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The Experience Economy as the Future for European Agriculture and Food?

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Abstract

As recently as a century ago, one out of two people in Europe was employed in the agricultural sector. Today agriculture represents only a small fraction of total employment in most EU member states. What makes this decline in agricultural employment even more striking is that this evolution has occurred despite substantial EU subsidies to support farmers' income. Given the apparent ineffectiveness of government support in keeping agricultural employment steady, it is worth considering which farming activities are likely to be successful in the economy of the 21st century. We argue in this paper that a potential growth path for European agriculture is the "experience economy" in which consumers are willing to pay premium prices for products and services that provide additional intangible "experiences". We discuss the growth potential of the "experience economy" in the agricultural sector and conclude that it is worthwhile to consider the experience economy as a pathway for future farm growth.

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1 INTRODUCTION

Raising the question whether Europe will be without farmers may sound ridiculous at a time when the European Union (EU) has almost 12 million “farmers” and when the issue of being able to feed the world population is at the top of the international policy agenda. However, as we will argue in this paper, the question is not only relevant, it also has major implications for the current debate on the future of the EU’s Common Agricultural Policy (CAP) and even for the more broader debate on the EU 2020 Strategy.

Just a century ago, four out of five households in the world were engaged in the agricultural sector. Today, agriculture represents only a marginal share of total employment in the developed world. In his fascinating treatise “A World Without Agriculture” Peter Timmer (2009) discusses the world economy’s structural transformation and how it is propelling the global economy – and especially the rich countries – toward “a world without agriculture”.

A similar process is taking place in Europe. Statistics on agricultural employment and gross value added (GVA) indicate that the agricultural sector is (slowly) “disappearing”. In the EU 27 the share of the agricultural sector in total GVA and employment has decreased to respectively 1,7% and 5,4% in 2010. In many European countries, these numbers are even lower. Spain is as a good illustration. As recently as the 1960s 50% of the population was employed in the agricultural sector. The decline has been dramatic: currently only 4.6% of the population is working in agriculture (Figure 1).

What makes this spectacular decline in agricultural employment even more striking is that this evolution has occurred despite large subsidies under the CAP. In the period 2005-2010, the EU spent roughly €50 billion per year on supporting farmers – and including support through market regulations, up to €77 billion in 2010 (OECD, 2011). It is evident

that government support is ineffective in sustaining farmers' income at levels sufficient to keep agricultural employment steady. In fact, evidence suggests that, paradoxically, farm subsidies may increase the outflow of farmers instead of reducing it (see Swinnen and Van Herck (2010) for a review).¹

The nature of farming is also changing. Farmers are increasingly turning into business managers and policy debates are emphasizing farmers' role as managers of the landscape and the environment ((Lans et al., 2004; Klerkx and Leeuwis, 2008; RISE, 2009).

These changes have important policy implications in responding to the demands of modern society. Most of the debate on CAP reform has centered around the question how much of the budget should be allocated to agricultural policy in the EU after 2013, and how this budget should be spent, i.e. whether the current system of "single farm payments" with cross-compliance requirements is to be continued, changed, or abolished.

In this paper we take a different perspective. We focus on the question which farming activities are likely to be successful in the economy of the 21st century – with or without government support. In other words: will Europe be without farmers or not? And if not, how will these European "farmers" look like in the 21st century ? In this perspective, we focus on one major element of change that appears to have major implications for future economic success – and thus also for the success of farming in the 21st century: the shift from a service economy to an "experience economy".

¹ Evidence from the OECD countries and inside the EU suggests that the outflow of labor from agriculture has been strongest in those countries and sectors that received most government support for the agricultural sector. In fact, over the past two decades there is actually a negative correlation between the change in agricultural support and the change in agricultural employment in the OECD countries – which is inconsistent with the notion that agricultural support has a significant positive impact on agricultural employment in the long run. There are several (potential) reasons for this: Goetz and Debertin (1996; 2001) find that farm payments accelerate capital-labor substitution and stimulate the takeover of farmers seeking to exit. Petrick and Zier (2010) find that large farms benefited more from farm payments, at the cost of smaller farms. Berlinschi et al. (2012) argue that subsidies allow further skill improvements of farmers' offspring which enables them to earn higher returns in (and switch to) other economic sectors.

Our approach is different from Van der Ploeg et al. (2000) and others who analyze the role of rural development and multifunctionality in the European agricultural sector. Our analysis focuses on changes in (private) consumer demand as a main driver behind these changes, namely the rapid increase in the demand for experience related products and services.²

2 THE NEXT REVOLUTION: TOWARDS AN “EXPERIENCE ECONOMY”?

2.1 WHAT IS THE “EXPERIENCE ECONOMY”?

Our society has evolved from an agrarian economy – which dominated the world for thousands of years – to an industrial economy in the 19th and early 20th century, and to a service economy in the late 20th century. Since the end of the 20th century, our society has started to move in a new direction: the “experience economy”. Consumers in affluent societies have begun to take the quality offered by the service economy for granted and are expecting something extra – “experiences” – from the goods and services they purchase.

This evolution is described by Pine and Gilmore (1999) and Jensen (1999), who show that the share of consumers’ income spent on commodities and goods is declining, while the share of income spent on leisure activities and entertainment is increasing. The authors argue that the “experience economy” is taking over and will become the main value-generating element for firms in the 21st century. Pine and Gilmore (1999) call the key attribute in this evolution “experiences”, which they describe as “memorable, but intangible offerings which allow the consumer to enjoy events or the consumption of a good in a personal way”. Jensen (1999) defines it as “stories”, which are “symbolic value statements

² In addition, we discuss the shift from a service to an experience economy from an economy-wide perspective, whereas Van der Ploeg et al. (2000) focus exclusively on the agricultural sector.

that reinforce the consumer's identity and communicate his beliefs and goals". Common to both approaches is that each underlines the importance of adding authenticity, feelings and emotions to products and services in order to satisfy the demands of the post-materialistic consumer who is today – and will be even more so in the future – not just searching for high-quality services and products, but also for a story to which they can emotionally relate.

An illustration is the rapid increase in popularity of pop and rock concerts and many sports events. For example, the number of visitors to one of Europe's most famous rock concerts, "Rock Werchter" in Belgium, increased from 5,000 visitors in 1978 to 320,000 visitors in 2010. This is no exception: all over the world hundreds of thousands tickets for concerts by famous singers, bands and performers sell out in minutes on the internet. At first sight this is remarkable: with improved technology and declining costs of purchasing music, the quality of music is better and the price lower when listening at home. The same holds for sports events: the view is typically much better on TV. However, concerts and sports events are able to offer an experience that listening or watching at home cannot provide: a great atmosphere and a sense of belonging and togetherness – short: "the experience".

