



# Buyers and Sellers Face the Attrition Issue

BY TARYN SCHNEIDER

With just about everyone in the world wondering “what next?,” uncertainty has caused hoteliers and meeting planners to deal head-on with challenges to both parties created by attrition clauses in hotel contracts. This report brings you up-to-date on how both sides are trying to come to terms.

**T**here was a time not so long ago when you could say with confidence: “Plan it and they will come.” A meeting planner selects a meeting facility and books a room block, attendees dutifully make their reservations from the room block, and all is well in the meeting world. And so the issue of attrition, one of the industry’s hottest topics today, was then merely a line item clause in a contract.

What a difference a decade makes. A sluggish economy, fears of terrorism, the Internet, and changing patterns of consumer behavior, all contribute to these complex times for the hospitality industry. Certainly the meetings industry is vulnerable to the new world order that has forever altered nearly every business and profession.

In the past, the integrity of the room block for many events had been virtually assured. One counted on early bookings and accurate group history. Not so today. So the question is: Does the old system work? Is it time for the industry to redesign an event-housing model that works for both organizers and hoteliers, while being flexible and understanding of the changing behavior of attendees?

What is at stake is the \$102.3 billion plus global meetings industry. The group market has become more important to hotels than ever before, representing 27 percent of full-service hotel profits in 2002 compared to 20 percent in 2000, according to PricewaterhouseCoopers. Last year, groups accounted for 35 percent more of total profits for full-service hotels than in 2000, and group demand increased nearly 18 percent to 20 percent from 17 percent.

The outlook is for a prosperous but somewhat different future for the meetings industry. “Face-to-face meetings are here to stay, but a soft economy combined with organizations demanding less financial risks when booking, plus new technologies, mean

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the industry must adapt to change," explains Edwin L. Griffin, Jr., CAE, former president and CEO of Meeting Planners International (MPI).

"It is obvious planners seek flexibility and greater assurance that when they commit their meeting business to a facility, it will not result in an overwhelming loss in the case of catastrophe. This creates a larger burden for business travel partners to prove value and assume economic risk. The two sides must come together on this issue," said Griffin.

The contrasting points of view from both sides of the equation are illustrated by FutureWatch 2003, a first-ever meetings industry report that side-by-side compared buyer and selling data. Initiated by MPI and American Express, the study revealed that nearly one-third of planner respondents ranked relaxation of cancellation and attrition clauses as the most significant operational trend for 2003, while 15 percent of suppliers conversely ranked it low priority (fourth out of four options) behind more flexible pricing, added incentives, or personal service.

And, in a housing survey of 650 respondents conducted by PCMA, more than 40 percent of respondents said their greatest concern was attrition penalties, while the issue of attendees booking outside the block was cited by 25 percent of the suppliers as their most significant problem.

Mary Power, president and CEO of the Convention Industry Council (CIC), says: "The stakes are too high for the industry to delay or fail to take concerted action." With that, the CIC spearheaded Project Attrition on April 1, 2003, a six-month initiative that is addressing the complex problem of bookings outside contracted room blocks — which contribute significantly to attrition penalties — and the potential impact on the meetings industry.

Power says that Project Attrition was born out of "recognizing that it is probably the number one issue facing the industry, and we want to take short-term action to impact positive change." The initiative's three-pronged approach includes a research study of behavior patterns, an educational campaign, and a toolkit of best practices. Also under the banner of the CIC is the APEX Housing and Registration Panel, which was established

to produce best practices and guidance for long-range housing and registration issues (see sidebar on Project Attrition).

#### **To rid or not to rid**

While some lodging companies have taken steps to ease or eliminate attrition clauses for the short-term in lieu of post-9/11 events and the war in Iraq, is it a viable option?

"Carlson did this for groups, but not to attract new business," says Brian Stage, executive vice president of sales, distribution and reservations services for Carlson Hotels Worldwide. "We set aside attrition clauses on a short-term basis as a gesture of good will during the early period of the war in Iraq. Generally speaking, more and more booking contracts contain force majeure clauses that give meeting planners sufficient flexibility should circumstances suddenly change that cause bookings to fall apart or significantly shrink."

Steven Hacker, CAE, president, International Association of Exhibition Management and chairman of the Convention Industry Council board of directors, agrees with the idea of setting aside attrition clauses in the short-term, as it eliminates the source of financial risk to meeting planners who may be reluctant to launch new events at a time when hotels need as many new events as they can. "But, it's just a band-aid. What is overlooked in the emotional discussion is that attrition as a concept, if handled correctly, is a benefit to both parties. Today, in many cases, it's not being properly executed, nor do contracts put in place some time ago reflect the current reality. To hold to that rigid set of requirements is a foolhardy way to meet profit expectations. A planner would never come back to the hotel."

