Negotiate Like a Pro

By Mike Burns

Some meeting managers love to negotiate; others hate it. Regardless of whether you fall into the former or latter category, negotiating is something that you have to do … and do well in order to be effective in your job. Meeting planners who negotiate successfully all have one thing in common: They know the value of their meeting from the hotel's perspective. All too often, planners make the mistake of assuming that because their annual convention is valuable to their organization, it must be valuable to the property. But that's not always the case.

Remember that a piece of business is only valuable to a hotel if it provides profit — maximum profit, if possible. (The value of your meeting drops, for example, if any other group wants the same dates and is willing to pay a higher room rate or provide more food and beverage revenue.)

So be sure to thoroughly analyze every aspect of your event — just the way a hotel sales manager would. The result will be power and confidence at the negotiating table. Here are seven major areas to consider in your analysis:

1. Corporate or Association Influence

Corporate meetings can be more attractive to hotels than association meetings for several reasons. For starters, they're typically short-term and yield a higher average daily rate. Corporations also usually spend more on food and beverage than associations and are much better at estimating their room pickup since attendance is often mandatory.

On the other hand, corporations tend to cancel their meetings more frequently. Associations rarely cancel because their bylaws generally require them to convene once a year and their annual meetings are, more often than not, their biggest revenue-generating events of the year. In addition, association meetings are often booked many years out, allowing hotels to forecast future years much better. An association's annual meeting also can offer more guest room nights — a hotel's largest profit area.

2. Number of Room Nights

You may think that the more room nights you can offer a hotel, the stronger your negotiating leverage will be. But that's not necessarily a given. More important than the *number* of room nights is how those room nights fit into the business mix of the hotel. The transient market has been on the rise for the past several years, resulting in an overall drop in the number of rooms committable for the group market. So, in certain instances, a large meeting may actually be too large for a particular property's group block allotment.

Fortunately, the number and variety of mid-range hotels geared toward the transient market (Courtyard by Marriott, Fairfield Inns, Hilton Garden Inn, etc.) is also on the rise, which means group room blocks are slowly inching their way back up again.

3. Season

Most properties have three seasons. During high season, hotels typically have occupancy rates of 90 percent or better and, as a result, have little incentive to be flexible and make rate concessions. During shoulder season, occupancy rates

usually fall between 70 percent and 89 percent, giving you a bit more negotiating power. You have the most bargaining leverage in low season, when occupancy dips below 70 percent and properties are pretty much willing to "do whatever it takes" to book the business. (Low season conditions also can occur when a hotel is hit with a short-term cancellation and needs to fill the hole quickly.)

A hotel's seasons most often correspond with the seasons of the year. In Florida, for example, winter is high season and summer (especially August) is low season. But a hotel's "seasons" also correspond with the days of the week. At most downtown and airport hotels, for instance, high season is Tuesday, Wednesday, and Thursday; off season is Friday and Saturday; and shoulder season is Sunday and Monday.

At resorts, high season is generally dictated by the weather and its relationship to the resort's recreation focus. May through September could be high season at a midwestern resort, low season at a desert resort, and shoulder season at a ski resort. (In gaming destinations like Las Vegas, weekends are high season and weekdays are shoulder season.) And if you meet over a holiday, you are definitely in low season at most hotels.

4. Food and Beverage

Food and beverage has gone from being a break-even line item for hotels in the '70s and early '80s to their second-largest profit center. So the more F&B revenue you can offer a property, the more valuable your piece of business becomes. Using post-convention reports, calculate exactly how much your meeting is worth to the hotel in terms of food and beverage dollars. Don't forget to include "hidden" revenues from affiliated groups, hospitality suites, exhibit floor concessions, and other trackable revenues that a hotel may be able to provide. After tallying up these miscellaneous sources of revenue, you may discover that you have more negotiating clout than you initially thought.

5. Space Requirements

Ideally, the amount of meeting space you need to book should be proportionate to the number of rooms you need to block. If you're blocking 100 rooms in a 500-room hotel, but require all of the function space, for example, your event is not going to be perceived as valuable because it leaves the property with no space to sell to another group. If you find yourself in this position, look for ways to reduce your space requirements. Perhaps you can use your general session room for lunch. Or maybe you really don't need 16 concurrent breakout sessions.

6. Pattern

Your arrival/departure pattern should fit into the group pattern of the hotel — historically Sunday to Wednesday or Wednesday to Sunday. If your convention falls into one of these time frames, its value automatically increases. If you want to arrive on Tuesday and depart on Saturday, however, its value significantly decreases since the property would most likely have to break apart a standard date pattern before and after your meeting.

7. Opportunities for Ancillary Revenues

The more opportunities you create for your attendees to spend money, the greater the value of your business to a hotel. Properties in gaming destinations love to see open afternoons and evenings. Resorts want your attendees to utilize their spa, golf course, and other extras. If your program runs from 7 a.m. to 10 p.m., the hotel knows those facilities will not be utilized. Other areas to consider are in-house service providers such as a destination management company or audio-visual company, which typically give a portion of their revenues to the property.

