

EXPERIENCE ECONOMY

A Kalaari Capital Report





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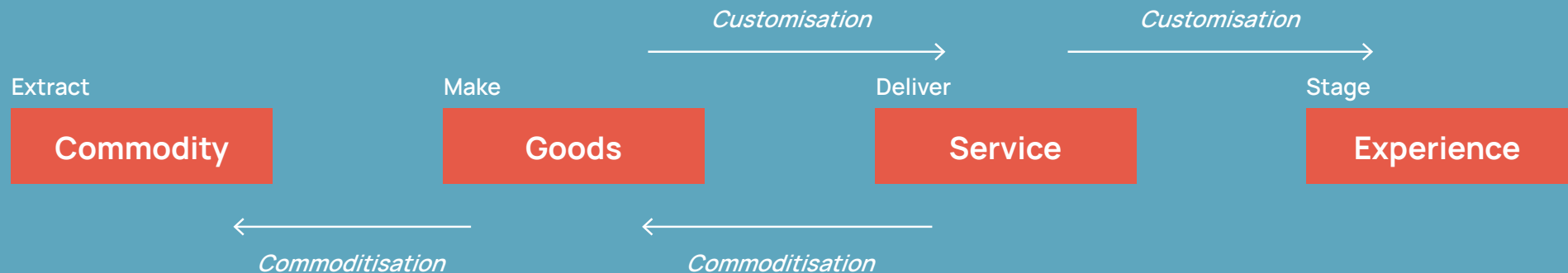


Overview

20 years ago, 2 authors, Joe Pine and Jim Gilmore, argued that buying goods and services will no longer be enough for consumers. Instead, their purchase decisions will be influenced by the experiences provided by the brand, not just the product itself. They coined the term 'experience economy' and predicted that businesses would be forced to develop new ways to transform their brand's value proposition by creating memorable experiences. Their thesis could not be more accurate in today's world. As products and services become easy to commoditise, experience becomes one of the most significant differentiators for businesses.

Products from every corner of the globe are easier to acquire than ever before - and many of them are even shipped for free. This ubiquity leads to commoditization, which drives down the perceived value of these objects.

As the forces of the Fourth Industrial Revolution accelerate, consumers are enjoying the benefits of rapid innovation and new models of consumption, but also struggling to maintain a sense of connection and understanding in our rapidly changing world. In that context, it should be no surprise that experiences, especially transformative ones that educate, inspire and bring people together, are growing in popularity.





Understanding the Experience Economy

“As rising affluence and transience ruthlessly undercut the old urge to possess, consumers begin to collect experiences as consciously and passionately as they once collected things.”

1971, Alvin Toffler,
Future Shock

An experience is defined as an event or occurrence which leaves an impression on someone.

The experience economy is one where the experience creates economic value. This means organisations with the best experiences should be able to charge for it. In the experience economy, experience is the repository of value – the property that commoditised products and services exploit to create competitive advantage.

Consumer preferences have shown that 'experiences' are increasingly preferred to 'objects'. Although part of this preference will be **underpinned by the strong relationship between rising disposable income and greater discretionary spending, we believe there are also psychological factors behind the trend.** Enjoyment of consumption is measured by utility, and it has been shown that 'experiences' tend to provide greater and more prolonged utility to individuals when compared with 'objects'.



Would you pay a premium for an experience?

Starbucks is a classic example of paying premium for an experience. Today, Starbucks is the 3rd largest food outlet in the world with over 32,000 stores worldwide and a market cap of over \$110B. When Starbucks first launched in 1971, the concept of 'paying a premium' for something as mundane as coffee did not exist. However, by the early 2000s, customers were paying \$2 for Starbucks coffee that would have cost them less than \$0.20 a regular coffee shop.



Experience Economy & Technology



Discovery:

Technology solves the search for experiences. Discovery, based on various preferences from location to price to quality to type of experience, can be narrowed down using technology and is no longer limited to word-of-mouth or manual search.