In order to more precisely relate the concept of "experiences" to consumer theory in economics, we draw on the work of Tirole (1988) and Ronnen (1991) on modeling quality and Andreoni (1989) and Besley and Ghatak (2007) on modeling a "warm glow" component in consumers' preferences.³

We define products and services as consisting of three components, each adding value to the product or service. The first component is the physical good or service. The second component comprises the good's or service's quality characteristics. "Experiences" are the

³ The "warm glow" effect was originally coined by Andreoni (1989), who argued that the internal motives for charitable giving are more important than many people had acknowledged. In the warm-glow view of philanthropy, people are not giving money to save the whales; they are giving money to feel the glow that comes with being the person who helps to save the whales.

third component. If present, this third component adds value to the commodity or service for consumers who care about these experiences, and thus increases these consumers' willingness to pay for the product or service. "Experiences" – in contrast to "quality" – have an intangible impact on consumers. All else equal, there is no tangible difference between consuming a fair-trade product or a traditional product at the consumer's level, but a consumer may draw a "warm glow" from this experience feature by believing that his consumption ensures a fair share for poor farmers in developing countries.⁴ In short, consumers value "experience products" for the attached story (Jensen, 1999).

Formally, define consumer i 's indirect utility from consuming product (or service) j as

$$V^i(p_j, b_j, q_j, e_j),$$

where p_j is the price of product j , b_j is the value of the physical good or service which also encompasses the quantity consumed, q_j is the product's quality, and e_j is the "experience" embodied by the product. This indirect utility function can be further specified in different ways. For example, a quasi-linear, unit-demand specification could have the following form (see Swinnen *et al.* (2012) for a formal derivation)⁵:

$$V^i(p_j, b_j, q_j, e_j) = b_j + \phi^i q_j - p_j + \gamma^i f(e_j).$$

As before, b_j is the value of the physical good or service and is identical among consumers. Here it is independent from quantity consumed as we specify a unit-demand function. ϕ^i is a consumer-specific parameter, with distribution $G(\phi^i)$, which measures consumer i 's quality

⁴ Note that our definition of "experiences" is therefore different from the concept of "experience characteristics" as defined by the economic literature on information asymmetries and externalities. This literature distinguishes between "search", "experience", and "credence" characteristics of products (Nelson, 1970; Darby and Karni, 1973). Search attributes are those that consumers can ascertain in the search process prior to purchase, while experience characteristics can only be discovered after purchasing and using the product, and credence qualities cannot be evaluated in normal use. These three meta-characteristics may apply to tangible or intangible characteristics, and are therefore not useful in distinguishing between quality and experience components.

⁵ Although standard in the literature, this specification only serves as an illustration here, and, as any functional specification, has its limitations.

preferences – a higher ϕ^i refers to a higher preference for the product's quality q_j . $\phi^i q_j$ is the central component of the indirect utility function specifications used in the vertical differentiation literature (Tirole, 1988). The fourth component, $\gamma^i f(e_j)$, represents consumers' valuation of the “experiences” e_j embedded in product j , where $f(e_j)$ is the (concave) valuation function of these experiences. Consumers who value these experiences more have a higher γ^i .

To illustrate the components, consider apples: q_j represents the taste of the apple and/or the absence of harmful pesticide residues, and $f(e_j)$ could represent the consumer's appreciation of buying the apple at the local farmers' market, or of knowing that the apple has been produced in an environmentally friendly way, etc. For a different example, consider a Harley Davidson motorbike: q_j is quality (speed, etc.) and safety of the vehicle, and $f(e_j)$ the feeling that comes with driving a Harley Davidson or belonging to the community of Harley Davidson motorcyclists.

From these examples, it is clear that consumers have different reasons to value different “experiences”. For example, in the case of “environmental friendliness”, the experience is valuable to consumers because it represents the private provision of a public good⁶ In the case of the Harley Davidson example, the valuation of the experience – “belonging to a community” – may be driven by the interdependence of consumers' utility functions, i.e. so-called “Veblen-effects” or “conspicuous consumption” (for more information, see e.g. Bagwell and Bernheim, 1996 and references therein).

However, despite this clear theoretical distinction, the distinction between experiences and quality characteristics may be less clear in practice and at least some characteristics may

⁶ Remark however that this does not imply that increasing demand for public goods is necessarily reflected by an increasing demand for private goods that (claim to) supply these public goods.

have both quality and experience components. For example, “organic” may refer to healthier products (a quality feature) and/or cultivation under more environmentally friendly conditions (an experience feature).

2.2 MARKETS OF EXPERIENCE

Jensen (1999) identifies six markets in the experience economy: (1) the *market for adventures*, where people pay to participate in adventures (e.g. hot-air balloon travels, exotic trips, festivals where people dress up as soldiers or medieval knights, ...); (2) the *market for togetherness, friendship and love*, which comprises of movies, novels and artwork, but also theme parks, concerts, sport games, etc. – and to some extent also restaurants and bars where people go for food and drinks (services), but also for conviviality; (3) the *market for caring*, which targets people who have a need to receive or provide care, to show compassion and to help others or nature. Consumers also experience a good feeling or “warm glow” by engaging in charity; (4) the *market for self-definition*, where products and services become means of self-definition. Individuals tell a story about themselves by the way they dress, the places they visit, and the events they attend. For example, purchasing a Harley Davidson is not only buying a motorbike but also the identity that goes along with it; (5) the *market for peace of mind and tradition*, which targets consumers searching for peace of mind and tradition. One example of this interest in tradition is “rural romanticism”, which potentially explains the growing interest in organic food products and farmers’ markets; and (6) the *market for convictions*, where people pay for products that are consistent with their ethical beliefs. Those consumers value the concept “animal welfare” and support environmental organizations such as Greenpeace.

2.3 IMPORTANCE OF THE “EXPERIENCE ECONOMY”

Experiences are of course nothing new and have, for example, always been at the heart of the entertainment industry, from sports events to movies and pop concerts. However, it appears that demand – and with it economic performance – has grown substantially. Companies have started to add and “wrap” experiences around their traditional products and services to make these more attractive, allowing better differentiation from their competitors and higher prices.⁷

Coffee is a good example to illustrate how adding experiences to a basic product may provide firm-specific growth opportunities. Pine and Gilmore (1999) analyze the revenue distribution of a cup of coffee through the supply chain in the late 1990s (Figure 2). Companies that traded the basic commodity, the coffee bean, got a price of \$1 per pound, which translated into one or two cents per cup of coffee. When manufacturing companies ground, packaged and sold the same beans in a grocery store, the price increased from 5 up to 25 cents per cup, depending on the type of beans. When the coffee was served in a local coffee shop, the price per cup varied between 50 cents and \$1, but when it was sold in a Starbucks Coffee shop – which explicitly advertises “experience” as one of its assets – the price would range between \$2 to more than \$5 per cup. Hence, providing an additional and distinct experience to a cup of coffee allows the Starbucks Coffee Company to charge the consumer a substantially higher price for the same product. Yet, despite this disproportional rent distribution, the success of Starbucks and similar companies has only increased. While Starbucks initially grew in the US – a country not known for its high-quality coffee in the

⁷ The computer repair firm “Geek Squad” is an example of a company that “wraps” an experience around an existing service. The “Geek Squad” employees are all dressed as special agents: they wear white shirts and black ties and have badges in order to identify themselves as “Geek Squad” agents. By adding this “show” to their service, they provide such a distinctive computer repair service that satisfied clients buy t-shirts and pins with the company’s logo.

