

# PLAN & THINK BEFORE YOU INK: STRATEGIC HOTEL CONTRACT NEGOTIATIONS

“How does the hotel value your meeting?” asks Tim Brown, Partner, Meeting Sites Resource, and speaker at HSMIAI Affordable Meetings® West in June. Presenting with his partner, Jennifer Brown, CMP, Brown reminded his audience that the turbulent economic environment and continuing cutbacks in meeting budgets has changed the way planners plan and execute meetings and how hoteliers sell and provide service. This dramatic change has many planners scrambling to salvage existing meetings and dealing with reduced attendance, attrition, cancellation or other hotel performance issues.

“It’s easy to sit on the sidelines and contemplate the multitude of variables and desired outcomes as it relates to hotel performance damages and dispute resolution,” Brown says. “The simple answer is to have a strategic hotel negotiations plan that makes mitigating any performance damages a straightforward and fair process. But how do you truly put a negotiations plan in motion that will add value to your meeting and bottom line, with an emphasis on risk reduction?”

Brown advises to breakdown your Request for Proposal (RFP) and assess your leverage. Here’s how:

- What is your peak night pattern and is it compatible with the hotel’s desired group arrival/departure? Pattern selling is the cornerstone of hotel revenue management and every hotel, whether big, small, chain or independent, has desired patterns for all market segments. Flexibility to shift your dates/pattern can make the difference in your securing a first choice hotel and can drive rate too.
- Calculate your total meeting and event space needs for each meeting and heaviest day usage. What percentage of the hotel’s total space are you requesting? What other groups are contracted over your preferred dates? How much set up time will you need? Do you need 24-hour hold? Hotels use their



space to sell their allotted group rooms and many use the rule of thumb “use 40% of my group room inventory and you get 40% of my meeting space” (always negotiable, of course).

- What is your group food and beverage contribution? Ask the hotel what is their minimum F&B expectation and if you are projecting a higher amount, that’s leverage. Ask the hotel if they do off site catering and if so, capture that revenue too.
- Calculate your total revenue based on your overall agenda, including sleeping rooms, food and beverage, audio visual, golf, spa, etc.
- Check your meeting history...in previous years, what did you contract for and what were your actual results? Hoteliers do reciprocate on providing specific group pick-up and revenue data.
- What is the specific season in this destination...and is this a short, medium or long-term meeting? If you have multiple date options at a hotel, ask which date gives you the most flexibility with space, rates and concessions.

“Once you complete your hotel evaluation process, provide the hotel with all your contract requirements and clauses at one time,” advises Brown. “Don’t dribble them in.”

Brown offered attendees key “proactive” contract negotiation strategies, including:

- Attrition – guarantee 80% of your room block vs. sliding scale attrition (use it or lose it).
- Cancellation – base it on a sliding scale with percentages increasing, as dates get closer.
- Attrition and Cancellation Damages – base on lost profit, not lost revenue (75% rooms, 35% F&B) and list specific dates and “do the math.”
- Food & Beverage – Contract a specific F&B guarantee, based on your overall meeting agenda, including 20% allowable attrition (\$40K F&B guarantee x 20% = \$32K actual guarantee).
- Meeting & Event Space – Include as complimentary based on 80% guest room pick-up (not sliding scale fees).
- Always include a Resell Clause – Clearly state that any resold rooms/space/services will be credited to your meeting. You have to ask for it – and you’ll get it every time.
- Include a Published Rate Clause – Stipulate that no lower room rates can be offered over your meeting dates and if rooms are booked around your block (for example, via discount travel websites), that these rooms are credited to the group.