Information Asymmetry:

Experiences, unlike commodities or goods, are difficult to standardize and difficult to measure. Customers lack the ability to ascertain the quality and value of experience. However, tech platforms have the ability to reduce information asymmetry going into an experience by including reviews, ratings, and multiple levels of crowd-sourced information.



Enhancing Workflows:

Technology enables post-sales experiences ranging from logistics, customer services, to feedback, communication. Technology has the ability to deliver seamless convenience during experiences.



Predictability:

Experience businesses can be operation heavy businesses. Experience economy businesses, at scale, have the potential to leverage technology to analyse data and improve utilization, acquisition, costs.



AR/VR Tech:

Ability to convert physical experiences into digital experiences that democratize and enhance experiences by allowing them to be accessed by anyone and from anywhere.



Trends & Behavioural Shifts

Fundamental changes in consumer behaviour along with certain macro factors have enabled the rise of the creator economy. Consumption patterns of Indian consumers have evolved.



Human Behavior

A stronger link to happiness: Scientific research on human behaviour indicates that **our evaluations of a purchase decline over time, our evaluations of experiences increase.** Enjoyment of consumption is measured by utility, and it has been shown that 'experiences' tend to provide greater and more prolonged utility to individuals when compared with 'objects'.



Access To Information

Discovery is easier. Customers have an abundance of information. All goods and services can be discovered online, ordered at home, everything from hyperlocal to global goods can be accessed and ordered online. This has commoditised goods and services where the only key differentiator is quality of experience.



Asset Democratisation

Non-ownership based consumption and the sharing economy is leading to a democratisation of access for experiences.

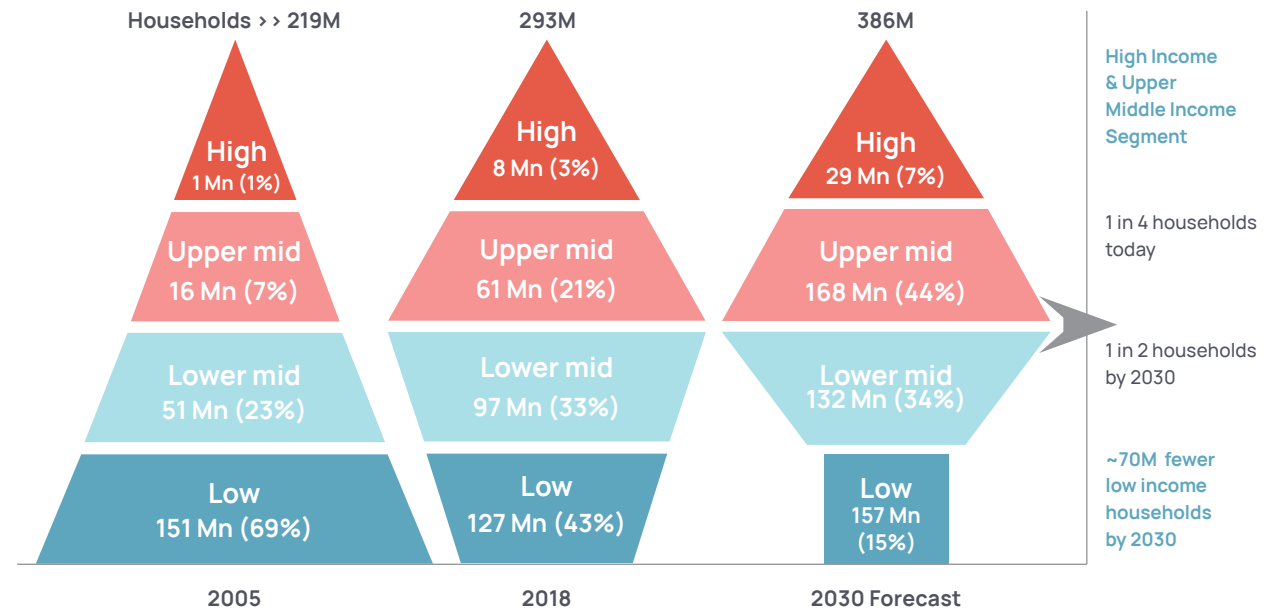


Economic Shift

Consumer spending is shifting from commodities to good to services to experiences (upward movement on Maslow's need hierarchy). **'High-end' market trends towards experiences is moving to mass markets across lots of different sectors.** Discretionary income is going up for each section of the society.

