 1979. Western Europe and North America have a strong increase in leisure hours, *“the most pronounced case being Sweden where the number of working hours decreased from 2.945 hours to 1.461 hours after a century of industrialization.”* (ibid.) An increased life expectancy must also be taken into consideration. In 1900 it was 49,2 and in the year 2000 it is up to 77,3. By 2050 it is calculated that the average life expectancy will be 81,9 years (ibid).

These and other factors, such as the progressive increment of years people spend on education before working, show that in the earliest phase of industrialization 30% of a person’s lifetime was spent working, and 40% of one’s time was spent sleeping and eating. Therefore *“little free time remained for entertainment, the arts and other recreational activities for members of the working class. A young person can today expect, after education, to work less than 9% of the total expected lifetime.”* (ibid)

It is also important to acknowledge, that during the last quarters the most developed economies are suffering a downturn, while many regions, especially the ones in South East Asia are experimenting more than 5% annual growth, a larger percentage than even in the 90’s (UN, 2008)

Hence there are many factors that indicate that humankind, and especially in the last century, has prospered and been able to spend more time and resources on gratifying experiences. All in all, the market economy comes with long and short cycles, and subsequently the offerings of products, services and experiences need to go hand in hand with the trends in order to survive. From the author’s point of view, it would not make much sense for business and policy makers to exclude offering experiences to the marketplace or communities. People have been always been interested in experiences and for these reasons,

⁸ Australia, Canada, Denmark, Finland, France, Italy, Norway, UK and the USA. The countries average of total expenditures on recreation in 1975 was 7.2%, and in 2002 went up to 10.8%. (note that recreation and culture are only a part of the experience economy)

offering experience activities can be the key to survive during a slow growth or even recession period.

Having said that, just because an economy is strong it is not guaranteed that citizens will increase their expenses on certain types of experiences or on any experiences at all. For example, when comparing the price of coke and a movie ticket (related to entertainment) to accommodation from 1957 to 2007, the prices of housing and entertainment can be seen to have increased similarly, especially when compared with income⁹. Therefore, business with an interest in profiting from selling or including experiences should be reminded that they are not alone. They are in a competitive market with other experience entrepreneurs as well as substitute sectors.

In conclusion, cycles affect the expenditures of experiences, but there are always plenty of opportunities. Today, if the economy is doing poorly, people might stop going to the theater to watch films, but they might start buying better TV equipments in order to watch them at home (Barbaro & Dash, 2008). Scandinavians might not go to Caribbean hotels, but some Nordic towns may benefit.

The Potential of the Experience Economy to Promote Provincial Cities

When the economy was heavily dependant on industrial production, it seems that a larger a population was the better for production. The same thing seems to happen in the service economy. However in economies where “living experiences” increases its economic weight, it is not proven whether or not high density regions still have a competitive advantage. While the world’s urban population has steady grown for the last two centuries when compared to rural populations (UN, 2007), this does not conflict with the idea that small cities-regions can have economic and population growth. Lorentzen (2007) explains why these regions might stay competitive:

“In the industrial paradigm firms have clustered in cities in order to reduce costs by being proximate to markets, supplies and labour (Hayter, 1998). In terms of consumption people located in cities because they wanted to socialise and benefit from different facilities and services (Glaeser, 2001). In the knowledge

⁹ The year 1957 in USA is chosen because it was in the 50’s when the service economy became prevalent there. Approximate average prices for a drink of Coca-Cola, have increased from 5 cents to 1 dollar (20 times), movie tickets from 50 cents to 8 dollars (16 times), and an average house in the east coast, from 12.000\$ to 200.000\$ (17 times). Family income has increased from 5.000\$ to 50.000\$ (10 times) (The People History, 2008) This is an American example, but similar trends might be appreciated in other regions. These figures show that while expenditures can be related to the experience economy increase, other sectors also show increases. Thus, the market for experiences has plenty of competition.

economy firms tend to locate in cities with access to specialists, research and decision making centres, preferably in very large metropolises (Simmie, 2003). The specialists and the creative classes have tended to locate in large cities with a varied offer of culture, and interesting jobs (Florida, 2002; Florida, 2005; Scott, 2006). The metropolises have grown to the detriment of smaller cities, reinforced by the intensified competition among cities (Brenner, 2004; Simmie, 2003; van den Berg et al., 2005; van den Berg, Pol & van Winden, 2004). In the experience economy, on the contrary, small cities and peripheral places have begun to produce events, places, activities related to culture, heritage and authenticity (Meethan, 1996; Wilks-Heeg & North, 2004).”