1990s – the growth of Starbucks shops outside the US has been the most remarkable aspect of its expansion, at least from an experience perspective. The success of Starbucks outside the US was illustrated by its recent opening of a shop in Antwerp (Belgium). Despite the fact that it is easy to get a decent cup of coffee for a fraction of the Starbucks price at other nearby places in the city, people queued for hours when the Starbucks Coffee Company opened the doors of its first shop in Antwerp.

Since the experience economy is a broad concept, it can be measured in various ways. Pine and Gilmore (1999) estimate that the experience economy – measured by admissions to recreational events such as movies, concerts and sports games – was the fastest growing sector with an annual growth of 8.9% in nominal GDP and 5.3% in employment (Figure 3). In contrast, commodity output in the US grew annually only at 5.6% and employment even shrank from the 1960s through the 1990s. Manufacturing output grew at an annual rate of 6.4% and also employment grew slightly (0.5%). The services sector's output and employment grew respectively by 8.5% and 2.7% per year.

3 AGRICULTURE AND THE EXPERIENCE ECONOMY

To analyze its relevance and potential for the European agricultural sector, we look at several different, yet admittedly imperfect indicators. Indicators of the experience economy are imperfect because there is no agreement on its definition and because the indicators may capture both quality characteristics and experiences. For example, some people buy “organic” for health-related reasons (a quality characteristic), while others buy “organic” for its lower environmental impact (an experience characteristic). However, without detailed studies on consumer behavior – which are currently not available – it is not possible to

determine which share of consumers buy a product for its quality or its experience characteristics. Nevertheless, these indicators may be useful.

As an introductory indicator, we first compare the agricultural sector as a whole with two other sectors that are more closely associated with the experience economy, namely the recreational, cultural and sports (RCS) sector, and the hotel and restaurant sector. In 1995, the agricultural sector represented 2.7% of GVA and 5.0% of total employment – approximately the same as the hotel and restaurant sector but considerably more than the RCS sector. However, by 2010 agricultural employment dropped to only 3.3% of total employment (a 34% decrease). In the same period, the employment share of the hotel and restaurant sector grew to 5.1% (a 19% increase) and the employment share of the RCS sector even more, from 1.8% in 1995 to 2.3% in 2010 (a 28% increase). Moreover, agriculture fell below the RCS sector. GVA generated by RCS activities had an average *annual* increase of more than 5%, while GVA generated by the agricultural sector remained approximately the same over the past decade. The GVA of the RCS sector overtook agriculture's GVA in 2004, and the gap has been widening ever since (Figure 4).

However, as mentioned, this indicator is imperfect. One reason is that the experience economy has grown inside the agricultural and food system as well.

3.1 EXPERIENCE STANDARDS IN THE AGRICULTURAL AND FOOD INDUSTRY

Compared to fifteen years ago, all agricultural and food products are subject to a range of new product and process standards. Many of these are safety and minimum quality standards, but increasingly they also relate to experience concepts such as animal welfare and the environment. Until 20 years ago, issues such as ecology, global warming, animal welfare and genetic engineering were relatively unimportant in the marketing of products

and services, but because consumer concerns about these issues have been on the rise, new “experience standards” have been imposed and increasingly affected agricultural production.

The private sector appears to have taken the lead in introducing experience standards. Most retailers impose private standards on their suppliers, and these private standards are frequently more stringent than their public counterparts. This holds particularly for experience standards. These private experience standards are closely related to, and in most cases part of a company’s ‘Corporate Social Responsibility’ (CSR) strategy.⁸

One specific example of an experience standard which has been rapidly adopted by the private sector is free-range eggs. Despite the frequently demonstrated absence of quality differences between eggs from free-range and battery hens (Van Den Brand et al., 2004), consumers are willing to pay more for free range eggs. In Belgium for example, the market share of free range eggs – with a price premium of 20 to 40 percent – was as high as 90% in 2011 (VLAM, 2011). Also in this particular example, private retailers have taken the lead in adopting private standards to address consumers’ animal welfare concerns. While eggs from battery cages are officially prohibited only from 2012 onwards, several retailers have already decided to stop selling and using these eggs in their own private label products. Colruyt was in January 2006 the first retailer in Belgium to remove these eggs from its shelves, and less than three years later all Belgian retailers had followed (Vilt, 2008).

⁸ CSR is defined by the European Commission as “a process, whereby companies integrate social, environmental, ethical and human rights concerns into their business operations and core strategy in close collaboration with their stakeholders.” Although this process is not new, it was characterized by stellar growth in the past decade and is currently ranked as the number one priority of managers in the global retail and consumer goods sector (The Consumer Good Forum, 2011). There is an extensive literature dealing with various aspects of CSR, from the economic justification of CSR to its implications on firm performance (Hartmann, 2011). One specific strand of this literature relates to our concept of “experience” and analyzes firms’ incentives to compete for “ethical” consumers (e.g. Bagnoli and Watts, 2003; Besley and Gathak, 2007), in which ethical consumers derive utility from buying products from firms that adhere to certain “experience” standards such as fair trade or animal welfare standards.

Certification practices are another example. There exists a variety of initiatives and certification schemes related to environmental preservation, fair trade (see below) and other issues. Here again the private sector does pioneering work, in collaboration with NGOs. An example of such a certification scheme is the “Rainforest Alliance” (RA) certification which aims at promoting good farm management practices for resource conservation, environmental management, and improved labor conditions. The RA certification scheme has been widely adopted by large multinational companies. By 2007 RA-certified bananas accounted for approximately 28% of total US banana imports. All banana plantations owned by Chiquita and 84% of the bananas purchased by Chiquita from Latin America are RA-certified (FAO, 2009). Kraft recently committed to use RA coffee beans in the production of several of its coffee brands. Unilever – acquiring 12 % of the world’s black tea – committed to buy all its tea RA-certified.⁹

Similarly, the Forest Stewardship Council (FSC) aims at halting deforestation by promoting sustainable forest management. Between 2004 and 2008, its certified area almost tripled, and in 2009 it certified approximately 116 million hectares of forests (2.9% of the global forest surface). In some countries a significant share of the forests are certified (e.g. Croatia: 95%; Poland: 76% – Marx and Cuypers, 2010).