By 2030, over two thirds of the global population are expected to be middle class with most of this growth coming from emerging markets, underpinned by female income growth and new generations entering the workforce. *By understanding these influential consumers, we can start to identify the sectors and companies likely to provide goods and services that are most desired over the decades to come.

Breakdown of Households in India





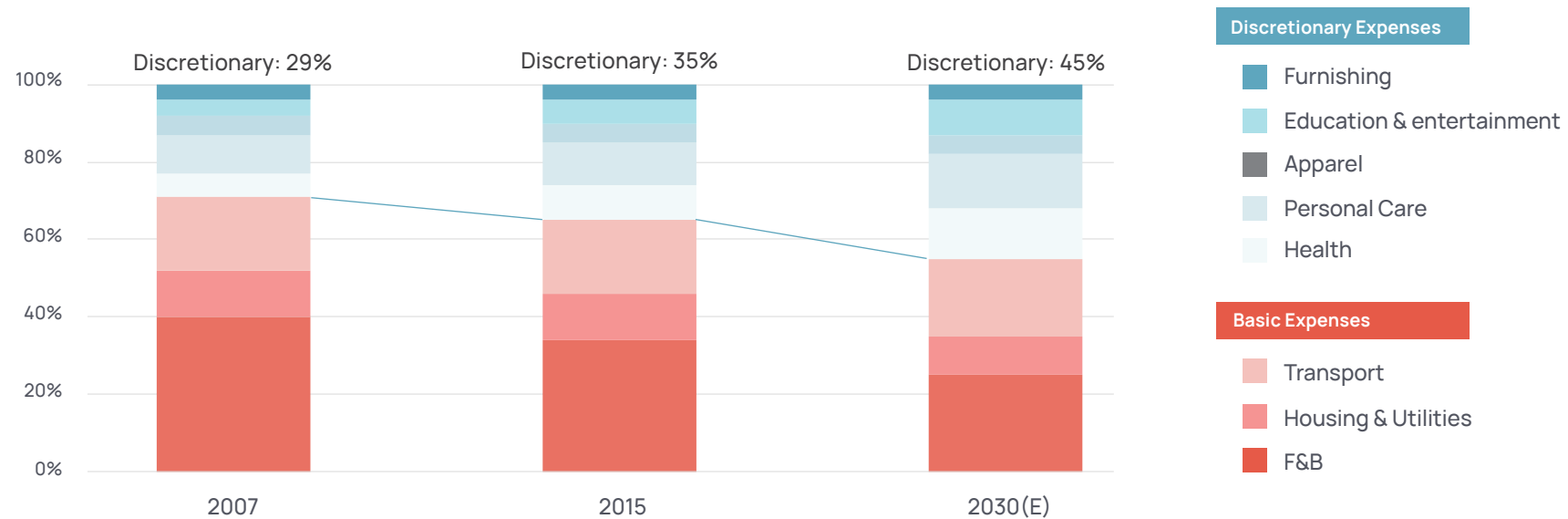
Increase in discretionary spend

Over the past few years, personal-consumption expenditures (PCE) on experience-related services—such as events, eating at restaurants, and traveling—have grown more than 1.5 times faster than overall personal-consumption spending and nearly 4.0 times faster than expenditures on goods.



~5% of the average Indian consumer's wallet share goes into a form of physical experience (Restaurants, Recreation)

Average wallet share of expenses in Indian Households





Social Media Influence - “Pics or it didn’t happen”

Social media and social sharing has transformed the experience economy and added a layer of depth to our experiences. In addition to attaining experiences for personal fulfilment, we long to share these experiences online.