- Concessions – Remember that everything is negotiable, but prioritize based on your specific needs and value to each meeting (must have vs. nice to have).
- Force Majeure/Termination – This is based on circumstances out of the control of either party; however, identify specific terms and conditions that allow either party to cancel the meeting without financial responsibilities. (Include anything that makes it impractical, illegal or impossible to perform.)
- Damages – In the event of performance damages, apply some or all to a future meeting (similar size within 12 month period).
- Breach by hotel – Specify financial responsibilities if the hotel cancels the group (other than because of Force Majeure). Hotel should be liable for all damages, direct and indirect, including expense to reschedule, increased room rates, F&B, administration and operation, printing/marketing costs, etc. “Be sure you understand the difference between liquidated and mitigated damages,” Brown says. “Once an organization signs a contract with a hotel, assuming non-performance is not related to Force Majeure (occurrences out of organization’s and hotel’s control), there will be damages due...the key is the language and intent in the performance clauses and specific formulas to calculate damages, along with specific dates when damages are due.

“Liquidated damages call for a specific dollar amount or formula to calculate a specific dollar amount to be paid to the hotel in the event of non-performance. Damages collected by the hotel cannot be excessive, or they could be deemed a penalty. As an example, you contract with a hotel for 100 rooms at a \$200.00 room rate (\$20,000) and \$5,000 group F&B (\$25,000 total contract value)...if the hotel seeks \$45,000 in cancellation damages, this would be considered a penalty and not allowed by hospitality law. With liquidation damages, the hotel is not obligated to resell rooms and credit the group.

“Mitigated damages,” Brown continues, “are the hotel’s responsibility to resell sleeping rooms, meeting and event space and contracted services, to reduce, or better yet, eliminate damages to the hotel. Back to the example of the 100 contracted sleeping rooms, say the contract called for 15% allowable attrition (guarantee 85 rooms) and you actually utilize 70 rooms, you must pay for the 15 room shortfall. You would then instruct the hotel to conduct a rooms inventory audit by night, to determine total hotel occupancy (less rooms under renovation/out of service). If the hotel sells all but four rooms, then four rooms are all you are obligated to pay for.”

How is a hotel audit handled? “In the event of attrition or cancellation damages,” Brown advises, “conduct a room audit.” This should include:

- Request a hotel sleeping room inventory/occupancy report by night.

- Verify how many rooms were resold (individual or group), regardless of the room rate.
- Verify how many rooms, by night, were out of service due to renovation or repair.
- If attendees make their own hotel reservations (vs. rooms on master), provide the hotel with an electronic registration list so they can cross reference against all in-house guests over the meeting dates.
- Capture any pre or post room nights.

**THE SIMPLE ANSWER IS TO HAVE  
A STRATEGIC HOTEL NEGOTIATIONS  
PLAN THAT MAKES MITIGATING  
ANY PERFORMANCE DAMAGES  
A STRAIGHTFORWARD AND FAIR  
PROCESS.**

“If you still have damages, do you have a rebooking clause that you can fall back on? If damages are due, are they based on lost profit or lost revenue?”

No meeting planner signs a hotel contract with the expectation that they will pay performance damages, of course, but Brown cautions that “in this uncertain environment, it is important that planners be prepared in the event things change and that they have a clear path to work with the hotel to mitigate damages and minimize risk. Meetings are big investments and when planners carefully evaluate each meeting, understand their leverage and flexibility and have a negotiations plan, clearly they will add more value and ROI to their organization, and greatly reduce risk.”



**Tim Brown** is a Partner at Meeting Sites Resource (MSR), a global specialist in meeting site research and hotel/contract negotiations. MSR also offers full-service planning and Staff On-Site (SOS) for professional on-site meeting management/logistics support, and advanced meeting technology solutions. The Irvine, California based company services over 300 meetings annually. Brown has spent his entire career in the meeting, convention, and hospitality industries and has been both a planner and supplier. He has been in hotel sales, marketing, and management and a business owner in the meeting, convention, and incentives industry for 25 years. Brown contributes to articles in major trade publications and speaks at many industry events. He has served on MPI’s International Board, been President of two MPI chapters, and in 1994, was Supplier of the Year. Contact him at [tbrown@meetingsites.net](mailto:tbrown@meetingsites.net).