

By Lee Ann Adams Mikeman and Debi Scholar

Hotel Contract Strategies

You can better manage risk by using a well-organized management program when planning any off-site event.

Like it or not, meetings are a fact of business life, and chances are most supply management professionals need to deal with the challenges of meeting and event planning and procurement. However, it entails much more than simply reserving a meeting room in a hotel and can even leave your organization open to liability and financial risk if not handled properly. Approaching the meeting planning process like any other strategic initiative

Building an SMMP, which is available on its Web site at www.nbta.org. This concept has since been embraced in the industry and is now used as a roadmap for best-in-class meeting programs throughout the United States and abroad.

Every successful SMMP encompasses critical components such as policy, technology, approval, payment/reconciliation, analysis/reporting, planning/execution and sourcing/procurement. It is important to note that there

lawyers and law firms that work in this arena full-time, bailing out organizations that naively sign hotel contracts and underestimate their significance on a daily basis. Many organizations leave themselves exposed and vulnerable to financial risk and liability unnecessarily, because nothing has happened to them in the past or because they didn't address certain issues in the RFP process. Complacency is dangerous and can result in the payment of hundreds of thousands of dollars in liquidated damages from canceled programs, lawsuits from third-party suppliers or worse. Mitigating risk and reducing liability takes commitment, persistence and determination when it comes to hotel contracts.

One approach to reducing exposure for meetings/events is to develop specific contract language or a contract addendum to be used across an enterprise for all hotel agreements.

When developing this language or addendum, collaboration across departmental lines (procurement, legal, risk management, meetings and so on) is imperative. Stakeholders must have a say in the process and agree with the final product

Mitigating risk and reducing liability takes commitment, persistence and determination when it comes to hotel contracts.

is prudent in today's litigation-heavy environment. Potential issues can be avoided through the use of a strategic meetings management program (SMMP).

The National Business Travel Association's (NBTA) Groups and Meetings Committee coined the phrase "strategic meetings management program" in 2003 when it published its first white paper,

is no one-size-fits-all solution for every organization. Each organization must assess its needs, priorities and available resources, and tailor an SMMP to match its culture and environment.

Hotel contract negotiation and procurement for meetings and events is surprisingly complicated for those who are unfamiliar with it. There are

and how it will be used before implementation begins.

Important areas to include when developing a hotel addendum (or contract language) are cancellation, attrition, indemnification, force majeure, insurance and arbitration.

When determining what areas pose the greatest risk, consider these 15 important things to know about hotel contracts (in no particular order):

1) Everything is negotiable. Not only are room rates and food and beverage costs negotiable, but other items that may not be obvious are on the table, as well, including phone/Internet access charges, fax send/receipt fees, overnight mail surcharges for sending/receiving packages through the hotel, bellhop and housekeeper gratuities, resort fees, established banquet menus/pricing and more.

2) Request special concessions/amenities. One complimentary room for every 40 paid rooms on a cumulative basis is typically requested in the industry. Other requests are standard, including complimentary upgrades for VIPs at the group rate, for example. Some hotels even agree to give a dollar-for-dollar credit to the master bill for complimentary sleeping rooms that go unused, but this must be negotiated in advance.

3) Get credit for “shoulder date” rooms. Any rooms used outside of the contracted block dates should always be

Hotel contract negotiation and procurement for meetings and events is surprisingly complicated.

credited toward group pickup. Generally, hotels will allow rooms booked three days before or after the contracted block to be credited toward group pickup to help reduce attrition risk.

4) Don't agree to pay attrition on a per-night basis. Although you may be contracted for a certain number of rooms per night, don't agree to pay attrition unless room pickup is tallied on a cumulative basis. Also, negotiate a percentage or slippage allowance (ranges between 5 percent and 20 percent) from the cumulative total so you have cushion in case attendance is lower than anticipated.