“May I recommend our Minced Grilled Eggplant with Flat Bread? It’s very photogenic.”

Even basic experiences such as eating food have been transformed by the era of social media.

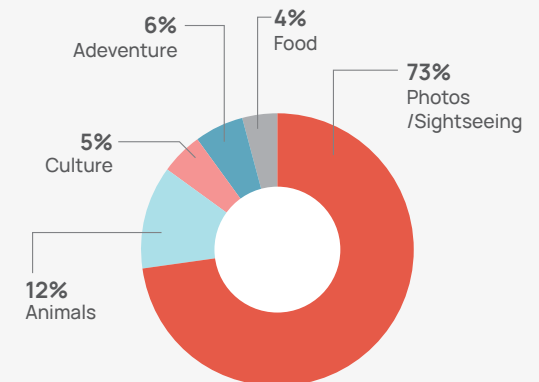
Today, there are over 300M posts with the tag #FoodPorn. Over 525M posts for #Nature. Over 490M posts for #Travel.

Social media has fundamentally transformed how we experience the world.

Experiences are not longer isolated – good experiences can be applauded on a public forum for everyone to see and a few bad customer experiences can put companies out of business.

Clicking photos and sightseeing is becoming the top reason to travel

Based on a survey from ForeverVacation





Current state of the Experience Economy

Experiences have a wide range of categories. There are 4 key experience categories we see emerging as large opportunities –



Travel

A wide range of travel experiences from stays to food to sightseeing to culture to authentic local experiences



Well-being

Experiences that enrich the mind and the body. Typically, these experiences focus on fitness, meditation, nutrition



Luxury

Experiences that are achieved by offering the highest quality in any of the elements that mass brands also offer



Peak Experiences

Include once in a lifetime events or rare experiences / moments (including weddings, extreme sports, educational experiences)



Market Opportunity

Current:

\$65B current spend

3.5% of India's GDP

~6% have passports eligible for international travel

Growth:

\$125B by 2027

20% CAGR
from pre-pandemic levels

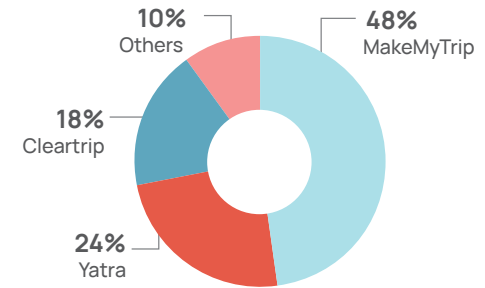
Market Dynamics



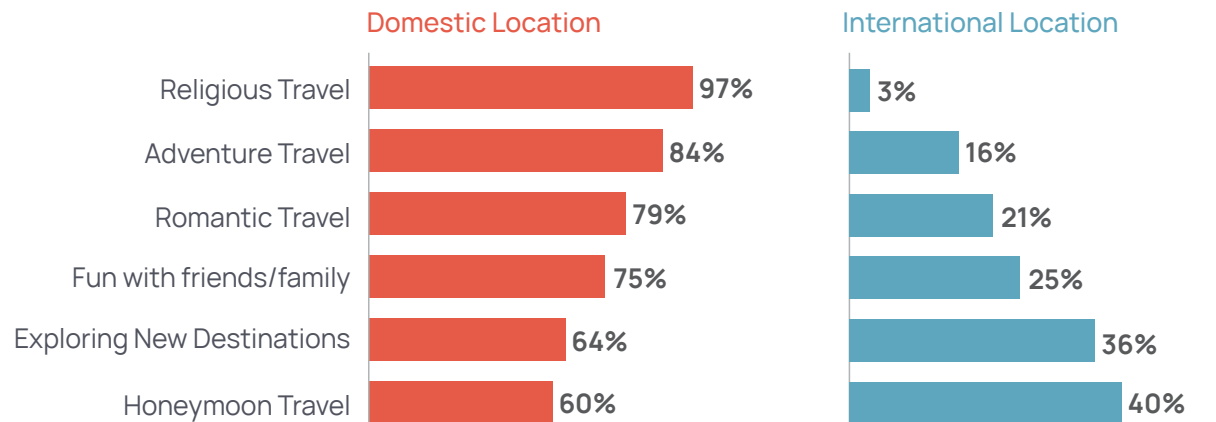
~30,000 travel agents do **52%** of total travel bookings