3.2 FAIR TRADE PRODUCTS

Initiatives such as the RA certification scheme are closely related to the “Fair Trade” (FT) concept. Consumers buy FT products mainly because these allow small and poor farmers in developing countries to receive a higher price for their products, enabling them to improve their lives, send their children to school, etc. In this sense, FT products fit within the market

⁹ Source: <http://www.rainforest-alliance.org/>, 10 June 2010.

for care and charity as consumers get a “warm glow” when buying these products – they draw utility from knowing that they support small and poor farmers by buying FT products. Additionally, FT products also fit in the market for convictions as by buying FT, consumers reject the purchasing practices of traditional firms.

To date, the FT concept so far is mainly applicable to farmers in developing countries and therefore less relevant for European farmers.¹⁰ Yet, the evolution of FT is a good indicator for consumers’ interest in experience products. FT products are the fastest growing segment of food sales. Global sales of FT certified foods reached nearly €2.9 billion in 2008, with tea, cocoa, coffee and bananas enjoying the highest growth.¹¹ On average, global FT product sales expanded by 40% *annually* over the period 1997-2007 (FAO, 2009). In the UK, where most detailed data are available from, the sales of FT products increased from around £30 million in 2000 to £1,170 billion in 2010 – a dazzling increase of 49% *per year* (Figure 5).

A recurrent comment is that despite strong growth, the market share of FT retail sales has remained quite low. Aggregate data seem to confirm this: FT retail sales make up only slightly more than 1% of total food retail sales. However, this is misleading as FT products are concentrated in some specific commodities. For example, the sales of FT bananas in the UK increased from 5% of all banana retail sales in 2004 to 30% in 2008 (Figure 6). In 2009, FT coffee retail sales represented more than 15% of total coffee retail sales in the UK and FT tea retail sales amounted to 9% of total tea retail sales.

¹⁰ Recently, FT products have originated from the EU as well. For example, in response to the recent dairy crisis, FT milk brands have emerged.

¹¹ Source: <http://www.fairtrade.net/>, 26 September 2010..

Furthermore, UK consumer awareness of FT products has risen from 20% in 2002 to 70% in 2008. The number of UK consumers buying FT products has followed a similar growth pattern – from 9% in 2006 to 25% in 2009.

3.3 ORGANIC FOOD PRODUCTS

Organic sales in the UK have grown from around £100 million in 1995 to more than £1,700 million in 2010, an average increase of roughly 30% per year in sales value (Figure 7).¹² Although the share of organic products in total retail sales is limited, data show that this differs strongly by country and – as with fair trade – by product category. Organic products account for 1.6% of total food retail sales in the UK and 4% in the US. In France, organic milk sales has grown from 2.8% of total milk retail sales in 1999 to more than 7% in 2007 (Figure 8).

The share of land allocated to organic farming increased in all EU member states between 2000 and 2007. In some countries, such as Austria and Sweden, a substantial share of total farmland is used for organic production.

Retail companies and outlets specializing in organic products have emerged. In the US, the organic retailer Whole Foods has grown from 19 employees and one outlet in 1980 to 57,200 employees and 296 outlets in 2009. It is currently the ninth largest food and drug store in the US.¹³ Another example is Bio-Planet owned by the Belgian retailer Colruyt.

¹² The economic crisis may have temporarily slowed or even reversed this trend, but this reinforces the argument that economic growth is related to the growth of experience products and services.

¹³ Source: <http://www.wholefoodsmarket.com/>, 9 August 2010.

3.4 DIRECT SALES OF FOOD PRODUCTS

Figure 9 shows the rapid increase in the number of farmers' markets in the US. In the period 1994-2009, the number of farmers' markets, where consumers buy food directly from farmers, increased from 1,755 markets in 1994 to 5,274 in 2009. Also in the UK, farmers' markets have gained in popularity and their number increased from close to zero in 1995 to approximately 550 markets (with 230,000 stallholders) in 2006 (FARMA, 2006).

3.5 SUMMARY

Within the agricultural sector, many different products and services can provide an experience to the consumer, ranging from products where the experience is only one aspect in the consumer's decision (e.g. organic products for which also quality and health concerns play a crucial role) to products and services where the experience feature is the most important driver (e.g. fair trade products).

A frequent critique of initiatives reviewed here is that these forms of "experience farming" are marginal in terms of total production and that therefore their impact is marginal and irrelevant for the majority of farmers as well. Our documentation of the economic importance of "experience farming" shows that it is no longer a marginal phenomenon, but growing rapidly in importance, especially within specific product categories and regions.

Admittedly, figures on the past growth of the "experience economy" do not allow to make projections about future growth, and more detailed analyses of the main drivers affecting both demand and supply for experience products and services are needed. Potential factors affecting the market for experience products and services are demographic changes, changes in purchasing power, production limitations and policy initiatives. For example, the

financial crisis or specific policy measures such as abolishing subsidies may affect organic production.

4 CONCLUSIONS AND IMPLICATIONS FOR EU POLICY

In this paper, we have argued that a new type of economy is emerging: the “experience economy”. Typically products and services sold in this experience economy contain, aside from the physical product/service and its quality features, an additional “experience”. These additional experience characteristics positively affect consumers’ willingness to pay for the product or service, and are intangible at the consumer level – they create a “warm glow” feeling – but may have tangible consequences at other levels, e.g. by affecting positive or negative externalities.

We have documented that throughout Europe, and specifically its agricultural sector, the experience economy is growing, creating more income and more jobs. This is in strong contrast to traditional agricultural activities where employment decreases and its relative contribution to economic development declines even further.

Hence it appears that there may be (at least) two diverging future growth patterns for the EU agricultural sector. One pattern is the large-scale, labor extensive and capital intensive production of agricultural commodities as inputs for the food, feed, and fuel industry. Incomes will have to be raised through increasing productivity, cutting costs, and possibly increasing prices with increased demand for feed and food, and the growing integration of the agricultural production system in bio-energy production – all driven by increasing food and fuel prices in the long run. Here it is crucial for EU policy to support this system with investments in R&D and innovation (Swinnen and Van Herck, 2010).

