

# ATTRITION & CANCELLATION

## STRATEGIES AND TACTICS

### Attrition

From time to time, an organization will find itself in the unenviable position of learning that the expected attendance for a meeting will fall short, causing contracted rooms to be left unused. In this situation, attrition clauses contractually require the organization to pay penalty fees. Once that point has been reached the options left for a planner to reduce or eliminate these penalties are limited. Listed below are some strategies and tactics that can be deployed to take care of an existing problem or at the very least make sure one doesn't arrive in the future. Some of these concepts can be applied to both attrition and cancellation situations and some are situation specific. Depending on circumstances, you'll have to decide what works best for you.

#### Before Contract Is Signed

The best way to address attrition problems is to do it before a contract is signed. When negotiating a contract here are some approaches you may want to consider.

1. Ask for no attrition clause at all. Hotels are more amenable to this than might be thought. You just have to ask. However, it is not just enough to have no attrition cause - the clause **must state** that there will be no penalties for attrition.
2. If the hotel insists on an attrition clause ask for a larger percentage. If they offer 10% ask for 20%. If they offer 20% ask for 30%, etc.
3. Make sure that there is "**last room sold**" phrasing in the clause. This is sometimes referred to as a "**re-sell**" clause. Essentially what this phrase means is that any attrition penalties that are incurred will only be applied if the hotel is not sold out. For example, if you exceed your allowed attrition by 10% on a 100 room block, you would be responsible for 10 rooms. However, if the hotel had only five empty rooms on the nights in question then they have successfully re-sold five of your rooms and you should not pay any penalty for those five rooms.
4. Get verbiage in the contract that states rooms will be credited to your room block **no matter what method** was used to make the reservation and no matter what rate was quoted for that reservation. Reservations are made in all kinds of ways including some that extend beyond your stated method of reservations. For example, you may have a \$150 rate for your group. Attendees are told to call in to the hotel and give them your group code or go to a website and enter the group code. Once that code is entered, that is how your group pick-up is tracked. However, it is not at all unusual for attendees to book rooms outside the block. Maybe they found a lower rate on the internet or maybe they bought a low-priced tour package. It really doesn't matter. If they are in the hotel for your conference and they didn't make a reservation using your proscribed procedure, your organization will **not get credit** for the room.
5. If the contract has a F&B minimum, make sure that minimum is  **tied to the attrition clause**. If you only pick-up 80% of your block (as allowed by attrition clause), then your F&B minimum should be automatically reduced to 80% of the original number. After all if your contract calls for 100 attendees and there are only 80, should the minimum remain the same as it was when 100 attendees were expected. Are they each going to consume 25% more F&B and are you willing to pay for it?

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6. Most penalty clauses call for liquidated damages roughly equal to the total amount of revenue outlined in the contract including F&B, rooms and meeting room charges. In some cases, they call for "**anticipated revenue**". These types of charges could include, spa charges, golf fees, shopping, internet usage, phone and a host of other charges. If you see "anticipated revenue" penalties this should set off a red flag during negotiations. In many cases, these charges are wishful thinking on the hotel's part and can be removed upon request. However, if the property is a smaller high-profile resort and especially if it is in a remote location, the property can make a case for those charges. At the very least, any kind of anticipated revenue clause should clearly outline what is included.

7. Liquidated damages is a bit of a misnomer and inserted into these clauses for legal reasons. It provides cover for charging the total revenue outlined in the contract. The reality is that any penalties of this type should call for "**lost profit**" as opposed to "lost revenue". Hotels make most of their money on rooms - not F&B. For every dollar spent on rooms, as much as 75% could be classified as profit. In F&B the opposite is true - a successful F&B operation might generate a 25% profit on every dollar spent.

As an example, if you know that you are going to exceed allowable attrition seven days in advance - and the hotel knows it, they are only going to order food inventory supplies to service actual attendance - not what was expected in the original contract or up to allowed attrition levels. Therefore, if you are paying for lost F&B revenue you are not only paying for lost profit - you are paying for food inventories that were **never ordered in the first place**.

When negotiating attrition clauses, you should always ask to have any references to revenue in penalty clauses changed to profit. It is a tough negotiation but not unreasonable, and a hotel that really wants your business may very well go with it.