By 2027, agents are expected to add **\$65 B** to travel spend

3 players account for 90% of the OTA space



Customer Preferences for Travel





Travel

Key Insights & Trends

Vertical Platforms

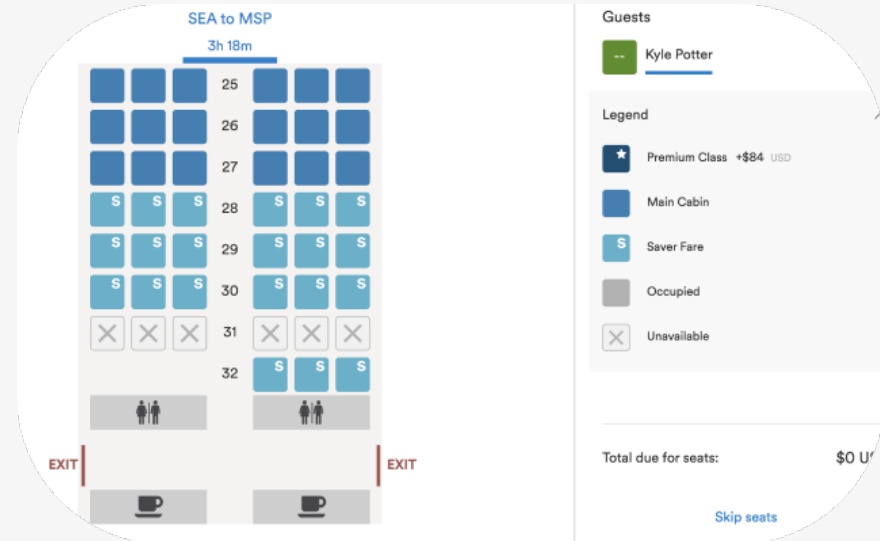
Travel experience platforms that have scaled are horizontal and cater to a wide audience. Globally, there have been platforms for niche groups such as independent travellers, adventure/ outdoor travellers, long-stay/ luxury traveller that have scaled into large businesses. **A vertical or niche travel platform** is yet no scale in India.

Insights on Consumer Behavior

- Smartphone users cite **price as the most important factor** in booking travel.
- **Easy search functionality** and a simple booking process are also cited as important features. (Friction on a mobile site when completing a booking can lead to travelers trying another site.)
- In India, researching hotels and airfares on a **mobile device** is as common as shopping for clothing.

The price premium for getting it right is real

Commoditized products & services can be differentiated through experiences. Today, even simple experiences such as seats on an airplane has smart pricing – different pricing depending on leg space, seating position, food options.





Well-being

Market Opportunity

Current:

25-30 K avg. spend on fitness per person

6M gym subscribers in India

~18B market spend

Growth:

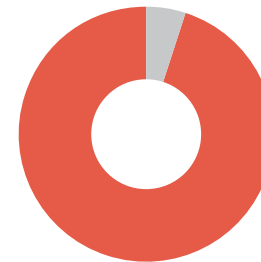
25% CAGR

over the next 5 years,
large focus on digital & premium

Market Dynamics



There are around 24,000 Gyms and Studios in the country, out of which 95% are unorganised outlets and 5% are organised.



95%
Gyms

95% of gyms and fitness outlets have no access to technology, operational capacity is low and the opportunity to manage & expand the users of scale is minimal

3.4 million, estimated workforce in beauty and wellness services



Well-being

Key Insights & Trends

➤ Discovery

Beyond regular fitness, well-being experiences lack easy discoverability and are typically discovered through referrals or work of mouth.

