

# Leveraging Hotel Negotiations:

Utilizing Internal Resources  
for Improved Savings

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## Introduction

The inevitable shift in hotel rates marks the end of an era for the meeting industry, but optimism is on the horizon for this is a new beginning of unparalleled knowledge and organizational savings. Hotel rates have been climbing for quite some time, with the biggest jump in revenue per room since 2006. The steady increase in demand for hotel services has placed added pressure to negotiate with hotels to lower some of the costs incurred in the sourcing process, especially in the last few years. In efforts to tip the negotiating scale, many event professionals and their teams have turned to technology to find leverage, and have developed mutually beneficial partnerships in the process.

*“The leverage up until now has been with planners but, due to rising occupancy levels, the leverage is swinging back to the hotel sales manager.”*

*-Robert Mandelbaum, Colliers PKF Hospitality Research*

So what does this mean for you? Is this an end to your competitive negotiating edge and will you still be able to drive cost savings to your organizations? The answer is yes, but there are several key addendums, starting with education and re-envisioning your hotel strategy.

*“Hotels will operate at near capacity in key business destinations throughout 2014. While some destinations will experience the highest rate increases in decades, rates in much of Europe will decline given ongoing economic uncertainty. The length of time it takes to add new inventory means that in general, demand will continue to outpace supply next year in those locations. Global chains continue to make investments in strategic markets by building new properties, while converting and/or renovating existing properties constitutes the bulk of new supply in most other parts of the world.”- CWT on Global Travel Cost Projections for 2014*

After reading this paper, the hope is that you will gain: better understanding of the current state of the industry, business intelligence and insight into your own organization, so that you can develop an effective hotel strategy moving forward. Strategic Meetings Management (SMM) is about cost savings, but it's also about having win-win relationships with your vendors. If you are armed with business intelligence and data, you can take that information and use it to help you

negotiate national/global hotel contracts and provide proof that you deserve their consideration.

For example, let's say that you are a corporation that has \$30 million in hotel spend. If you know the details of your budget, then you can take that information to a potential hotel partner and/or chain and say, "We can drive \$5 million in revenue with our current meetings. If you can provide us a great rate for all of our meetings and events, we can spend more of that revenue with you in the future." This is also known as incremental revenue, which is one of the many factors affecting hotel pricing and rate decisions.

### How Rates Are Decided

Many factors are considered when deciding on rates that will be offered by a hotel, and much like you, they have a strategy of their own. Hotel rates are essentially based on demand, which is currently high. Other factors include:

1. Booking Patterns:
  - How far in advance the hotel is booked
  - High, low, or shoulder season
  - How many rooms are booked at once (group bookings)
2. Location:
  - Ex. A hotel at the beach will cost more in the summer and on weekends
3. Available Inventory:
  - Limited supply = Higher rates
4. Competitive Response:
  - Competing hotels follow suit to price changes
5. Understanding the Guest:
  - Potential for incremental revenue
  - Meeting history
  - Total value of business

Hotels do not operate in a vacuum, so it's important to consider the condition of the market when building your strategy. Position yourself appropriately in comparison to other organizations with the same goal. The more information you know about what the hotel market is doing, the better. Just because you're at the negotiating table, it doesn't mean you have to forgo etiquette. Discuss

your event in detail, and give them a sense of who you are as a person and as an organization. Explain the what, why, and how, and don't be afraid to inject some personality into your conversation. Successful partnerships are also about building rapport. Before getting into the numbers discussion with the hotel, start out by letting them know what you are trying to achieve, what your goals are, and explain your strategy. Once that's done, you can then begin the negotiations process.

### **Focus on Contracts and Policy**

In terms of your rates, if individuals who are doing the contracting don't really know what they can ask for in terms of room rates, meeting space, and food and beverage, then you could be leaving a lot of money on the table. A major portion of the negotiations process includes a contract. A contract is a signed document, by two or more parties on a set of agreed upon terms and conditions for a specific event. Contracts are more or less designed to tie accountability to those involved in the agreement. Hotel contracts are much like any other legally binding contract, where non-compliance with the terms could result in heavy fines, fees, and/or penalties. A meeting policy is protection for your organization against unfavorable conditions and business practices.

