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# How does the experience economy affect the entrepreneurial dynamics?

Paper by

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## 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 makes it hard 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.)

The concept of the experience economy can help businesses and regions to survive. The concept can help companies of all types to better understand the current marketplace so that they can have more profits. Likewise, regional governments can facilitate citizens, and potential citizens, to engage in stimulating activities that would make neighbors more satisfied with their communities, as well as bring tourism income. However, in both cases the basics of economics can not be neglected. Obviously 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 it can be a way to compete in the global market. 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

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

productive lands were able to obtain enough resources to have some of its individuals specialize in such fields as bronze or iron production. (Diamond, 1999). When excess production was attained, trade emerged. Some populations strategically positioned themselves along commercial routes and 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 saying "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, right on the eve of the Industrial Revolution. This industrialization brought mass production and 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 disappeared and new neighborhoods in the city popped up.

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 bring about change. 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 (Friedman, 1999). However a wide range of authors, with such relevance as Marx (1867), Kondratieff (1925, 1935), Schumpeter (193X) or Keynes (1936) firmly believed in these cycles or waves of economic change.

Chris Freeman and Carlota Perez, following Schumpeter's model, proposed the existence cycles and named them techno-economic paradigms (1986)[2]. These paradigms are more than just incremental or radical innovation, but a description of how the whole economy can be affected. These paradigms have tremendous consequences on our societies, and have a direct correlation to the composition and geography of human populations. This can be explained with the example of Taylor (1997) who told how railway transportation impacted the great city of Saint Louis (Missouri). The city is situated on the Mississippi River, and other rivers connect to it here.  Prior to the 1850's, it was a key hub for trading, as

[2] See figure 1 on appendix with the five techno-economic paradigms, for the last 2 centuries.

it was a natural point for moving shipment. With the rise of the railway it lost its power to Chicago (Illinois):

> "St. Louis was thriving. Its levees received more than four times as much wheat and flour as Chicago; its population doubled by the decade. St. Louis was content with the steamboat. It saw no reason to bet all on the iron horse (…) [Chicago politician] Stephen A. Douglas, guided a land-grant bill through Congress to help build the Illinois Central. In 1852, the railroad reached they city. Its population tripled in 10 years. (…) Chicago had become the leading railroad center in the West. Its strong terminal facilities and low rail rates attracted manufacturers throughout the region. From 1860 to 1910, industrial employment in Chicago increased from 5,400 workers to more than 325,000. (…) Belatedly, St. Louis and Missouri fought back by supporting several railroads. But the spectacular success of Chicago left Eastern investors reluctant to put up money for Missouri rails;(…) Lacking money, the railroads were poorly built and poorly maintained. Four lines defaulted in 1860, and work halted on most of the others. Too little, too late: St. Louis never recovered"
>
> (Taylor, 1997. p. 207-208)

The introduction of the railway, which Freeman and Perez indicated as a key factor of one of their techno-economic paradigms, was the turning point of a great city. St. Louis was called at those times the "New York of the West", but because it did not innovate, it became a mediocre city of Midwest America, and even today it continues to struggle.

What about now? Is the economy currently at a turning point? If so, what are the business leaders and policy-makers doing in order to successfully survive and prosper in a different economy?

***Living on the Eve of a Different Economy?***

Before going deeper into theories that could change the economic geography of our society, it is necessary to explore whether or not, the year 2008 is enclosed in the eve of a new period related to a new economic paradigm.

Carlota Perez, indicates that the year 2008 is enclosed in a turning point, of a techno-economic paradigm driven by Information and Communication Technology (ICT) (Perez, 2004). She urges all business leaders to understand that the industry of the ICT business "*are not just an important industry, they are the key to competitiveness of any company, of any* *country, or any region*"[3] (Perez, 2004). In the case of governments, she argues that they must "provide the best possible context for the economy to take full advantage of the potential of the ICT paradigm" (ibid.) Today in 2008, she continues to stress that there is only a small window of time in which governments and businesses need to get it right. If not, the opportunity may close.

Is Perez some type of eccentric author? After reviewing key popular literature and the research on a broad field of subjects it seems she is not alone. As mentioned above, there are an infinite number of authors talking about a different society which is changing the usual partners. For example, Friedman (2005, 2006) in his book, "The World is Flat", presents ten compelling reasons that explain how today's economy and society has 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.