➤ Low repeat

Wellness and fitness experiences have low repeat and retention rates although customers are willing to engage in wellness and fitness experiences more frequently. Typically 70-80% of traditional fitness and wellness users churn out of subscriptions.

➤ Employees drive the experience

More often than not, well-being experiences are driven by employees or enablers of the experience. For example, a fitness instructor, a spa masseuse are the key drivers of experience – effecting customer loyalty, and business growth



Enablers of an experience are as important as the experience itself

Soul Cycle started as a singular spinning class in Manhattan in 1996. By 2016, it was bought by Equinox at a \$900M valuation when it had just over 90 studios in 20 different cities. When asked why customers were so loyal and paid a premium to attend a Soul Cycle class (around \$20 or ₹1,500 compared to a single-day gym pass which costs <\$1.5), the answer was always the instructors – how they made all the difference to their fitness experience.



Peak Experience

Market Opportunity

Current:

Total market size of peak experiences is difficult to estimate.
Once-in-a-lifetime events or experiences have large spends.

For example, The Indian wedding industry is worth

\$40-50B
a year

growing at
20%
every year.

A person in India is estimated to spend

1/5th of the total wealth accumulated in his lifetime on his wedding.

An average Indian wedding costs ₹20 lakhs to ₹2 crores.
 1 CR marriages happen in India every year.

Growth:

Spend on peak experiences is expected to rise in tangent with an increase in discretionary income – **~40% jump by 2026.**

Market Dynamics

1. Peak experience businesses are highly-fragmented.
2. Typically, businesses in this segment offer bespoke solutions to every user. Businesses also have very low repeat users due to the nature of the experience and are largely driven by word-of-mouth or referrals.
3. Big-ticket spends are planned in advance, often with family involvement



Peak Experience | Key Insights & Trends

➤ **Decision making with the family**

Discovery is long and complicated and, in India, typically involves the family. Users will typically spend time benchmarking competitors or substitutes before making a purchase decision. Differentiated customer acquisition and low CAC is important as peak-experiences typically have low repeat rates.

➤ **Several Touchpoints**

Post-purchase, users may require several touchpoints with businesses before the experience begins. These touch points include personalization as well as detailed information sharing (in-person instructions, training or rehearsals).

➤ **Experience Experts**

Unlike other categories of experiences, peak-experiences are heavily reliant on creators or experts who possess a special skill-set (either through training or work experience) to engage with customers. The quality of 'experience experts' can make or break purchases or referrals.

➤ **Location & Scaling**

Businesses in the space are dependent on location and proximity to the experience. Portability to new markets, scalability is difficult to achieve with traditional players.



Luxury Retail

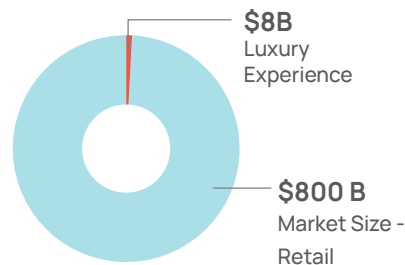
Market Opportunity

Current:

Total market size of luxury experiences is difficult to estimate.

\$800B India spends overin retail today

We expect luxury experiences capture roughly 1% of this market, close to \$8B, currently.



Growth:

India retail is expected to hit

\$1.7 Trillion

in the next 5 years. We expect luxury experiences to capture 1-2% of this market, **close to \$20B - \$30B.**

Market Dynamics

Two types of luxury experiences -



Luxury product experiences that activate or build a brand



Experiences meant for luxury



Luxury Retail

Key Insights & Trends

➤ Online decision making

Post the lockdowns, people in India are open to purchasing high AOV, luxury retail online. **+50%** of Indian shoppers are turning to video to find unique ideas and to search for information about brands, products, and services.

➤ Influencers make a difference

Shoppers in India are also spending more time watching YouTube videos on topics such as finance, online shopping, and homes. Unsurprisingly, online influencers are helping people make their next decision, big or small.