*"If no meeting policy or strategic hotel procurement policy exists, it can equate to risks. If you look at all of the different components of a hotel contract, of course there are clauses in that contract around liability and indemnification, and they can oftentimes be one-sided toward the hotel and not your corporation. I would encourage you to get your legal department involved to take a look at some language that's being utilized by hotels and formulate some standard indemnification and liability clauses that meet the requirements of your company and then bring those to the negotiating table so that they can be inserted into your contract."*

*-Strategic Meetings Management Expert, Shirley Kuhloie*

In your organization, there are probably a number of different people that can typically plan meetings and who may be outside the corporate meetings management department and can oftentimes become part of the contracting practices if the primary planner isn't available.

- Administrative Assistants
- Occasional Planners
- Marketing Team Members
- Division Managers

Hotel salespeople can encourage these rogue planners to commit to their property because they can provide incentives and encouragement to do so. Those not well versed in contracting practices may fall victim of persuasion to choose a hotel for the wrong reason, which is another major risk, along with non-compliance.

Assuming you already have a Strategic Meetings Management Program (SMMP), there are pre-determined rules set forth by your organization to ensure that contracting procedures are being followed. Without these policies in place, potential risks to your organization could incur, including:

- Unfavorable liability and indemnification clauses
- High cancellation penalties
- Low attrition allowances
- Poor terms and conditions
- Market rates are being paid = no discounts
- Lack of value add items

Additionally, value-add items are another negotiating point to consider. In terms of your contract, there is mutual gain for both parties. The hotel doesn't lose any revenue and it does not affect their overall cost. Meanwhile, you are increasing your cost savings overall by having these items added as terms. Everybody wins. Some examples of value-add items include:

- Free internet in all sleeping rooms
- Activity discounts (spa, golf, etc.)
- Last year's F&B cost (Food & Beverage costs increase every year)

With a policy in place, you can begin to truly drive incremental cost savings for your organization as a whole, which is a well-deserved result of strategic meetings management.

## Clause & Effect

Another factor affecting rates is the potential risk your event poses to the hotel, such as the likelihood that you won't be able to fill your room block and the cancellation and attrition clauses in your contract. It is incumbent on you to push the hotel for more favorable conditions, especially on cancellation penalties and attrition clauses.

### 1. Cancellation

Cancellation penalties are an important part of the contract and should be looked at in terms of lost profits for the hotel, not necessarily lost revenue. If it is 6-9 months out and you need to cancel your meeting for some reason, the hotel should have the means to replace your business. It's important that your contract stipulates a replacement clause, stating that if the hotel was able to replace your business within a certain time frame, then you should not have to pay cancellation penalty fees. If in fact the hotel is not able to find another organization to take over the meeting space and rooms that you committed to, then you should be liable to the hotel for lost profit, not lost revenue.

A. In terms of lost profit liabilities, you might say to the hotel, "I understand you need to have some kind of payment if I pull out 60 days before the meeting is supposed to start, but instead of paying 80 percent of revenue, let's look more at profits (more in the range of 30 percent of their overall revenue) and talk about a more realistic penalty that you would pay.

B. A **re-booking allowance** could be an important negotiating point in terms of your contract. This stipulates that if in fact you have to cancel a meeting, not because the meeting isn't taking place at all, but because you can't do the meeting when you originally planned, then you want some kind of clause in the contract that says, "If I replace this business, or if I bring this business back within 6-12 months (optimal), then I'm going to get 70 percent of my penalty back so that I can use it for my next meeting."

### 2. Attrition

Attrition is another important element in negotiating a hotel contract. In today's world, everyone

is so busy and things come up at the last minute, which is why it's important to push hotels toward attrition allowances. Specifically, ones that give you the ability to cancel 20 percent of what your original estimate was so that you have some wiggle room closer to the meeting. When planning a 100 person meeting, it's almost impossible to be certain if 80 people or 110 people will show up. The best you can do is to benchmark previous years to provide a more realistic estimate.

### 3. Terms & Conditions

Overall terms and conditions, such as deposit requirements, rooming lists, payment policy in terms of how those rooms will be paid and how master rooms will be paid, etc., should also be included in the contract.