In these last recent years, there have been many changes, but probably one of the most relevant is that there is a growing 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 in this market economy, people want (and are able) to spend less on basic products and services and more on a higher quality of life with exciting experiences.

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. Focusing on contemporary examples, German sociologist Gerhard Schulze in 1993, already argued for the idea of the "experience society" (Die Erlebnisgesellschaft). 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

[3] The author feels it is necessary to point out that although ICT is the transformer of our society and future societies, this does not mean that organizations should have an excessive reliance on technology. This is well explained by management experts (Collins, 2001) or by the STI-DUI modes of innovation theories (Jensen et al, 2007). Nevertheless with the "new technology the scope has considerably broadened, as interactivity can be built into many services and products, thus involving the customer" (Lorentzen, 2007)

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.

This last section has specified that there are different economic waves or techno-economic paradigms. The current paradigm is mainly characterized as being driven by ICT.. The author believes it is useful to establish a dialogue about the concept of the experience economy. In the next section, some notions of the experience economy will be briefly discussed.

**The Role of the Experience Economy**

This research does not fully coincide with "the discoverers" of the experience economy.[4] They envisioned the experience economy as a next step in a linear process from the agrarian economy, industrial economy and services economy (Pine and Gilmore, 1999, 2007). The author believes that is somewhat extreme to assert that our current world economy can be described by the search for amazing experiences. In fact the world's biggest companies share banking, energy or retailing (Forbes, 2008), while it is not that clear how much of it would allocate to the experience economy field.

It is crucial to recognize that people have always looked for experiences. Everyone agrees on this point, but it should be kept in mind. 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. After mentioning different authors, 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 studied and can be related to an infinite number of theories and authors.

[4] Starting with the fact that Pine and Gilmore prefer to call it "Experience Economy" using capitals.

In fact, the author believes that in order to more efficiently work 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 in the appendix for this graphic explanation). Over the last few years experts have observed that, products and services sectors are "becoming more interrelated" (OECD, 2000). This interrelation can also be seen with experiences bundled with products and services. This trend of combining products and services relates to the "integrated solutions" approach (Windahl and Lakemond, 2006), and therefore, the author believes that some of its theories can also be useful to combine 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 the experience economy should differ in every region, as it differs by the tastes of every individual. Because personal wealth and income across regions change overtime, the marketplace (for products, services and experiences) changes with the same intensity. Besides 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) Denmark in the Culture and Experience Economy).

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

- The sector of experience economy is highly dependant on innovation. Because the experiences are supposed to be unique, they have to be different every time. So it is harder to create customer loyalty in the experience field than for other products and services. For this reason, all possible tools related to innovation should be taken into account in order to survive in this rough field of the market.

Hence, innovation is crucial for the experience economy. This paper will look at the concept of systems of innovation and investigates how it can contribute to this discussion. The author understands the basics of the experience economy as an efficient concept for private and public development (especially at the regional and local levels). Before that an anecdote will be introduced to explain how to approach different 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, the local governments and creative people somewhat on the left politically, and on the other side, the more conservative, big corporation executives, with the Dansk Industri (Danish Industry) as its most notable organization[5].

Recently Richard Florida was invited by Biz-Art and Erhvervsudvikling (industrial development related to the local government) of the municipality of Vejle to give a conference on February 27, 2008. According to one of my colleagues, Florida presented his ideas like a “preacher”.

Danish academia and government officials at all levels have been taking Florida’s ideas about the “Creative Class” quite seriously. Florida makes for very interesting reading and has some amazing teachings; yet, his ideas are often questioned. He became famous by teaching policy makers that if they were interested in bringing in the creative people, the ones who produce the current “creative economy”, cities should be transformed into authentic “cool” places. While it is true that when people can choose, most of them will choose “cool” places to live, a city can loose the right focus by overemphasizing these issues.[6]

Many influential business people in Denmark are fed up with the ideas of “creative class” and how they are influencing policies. In fact, Dansk Industri searched and found a completely new person to counteract Florida’s influence. He is another American, by the name of Joel Kotkin, according to his website “*a highly respected speaker and futurist*”. Dansk Industri organized conferences in the two largest Danish cities, four weeks after Florida’s presentation. Kotkin received an impressive positive backing by the Danish media.