➤ Bad experiences drive customers away

Customers demand seamless user experiences and services such as contactless shopping, flexible payment options, and free and reliable shipping options.

Micro-shifts in the behavior of Indian shoppers



Prize convenience and welcome new brands and shopping experiences



Lean on content that connects with them authentically



Want shopping experiences that mimic digital showrooms

70%

Indian shoppers say they are willing to spend more for a convenient experience

90%

increase in watch-time of online shopping videos (2019 to 2020)



Key Opportunity Areas

Across each theme within the experience economy, we see 3 broad categorizations of businesses that have a large potential –

01. *Enabling Creators of experiences*

02. *Curating at a macro-level*

03. *Frontier Tech*

	01. <i>Enabling Creators of experiences</i>	02. <i>Curating at a macro-level</i>	03. <i>Frontier Tech</i>
Business Model	% cut from creator, subscription fee from consumer	Entire spend = revenue, cost synergies due to scale, potential for add-on services	B2B – used for activation of a purchase (DTC), B2C – one-time purchase cost, subscription models
Tech Layer	Two-sided platform that improves existing UX for both parties	Enhance access for customers, enable hybrid engagement model	Core differentiator and enabler of the experience
Asset Ownership	No control over assets. No liability over experiences. Creators are not salaries employees	Includes full or partial ownership of assets as well as asset-light utilisation of highly-fragmented, excess capacity assets.	Owned by end-user – software or hardware
Must-have	Standardisation of experiences, enforcing checks and process for creators	Aggregation for quality & discovery	Ability of tech to enable an experience that would otherwise not be possible due to access, ability, cost constraints
Key differentiator	Network effects, reduce information asymmetry	Brand linked to quality	Quality of experience



Mapping the Experience Economy

A few highlights of experience economy companies across different segments, and business models that are shaping India's experiences today. There are a few whitespaces where segments and business models have not yet evolved. India's experience economy is at a nascent stage.

01. Enabling Creators of experiences

02. Curating at a macro-level

03. Frontier Tech



Travel



Well-being



Luxury



Peak Experience





Insights for Startups

The largest, most exciting outcome in the experience economy in the recent past has been AirBnB. AirBnB has redefined travel, home stays, local experiences for users all over the world by enabling creators and owners of homes.

We decided to deep-dive into what makes AirBnB a leaders in the experience economy space and what lessons emerging experience economy startups can leverage.



AirBnB Case Study -

AirBnB enables creators of experiences in the travel/ tourism space.

Key Success Factors/ Learnings For Startups

Having existing use cases that are broken

Users were already booking couch-surfing, hotels, dorms online. Airbnb launched at a large global conference – where super users had a strong need for the use case.

Tech for standardisation

Leveraging tech to standardize processes (escrow payments, check-in/check-out processes, built in communication). Primary goal is to have every host and guest interaction be the same on the platform. Secondary goal is to have both party interactions stay within the platform.

Empowering Owners/ Creators

No control over the experience, asset - but go above and beyond to help owners monetize. The only way owners/ creators will stick to a platform is if they make money. Airbnb founders traveled to New York and shot guests' houses professionally - this saw a huge boost in booking rates.

Brand

Retaining and creating a singular brand that
 (i) Stands for the use-case, i.e., top of mind in your category/ problem
 (ii) Empower creators to stand by your brand and represent your brand



So far, most experiences we have mentioned have been present in the physical world. As we transition into a digitally-native society, as ownership of digital assets becomes easier accessible, and as frontier technology in AR-VR progress – experiences will start to become digitally-native. Imagine taking time off work to go on a virtual vacation or exercising every day with an immersive-community from your bedroom.

To understand the potential of digital-first experiences, we took a deep-dive into how the metaverse will enable the experience economy.

Metaverse Deep-dive

Experiences in the Metaverse (at the intersection of frontier tech & enablement of creators building micro-experiences) The metaverse is the next generation of the internet: it enables creators to deliver connected, immersive experiences based around activities.

