

Thank you, Peter, for your warm introduction.

I'd like to thank the Statler Foundation for including me in today's celebration of Statler Scholarship recipients. As an educator, nothing makes me happier than recognizing student achievement. And as an administrator, nothing makes me happier than to see gifts in support of scholarships. Today's students are the leaders of tomorrow, and your investment, as I'm sure these Statler Scholars will prove, will pay the highest dividends. I'd like to ask all of you here today to join me in a round of applause not only for these outstanding scholars but also for the Statler Foundation's generous support.

When the Statler Foundation asked me to speak about the future of hospitality education, I thought, "This should be simple enough. I'll talk about the importance of teaching great service."

It turns out that it's not that easy. "Service" is one of the most overused words in the English language. Any salesperson will tell you he or she provides provide great service. If you go into a restaurant or a mechanic's shop, there's a sign proclaiming its commitment to service. Phone companies tell you about customer service while you're on hold for 17 minutes.

So what is service? As I was preparing for today and researching the hospitality industry, I was startled by how often even the academicians define service as intangible, difficult to measure, and purely a function of customer perception—almost an uncontrollable commodity. This all seems rather ironic to an economist like me, who thrives on things that add up.

No doubt you've all learned about the service economy—how it's evolved from the industrial economy and if you go back further, from the agrarian economy. Several years ago, The Harvard Business Review introduced another—the "experience economy"—based on the work of Joseph Pine and James Gilmore. In the experience economy, it's the customer's perception that makes for success—not the transaction. The key to customer loyalty—which is really what drives profitability—is to elicit a "sense of being" associated with your product or service. Disney: family memories. Nike: intense, focused athletics. Starbucks: hey, I feel hip and cool when I go into a Starbucks!

What's the difference between that and the service economy? Economist James Fitzsimmons, whose work I'm sure you know, describes a service as "intangible" and an experience as "memorable." In the experience economy, the seller is no longer the "provider," but rather the "stager." The buyer is not the "client" but the "guest."

Let me give you an example of the E – that's a capital E for experience – the E-conomy. In this year's Travel & Leisure survey, the Ebony Lodge at Singita ("Sin ghee'tah") Private Game Reserve in South Africa was named the best hotel in the world. To get there, you have to drive over three hours at 50 miles an hour—that's on one of the few paved roads. You can shave 40 minutes off the trip if you're willing to take the gravel roads. And here are a few things you'll need for your stay: anti-malaria tablets; sunblock – spf 100; sturdy, ankle-high, thick-soled

hiking boots. And clothing? Whatever you need for 110 degrees in the summer and near freezing in the winter.

By now you're probably wondering why the Ebony Lodge isn't the world's worst, rather than the world's best, hotel. The answer is in the experience. Now close your eyes and listen to a marketing piece on the place.

“Languishing amongst the shade of the gnarled Knobthorn and Jackalberry trees, with the Sand River below, Singita's Ebony Lodge is set in a cool silence that is entirely intoxicating. Ebony is a tribute to the vogue and muted luxury of colonial styling, echoing a bygone age. There is a gradual sensation that grows with you here, like the stirring of passion. Quietly romantic, Ebony is considered among the finest resorts in the world, not because of the exceptional architecture, nor the cuisine or wild setting, but because of the effect on the spirit. Waking each morning to the sights and smells of the wild, the vastness of Africa before you, is to feel completely alive.”

Okay, now open. Didn't you feel like you were right there? Or that you wanted to be? That's the concept that drives the “Experience Economy.” By the way, “feeling completely alive” at the Ebony Lodge will cost you over \$1000 per night per person, not including transportation, meals and expenses.

Admittedly, Singita is pretty far removed from Western New York and in a class unto itself. So let's talk about the experience economy in terms a little closer to home:

- First, hotels.com recently released results of a survey on what drives online hotel reservations. Two-thirds of respondents say they must be able to view photos of the hotel guest rooms – the description and general hotel ratings aren't as important. More than a third said they look for luxury room amenities like featherbeds and bath products. A third also want a Jacuzzi bathtub; 26% want a fitness center or spa. Sixteen percent—and this is an area that's growing very fast—16% want high-tech features like broadband service and flatscreen TVs. They want more than a place to rest their heads; they want an experience.
- Second, there's a customer satisfaction measure some of you may be familiar with called the Market Metrix Hospitality Index or MMHI. It's a quarterly report based on 35,000 in-depth customer interviews. But here's the E factor. In addition to the standard measures of customer satisfaction, the MMHI has developed what it calls the Loyalty Emotions measure. Hospitality companies that provide emotional experiences eliciting customer responses such as “pampered,” “relaxed,” or “hip/cool” obtain higher ratings in the new metric. That means those customers will return, again and again. Not only that, they'll tell their families, friends, and colleagues about the great experience they had.
- Third, Best Western, the world's largest hotel chain, launched its new advertising campaign this summer. Acting CEO David Kong has said this about the campaign. “In the past, we directed our efforts toward building consumer awareness of Best Western as

the world's largest hotel chain. Today, our focus is on establishing an emotional connection with our guests through warm, human vignettes. By emphasizing aspects of our BestRequests amenity program and our friendly customer service, we are able to illustrate what we do to make Best Western the world's largest hotel chain." Again, it's about the experience and establishing customer loyalty.

What this all comes down to is that each guest's experience must be unique. It must make him or her feel special or privileged. Obviously, the successful experience model is already having a tremendous impact in the traditional hospitality sites. Even more interestingly, it's also driving the hospitality industry into entirely new sites. Here are a few examples.