Another potential growth path for European farmers is the experience economy where consumers are willing to pay a price premium in exchange for various “experiences”. Note that these two growth patterns should not necessarily co-exist within the same region and/or sub-sector and that the relative importance is endogenous to the characteristics of the region and/or sub-sector. A frequent critique of current initiatives in the agricultural sector is that these forms of “experience farming” are marginal in terms of total production and therefore only have a marginal impact on the EU agriculture and food system. However, the rapid growth of for example organic and fair trade sales suggests that the experience economy may be a future growth area for the agri-food system. While total food sales of these products are still relatively small compared to the total food market, this is no longer the case in specific product markets where they have gained substantive shares. What is promising for farmers is that experience characteristics not only relate to consumption or product characteristics per se, but also to production characteristics. This, therefore, may offer substantial growth perspectives and a growing comparative advantage for European farmers in the medium term.

From a policy perspective, the question arises whether local, national and EU-level policy can play a role in stimulating farmers to increase the value of their agricultural production by focusing on “experience” aspects of their production processes. At the EU level, some policy support is already incorporated in particular rural development programs. Examples are programs that stimulate co-operation for developing new products (Axis 1) and programs that encourage the development of tourist and craft activities (Axis 3).

Hence, in the light of the discussion on the CAP budget after 2013, it appears useful to discuss whether more resources should be oriented towards programs that aim at assisting farmers and the agricultural system as a whole to reorient itself towards what appears to be a growth area for the future: the experience economy. These programs could help farmers to

accumulate the appropriate human capital and to develop the institutional infrastructure to make the transition towards the experience economy, which can be an effective way to increase their (farm) incomes. Of course, the question applies here as well to what extent specific support policies can drive this type of change and whether the key factors of a successful transition are not more general policies which stimulate skill enhancement, innovation and entrepreneurship.

Finally, it is important to acknowledge the important role that the private sector can play in stimulating growth of the experience economy. Over the past years, the introduction of various experience standards in CSR strategies of large, international enterprises have been the catalyst for the rapid growth of some specific experience products.

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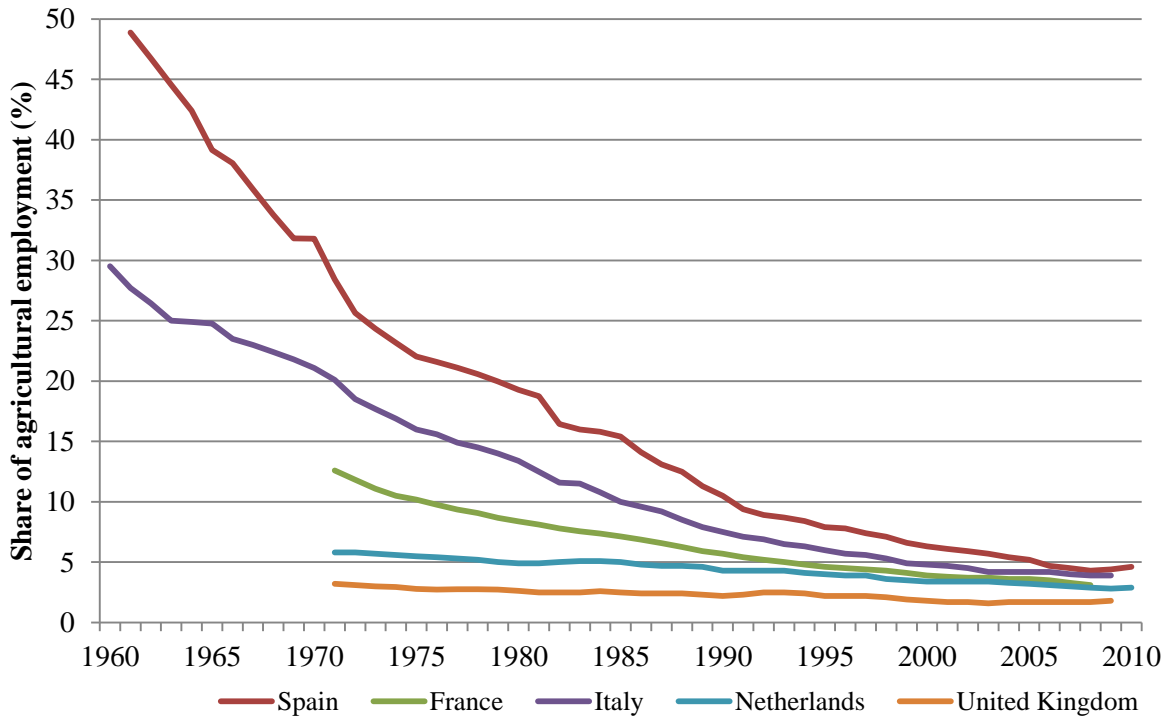
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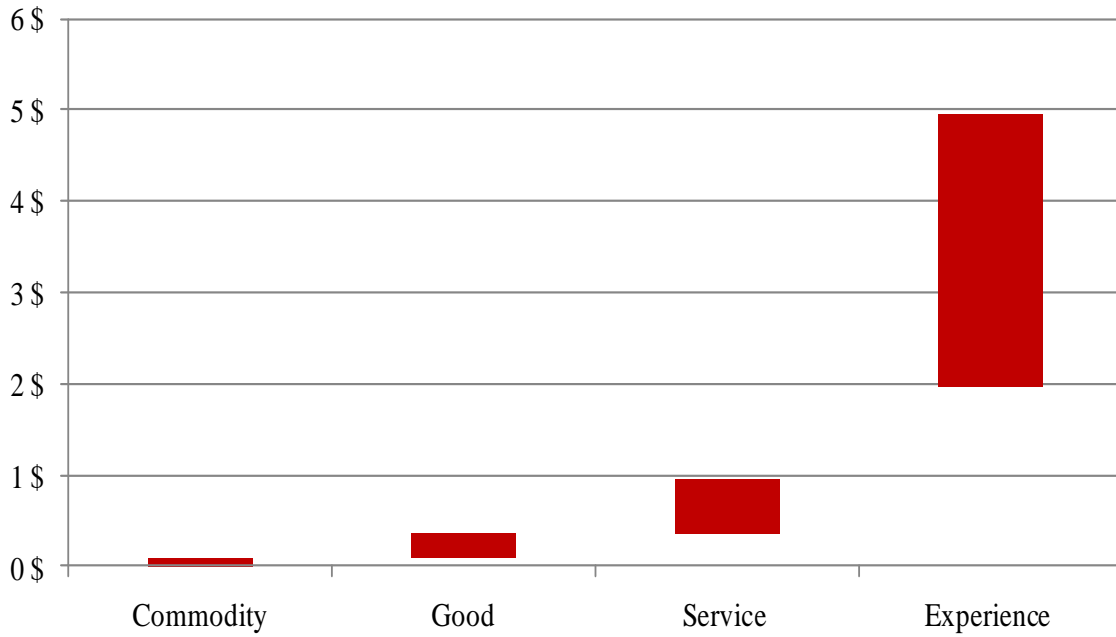
FIGURES