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Richard B. Green, vice president of association sales & industry relations for Marriott International, and commissioner of the APEX Initiative, says eliminating attrition clauses places all the risk on hotels. "Part of doing a good job negotiating a win-win situation is sharing risk."

"Relaxing attrition encourages a 'free

ride' for last-minute cancellations and no-shows, which holds meeting planners less accountable for their contractual responsibilities," believes Jack Schmidt, vice president of sales and marketing for Benchmark Hospitality. "It does not seem reasonable to ask hotels to promise not to sell the room to anyone else until it is too late to do so, while taking no financial responsibility in the event the room is not used. If hotels relax attrition responsibilities, it will only encourage a higher no-show percentage, forcing hotels to increase the amount of rooms they oversell to compensate for the anticipated last-minute shortfall, thus increasing the risk that an attendee will be 'walked.'"

Jamie Walters, senior vice president of sales for Wyndham International, Inc., explains that circumstances have been so extreme, that in good faith, a supplier might think of releasing planners from their commitments as a compromise. "However, long-term, hotels need to do their homework on what the meeting has done historically and customers need to be honest about what they need and expect. Fifteen years ago, planners wanted an all space hold on function and meeting space. Five years ago that flipped the other

way and hotels have taken advantage. We don't want to get into a situation of over-booking to just fill space."

### Does the old model work?

"The old model still works often enough to earn a place in most hearts, but across the board, it has become flawed in a lot of respects," admits Hacker. "It will take scientific study of attendees to determine why, when, and how they book outside the block. It's all been anecdotal, no empirical data."

"The old model doesn't work as well as it did because forecasting on the part of the association isn't clear anymore," explains Marriott's Green. "Furthermore, people are using a different lens to see the value of their association meetings."

Stage says the past practice of bundling services such as free meeting space into the convention agreement is going to become a thing of the past. "Convention rates are under attack due to the variety of booking channels now available. But, these convention rates are negotiated to compensate hotels for the use of their space. If the room blocks are not filled, or if conventioners book at much lower rates, the model gets broken."

Schmidt asserts: "The cost of attrition

will always come out in the wash. If hotels relax the existing model, it will decrease profitability causing increases in all other areas to compensate for the unoccupied rooms and the incremental revenue they generate."

### Going outside the block

While factors such as brand loyalty, frequent stay program perks, as well as hotels at sold-out status and decisions made after the cut-off contribute to booking outside the block, most say that price is the decision driver.

"When negotiating in good faith, a hotel should look at the value of that business and what it means to the hotel that day and then quote prices indicative of that value," notes Walters.

While price and availability are major influences, Green says fundamentally attendees find little value at the official hotel. "What's needed is the value proposition for staying at the headquarter hotel." Whether it is exclusive access to activities or a greater opportunity for social interaction and networking, Green says associations need to create more reasons for staying within the block and promote the value to attendees.

## CIC & PROJECT ATTRITION

Recognizing that the current business model in which most event organizers assume liability for the creation of room blocks may be outmoded in the fast-paced, technology dependent environment in which the industry conducts business, the Convention Industry Council (CIC) is in the midst of Project Attrition — a six-month initiative to jumpstart the issue that is driven by three initiatives.

1. An industry-wide study of attendee behavior to answer questions such as the factors that influence someone making a hotel reservation when attending an event, why attendees reserve rooms outside of contracted hotel blocks, and what can be done about it. "We are trying for good data versus speculation, and to drill down further," notes Power. "If it is price, which many believe it is, at what price point would they book within the room block? If organizations are revisiting registration fees, perhaps getting rid of early bird versus implementing a stay within the block discount is viable. We'll be looking at effective strategies."

2. To educate organizations and groups on the reality of the attrition challenge. Power says: "While many event planners and hoteliers are keenly aware of the performance issue, there are

thousands of others who do not fully understand the importance and potential impact of this issue. At the same time, the industry must begin an aggressive and broadly based educational program that is designed to fully inform all stakeholders of the key issues that make attrition and performance obligations such a complex and potentially volatile problem."

3. The final component is researching and releasing best practices. The task force will be charged with 'inventing' alternative business models that address the key objectives of all parties without imposing unpredictable liabilities upon any of them. "We will go to organizations that have been dealing with attrition and put together a successful tool kit so we can give them ideas and stimulate positive thought."

The initiative is financially supported from the meeting, convention and exhibition industry and gifts from association foundations including ASAE, MPI, PCMA and HSMIAI.

As for the Apex Initiative — a two-and-a-half year project that addresses long-range housing and registration and includes attrition-related issues — a preliminary report of findings is available on the CIC Web site. To review the report and provide feedback, go to [www.conventionindustry.org](http://www.conventionindustry.org).

