

Re: Negotiation

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By **Suzanna de Baca**

"It's open season on contracts," said Jonathan Howe, Esq., founding partner of Chicago-based Howe & Hutton Ltd. "As this economic malaise continues, more parties in the hospitality industry are being forced to take a hard look at existing agreements and engage in tough renegotiations."

The reasons to renegotiate should involve improving the situation for all parties—if that's not the goal then professionals are best advised to reconsider employing this practice. Meeting professionals must also understand how renegotiating contracts may affect their events.

As special advisor to the American Bar Association Standing Committee on Meetings and Travel, Howe has a rare vantage point. He notes that the economic environment of the last two years has impacted the meeting industry across the globe and that few have been exempt from the tough realities of today's marketplace.

"Spend has been reduced across the board," Howe said, "and that has created a huge ripple effect throughout all areas of the hospitality industry."

Howe underscores the inter-reliant nature of the industry: Reduced room blocks lead to reduced food and beverage needs, leading to calls for smaller entertainment budgets, causing audiovisual and other tech support needs to shrink, thereby reducing the need for meeting room space. The result is reduced utilization of event space and, in worst-case scenarios, job loss, damage to professional relationships and cancellation of programs.

Big-ticket items are being affected as much as smaller items, and even long-standing relationships are being re-evaluated. Renegotiation is happening in all areas of the business.

"For independent suppliers and contractors, it's really tough," Howe said. But even the largest industry players are feeling the pinch and looking for ways to remain competitive in this environment.

While the process can be painful, the ability to successfully renegotiate can mean the difference between success and failure in today's business climate. Some parties are revisiting terms of contracts in order to survive, while savvy businesses are taking a proactive approach, even suggesting more favorable terms to customers in order to lock in additional services or longer-term deals.

Be Flexible

This year has been one of the most challenging in Karen Shackman's more than 15 years in the industry, says the president and owner of New York destination and event management company Shackman Associates. Many New York firms have been deeply challenged by the economic downturn, and scores of international clients who hold events in the city have slashed budgets dramatically.

"The keyword for 2009 has been flexibility," Shackman said. "Negotiations are taking place between all parties in the industry."

Her clients are revisiting contracts, and when truly needed looking for reduced costs and asking for different clauses. In addition, the firm itself is reaching out to hotels and other suppliers to explore the possibility of agreeing on more favorable terms.

"If a program is going to be coming to New York and [the organizers] need to reconsider costs, the earlier we know about their situations and the more we know about their circumstances, the better we can maximize negotiations," Shackman said.

She urges clients to be open so that the firm can service them in the best possible way, finding the right solutions for the problems they are facing.

With hotels, Shackman says her company is working on numerous situations involving attrition. In these cases, they strive to amend agreements to include flexible attrition clauses, inserting language into agreements that locks in favorable rates. In many instances, the room rates that clients had locked in two to three years ago for standing events have been higher than today's rates. This has especially affected associations, which have had to carefully control expenses on behalf of their memberships.

In one of Shackman's recent successful contract changes, a client had booked a large block of rooms for a sizeable conference in one of the biggest New York hotels for a rate in the low US\$400s. At the time of booking, that rate had seemed reasonable, but as the economy declined, the hotel lowered rates. Current rates hovered in the low \$200s. The client informed Shackman that because of conference-goers' tight budgets, securing a lower rate would be a critical component in attracting the anticipated number of "heads and beds" for the conference. So, the client sought to discuss its options with the hotel to help ensure that attendance at the event and the hotel at least met expectations (and rewards) for all involved.

Shackman negotiated a new rate that worked for both the hotel and the client. In the end, the group size actually increased—a win-win.

She emphasizes the importance of proactive, open dialogue in order to reach mutually beneficial renegotiations.

While Shackman reports that renegotiations are commonplace in this environment, she speculates that the window of opportunity to revisit agreements may be tightening due to a positive uptick in the industry overall.

"Six months ago, everyone was very flexible, whereas now there is a little less flexibility," she said. "There are signs that indicate business is looking up, and that is positive for all of us in the industry."

Think Like a Hotelier

Meenaz Lilani, an executive director of global sales for Fairmont Raffles Hotels International, suggests that meeting planners or other vendors and suppliers who may be revisiting contract terms with hotels should consider looking at renegotiation from the hotel's point of view in order to understand its needs and concerns.

"Just as customers usually have products to sell and a business to run, hotels too are commercial enterprises," she said. "The only difference is that we are selling space that is a perishable product."

Once a product is sold or contracted for a particular period of nights, hotels cannot take that space out of the inventory and resell it, which affects the way in

which hotels must price and market the remaining spaces, Lilani says. Renegotiating terms affects not just the program that is being renegotiated but other activities that hotels need to undertake to optimize revenue and sales.

Extend these effects out further and they in turn can lead to the loss of jobs and potentially a loss in the level of service that groups may receive. Planners should tread lightly and understand these possibilities when pushing for more favorable renegotiation terms.

Lilani says the recession's dynamics have resulted in three distinct categories of contract renegotiation for hotels. First, in situations where scheduled meetings or events are slated to continue but in which event planners or corporate clients are anticipating fewer attendees, she reports seeing customers who want better attrition terms. In other cases, customers wish to postpone events. And in the third case, customers need to cancel but want to renegotiate the terms of the cancellation.