Use Cases for the Metaverse

Travel

Travel is expensive, difficult logistically, and has one of the largest carbon footprints. Companies are re-thinking travel through VR – which may eventually be enabled through the Metaverse.

Fitness

The pandemic has already given rise to connected fitness devices, and digital personal training. Several emerging models have brought fitness to the metaverse and in the process made fitness more engaging and social.

Games

Gaming in the metaverse already exists. As VR/AR, and AV tech gets better, gaming experiences will become increasingly immersive and driven by a drastic growth in creators.

Immersive Commerce

Buying products online is seldom the same experience as buying things in physical retail stores. Several large digital-first DTC brands in India have adopted an omni-channel approach by launching flagship retail stores. We believe the Metaverse will enable the next-wave of DTC brands who will enable rich activation, high-touch, or luxury experiences for customers. .

Social Experiences

Leveraging existing technology, the metaverse will eventually level-up the way we socialize and experience communities online – allowing for interactions and engagement similar to the real world.



Key Success Metrics



Loyalty & advocacy

Core Metrics: Retention rate, repeat-user behaviour, word of mouth shares & engagement on social media (organic customer acquisition), supply-side acquisition time & cost

Businesses in the experience economy are dependent upon discretionary spending from consumers. In order to grow and sustain in the long-term, experience businesses need a strong group of loyal customers that advocate for the brand and engage in repeat-user behaviour. Strong visual social media engagement is a core part of building experience businesses. The brand's online presence should aim to lower cost of acquisition, drive a 'fear of missing out' to boost repeat purchases, and create a competitive differentiator.



Multiple revenue streams

Core Metrics: Strong experiences may have multiple revenue streams tied to admission, F&B, memberships, subscriptions.

Both online and physical experiences that have singular purchase options, have limited scope to grow. Scalable experience business will have several different streams of generating revenue. Experiences can also cross-sell, for example travel platforms sell food, luxury retail experiences as well as non-experience linked revenue streams such as travel insurance, etc



Day-part utilization

Core Metrics: non-seasonal, sustained high utilisation.

Certain types of experience businesses tend to be seasonal or have cyclical demand. As an experience business, it is crucial to understand utilization across different periods of the year, week, or day and aim to optimize utilization of assets during peaks as well as achieve non-zero utilization of assets during troughs.



Barriers to entry

Core Metrics: proprietary model or secret sauce.

There are several ways for experience businesses to create a strong barrier to entry or moat including – distribution, access to supply, quality, social media reach, branding, loyal customers. A key to long-term success is building strong barriers to entry that prevent other businesses playing in the same experiences to substitute your product (capturing a majority of the best creators, building a curated brand associated with high-quality experiences, building technology that is proprietary for online experiences)



Portability to new markets

Core Metrics: scalability and unit economics across different geographies, tiers of cities, global expansion possibilities.

Experience businesses (especially physical experiences) tend to originate and create a successful business model in one geographical area. It is important to build a business model that can scale across different geographies while seeing economies of scale (improved unit economics).



Conclusion

Consumer spending in India will undergo rapid changes over the next decade. The experience economy will be a key space that is primed to emerge as the consequence of increase discretionary spending, behavioural shifts, improved access, discoverability, and aspiration.

Consumers have used and will continue to use experiences to reshape their identity through various ways. For some it will be about creating life-long memories or developing a sense of community. For others it may be an attempt to gain a deeper understanding of the world.

Regardless of the type of experience, technology will be the fastest way for consumer experience businesses to scale. We, at Kalaari, strongly believe technology businesses in the experience economy space will have the ability to transform the way the Indian consumer spends and experiences life.

We at Kalaari, are looking to back promising startups that are building exciting products for the experience economy. If you have ideas on the experience economy, we would love to hear from you. Reach out to us at [**bigideas@kalaari.com**](mailto:bigideas@kalaari.com)



*For more insights, follow **Kalaari** on:*



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