8. When negotiating an attrition clause, regardless of all the items listed above, ask that any attrition penalties due be applied to the event in question. **Point #11** outlines this process and its benefits.

### After Contract Is Signed

If you are facing attrition penalties after a contract is signed your options are much narrower but there are a few things you can do.

9. If you have a last sell clause in your contract, make the hotel **confirm occupancies** on the nights in question. They can do this with an internal flash report or occupancy report. Last sell means just that - your rooms will be the last rooms sold. So, if the hotel had 10 empty rooms on a given night and you exceed attrition by 10 rooms, you will be responsible for all 10. If they only had eight empty rooms, then you are responsible for eight.

Also, verify that there are **no other groups** in house over the same dates that have a last sell clause in their contract and are **also** facing attrition penalties. If this turns out to be the case, then find out how the hotel is handling that situation. They should not be collecting from more than one group on a last sell basis if they only had 20 empty rooms but group attrition equal to 30. They should only collect for 20 and you need to know what number of rooms is being allocated to each group.

10. This one is fairly complex and a lot more time consuming. If you picked up 200 rooms on a given night but had 250 people register for your conference **and pick-up credentials** at your registration desk, then they obviously are staying somewhere.

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This is the time to ask the hotel to match their in-house guest list against your registration list. The odds are good that you will find some attendees staying in-house that made reservations on their own and did not use the reservation method and group code you distributed. Any such rooms that are found should be credited to your block no matter how the reservation was made.

**11.** This tactic won't alleviate the penalty but it can make your life easier. Most organizations have a good idea about any attrition penalties 30 days in advance. These penalties can be applied to the upcoming conference any number of ways. Say you have \$15,000 in attrition penalties. Tell the hotel you are aware of the penalties and would like to upgrade your F&B functions by \$15,000. Maybe it's another course, lobster instead of fish or just better wines. Or maybe you'd like to upgrade everyone to suites - it doesn't matter - just **spend it at the hotel** during the conference.

Not only will this make your attendees happy but the \$15,000 will show up as a budget overage as opposed to a penalty on your master account. Experience teaches that most planners would rather explain an overage than a penalty. The hotel is going to get the money anyway so why not make the most of it? Don't expect it to work every time but it is certainly worth trying.

**12.** Ask the hotel to apply any penalties to a **future meeting**. Hotels always want to re-book business and to maintain client relationships. You will have to pay the penalties as outlined in the contract but the hotel may be willing to consider those penalties (or a portion thereof) as a cash deposit on a future meeting if it is booked within a certain period of time - usually a year. If you are willing to sign a contract immediately, the penalty may be waived entirely. In rare cases with chain properties, they may make some type of allowance as long as you book something into a chain affiliated property.

**13.** Simply **offer to settle** with the hotel. Some organizations do not have the budgets or financial means to support large scale attrition penalties. Be truthful with the hotel and let them know what you can afford to pay. You might be surprised at the result. Hotels are generally not interested in taking legal action unless they feel they have no other option and the amount involved is substantial.

**14.** If you know you are going to be in an attrition penalty situation, take it upon yourself to try and **re-sell the space**. It is not easy to do but it can be done. You might have to do it at a substantial discount but if successful, it will help mitigate your loss. Let other divisions in your organization know about your situation. Use your business contacts and your membership in any professional organizations to spread the word. **Make sure they hotel knows you are trying to help re-sell the rooms, especially if you don't have a re-sell clause in the contract.** Some hotels may have policies governing the re-selling of rooms.

In addition, companies like ours can be a resource for you in an attrition situation. We book a substantial number of meetings throughout the year and are always looking for extra value. It is part of what we do. If we know in advance about these situations, we will notify our representatives and clients of your specific opportunity - while keeping your name out of it - in hopes that we can uncover an opportunity that will be beneficial to all parties.

[Click Here](#) for Tradeshow Week Attrition Article

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### Cancellation

As is the case with attrition, it is best to address cancellation issues prior to signing a contract. Here are some things you can do to address a cancellation situation before it occurs. Please note that cancellations are much more severe in nature and difficult to address so your options are limited.