A. A **walk clause** should be inserted into your contract. In the event of overbooking, a walk clause can be used as a negotiation tactic specified for contracted meeting dates. If overbooking occurs, the organization can be compensated for any agreed upon amount and or terms as stipulated in the contract. This is an important part of the contract to look for, because many hotel contracts do not readily include this item. If no such clause exists in the contract, the meeting planner should add one.

#### B. **Sample Clause:**

"Hotel will not overbook sleeping rooms during the meeting dates set forth in this contract. In the event Hotel deems it necessary to send an attendee to another hotel due to overbooking or a decrease in inventory, Hotel will consult with Group's on-site contact prior to walking any Group attendee to another hotel. Further, Hotel agrees that it will provide for each 'walked' attendee:

- A comparable or better room within a five-mile radius of the Hotel at no cost to the attendee or to Group;
- Bring the attendee, at the attendee's discretion, back to the Hotel at the earliest possible date;
- Advance cash cab fare to the attendee sufficient to cover one round trip fare to and from the hotel where the attendee will be staying for each day of the meeting that the attendee involuntarily resides at an alternate hotel;

- Reimburse two long-distance telephone calls of no more than five minutes duration for each relocated attendee;
- Keep the walked attendee's name on a list for referral of phone calls to the guest's new hotel.
- In the event that the Hotel overbooked and any Group attendees are walked to another hotel, the Hotel will credit the number of overbooked rooms to Group's pick-up for purposes of calculating attrition.”

*-MeetingsNet*

So, in the interest of getting the best all-around contract for your organization, you should appoint someone who handles hotel negotiations/contracts full time. These people understand what can be asked for, and what you should be receiving in terms of amenities, terms and conditions, rates, and other services.

### **Great Data & Best Practices**

Strategic Meetings Management is a process like anything else. To take that first step, it's great to start out and record the meetings you have that are existing, just to have some initial insight. Depending on the circumstances of your organization and/or your event, you may find that these best practices will help provide you with a more strategic advantage and the power to act effectively.

### **Research Meeting Space Capabilities**

Before you start negotiating spend, gather as much data from your technology tool as possible. It never hurts to investigate and do the research. Technology has simplified the data gathering process to empower planners and provide them with leverage in their negotiations. If you don't have any technology in place or you're not quite sure that you have enough meetings to warrant technology, you can at least get some insight.

In recent years, many efficiencies have been created using technology, and there are a number of different tools out there that can really bring benefit and help you with the sourcing process, including an RFP tool. By using an RFP tool, you are able to distribute requests to multiple venues so you don't have to do it in the traditional sense, such as emails or phone calls. Other tools

benefitting the sourcing process include:

- Meeting space calculator
- Rating system for vendors
- Find places of interest around the venue locator
- Internal RFP tool with search and filter criteria
- Run a quick comparison analysis on quotes coming back from the filtered subset of hotels

There are always instances where you may not be able to have your event at a preferred hotel. That hotel may be sold out or there may be something going on within the city, but it comes down to driving volume and revenue for preferred vendors so you can get better pricing and better cost savings. As planning time is reduced, certain tools allow quick access to venue information and save a great deal of time in the selection process.

### **Work With Your Teams**

Another best practice would be to use your own internal resources for consolidation and grouping of hotel spend. For example, by forming an alliance with your travel department, you will be able to drive deeper discounts resulting incremental cost savings for your organization as a whole. Work with the hotel procurement team within the travel department and find out which properties they're selecting and why. It is important to understand whether they're gearing towards bigger hotels that are full service or are they leaning more towards smaller properties who may not be full service hotels but they meet your needs. Establish the terms of your meeting with your SMM team ahead of time, and then present it to the hotel.

### **Conclusion**

To reiterate the importance of instituting a policy, the contracts will have absolute benefits financially in terms of your overall rates. You can always leverage some of the requirements you have for terms that are more favorable to your organization. Don't be afraid to use your technology tools as they will only help you at the negotiation table.

Now that you have the criteria for your meeting set, you've gathered the necessary benchmark data, discussed your goals with your team, and you've put together a buying strategy. You are now ready to sit down with the hotel and say, "Here's what I have. Let's talk numbers around multi-meeting and multi-year discounts. Let's talk mutually beneficial partnerships."

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