(Lorentzen, 2007)

Here Lorentzen suggests that the provincial regions should not be forgotten in the current picture. Even if many think that the main focus should be on basically 20 megalopolis (Florida, 2006), or 40 megaregions (Florida et al, 2008), Lorentzen stresses the importance of small-city regions due to the experience economy. She’s not alone, as many authors, although they do not necessarily link it to the experience economy, stress the relevance of the rural/periphery regions in the current economy (Fløysand & Jakobsen, 2008; Bærenholdt & Granås, 2008).

It has been indicated that the experience economy will continue to play a significant role for smart companies and cities. The next section will explore the possibility of combining the theories of the experience economy with the concept of the system of innovation.

Considering an Innovation System to Work with the Experience Economy

During the last few months the business press has been wondering if in a challenged economy there is room for innovation (BusinessWeek, 2008). It seems that some business pundits reject innovation without realizing that, innovation is about survival.

As mentioned previously, the experience economy is quite dependant on innovation. The author proposes that the concept of the system of innovation (SI) is a useful tool to encompass techno-economic paradigms, the experience economy and regional development.

The theory of the SI (or innovation system) combines knowledge infrastructure, production structure, policies, consumer demand structure and institutional set-up (Johnson & Gregersen, 1995). It also specifically attempts to build strong relationships between different actors, such as entrepreneurs, public sector institutions (education, law, infrastructure, etc.) and private institutions (financial entities, research centers, etc).

The key elements of the SI, and focus of this research, are the producers. Like the producers of manufacturing products and services, the experience producers are involved in

complex networks. “*The producers of the place bound experience products constitute a variety of actors reaching from small service producing firms, networks of firms, multinational corporations, urban planning authorities, civic organizations and fiery souls*¹⁰. *The producers are permanently or temporarily located on the place of final production of the experience.*” (Lorentzen, 2007)

Another key actor for the innovation system can be the University which works as an antenna that captures what is going on in the rest of the world. It is important to recognize that most of the knowledge required for innovation has not come from Universities and other technical research, but from “*other sources like production engineers, customers, marketing, etc.*” (Lundvall et al., 2002). Nevertheless most experts in regional development would agree with Youtie and Shapira (2006) who argue that a university’s role is to evolve from a “storehouse of knowledge” (like many traditional universities) to a more dynamic “innovation hub”.

To sum up, the system of innovation looks at the relationship between entities, their norms and habits. Its theories argue that there is a correlation between a stronger relationship between the actors and innovation.

It is interesting to analyze the effectiveness of systems of innovation (Lundvall et al, 2002), compared, for example with the concept of network production (Håkansson & Snehota, 2006), (Coe, Dicken & Hess, 2008). It is not in the scope of this current paper to extensively investigate the differences between individual and systematic levels. The author currently leans to a systematic approach; nevertheless, he can identify three main weaknesses when using the system of innovation for a project involving the experience economy in a small city/region.

The first one is that the system of innovation might require too large an analysis, which could provoke an erroneous focus. The broad analysis is understandable since the concept was designed as a *National System of Innovation*. Nonetheless, it is perfectly applicable to regions as Cooke (1992, 2001) pointed out developing the term *Regional System of Innovation*. However it could still be hard to apply it to a provincial city. Besides that authors like Perez

¹⁰ This could probably be related with the *Unternehmergeist* concept as Schumpeter mention in his early writings. *Unternehmer*, is the general word in German for someone who starts or manages a business. The equivalent word “entrepreneur” was adopted from the French by the Anglo-Saxon scholars. “Geist” is the German word for ghost, spirit or soul. Schumpeter combined these words to form the term “*Unternehmergeist*” to precisely the term entrepreneur-spirit/soul.