#### Before Contract is Signed

1. Ask for **no cancellation clause** at all. Make sure clause states there are no penalties for cancellation. In some cases, contracts without cancellation clauses have been found to be binding for all revenue commitments outlined in the contract.
2. More typical would be a contract with graduated penalties depending on the time cancellation occurs. For example, if you book a meeting two years out, a contract might use a **sliding scale** that states that penalties be incurred once a certain date arrives. The sliding scale might look something like this:

24-18 months out	No Penalty
18-12 months out	25% of estimated revenue
12-3 months out	50% of estimated revenue
3 months to arrival day	100% of estimated revenue

Your negotiation objective should be to arrive at a timetable that is acceptable to you and your organization. What should be avoided are contracts with cancellation penalties that kick-in immediately - depending on the time frame involved. The key to this negotiation is the ability of the hotel and the time left to re-sell cancelled space. They have a fiduciary duty to protect themselves in this regard.

3. Any cancellation clause should have a **re-sell** clause included as well as last room phrasing as described in **point #3** in the attrition section. If a property can re-sell any or all of your rooms, you should not have to pay any penalties on those rooms.
4. Make sure the cancellation clause states when monies are due. If your contract does contain a re-sell clause, nobody will know how many rooms have been re-sold until **after the dates have occurred**. If the clause is not worded properly, you may wind up paying the hotel well in advance and after the fact, find out the hotel actually owes you a refund. In addition, you will have to press the hotel to show you occupancy reports - something that may be a bit more difficult once they have collected all monies owed. The best way to handle this is with a sliding scale outlining payment dates. This particular phrasing is almost always left out of a cancellation clause. Should you find yourself in a cancellation situation, you will be glad that sliding payment scale is in place.
5. Pay particular attention to any verbiage involving cancellation penalties for F&B. As is the case with attrition, the hotel is not actually losing money they are just not getting expected revenue. A re-sell clause should **apply to F&B** as well. As an example, if a hotel is holding a ballroom for your final night dinner and they are able re-sell it to a local charity for a fundraiser then that F&B (or some portion thereof) has been replaced.

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6. Anticipated revenue clause - see **point #6** in the attrition section.
7. Any negotiation involving a cancellation clause will usually involve the term "liquidated damages". See **point #7** in the attrition section. In terms of cancellation, this is an important point as the dollar amounts will usually be **significantly higher** than what would be typical in an attrition situation. As in the case with attrition always seek to replace the term revenue with profit.

### After Contract Is Signed

8. If you have a re-sell clause in your contract, then you are only going to be obligated for whatever rooms have not been re-sold. See **point #9** in attrition section.
9. If you have a re-sell clause and have not previously negotiated a sliding payment scale - **do it now**. Hotels know they have an obligation regarding last-room sold status and this is an excellent way to keep all parties engaged.
10. Ask the hotel if the penalties (or some portions thereof) can be applied to a future meeting - see **point #12** in the attrition section. Hotels are often open to this proposition. They value your business and would prefer to keep a happy customer. If you are booked into a chain property ask about applying the penalty revenue to another chain affiliate. While hotels may be open to this idea - after the fact - they will not include it as part of an initial contract negotiation - nor should they.
11. Offer to settle - **see point #13** in the attrition section.
12. If you are paying for the space, you own it. **Try and re-sell** the space. This option is discussed in **point #14** of the attrition section. However, with cancellations you generally have much more lead time than you do with attrition. Let the hotel know you are going to try and help them re-sell the space. It will be very helpful for them to understand your part in the re-sell process, especially if the contract does **NOT** have a re-sell clause in it.

### Disclaimer

The strategies and tactics offered above have been developed as part of our best practices as a hotel site selection company. We are not attorneys and these ideas are offered only as recommendations based on our experience in the industry. Hotel contracts are legal documents and any questions that are legal in nature should be referred to your legal counsel.

### About 21st Century Group

21st Century Group is a hotel site selection company that places meetings, conferences and travel incentives in destinations worldwide. We have been in business since 1994 and have experience in all facets of the meetings industry. We work with corporations, associations, insurance companies, hospitals, universities, CME providers, government agencies, fraternal societies, religious organizations, production companies and any other entity that books group rooms. Payment for 21st Century Group services is typically in the form of commission that is paid to us directly by hotels and resorts. There is no cost for planners to utilize our services.

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