Figure 1: Share of agricultural employment in total employment (%; 1960-2010)



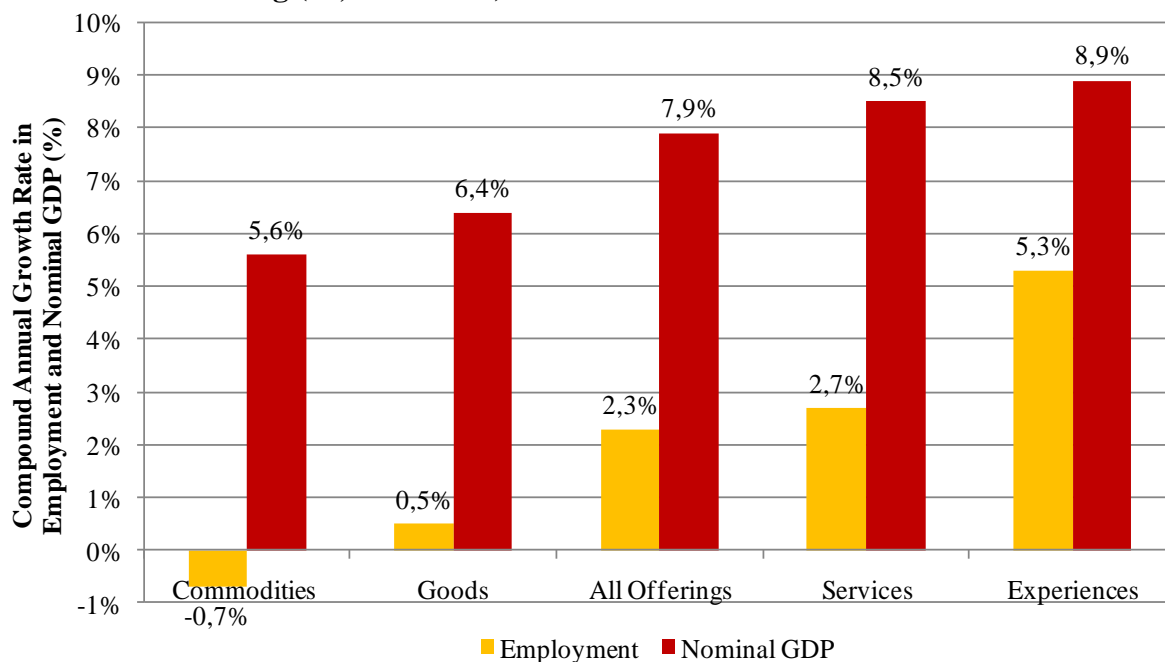
Source: ILO (2010), Eurostat (2010)

Figure 2: Price of coffee offerings



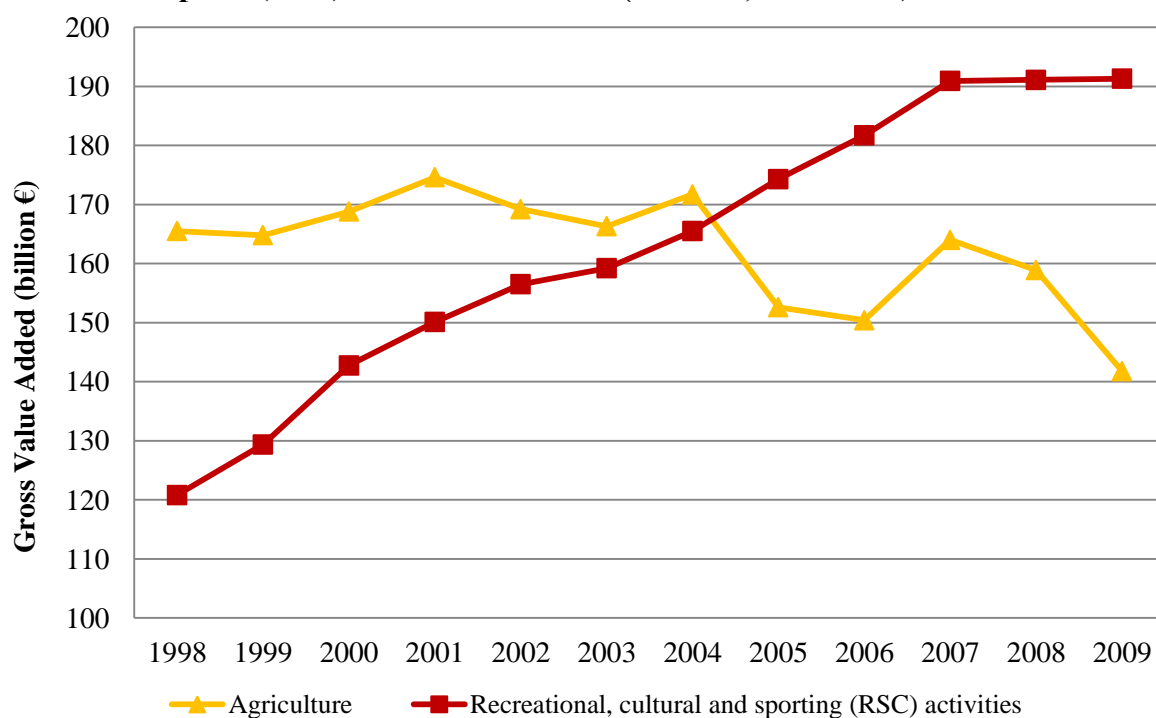
Source: Pine and Gilmore (1999)

Figure 3: Annual growth in employment and nominal gross domestic product (GDP) per economic offering (% , 1959-1996)*