(2008) argue that current development should be emphasized within the local government and not necessarily from the large regions/national level.

The second main weakness is that the system of innovation emphasizes the strong linkages between different actors. However, too much closeness between actors can also hinder innovation. For example, if the phone companies had paid excessive attention to customers, they probably would have introduced better home telephones, but they would have not introduced mobile phones, because nobody 15 years ago was asking for them.

The third main weakness is the possibility of overlooking the importance of the individual. There is plenty of literature showing that certain leaders make a deep impact on regional development (Sotarauta, 2007). However, it is also true that when referring to economic issues, there are many “individualist” illusions, especially in the entrepreneurship field. (Shane, 2008)

All in all, the author believes that the concept of the innovation system, while its connections and limits may look unclear, provides a focusing device that encloses the process and organization behind innovation. Despite the extensive criticism to the SI concept from the mainstream macroeconomic theory and policy, mainly because of its “*open-ended and path-dependent process where no optimal solutions can be identified*” (Oerlemans & Pretorius, 2006). This is precisely why the author proposes using some type of regional system of innovation as a useful framework for future research. The author believes, that for his project, it is better to keep an open approach, without trying to find best practices or an “optimal” solution. Furthermore, while the role of the individual is important, the system where they are geographically involved can not be overestimated.

This research pays special attention to the entrepreneurs and intrapreneurs (intrapreneurs in the private and public sector) and to local and international collaboration. The study will follow the research done by Lorentzen (2007, 2008) while new lines of study will also be attempted. Individuals will be studied to investigate how they interact within the environment, the system as a whole and the networks they are involved in. Their relationship to the experience economy will also be analyzed.

Exploring the Entrepreneurial Dynamics in the Experience Economy

The author could use the Merriam-Webster dictionary, to define an entrepreneur: “one who organizes, manages, and assumes the risks of a business or enterprise”. However, he is looking at broader entrepreneurial behavior.

The author believes that the majority of entrepreneurial studies neglect intrapreneurship. Pinchot created the term 'intrapreneurship', short for intra-corporate entrepreneurship, which describes the practice of entrepreneurship within companies (Bridge, O'Neil & Crombie, 1998). Other terms related to this same process are called corporate entrepreneurship or corporate venturing. However, the author understands the processes of intrapreneurship to not only develop with big firms, but in any type of organization regardless of its size or whether or not they are public or private.

The author identifies intrapreneurs as individuals within organizations that aim to improve the goal of the entity. In the private sector the goals can be something related to "obtain profits" (business) or "protect the environment" (Greenpeace), and in the public sector it can be "to spread culture" (a public library) or "to protect citizens" (fire station). Noticeably, on occasions individuals will create beneficial projects that cross the borders of the goals.

The author defines an entrepreneur as someone who creates a system in order to obtain benefit. Under this definition, the benefit does not necessarily imply monetary profits, but can provide safety, esteem or self actualization as known in Maslow's hierarchy of needs¹¹ (Maslow, 1970). Examples of the ones aiming at the higher levels are social entrepreneurs in the private sector. They are usually found in non-government organizations (NGO's) or philanthropic projects, in which they basically follow all the market principles but do not have a for-profit mission. They presumably aim to be benefited by self-actualization.

Big corporations like Lockheed Martin (Lockheed Martin, 1943), 3M or Intel (Takahashi, 2000), know the importance of intrapreneurship and under certain conditions they empower employees to develop "their own" enterprises. They do this so that innovation flourishes, even in different areas of production.

Again, most the studies consider intrapreneurship exclusively in pre-established businesses (GEM 2004, p.143). They basically neglect intrapreneurial activity in the public or semipublic organizations. Many leaders in organizations struggle to have their members participate in predetermined activities, forgetting that the key to success might be in finding intrapreneurial teams that create projects by themselves. This happens in all types of organizations and firms.