"Finding out why they're going outside the block will help in the future," notes attorney James M. Goldberg of Goldberg & Associates, PLLC. "If staying across the street becomes more prevalent, planners need to get more conservative on room blocks. If they are staying at the headquarter hotel but at a different rate because it was booked on the Internet, through AARP, with a corporate rate, etc., then it is incumbent on the planner to contract with the hotel for a credit regardless of rate paid."

Power suggests planners insist on audits in contracts and a merge and purge of its master guest list against registration lists if needed, as well as closely watching online travel sites and including a contract clause whereby lower rates cannot be offered on the Web.

"All has changed in the last eight years because of the Internet which has armed us with the ability to access quality information and research we didn't have before. And with that, part of the difficulty of attrition that comes from the Internet is the absence of data gathering technology in most hotels – they can't tell you who is in or out of the block," says Goldberg.

### The Internet factor

The ease and comfort of Internet booking certainly challenges traditional booking channels and procedures. Something for hotels to consider is how they manage rates available online. On the issue of low Internet rates eroding room blocks, some hotel companies are listening and reacting. Ideas range from efforts to establish rate parity regardless of the distribution channel to building requirements into deeply discounted rates available online, such as only last-minute distressed pricing, minimum lengths of stay, no date changes, or cancellations.

To address the impact of the Internet, an added component of Project Attrition is the idea of a tech summit to establish an open dialogue with Internet providers and make them part of the solution.

### Out of control

"Neither convention planners nor hotels can control how people book," says Stage. "That is why meeting space and other free services, previously bundled together will

increasingly be charged separately. If the attendees stay at the convention hotel, but do so at much lower rates, the hotel is still not getting the room revenue it anticipated when the deal was cut."

Green suggests associations make their portal as good as anyone else's. Make it integrated by linking housing and registration and unlocking them at the same time can be a solution. He also suggests looking at package pricing.

"The cost (time and payroll dollars) to reconcile group registration lists with in house guest for the sole purpose of giving credit to the group will need to be recovered by the hotel somehow," says Benchmark's Schmidt. "Also, the cost of privacy is also a factor. Acknowledging someone who chose not to book within the group block could be a breach of privacy if they intentionally did not wish to be recognized as doing so."

"When a group underperforms, the tendency is to give the inventory to other channels and at times undercut rates," explains Walters. "In a perfect scenario, if a group lives up to its promise, we should not do that. If we make a mistake, we try to make it up with comp or pickup credit even if it's outside the block."

"Planners have to know where attendees are staying and what drives their attendees," notes Goldberg. "What is the meeting registration total, what is meeting pickup, and what happened to the rest of the people? Another factor is that a lot of hoteliers came into the industry in the '90s and only experienced the booming, good times. Now they're getting adjusted to the downturn."

Reducing attrition risk through accurate occupancy projections is a win-win for all. Edyth Shapiro, senior manager at HVS Marketing Communications, says: "When blocks are not met, the financial impact can be negative if the hotel has not been able to release the rooms and sell them. Therefore, cut-off dates are very important and a hotel should check the group's pickup history and negotiate the cut-off date accordingly."

### The new world

Meeting planners today aren't in a rush to book an opportunity," says Walters. "Attrition has affected business to some

degree, erring on the conservative side, and people are not as comfortable signing on the dotted line. Now there's enough inventory to wait until there's more certainty, but once Iraq is behind us and the economy shows an up-tick, the danger of waiting too long is that people will get caught with their pants down. However, if attrition is in place and not met, Wyndham tries to work with clients through non-cash means by settling attrition owed like guaranteeing a future program at Wyndham."

Green notes that "Associations by nature are risk averse, and meeting attendance is only one thing that may go wrong, along with a slowdown in membership and sponsorship. But, a strong association knows it'll be around and won't want to miss good dates and rates in the future. Our people are incented to book business, and they're very creative."

The business of attrition is very much about money and risk. For planners, it's keeping costs down, and for hoteliers, it's eliminating risk. And the repercussion on both ends of the equation can be huge.

"If hotels aren't full, the people hurt most are those filling hourly jobs. And if it's prolonged, and budgets aren't met, the first way to pull back is to reduce capital expenditures and the product suffers," explains Green.

"Our approach to the question of attrition is to ask our clients to address the issue in an open and up front manner," notes Stage. "It is no longer reasonable for either side to operate as though things are normal. Hotels and meeting planners have to share the risk that the meeting may be much smaller than what is planned. Who shares which portion of the risk depends on the circumstances, but it should be clearly spelled out during the negotiation to avoid problems later on."

Hacker comments: "We all need to understand that the attrition issue it is not a good guy versus bad guy issue. Both parties have legitimate interests to address and we need to find ways to maintain integrity."

So while there are no simple solutions or easy fixes, the best that can be done is to realize the need for change, understand the issue, keep communication flowing, and meet the challenge. ■