

The Art of Negotiation: A Hospitality Industry Case Study

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Introduction

Negotiation in the Hospitality Industry

Few personal and professional skills are as important as negotiations, and yet fewer still are as seemingly challenging. Most individuals feel uneasy about negotiating, yet know it is crucial. Negotiations pervade every aspect of life today. Negotiations with friends, family, car dealers, clients, employees and a whole host of people you come across in your daily activities (Firth, 2014). It is a myth that good negotiators are born. Good negotiators constantly seek opportunities to negotiate and receive feedback on their negotiations. Thus, good negotiators practice their interpersonal and communication skills. More importantly, it is a skill that can be mastered with practice and feedback.

Negotiation is an art and skill that hospitality professionals need to master. The success of hospitality businesses is not only based on profitability but also development and maintenance of long term relationships with all stakeholders (Tamayo, 2011). Hospitality companies, managers, and employees frequently need to handle conflicts and negotiate effectively with various parties including customers, clients, suppliers, and employees (Mahmoud, 2015). Negotiation training is beneficial for all employees, not just management. For example, negotiation training can help frontline employees handle customer complaints more effectively. Negotiation training can also help with internal customer relationships (decrease in workplace conflict). Good negotiators are promoted faster (Fiona, 2008) and have stronger workplace relationships skills (Clenney et al., 2010). There is a need for hospitality professionals not only to learn various negotiating techniques but also to decide which technique to use under what situation. Hospitality companies which can perform effective negotiations to handle conflicts and disagreements with other parties (customers, suppliers) can gain a competitive advantage over competitors.

Negotiation Strategies

Negotiation strategies are interaction patterns used by parties in conflict to achieve resolution (Ganesan, 1993). Negotiation is a process by which joint decision is made by two or more parties (Pruitt, 2013). Generally negotiators tend to pursue the two basic negotiating strategies: integrative and distributive (Beenen and Barbuto, 2014). The

objective of integrative bargaining (also known as “symbiosis” or “problem solving” or “win-win negotiation”) negotiation strategy is to create value by means of the negotiation (bargaining process). Using an integrative negotiation strategy, parties tend to reach mutual agreements by being collaborative, inventive, and persistent in searching for substantial joint (financial) gains (Beenen and Barbuto, 2014). An integrative negotiation strategy is used to develop and maintain long-term relationships between parties (Fisher and Ury, 2011). Integrative negotiators stress the importance of open communication and information sharing.

The objective of the distributive (extreme forms of distributive negotiations are also known as “aggressive bargaining” or “hard distributive bargaining” or hard-line approach” or “win-lose negotiation”) negotiation strategy is to maximize substantive gains in an adversarial contest without caring about the needs of the other party (Anderson, 1992). The extreme forms of distributive bargaining employ strategies that involve ridiculing, attacking, or threatening adversaries and making excessive demands (Perdue and Summers, 1991). Distributive negotiators concede slowly, minimize benefits of others’ concessions, exaggerate the value of concessions, conceal information, and argue forcefully to reach favorable settlements (Anderson, 1992; Fisher and Ury, 2011).

Best Alternative to a Negotiated Agreement (BATNA)

The best alternative to a negotiated agreement (BATNA) can be defined as the proposed action a party would take if the proposed deal was not an option (Fisher and Ury, 2011). In other words, it is the minimal acceptable level of agreement to the negotiating party. BATNAs may include walking away, prolonging a stalemate, stalling, approaching another potential buyer, etc. (Sebenius, 2001). Thus, BATNAs are about creating alternatives. Learning how to develop effective BATNAs is a skill that can be taught (Fisher & Ury, 2011). It is also important that negotiators develop their BATNA in advance of the negotiation. This gives the negotiator leverage in the negotiation. The ability to create alternatives and potentially strengthen a weak BATNA is one of the most important skills a negotiator can learn. Power comes from these alternatives. Learning to develop alternatives and define a BATNA in advance lays the foundation for increasing negotiating strength, which presents the potential for greater control, influence, and authority (Convenience Store Decisions, 2014). A negotiator should never accept a deal unless it is better than their BATNA (Fisher & Ury, 2011).

This two-party negotiation between an Association and Hotel

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case study provides an opportunity for hospitality students and professionals to practice negotiation skills. The teaching note emphasizes the importance of identifying each party's interests, creating alternatives and options, understanding the concept of the best alternative to a negotiated agreement (BATNA), as well as commitment.

Scenario

Parents Against Drunk Driving ("PADD") and El Camino Lodge and Golf Resort Hotel

General Information for both Parties

Strategic Meeting Planners, Inc. ("SMP") is a meeting management company that plans, organizes, and manages meetings, conferences, and conventions throughout the United States and other parts of the world for its clients. SMP offers its clients a full array of meeting-management services, including strategic planning and budgeting; site selection; contract negotiations with hotels and other vendors; marketing; accounting and other financial services; managing revenues and disbursements; managing the registration process; and managing the respective event onsite. SMP's clients range from Fortune 100 companies to non-profit organizations, such as the American Kidney Association and the International Society of Toxic Tort Defense Counsel.