¹¹ Entrepreneurs who look to fulfill the lowest level of the Maslow's hierarchy are the ones motivated by necessity. This is more commonly found in third world countries or countries with high inequality. This paper is more dedicated to the ones who are motivated by opportunity. Opportunity pursuit is labeled as opportunity motivation, and 'no other way of making a living' is labeled as necessity motivation. (GEM, 2005)

In the case of public intrapreneurship, many public officials work and fight to improve the cities they love. Successful examples range from the previously mentioned S.A. Douglas, the favorite son of Chicago, who brought the train to the city (Taylor, 1997), to the Cleveland Bicentennial Commission who spent 4 million dollars to illuminate the bridge over the river in order to make it a more memorable nighttime experience, which has attracted tourism (Pine and Gilmore, 1999). The two city officials who planned a palm beach in Frederikshavn, creating an unpredictable chain reaction, are certainly intrapreneurs.

City officials are not the only intrapreneurs in the public or semipublic sector. Many others may go beyond their job descriptions to improve their organizations. For example, dedicated professors freely give their resources to improve public universities, and regional officials or wise politicians work diligently to improve infrastructure and organizations. All these people do not work harder out of a motivation for extra money, but are benefited by recognition or self-actualization. Taking into account the author's definition: "*an entrepreneur is someone who creates a system in order to obtain benefit*", one can consider that these types of civil servants are indeed entrepreneurs, or more correctly, intrapreneurs.

In the process of manufacturing products or delivering services, the field of intrapreneurship can go unnoticed. However, in the market of experiences activities, failing to notice intrapreneurship would seem to be a great mistake. Smart entrepreneurs and intrapreneurs will equally grasp the importance of the experience economy. In the same way, from the private to the public spheres, business people and government officials know that their work is related to doing a quality job that will produce a good experience for the customers or citizens.

To better explain this issue, the author proposes a figure that explains the scope of the private and public sectors.

[Introduce Figure 4]

This section has suggested that intrapreneurship will continue to increase its role in the future. Also because intrapreneurship fits quite well with many features of the experience economy, a brief discussion of how to measure these issues will follow. The next sections attempt to answer how entrepreneurship and especially intrapreneurship can be studied.

Measuring Entrepreneurship and Intrapreneurship in a Small City

What characteristics do entrepreneurs involved in the experience economy have? Is it possible to measure them as a group? Should it be studied in a specific geographic area?

Below, a matrix is presented in order to better understand the role of the business leaders in the different situations. The first two columns can be relatively easy filled out. For example, in the case of gender, the majority of the entrepreneurs have been traditionally male. The author assumes that a higher percentage of women are becoming involved in the experience economy, however this should be quantified¹².

Suggested Matrix to Study Entrepreneurship in Different Fields

	Industrial Economy	Knowledge Economy	Experience Economy
Personal Characteristics			
Gender	Majority male	Majority male	?
Age	?
Money – Finance	...		
Education			
Networks			
Links within the system			
Motivations			
Intrapreneurship			
Public involvement			
Others ...			

For practical reasons it could be easier to substitute the terms “industrial, knowledge and experience economy”, for manufacturing products, services and experiences. This matrix is currently being filled out, although there is not a conclusive design or results yet. In order to complete the third column (the different characteristics of entrepreneurship in the experience economy), there is little if any literature, to do so.

The author believes that the importance of geography can not be overlooked: Place matters. In order to study the behavior of entrepreneurs, mixing results from different national

¹² As it was discussed in the previous section, it is important to note that the offering of experiences is not fully controlled by the private sector (in contrast to manufacturing and offering services) –See figure 4 -. For example cities organize concerts or public universities offer students the opportunity to study a semester abroad; showing that the public sector can be very competitive offering experiences.

or regional systems, could result in some inconsistency. This can be further accentuated in the case of the experience economy, since the experience economy is linked to a higher elasticity demand and experiences preferences change within every region. It must be kept in mind that entrepreneurship motivation differs from every region, especially between rich and poor countries, or in places where there is a high inequality (GEM, 2005).

The author believes that this matrix should be filled out by taking information extracted within each region of concern. Therefore the author is currently engaged in designing a survey that could be carried out among public and private organizations.