[5] Although the use of the words “creative people” and “corporation fellows” might seem biased, they are used in order to easily show their differences. This, for example, does not imply at all, that employees at corporations are not creative.

[6] The author developed a study while doing part of his master’s at the School of Public Policy at Georgia Tech, in which it was concluded that the causality between economic growth and “city coolness” is not proven. To sum up, big cities attract people, regardless of whether or not they are “creative”. This does not contradict the importance of the “Creative Economy”, as even the UN recognizes now. (UN, 2008)

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*". Kotkin, who is specialized in the American background, probably lacked knowledge about the Danish economy and culture, and as some pointed out, it seemed he had some bias against the European society in general. It is not necessary to go into more details, suffice to say he was quite criticized by the attending local leaders. Nevertheless he had a few strong points worth mentioning. Kotkin made it clear that a city's economy comes first, and then culture and the arts follow. 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 the city (Kotkin, 2005). 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 crowd 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 build its own infrastructures, hire Kotkin.

This story tells once again, that there is not a panacea for regional development. The solutions should come from a middle ground, and should not dismiss anyone's views. Keeping in mind Aristotle's description of the moral virtue as a "*mean between two vices, the one involving excess, the other deficiency*" (Aristotle, 350 BC). The point is, that Florida and Kotkin are very intelligent people, but it seems both of them might have believed too much in their own criteria. Steps towards a healthy economy and regional development should be taken in the same way as to find moral virtue: by finding the middle ground[7].

Cities should support entertainment and culture for its citizens, keeping in mind that potential citizens might be attracted by how nice and fun a city is. However policy makers should be careful not to put the "cool" factor before the economy.

Making a parallel, this can be related to the concept of the experience economy. For example, Pine and Gilmore, have a deep expertise and passion about the experience

[7] Of course one should be aware of different lobbies cheerleading for their points of view.

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.”
>
> (Pine and Gilmore, 2007)

Therefore, there is an intimate relationship between the experience economy and the conditions of the economy at all levels. This does not mean that staging experiences should be excluded from companies or cities, but instead it suggests that of course, a company with broken accounting, or a city with a precarious bridge, needs to fix these things first. Nonetheless, the experience economy is an important contribution for both the private and public sectors.

The next section will briefly address a current issue that worries many, and in particular the ones 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. Having a recession, or more accurately a slowdown of the economy, affects the consumption of products, services and more especially, the offering of experiences due to its higher elasticity like luxury products.

In 1999 Pine and Gilmore, after the golden 90’s came out with the term “experience economy”. Since then, almost a decade has passed and many things have changed. The United States has seen twice the stock market evaporate, the 9/11 events, and is currently immersed in an endless war, with individuals, businesses and the government in trillionaire debt. Consumptions 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) In May, 2008, oil prices have 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 and Bennhold, 2008). Business related to luxuries activities are the first ones to be hurt. For example, in Italy leisure and recreation spending fell 5.5 percent (ibid.). Low and middle income populations have started to suffer in the metropolitan areas.

Back in 1999 (and even last year), Pine and Gilmore and many others, began discussing the amazing example of Starbucks, and how they were doing so well not only selling their coffee, but by offering a whole experiences. Today we know that is "*in: brewing coffee at home, and out: go to Starbucks*" (Barbaro and Dash, April 27, 2008) and that there are "*fewer lattes runs*" (Mintz, J, Apr 30, 2008). Investors have probably noticed that citizens are not that interested in these "cool" experiences anymore, as the Starbucks share has fall from approximately 40$ to 15$ in the last 2 years.

Many consultants, entrepreneurs, academics and policy makers, specialized in the experience economy have started to worry. For example, this 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 take the issue seriously. Even Joe Pine, invited to participate was actively involved sharing his opinion They are all probably biased and tended to answer something like "*Worry a little bit, but don't worry too much, the experience economy will* always *be a key factor*". It is understandable they say that, as these people have allocated years of learning to this subject. Evidently they prefer to be experts on an alive issue than on a historical one.