- In Rochester, Strong Memorial Hospital recently launched a concierge-type room service function for patients. The new Cleveland Clinic in Naples, Florida, in conjunction with the Ritz Carlton Hotels and the Sudexo Marriott, offers what it calls "Healing Hospitality." That means larger patient rooms that include wood trim, linens, soft lighting, and plush furniture. Plus, each room is appointed with mini refrigerators, data ports for computers, desks, and plenty of comfortable seating for family and visitors. Sounds more like a hotel than a hospital, right?
- Throughout the Northeast, Charter One Bank is partnering with Starbucks to add coffee bars in selected branches. You've seen these in Borders and Barnes & Noble for several years. Now they're going into banks.
- Universities – here's something near and dear to me. The days of cafeterias and dormitory living are slipping away. Now, we have cafés and coffee houses – RIT has a great one called Java Wally's in Wallace Library so students can bring their reference books and laptops in to study without having to pass through the security gates.

As for dormitories, students used to come to college with flip-flops and a shower caddy so they could walk from a shared dorm room to the one common bathroom on the floor. Now, we're seeing reconfigured residence halls featuring suites w/private bathrooms and kitchens. As universities compete for the best students, can concierge service be far behind?

All this costs money, and at private universities such as RIT, these places have to pay for themselves. That means they have to be managed like a professional hospitality facility, not a division of the university. At RIT, Java Wally's is run by a privately owned coffee house/restaurant company in Rochester. It's been such a great partnership that we're considering a second location in the residence hall quad.

- And here's an example of the Experience Economy that was really new to me. Churches are designing restaurants within their facilities to enhance group functions and to provide service to parishioners on Sunday mornings. Think about it – today's kids could be the last generation to ever attend a potluck church dinner!

So, after all of this, here's the question. If we can't teach service because it's intuitive and we can't teach experience because every one must be unique, what do we teach hospitality students? At RIT, we're focusing on four key areas: Global Perspective, Technology, Business, and Creativity. All contribute to an understanding of the new experience economy.

First, global perspective. We are a global economy, there's no question. If you're managing a hotel in Buffalo, your guests will come from all over the world. That means you need to understand cultures and social norms well beyond your own borders. In a global economy, US-based companies—and their employees—must be able to manage operations throughout the world. Their customers expect their hotel experience—what they're paying for—to be unique to each location. That means managing a hotel in Thailand is very different than in Spain, France or Mexico.

Technology is next. Remember the 16% of survey respondents who said they wanted high-tech features like broadband service and flatscreen TVs? Projections by In-Stat/MDR, a high-tech market research firm, are that hotels with full broadband service will grow from a scant 5200 back in 2003 to around 27,000 in 2008. This is driven by guest demand, no question. About five years ago when this concept was introduced, it was hard to deploy broadband service to guest rooms in a large hotel. The few companies that were doing it well were charging handsomely for it. Now guests expect it. That means you have to figure out not only how to provide it, but also how to make it profitable. This is just one example of why a hospitality professional needs to understand technology.

Let's take one more technology point here. Think your website's good because it's a template that your franchise brand put together? Think again. Less than 25% of Internet travelers search for hotels by brand name. Over 70% enter the keywords "hotel" and the destination city. The actual hotels show up in their searches way below the third parties that are selling their rooms. Your website is the lowest cost, highest ROI marketing and distribution channel you have, and your hotel needs to be in the top 10 to 15 responses to any search. You have to understand the technology of the Internet to make it work for you.

Third is smart business. It goes without saying that an understanding of business beyond traditional accounting and human resources is critical for success in the hospitality industry. Sophisticated marketing, corporate contracts, developing incredibly strong partnerships with suppliers and customers alike – these are the things that make hospitality a very profitable business. I mentioned the Charter One Bank/Starbucks alliance. There is a huge opportunity there for the seniors market. In the next 10 years, the retiree population is going to explode, and unlike all of us today, retirees have time on their hands. They won't use a bank drive-thru. They'll go inside, sit down in the bank's coffee bar, and peruse the retirement fund information. And how about strategic partnerships with your customers? Travel managers in large corporations establish lists of "preferred hotels" for employees, and in today's tight economy, companies are enforcing use of those vendors. Getting on that list reaps huge rewards.

The last point, creativity, may have you scratching your head, but I think it will be clear in a moment. Hospitality success in this E-conomy will depend on the creativity of those employed in the industry—people who find new forms of experience for customers and creative approaches

to daily business activities and problem-solving; people with an entrepreneurial spirit. Entrepreneurship—the art of cross-disciplinary team building, problem-solving, leadership, communication, sophisticated analysis, and strategy development—can be taught.

But entrepreneurial spirit—like service—cannot be taught. It's a sense of being, a way you approach your work and life. Every employee, not just managers, should have this spirit. If management can find ways to draw that out of each employee – through training, by empowering them to take initiative, by delegating special projects rather than doing all the creative work themselves, by encouraging group collaboration, and by rewarding creativity – that will create a wave of incredible experiences that reach beyond customers' wildest expectations.

So while we've come a long way from Ellsworth Statler's "room and a bath for a dollar and a half" days, his legacy is still very much alive in successful hotel operations. Revered by his contemporaries as "the person who contributed the most to the science of inn-keeping," Mr. Statler led the hotel industry in technology. He was the first to put telephones and radios in every guest room. He constantly sought the competitive advantage through new services, and more comfortable, convenient and private rooms for the middle-class traveler—amenities that competitors only offered to their elite customers. That was very smart business. And he was creative. He expected high levels of service from his employees, but rewarded their hard work with a program of job and retirement security that was unique for its time.

I think it's fair to say that Mr. Statler would have done quite well in the Experience Economy, don't you?

Thank you.