Conclusions

The paper shows how in the past, cycles have affected society and economic geography. Various authors are quoted indicating that these recent years are part of a turning point, and that it is time for business leaders and government officials to take action.

It is crucial to recognize that products, services and experiences are interrelated in the marketplace. Furthermore, the author suggests that the experience economy is dependant on two things: 1) A healthy economy and therefore the experience economy changes in regions and overtime. A recession might arise but the author lays out reasons to look at the big historic-economic picture. 2) The key of the experience economy is innovation. Those who offer experiences are in a very competitive market. The author discusses that all possible tools to understanding and implement innovation should be used.

The system of innovation can play a key role in understanding the process behind innovation. Although other approaches could be more useful in a provincial city context, the system of innovation encloses a broad economic geography approach.

It has been argued that intrapreneurship should be seen as an important subject for entrepreneurial studies in economic development. Many understand intrapreneurship as existing solely in corporate spheres, but the author observes it regardless of the size of the firms and both in the public and private sector.

In order to study entrepreneurship (and intrapreneurship) in the different fields a matrix has been proposed. The author believes that in order to understand the experience economy and the entrepreneurial dynamics, the quantitative and qualitative studies should be done in every specific region.

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Figures



Figure 1 The Five Techno-Economic Paradigms for the last 2 centuries. (Perez, 2008)

Carlota Perez, as other authors, indicates the year 2008 is in a turning point. This 5 paradigm were firstly elaborated by C. Freeman and her in 1988.

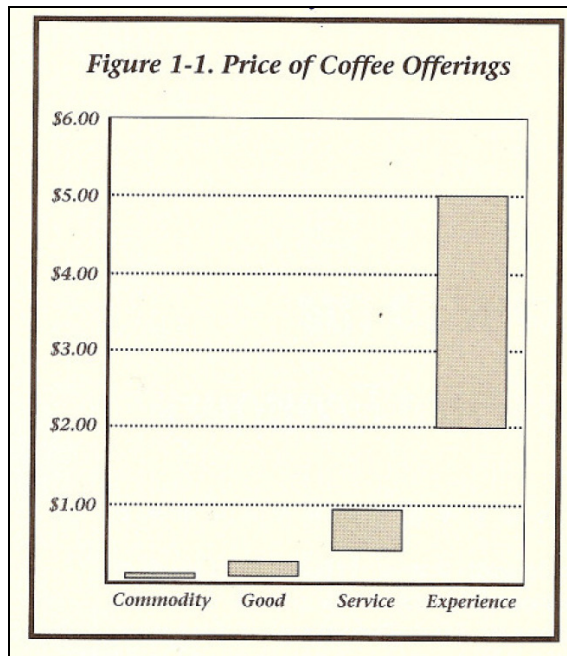


Figure 2 Value of the different offerings at Starbucks by Pine & Gilmore (1999. Fig 1-1)

Commodity (raw materials, coffee beans), the good (the cup of coffee itself), the service (present the good), the experience (the smells, the coziness, the coffee is made by hand, games, sofas, wireless, etc.)

