



GROUP CONTRACT CATASTROPHES

BY JACK GARSON

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Your city is hosting the Super Bowl and your hotel is booked solid. Then you get the “Call.” A corporate client reminds you that her group has the right to a guaranteed stay at any time—and they want a stay during the Big Game. Worse, this group gets a room rate that is much lower than your Super Bowl rate. So now, you have to struggle to walk dozens of other guests—who are going to be furious—and lose tens of thousands of dollars in the process.

Even with the best clients, be careful when you agree to their special contract clauses.

Consider the following costly mistakes—and take preventive action to avoid disaster.

- **Rate Guarantees.** Big groups often want the best rates—lower than any other guests. They insist on a blanket guarantee that their group will get a better rate than anyone else staying at your hotel. But, don’t assume anything. You might think that it’s obvious this guarantee won’t apply to hotel employees staying at the hotel using employee discounts. Or it can’t possibly apply to special wholesale deals or large national accounts. Wrong! You can’t count on any exceptions if you’re promising the group the best rate—especially if you get into a fight and they look for leverage. Instead, when you’re negotiating the contract, bargain for a list of appropriate exceptions to this rate guarantee. Further, you shouldn’t even have to honor this guarantee under certain circumstances. For example, impose minimum room night requirements. Your world shouldn’t get turned upside down for a small event.
- **Guaranteed Room Availability.** As with great rates, groups with bargaining power sometimes insist on guaranteed room availability. Again, don’t assume anything. Get out your calendar and create a list of “black out” dates where you won’t guarantee availability. Consider the Inauguration, Final Four games, NASCAR and other big events. You don’t want to promise rooms—especially at bargain rates—when you’re going to sell out at great rates.
- **Do Your Math.** A lot of contract catastrophes come from vague provisions. Consider attrition clauses. Sometimes, the contract simply says a group is entitled to 10% attrition for a stay. If a group commits to 500 room nights for a five-night stay and can cancel 10% of those nights without penalty, you don’t want all 50 cancellations on one night. Make it clear. Specify the room nights and permitted attrition per night using a chart and examples. The more time you spend making the contract clear, the less time you fight—and lose money—later on.

- **Damage Clauses.** I've had cases where rock bands use a hotel elevator as a bathroom and football players do more damage in the guest rooms than on the playing field. Again, powerful groups want the hotel to have good insurance coverage and take responsibility for injuries and damage. But, there should be limits. Your hotel should not be obligated for the intentional misconduct of the group's members.
- **Cancellation Rights.** Almost every sophisticated group will bargain for cancellation rights. Some cancellations rights are quite clear. But, again, ambiguities can lead to big problems. Consider the clause that allows the group to terminate the contract for "force majeure." Literally, force majeure means "a superior force." Legally, it usually means a cause that can't be anticipated or controlled. But, that definition is nowhere near precise enough for some situations. After 9/11, all of the planes were grounded in the U.S. No reasonable person disputes that this was "force majeure," entitling a group to cancel a large event that draws people from across the country. But, what if a group just failed to sell enough tickets for an event—is that force majeure? Likewise, if the lead singer of a band gets in a car accident and is hospitalized, many people would agree that this situation is force majeure. But, what if the lead singer just refuses to sing because your state legislature passes a controversial new law? Fight! Fight! Fight! The bottom line is that you need to be precise in your contracts. You also need to consider a lot of different possibilities. Remember, no one reads a signed contract unless there is a problem. But, that's when contracts do their job. So, don't just consider the contract another task to check off your list. Treat your contract like a valuable insurance policy that pays if disaster strikes.

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