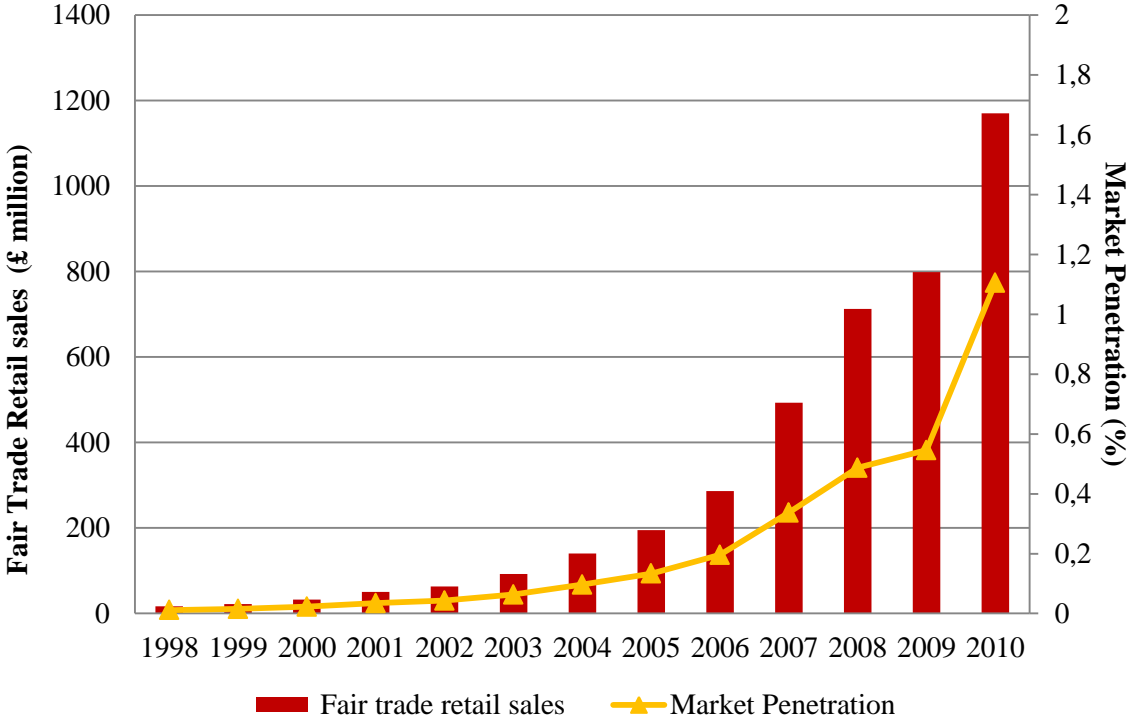
* The authors base their estimates for employment and nominal GDP growth of the category “Experiences” on admissions to recreational events (movies, concerts, sports, etc.).
Source: Pine and Gilmore (1999)

Figure 4: Gross value added (GVA) of the agricultural sector vs. the recreational, cultural and sports (RCS) sector in the EU-15 (billion €; 1998-2008)



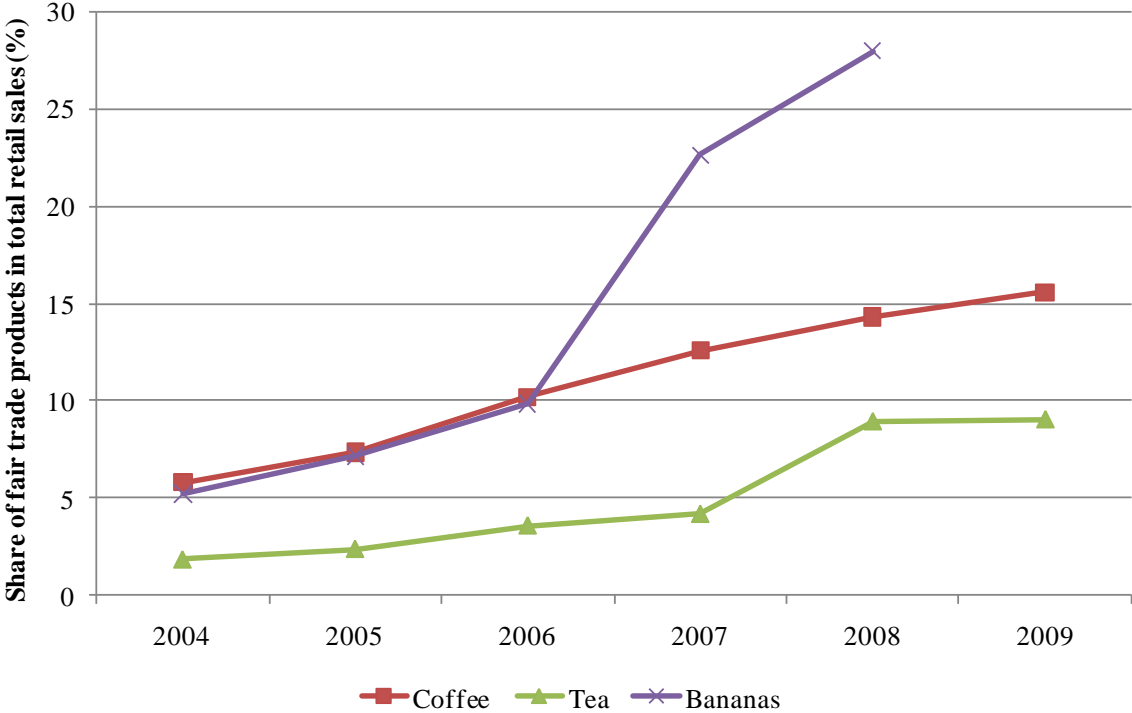
Source: Eurostat (2010)

Figure 5: Fair trade sales and market penetration of fair trade in the UK (mio £, 1998-2010)



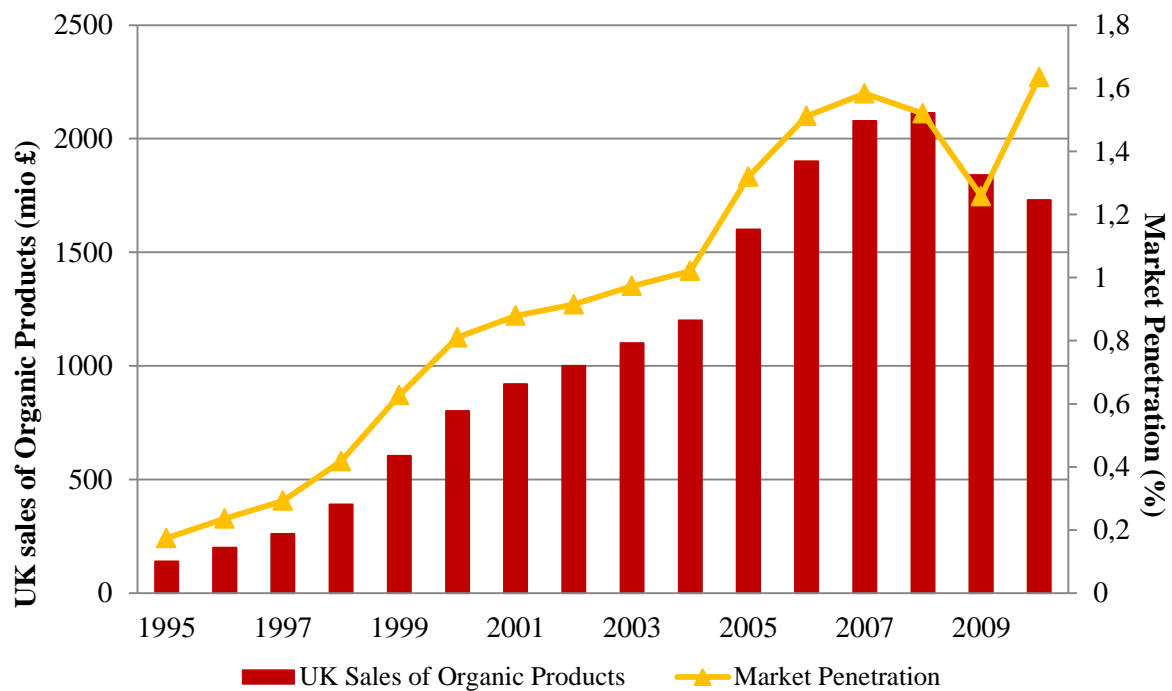
Source: Website: <http://www.fairtrade.org.uk/>, 30 September 2010