In Weaver's blog, all answers to defend the importance of the experience economy were quite reasonable[8]; however it seems that at the moment participants forgot to take into account the big picture[9]. It is essential when addressing current dilemmas to keep in mind a long term analysis so that one does not get stuck in short term thinking. For example, 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 economic trends during the last century, it seems clear that "*the impact of economic growth on the consumption of recreational goods and*

[8] I also gave my opinion.
[9] My supervisor, Anne Lorentzen, patiently listened to my worries and then suggested Andersson & Andersson's book to me.

*services has been substantial*" (ibid). One issue is to look at arts and entertainment consumption, as percentage shares of total consumption expenditures in developed market economies. From 1975 to 2002 there has been a considerable increase in consumption in all countries[10] 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 while during the last quarters the most developed economies are suffering a downturn, many regions especially the ones in South East Asia are experimenting more than a 5% annual growth, which is bigger for them even in the 90's (UN, 2008)

Hence there are many aspects that indicate that the 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. Furthermore, from the author's point of view, it would not make any sense for business and policy makers to exclude offering experiences to the market place or communities.

Having said that, just because an economy is doing well (or poorly) it is not guaranteed that citizens will increase their expenses on certain types of experiences or on any

[10] Australia, Canada, Denmark, Finland, France, Italy, Norway, UK and USA. The countries average of total expenditures on recreation in 1975 was 7.2%, and in 2002 went up to 10.8%. This amounts to an approximated average increase of 66.8% since 1975. (note that recreation and culture are only a part of the experience economy)

experiences at all. For example, when comparing the price of coke and a movie ticket (related to entertainment) to accommodations from 1957 to 2007, the prices of housing have increased slightly more.[11]. 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 the Mediterranean hotels, but some Nordic provincial towns may benefit.

**The Potential of the Experience Economy to Promote Provincial Cities**

When the economy was solely dependant on industrial production, it seems that the larger a population the better. The same thing seems to happen in the service economy. However in economies where "living experiences" increases its economic weight, it is not proven if high density regions still have a competitive advantage. Many say that large populations will keep growing and that it is an unstoppable process. Like Richard Florida believes now, that everything is about megacities or megaregions (2006). Alas many say small cities and regions will not have a chance. Lorentzen, 2007, explains why there should be a possibility to think differently:

> "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 economy firms tend to locate in cities with access to specialists, research and decision making centres, preferably in very large metropoles (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 metropoles 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

[11] The year 1957 in USA is chosen because it was in the 50's when the service economy became prevalent there. Approximately on 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) 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 do. Thus, the market for experiences has plenty of competition.

> 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 something that it could be considered quite bold. Proposing that provincial regions can play a central role in the economy of the future, is something that many would not bet for.

It has been indicated that the experience economy will continue to play an important 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. It seems that some business analysts reject innovation without realizing that, innovation is about survival.

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

The concept of system of innovation combines knowledge infrastructure, production structure, policies, consumer demand structure and institutional set-up (Johnson and Gregersen, 1995). It also specifically attempts to build strong relationships between the different actors, such as the entrepreneurs and institutions from the public sector (education, law, infrastructure, etc.) and the private ones (financial entities, research centers, etc). "*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*[12]*. The producers are permanently or temporarily located on the place of final production of the experience*." (Lorentzen, 2007)

[12] This could probably be related with the Unternehmergeist concept as Schumpeter mention in Mark I. 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 Anglosaxon 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-spirits/soul.

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

Conservative authors tend to criticize the “intrusion” of the government in the marketplace; nevertheless, it would be a great mistake to diminish the input of the public sector in the innovation field. The level of the telecommunications, energy, computers and other key sectors of the market economy could not have been attained without the power of the state (Chomsky, 2006).

To sum up, the system of innovation looks at the relationship between institutions, norms and habits. It argues that there is a correlation between stronger relationship between the actors and innovation. .

It is interesting to analyze the effectiveness of systems of innovation (Lundvall et al, 2002), compared with, for example, the concept of the network production (Håkansson & Snehota, 2006), (Coe, Dicken & Hess, 2008). It is not in the scope of this paper to explore the differences between individual and systematic levels. Nevertheless, the author can identify two main weaknesses of 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 can perfectly be applied 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. This is supported by the idea that development should be emphasized within the local government (Perez, 2008). The second main weakness is that the system of innovation always stresses the strong linkages between the different actors. However, too much closeness between actors could hinder innovation. For example, if the phone companies had paid excessive attention to customers, they probably would have introduced better home telephones, but they never would have introduced mobile phones because nobody 15 years ago was asking for them.