5) Get it in writing. A handshake, verbal agreement, or omission of key clauses such as “cancellation” or “attrition” in a contract may leave you or your organization liable should a discrepancy arise, so get it in writing and protect yourself.

6) Include a rebooking option. A rebooking option should always be included in a cancellation clause of a hotel contract, and no payment should be made to the hotel at the time of cancellation. The rebooking window should be specific and allow multiple programs to achieve revenue similar to the original

function. Liquidated damages should only be paid at the end of a rebooking period if there is a cancellation. Generally, an organization should not pay taxes on liquidated damages unless the hotel provides written documentation from state or local government indicating that collection of such taxes is valid.

7) Banquet event orders (BEOs) are contracts, too. Ensure that language in the BEO mirrors the original contract or you could be liable. Read the fine print!

8) Beware: Hotels can cancel your meeting. If a better piece of business comes along, a hotel can cancel your meeting or event. Protect yourself by quantifying what the hotel will have to pay your organization if it cancels your program (costs for the new venue, staff labor costs to relocate program and so on). An example of a sample clause covering this issue is, “Hotel shall not cancel, limit or change meetings dates, rooms or other space reserved under this agreement without prior written consent from the client.”

9) Weigh the risks. Special-event insurance may be beneficial if a function is expensive, involves a large

number of attendees and includes dangerous or risky activities such as boating, swimming, horseback riding, skydiving, bull riding and so on.

10) Require hotel audits. Insist that the hotel reservation system be cross-referenced with a final meeting attendee list to ensure proper credit is received for every room night utilized. Some hotels, especially when there is a call-in procedure to make room reservations, may categorize a reservation incorrectly, which could put you in an attrition situation — so insist on an audit.

11) Keep hotel profit margins in mind when negotiating. If agreeing to attrition or cancellation, don't pay full price for unused rooms or uneaten food. Profit margins for sleeping rooms and group food/beverage are high, so there is plenty of room for negotiation.

12) Control contracted hotel room block (until the last possible moment). Don't let meeting attendees call the hotel directly to make reservations inside your block. Centralize the reservation process through technology (use an online registration system or Web site), maintain a wait list and backfill cancellations with wait-listed attendees. This ensures fulfillment of your contract commitment by keeping the room block full. A “rooms replacement” clause may be considered, such as, “Canceled names can be replaced by ‘organization’ with other names

before and during the event. Hotel will not remove any rooms from 'organization' block without written approval from 'organization' before or during the event."

13) Require post-event reports. Use historical spend data to leverage better deals for future meetings with hotels and other suppliers. Don't forget to examine what ancillary revenue the hotel received from your group — room service, hotel restaurant/bar and other charges.

14) Payment terms can be fun. Avoid paying deposits and make sure they are fully refundable upon cancellation. Agree to pay invoices net 45 days from the date they are received. Disputed charges should be excluded from initial payments and no penalties should be applied to these charges. Organization charge cards or meeting cards should be used to pay meeting/hotel invoices where possible, as many banks offer rebates (based on volume and payment

turn time) for this payment method versus the traditional company check approach.

15) Food and beverage. Require all food and beverage (F&B) monies paid by a master account (including dining facilities and room service for individuals) to be credited against the contracted F&B minimum.

These tips provide a head start for managing risk associated with hotel agreements. The end results, once a program is implemented, will

be reduced costs, improved efficiency and a streamlined approach to contracting with hotels for meetings and events. **ISM**

Lee Ann Adams Mikeman is co-chair of the National Business Travel Association's Groups and Meetings Committee in McLean, Virginia. **Debi Scholar, CMM, CMP** and CTE is co-chair of the National Business Travel Association's Groups and Meetings Committee and meeting and events services director at PricewaterhouseCoopers in Florham Park, New Jersey. For more information, send an e-mail to author@ism.ws.

© Institute for Supply Management™. All rights reserved. Reprinted with permission from the publisher, the Institute for Supply Management™.