The finance sectors have been particularly affected by postponement or cancellation, and, in general, associations are looking for more favorable attrition terms. Lilani approaches each situation individually, trying to ensure a positive outcome.

She says that each of her hotel brands has found success in contract renegotiations with customers who are upfront about their reasons for cancellation or postponement and who approach the renegotiations with an open mind, willing to explore suitable alternatives that work for both parties.

"We are willing to take a long-term view and take a flexible approach provided the customer has the same partnership approach," she said. "At one hotel, we had a very large program cancel, and the client wanted to renegotiate the cancellation terms."

The program in question was worth approximately €500,000, a significant loss to the hotel. A lengthy period of contract discussion ensued.

"After a long renegotiation both parties agreed to offset a portion of the cancellation amount toward a future piece of business to arrive before the end of the year," Lilani said.

In general, hotels take each customer and his or her piece of business on an individual basis, but for key accounts for the overall parent company, they may take a more flexible and long-term approach. If the client is a transactional customer with a one-off piece of business and is unwilling to discuss anything beyond the current program, success of the renegotiation will be affected.

In the case of postponement or cancellation, Lilani recommends that hoteliers explore options across all properties.

"If any other departments within [the planner's company] could use the space at the time that you intend to cancel or within a reasonable window, then you come to the table with some options," Lilani said.

Do Your Homework

Linda Palermo, chief revenue officer for Joie de Vivre Hotels, says that doing homework in advance of a renegotiation is one of the keys to success. Palermo is often involved in contract negotiations and, more than ever, in the tough business of contract renegotiations.

She recommends that anyone entering into contract discussion review as much information as possible about the other party and its business. This includes existing contracts and terms, amount of business generated, historical comparisons, competitive vendor pricing, level of satisfaction with services and determining "wish list items."

Palermo comments that it is always a best practice to be honest and upfront about concerns and that it is helpful to try to envision what the other side of the table might want to see.

In this environment, she reports being approached frequently by customers who want to renegotiate agreements and by vendors who need to renegotiate pricing. She sees this happening in the corporate office and at the individual hotel and restaurant levels. In addition, the market environment has created the opportunity for Joie de Vivre to reach out to its own vendors for more favorable terms. Having weathered the economic downturn following Sept. 11, 2001, and the tech bust of that same period—which was especially devastating in the Silicon Valley area where Joie de Vivre is based—the company is proactive about employing best business practices.

"Our goal is to ask our vendors to partner with us during this tough time on any potential savings they can provide," Palermo said.

In a recent successful renegotiation, Palermo was approached by a supplier with whom Joie de Vivre has a high-spend event each year. The vendor recognized that many of its direct competitors were constantly knocking on the hotel group's door, so it was motivated to keep the business. The vendor suggested that there might be a more advantageous agreement that would help it to maintain the long-term relationship it had built with Joie de Vivre.

"We were able to come to the table with our wish list of how [the vendor] could really help us in this time as well as what we could offer to them in return," Palermo said, noting that extending the contract length was one of the most important elements in rethinking the current agreement.

She says it was a winning situation for all parties—the vendor was able to secure a longer agreement while granting the hotel collection the savings it needed. In many cases, Joie de Vivre has asked vendors for favorable pricing in exchange for changes in terms to the agreements such as supplying more business or extending the length of contracts.

"Understand both parties' needs and what would be a great outcome on both sides," Palermo said. "Let the vendor know how much you value its support and the relationship."

Be Honest and Realistic

Greg Ortale, president and CEO of the Greater Houston Convention & Visitors Bureau (GHCVB), says a renegotiation is usually a painful proposition regardless of the justification. As destination representatives, the CVB acts as facilitators to the discussion, so it is incumbent on them to have a solid history and to bring to the discussion other pertinent facts such as outside costs the destination is funding and upon what economic assumptions decisions were made.

In particular, clients who agreed to an inflation factor in their rates are frequently looking for adjustments to the current contracts.

A recent negotiation in which the GHCVB was involved concerned this type of situation. Ortale explains that a large association group had made a commitment based on a 3 percent year-over-year inflation factor.

"They came to us stating that the rates in the current environment were high compared to the current local history," Ortale said.

The association explained that the rates would have a negative impact on convention attendance, which would have had a significant impact on not only the

affected hotels but a variety of types of revenue that those convention visitors would generate across the city. Keeping convention attendance at projected levels was of paramount importance to both the association and the GHCVB.

“A reasonable renegotiation occurred that kept the client happy and kept the attendance at the convention within the range projected,” Ortale said.

If there is a reasonable business justification to renegotiate, then a conversation can take place so long as there is a real commitment to creating a satisfactory solution for both sides, Ortale says. He points out that from the destination city perspective one thing clients should keep in mind is that if the association or trade show received economic incentives to book, a reduction may change the economic equation and should also be open to renegotiation.

In Ortale’s experience, open communication and a commitment to finding a win-win situation are among the best practices one can employ when seeking a successful renegotiation.

“Honesty is always the best policy—even if it is cliché,” he stressed. **One+**

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