Figure 6: Share of selected fair trade products in total retail sales in the UK (% , 2004-2009)



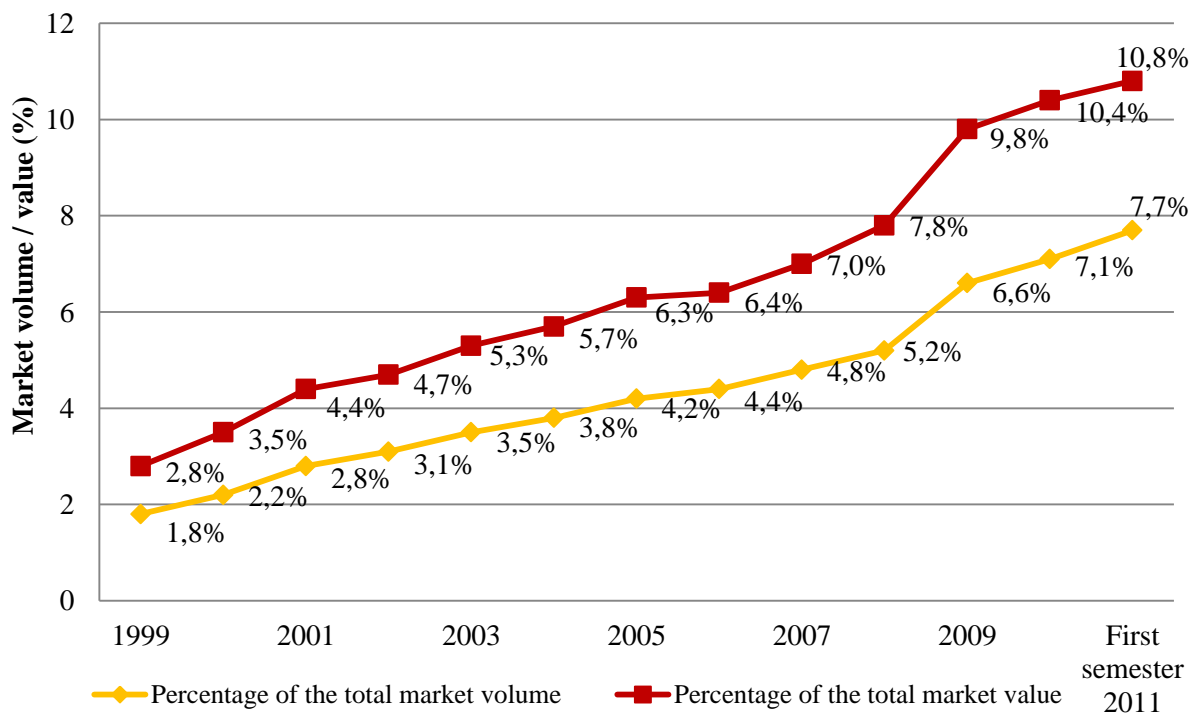
Source: Own calculations based on Defra (2009), Euromonitor (2010) and Fairtrade Foundation (2010)

Figure 7: Organic food sales and market penetration of organic food sales in the UK (sales in mio £, market penetration in %; 1995-2010)



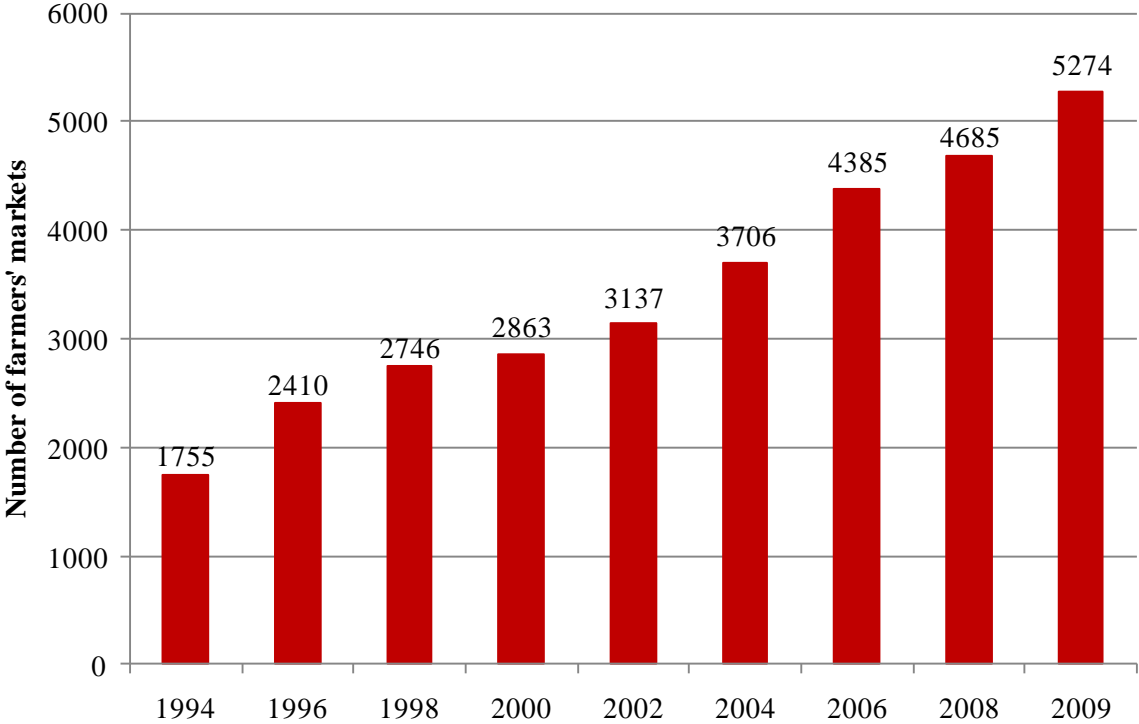
Source: Soil association (2011)

Figure 8: Share of organic milk in total retail sales of milk in France (%; 1999-2007)



Source: Agence Bio (2008)

Figure 9: Number of farmers' markets in the US (1994-2009)



Source: USDA-AMS - Marketing Services Division