Once you have a handle on the true value of your meeting to the hotel, you are ready to negotiate. Begin by compiling two lists: one of your *needs* (items that are not negotiable) and one of your *wants* (items that you would like to augment your event). An example of "needs" might be a specific number of guest rooms, a rate no higher than $140 a night, a general session room that seats 1,500 people, and 12 breakout rooms accommodating 200 people each theater-style. Your "wants" might include a complimentary breakfast for your board of directors, limo transportation for your keynote speaker, and six suite upgrades.

Always negotiate your needs first. If the hotel can't meet these basic requirements, move on to the next property on your list. When negotiating your wants, remember that the hotel has to turn a profit. Your "wish list" should be reasonable, based on the value of your meeting, and not so extensive that the hotel decides to take another piece of business over yours.

Also keep in mind the three main factors that come into play when negotiating with a hotel or any other supplier: 1) time, 2) information, and 3) power.

TIME

Recognize time as an investment. Don't expect to select the site for your next meeting in a day. (There may be times when your meeting fits well into the first destination you call, but don't expect this to happen often.) Expect to invest a significant amount of time researching various destinations and properties as well as analyzing the value of your meeting. Only then will you be able to negotiate successfully.

Listen for key indicators to get the upper hand. Every salesperson has performance goals. So if a hotel sales manager indicates a sense of urgency by saying, "I could really use the contract back by the end of the week" or "What is it going to take to get this done by the 26th?," it most likely means that he needs your piece of business to meet a quota or secure his performance bonus. As a result, those few remaining contract points or concessions that you still haven't obtained may be in reach if you can address the hotel's need to close the deal quickly.

Remember, this works in reverse too. If you are behind schedule in selecting a site for your annual convention and tell the sales manager that you need to sign a contract by the end of the week, don't expect to close the conversation and be successful with: "And by the way, can I have three more dollars off the rate and six limo transfers?"

You set the clock. Don't allow time to become your enemy. Never begin the process of negotiations or allow someone else to force you into a scenario where, due to lack of time, you agree to unfavorable terms just to get it done. At the same time, don't draw the process out once you have a fair agreement.

Concessions are made when time is running out. A sales manager has no added incentive to make concessions at the start of the negotiation process when he knows you are looking at seven cities and 21 hotels. He does have incentive, however, when he is one of three finalists and this is the last shot at earning your business … and if he thinks you may walk away from the negotiating table if your requests aren't met. Very few hotels, after all, are willing to lose an important piece of business based on two suite upgrades or not wanting to provide a complimentary newspaper delivery.

INFORMATION

Know their business. Before you can sell the hotel on the value of your meeting, you need to know how the hotel makes its money and what its "hot buttons" are. (Did you know, for example, that the profit margin on hotel rooms can be 70 percent or more, food can be in the low 20-percent area, and beverages are over 70 percent?) Only then can you show the strengths of your meeting and how it fills the hotel's needs. Ultimately, only meeting planners who provide the best historical data on their events that address the overall value of their meeting to the hotel get the best deals.

Know your meeting. A sales manager who has been in the industry for six months may not be familiar with your organization or understand the significance of your piece of business. As a result, it's up to you to continually prove the worth of your meeting.

POWER

Volume. The more business you can give the hotel, the more negotiating power you have. If you can book two meetings — the annual convention and perhaps a board of directors meeting, for example — you will have more leverage than a planner looking at the same dates who can only offer the property one event. If you know you have or can influence multi-year bookings or multiple meetings, bring these to the negotiating table.

Competition. If a sales manager thinks there's no competition, there's no reason to offer you the best possible rate or make any other concessions. On the other hand, if a hotel knows it's competing against two or three properties, it will be much more likely to sharpen its pencil to offer you the best deal possible. If too many hotels are in the final running, however, a property will be less likely to compete aggressively.

Flexibility. The ability to be flexible automatically puts you in a position of power. If you can change your dates slightly, add another food and beverage function, live without 24-hour holds on all meeting space, or switch from classroom to theater-style seating, you may very well boost the value of your piece of business.

The ability to walk away. Even when both parties have done everything they can to attempt to create a win/win situation, you may still find yourself short of your negotiation goals. You must be willing to walk away. Remember, every hotel has a "walk-away rate" as well.

Mike Burns is a regional director at Conferon, Inc. in Twinsburg, Ohio.

Understanding Yield Management

By David Peckinpaugh

If you've been in the meeting planning industry for any length of time, you've no doubt heard hoteliers use the term "yield management." But you may not know exactly what it means and how it came into being. Basically, yield management is an inventory management system that allows hoteliers to forecast supply and demand and adjust their pricing strategies accordingly. Yield management also plays an integral role in determining the size of group blocks, group cutoff dates, preferred arrival/departure patterns, reservation restrictions, and food and beverage guidelines.

The airline industry is primarily responsible for the birth of yield or revenue management. Prior to deregulation in 1978, all airlines offered the same government-approved fares; discounts were rare with the exception of night and weekend flights. When People's Express introduced the industry's first low fares nationwide, major carriers were forced to react or go out of business. That's when American Airlines unveiled the first true yield management system, which allowed it to track fares and bookings systemwide and adjust fares based on historical and current booking patterns.