All in all, it is of crucial importance to recognize that the system of innovation is dynamic and inclusive. These elements make up a system that, while its connections and limits may look unclear, provides a focusing device that encloses the whole process and organization behind innovation. There has been plenty of criticism to the NSI approach 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), and that is precisely why the author proposes some type of regional system of innovation as a useful framework.

This research pays special attention to the entrepreneurs and intrapreneurs (intrapreneurs in the private and public sector) and the local and international cooperation. The study will follow the research done by Lorentzen (2007, 2008) but 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**

Major innovation and entrepreneurial studies fail to have a broad view of entrepreneurship. In the mainstream studies, entrepreneurs are the ones who solely established a business. Many believe that if one starts a business but is not legal, it is either in the informal economy and therefore of little importance or it is probably related to criminal activities, so the police should study it, but not academics. Only rare (but very interesting) studies revise the entrepreneurial dynamics in those fields.

In the same way, 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 are related with this same process are called corporate entrepreneurship or corporate venturing. However, the author understands the process of intrapreneurship to not only develop in big firms, but in any type of organization regardless of its size or if they are public or private.

Intrapreneurship can be identified as individuals within organizations that aim to improve the goal of the entity. In the private sector this can be something like "to obtain profits" (Business), "protect the environment" (GreenPeace), and in the public sector "to spread culture" (a public library) or to "protect the 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[13], esteem or self actualization as known in Maslow's hierarchy of needs. A clear example of this are social entrepreneurs in the private sector. They are usually known in non-government organizations or philanthropic projects, in which they basically follow all the market principles but do not have a for-profit mission.

Big corporations like 3M, Lockheed Martin (Lockheed Martin, 2008) or Intel (Takahashi, 2000), know the importance of intrapreneurships 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. For example Kutaragi at Sony convinced its managers in the 1980's to start a project on something they thought was not serious electronics, but something more like a toy. The project ended up becoming PlayStation, which currently is the business unit that brings the most revenues to the corporation (Takahashi, 2000).

It is also true that most of the studies consider intrapreneurship exclusively in companies already established (GEM 2004, p.143) or in big corporations. It seems that intrapreneurial activity in the public or semipublic organizations are basically neglected. Many leaders in organizations struggle to have their members participate in activities, while they forget that the key to success is to find intrapreneurial teams to create projects by themselves. This happens in not-for profit organizations as well in small and medium companies.

In the case of public intrapreneurship, many public officials work and fight to improve the towns 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 to make it a more memorable nighttime experience which has attracted tourism (Pine and Gilmore, 1999). Flade Bakker, is another city official who planned to created a palm beach in Frederikshavn, North Denmark, creating an unpredictable chain reaction.

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[13] Entrepreneurs who look to fulfill the lowest level of the hierarchy of Maslow are the ones motivated by necessity. This is more commonly found in third world countries. This paper is more dedicated to the ones who are motivated by opportunity.

City officials are not the only intrapreneurs in the public or semipublic sector. Many others tend to go beyond their job description to improve their organizations, from dedicated professors that freely give their resources to improve the universities, to regional officials and wise politicians who work to improve infrastructure and other structures. All these people do not work harder out of a motivatation for extra money, while under the definition: "an entrepreneur is someone who creates a system in order to benefit", they are benefited by recognition or self-actualization, therefore they are indeed, entrepreneurs, or more specifically, intrapreneurs.

In the process of manufacturing products or delivering services, the field of intrapreneurship has been forgotten by many experts, but this can be forgiven. In the market of offering experiences, failing to notice intrapreneurship would seem to be more than a 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 to explain the scope of the private and public sectors.

[Introduce Figure 4]

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

### *Measuring Entrepreneurship and Intrapreneurships in a Small City.*

What characterizes entrepreneurs involved in the experience economy? Is it possible to measure them as a whole, or is it necessary to concentrate on a certain region?