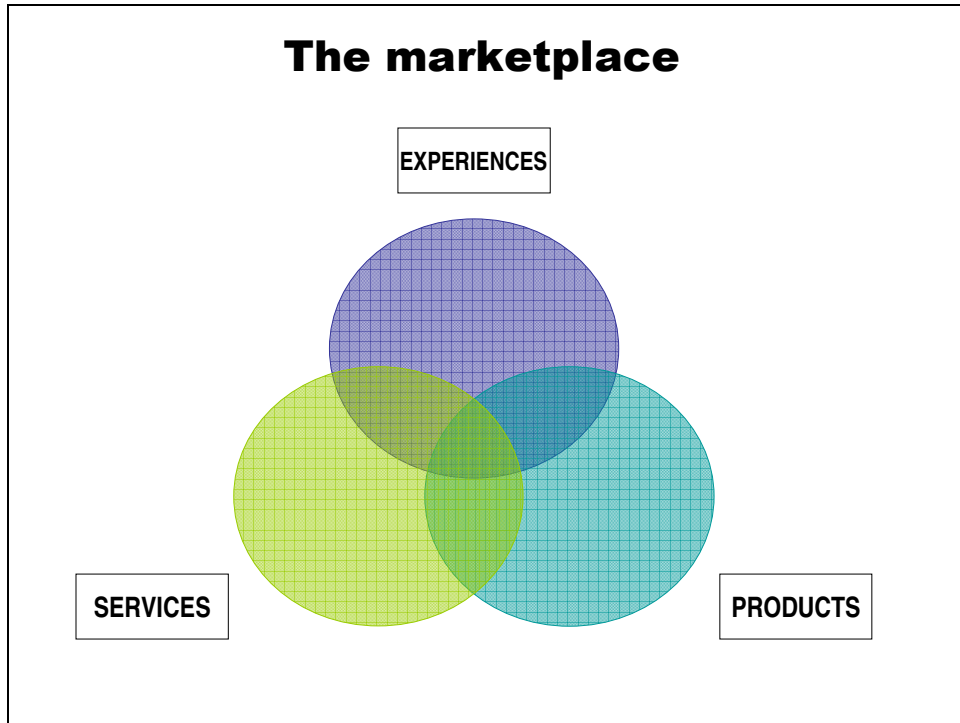


Figure 3 Manufacturing Products, Services and Experiences coexist in the marketplace.
 Size of figures not relevant. (Author elaboration)

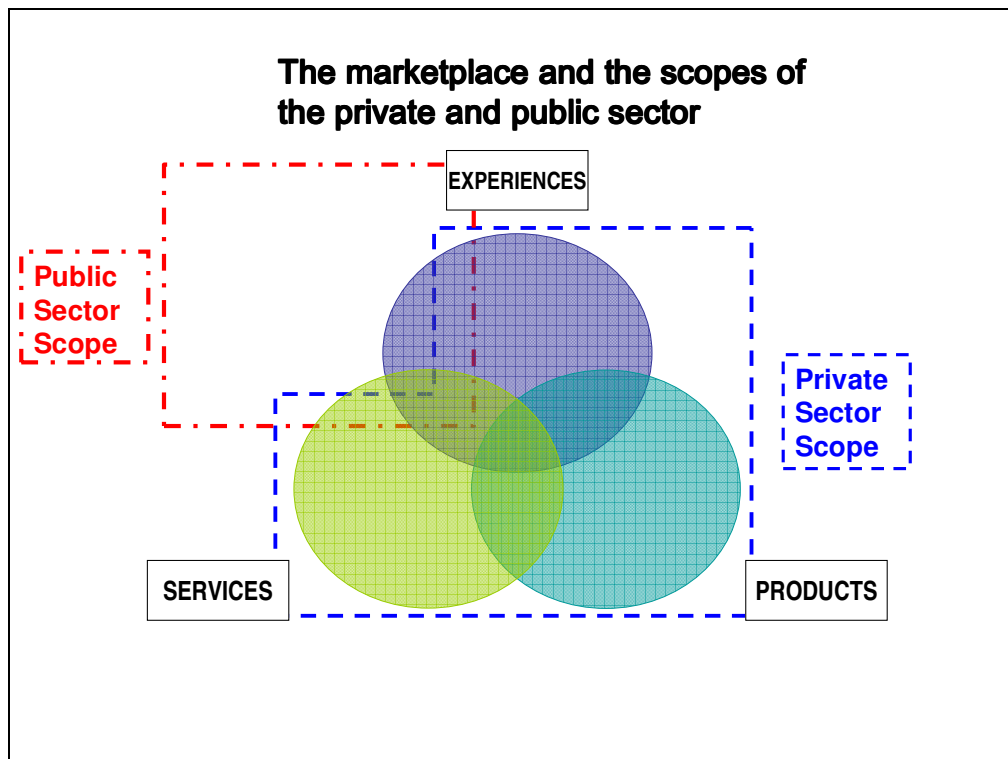


Figure 4 The Scopes of the Private and Public Sector in the Marketplace
 (Author's elaboration)