Up until the late 1980s, revenue management for most hotels was similar to revenue management for the airlines before deregulation. Their rate variables consisted of offering weekday and weekend rates, negotiating corporate volume discounts, and overselling group blocks in order to maximize occupancy. Once the airlines instituted yield management, however, the hotel industry gradually woke up and realized the potential that this management philosophy, and subsequent technology tools, offered.

So, in the early 1990s, major hotel chains began experimenting with yield management models. Some chains, like Hyatt, invested in sophisticated computerized systems that tracked numerous sources of data. Others responded with predominantly manual systems combining the reporting capabilities of their reservations and front desk systems with a team of trained managers to direct pricing and inventory issues. Either way, the result was the same: Hotels discovered that they could dramatically increase revenue growth and profitability by committing to yield management systems.

In 1996, for example, a typical hotel suddenly realized that a 1 percent increase in fixed-cost expenditures yielded a paltry 2.3 percent increase in operating profit. But a 1 percent increase in pricing yielded a hefty 11.1 percent increase in profit. (The inverse held true too — a 1 percent decrease in pricing resulted in an 11.1 increase in loss.)

Considering these figures, it's easy to understand why hotels invested heavily in both the technology and manpower to attack yield management head on. Yield management allows properties to discount with discretion in order to

build market share, uncover hidden demand that promotes aggressive pricing, identify lost revenue opportunities, and, most importantly, increase revenue growth without increasing fixed costs.

To this day, yield management practices still vary widely from chain to chain and hotel to hotel. Some chains live and breathe yield management, creating entire revenue management teams dedicated to crunching the numbers at the property level. Others utilize yield management but rely more heavily on input from the general manager, director of sales, sales managers, convention services managers, and reservation manager of each hotel. And others have yet to adopt yield management practices, but they are rare.

Generally, yield management is an ongoing, day-in and day-out, week-in and week-out process. The yield management team at a property may meet once a week to review a predetermined period into the future, but on a daily basis team members are most likely evaluating each and every piece of potential business to see how and if it fits into the acceptable business guidelines of the hotel.

One of the major effects of yield management is more consistent pricing from sales manager to sales manager, hotel to hotel, and competitor to competitor. Translation? Less negotiating power and rate flexibility for the meeting planner.

As properties take a closer look at their overall market mix in an attempt to maximize their return, certain hotels may decide to cut group blocks and allocate more rooms to other market segments such as transient leisure, corporate volume accounts, wholesale, and tour and travel. That affects not only the availability of rooms at individual hotels, but also the number of hotels that need to be utilized for citywide events.

In addition, due to yield management, cutoff dates have truly become a rate issue, not a date issue. Hotels want the ability to control their inventory after cutoff in order to maximize the return on their remaining rooms. As a result, meeting planners are seeing less flexibility with cutoff dates and contract terms that allow the group rate to be honored after cutoff only "if *group* rooms are available in inventory."

Yield management has affected contracted concessions as well. Concessions that directly impact REVPAR (Revenue Per Available Room), such as reductions on rate and increases in complimentary rooms, are far less attractive to hotels than soft cost items such as VIP amenities, airport transfers, and food and beverage discounts.

The bottom line is that it is now more difficult, but by no means impossible, to find a "good deal" at a hotel. It is, however, more important than ever for the hotel to perceive your convention as being valuable. Essentially, you need to sell your meeting to the property by pushing as many of the right revenue buttons as possible.

Here's an example of yield management at work at a 700-room hotel with a maximum group block of 500:

- Rack rate: $175 (peak season)
- Peak seasons: March - May, September - November
- Meeting space: 25,000 square feet
- Desired catering revenue per room per night: $74-$65 peak season, $64-$50 shoulder season, $50 or below off season
- Peak demand days: Midweek (Monday-Thursday)
- Slow days: Weekends (Friday-Sunday)
- Desired patterns: Thursday-Sunday, Wednesday-Sunday, Sunday-Wednesday
- Peak season transient (individual traveler) demand: 200 rooms

If your meeting profile matches most of the hotel's guidelines based on the above considerations, your ability to negotiate will be excellent. But if you want to book 200 rooms in April, arrive on Tuesday and depart on Friday, use all of the meeting space, and hold only continental breakfasts on site, the property will most likely turn down your business. The decision hotels must make is: Do they book your meeting today or do they wait to book a higher revenue group and risk having empty rooms and meeting space if they're unable to do so? (For more information on how you can make your meeting more valuable to a hotel, see "Negotiate Like a Pro" on page 27.)

In summary, it's important to keep in mind the following points:

- It is currently a supplier's market. Rate and occupancy will continue to increase over the next few years.
- Demand drives hotel pricing. Hotels do not have consistent margins; their product is perishable and its shelf life is one day.
- Many variables affect pricing; the key is to be flexible and knowledgeable about your meeting and your group.
- Yield management is here to stay ... so learn how to play the game.

David Peckinpaugh is vice president of sales at Conferon, Inc. in Twinsburg, Ohio.