Below, a matrix is presented that can be used to better understand the role of the business leaders in the different situations. The first two columns can be relatively easily filled out by using the current literature. For example in the case of gender, literature clearly show that entrepreneurs are overwhelmingly male in the industrial and knowledge economy.

However, although the author assumes that a higher percentage of women are becoming involved in the experience economy, this should be proven. As it was discussed in the previous section and figure 4, it is important to note that in the experience economy, it is not fully controlled by the private sector, as cities organize concerts or public universities offer students the opportunity to study a semester abroad.

**Suggested Matrix to Study Entrepreneurship in Different Fields**

| | Industrial Economy | Knowledge Economy | Experience Economy |
|---|---|---|---|
| Personal Characteristics | | | |
| Gender | Vast majority male | Vast majority male | ? |
| Age | … | … | ? |
| Money – Finance | … | | |
| Education | | | |
| Networks | | | |
| 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 nor results yet. (Freire, forthcoming). A caveat should be mentioned; there is a useful teaching from the System of Innovation. The whole system should be taken into account, therefore, in order to study the behavior of entrepreneurs, mixing theories with different national or regional systems, might result in some incongruence. This can be further accentuated in the case of the experience economy,  so, the researcher should collect information within the area of interest.

In order to fill out the third column (the different characteristics of entrepreneurship in the experience economy), there is very scarce literature, if any, to do so with. Besides entrepreneurship structures are different in every region. Therefore the author is currently engaged in designing a survey that will be carried out among public and private organizations.

## Conclusions.

This paper is the first step to study the experience economy in a small city/ region in Frederikshavn, in northern Denmark. The research follows the idea that the concept of the experience economy could change the city/region's competitive advantage.

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

The author suggests that products, services and experience are interrelated in the marketplace. Also, the experience economy is dependant on two things: First a healthy economy and therefore the experience economy changes in regions and overtime. A recession might come but the author lays out reasons to look at the big picture. Second, the must of the experience economy is innovation. Those who offer experiences are in a very competitive market. The authors discusses that all possible tools to understand and implement innovation should be used. The system of innovation can play a key role, although other approaches such as the network production approach could be useful as well.

It is argued that entrepreneurial studies usually neglect intrapreneurship. Many understand intrapreneurship as existing solely in corporate spheres, but the author observes it regardless of the size of the firms and in the public and private sector alike.

In order to study entrepreneurship (and intrapreneurship) in the different fields a matrix is 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

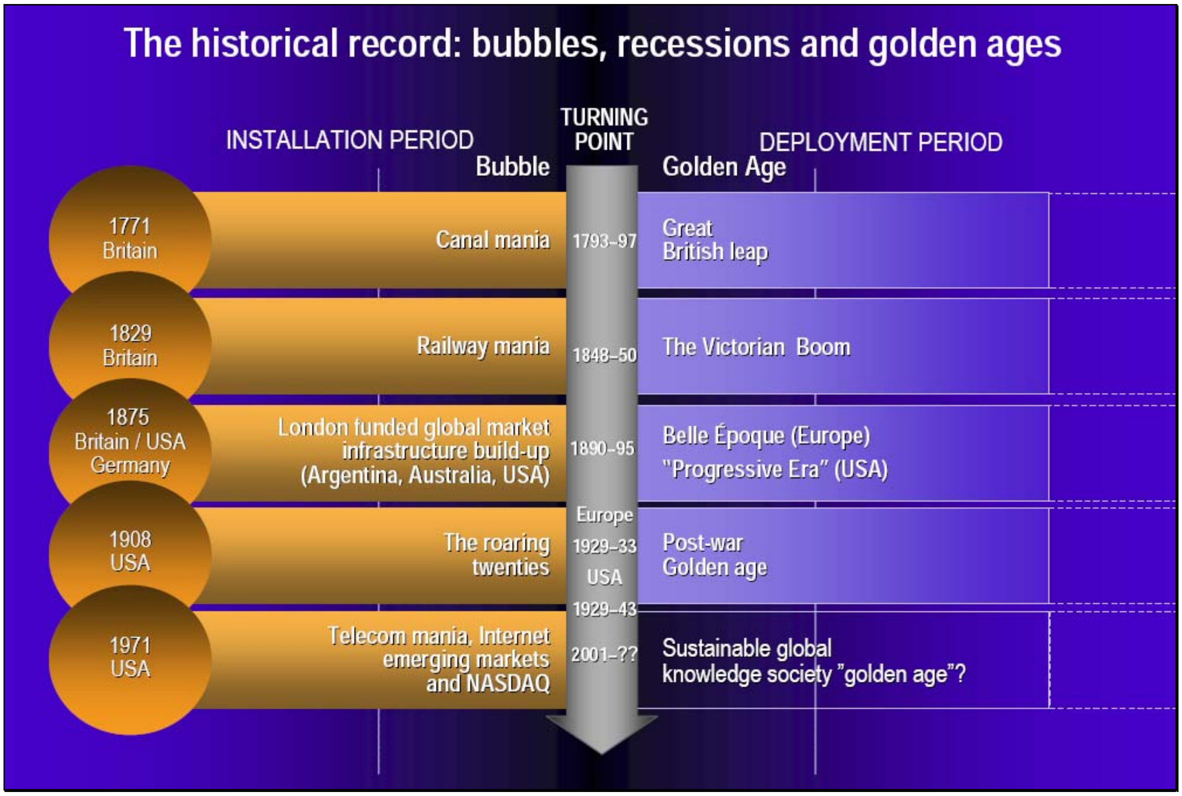


**Figure 1 The Five Techno-Economic Paradigms for the last 2 centuries. (Perez, 2008)**
Carlota Perez, as other authors, indicates the year 2008 is in a turning point. This 5 paradigm were firstly elaborated by C. Freeman and her in 1988. Perez was a student of Freeman.

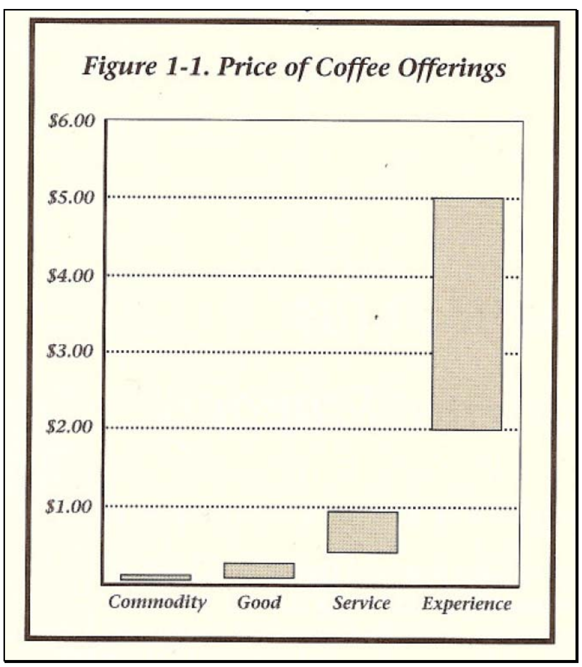


**Figure 2 Value of the different offerings at Starbucks by Pine & Gilmore (1999. Fig 1-1)**
Commodity (raw materials, coffee beans), the good (the cup of coffee itself), the service (present the good), the experience (the smells, the coziness, the coffee is made by hand, games, sofas, wireless, etc.)

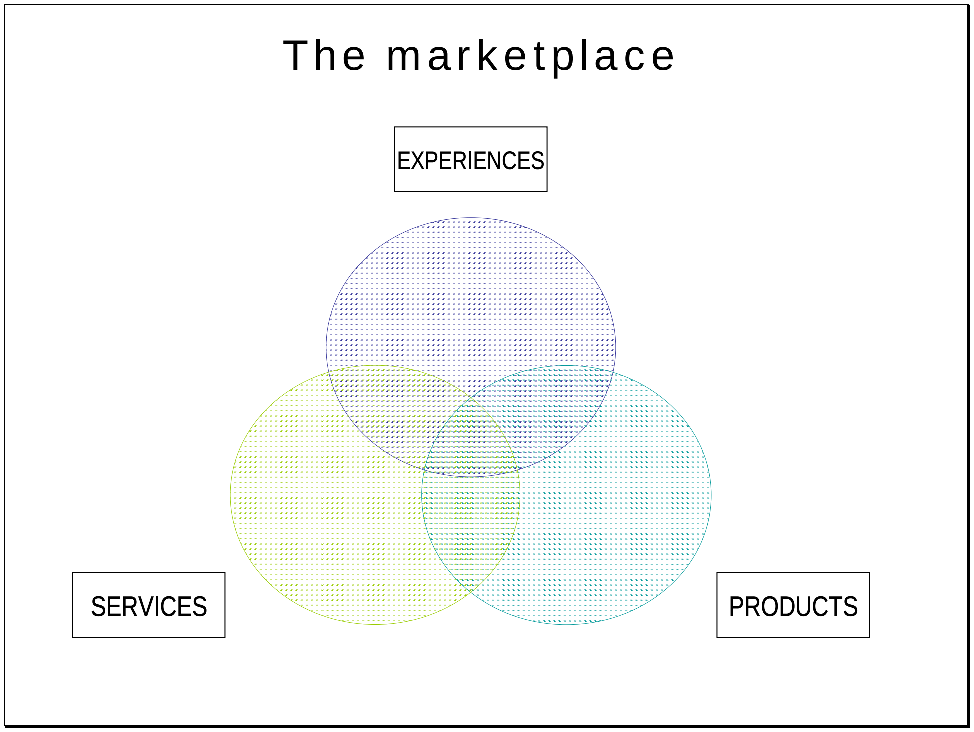

**Figure 3 Manufacturing Products, Services and Experiences coexist in the marketplace (Author ellaboration)**

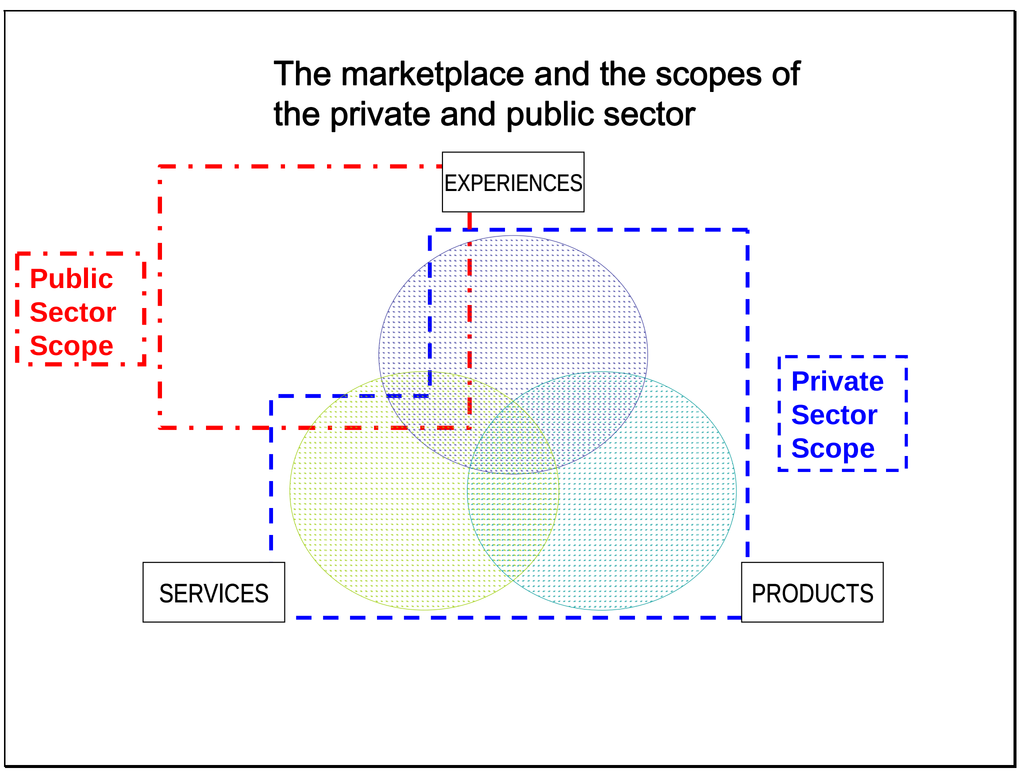

**Figure 4 The Scopes of the Private and Public Sector in the Marketplace (Author's elaboration)**