One of SMP's clients is Parents Against Drunk Driving ("PADD"), a non-profit organization with over 20,000 members comprised primarily of victims of drunk-driving incidents and their families and friends. PADD's primary mission is to reduce the number of drunk-driving incidents by (1) raising awareness of the dangers of drinking and driving through education and public service announcements and (2) lobbying for legislation that would (a) provide harsher penalties for drunk-driving offenders and (b) increase the fines and potential civil liability for establishments that sell or serve alcoholic beverages to minors or persons who are obviously intoxicated. PADD also provides a support network for those who have been victimized by drunk-driving incidents.

Three years ago, PADD decided to hold its Annual Conference (the "Conference") on three days of this year (the "Conference Dates") [on a Wednesday, Thursday, and Friday one week before this negotiation], at the El Camino Lodge and Golf Resort Hotel (the "Hotel") in Palmtrreal. PADD estimated that at least 700 people (excluding their spouses or any other traveling companions) would attend the Conference. After some negotiations, PADD, through the efforts of its agent, SMP, entered into a contract with the Hotel (the "Hotel Contract") providing in pertinent part:

Guest Room Commitment: The Hotel agrees that it will provide, and PADD agrees that it will be responsible for using, 2100 single room nights as follows:

Wednesday 700

Thursday 700

Friday 700

Total Room Nights: 2100

PADD's Room Rates: Based on PADD's total program requirements, the Hotel confirms the following room rates for PADD's attendees ("PADD Rates"), excluding taxes:

Single: \$175.00

Double: \$175.00

Additional Person: \$20.00

Junior Suites: \$250.00

Master Suites: \$300.00

All room rates are subject to applicable state and local taxes (currently 15%) in effect at the time of check-in.

Commission: The Hotel agrees to pay PADD's agent, SMP, a commission of ten percent (10%) on all used room nights.

Complimentary Rooms: PADD will be entitled to one (1) complimentary room night for every fifty (50) revenue-generating room nights occupied. If Junior or Master Suites are occupied, they will be rated on a daily basis as three (3) units per night and four (4) units per night, respectively.

Cutoff Date: Reservations by attendees must be received on or before one month before the first day of the conference ("Cutoff Date"). On the Cutoff Date, the Hotel will review the reservation pickup for the Conference, release the unreserved rooms for general sale, and determine whether it can accept reservations based on a space-and-rate-available basis at PADD Rates after this date. The release of rooms for general sale following the Cutoff Date does not affect PADD's obligation under this Contract to use guest rooms.

Rooms Attrition: The Hotel is relying on PADD's use of 2100 Total Room Nights. PADD agrees that a loss will be incurred by the Hotel if there is a total reduction greater than fifteen percent (15%) in Total Room Nights actually used.

If the room nights actually used by PADD are less than eighty-five percent (85%) of the Total Room Nights, PADD agrees to pay, as liquidated damages and not as a penalty, the difference between eighty-five percent (85%) of the Total Room Nights and PADD's actual usage of rooms, multiplied by the average PADD Rates for single/double rooms.

At PADD's request, SMP also contacted the Shooting Star Talent Agency (the "Talent Agency") to see if one of its clients, Bart Napier, was available to deliver the keynote speech during the opening dinner of the Conference. Mr. Napier was formerly a star quarterback with the Manisota Express of the Global Football League and founder of Athletes-for-a-Higher-Calling. Mr. Napier is now in great demand on the professional speaker circuit for his inspirational speeches on the importance of making good decisions in life, taking responsibility for one's actions, setting good examples for our youth, and using the trag-

edies, failures, and other disappointments that individuals occasionally experience in life as motivation to make positive impacts on society.

Mr. Napier was available on that date to speak at the Conference. SMP told the Talent Agency about PADD, its members, and its mission. SMP also gave the Talent Agency some general ideas of what the speech should convey. SMP and the Talent Agency negotiated a contract, which PADD and Mr. Napier executed three years ago (the “Speaker Contract”), shortly after the contract with the Hotel was signed.

The Conference began as planned, and SMP was happy to report to PADD’s Board of Directors during their meeting that afternoon that they had over 800 registrations for the Conference and appeared to meet their room commitment at the Hotel.

During the opening dinner that evening, Mr. Napier delivered a riveting and inspiring speech that drew a standing ovation from those in attendance, and he stayed well after his presentation to mingle with the audience, sign autographs, and have his photograph taken with PADD’s Board and other members in attendance.

Afterwards, Mr. Napier retreated to the Hotel lounge to “catch-up” with two players from Manisota’s championship team who now reside in the Palmtreal area, Jimmy Beam and Tommie Collins. According to witnesses, Mr. Napier and his friends drank tequila shots with beer “chasers” until closing. At one point, after Mr. Napier stumbled into a cocktail waitress and caused her to drop her drink tray for a second time, the manager had to ask Mr. Napier if he would kindly refrain from wearing his table’s decorative centerpiece as a helmet and re-enacting his famous “bootleg” touchdown run from the championship game.

The next morning, PADD members were shocked to read the headline on the front page of their complimentary copy of the Palmtreal Tribune provided by the Hotel: “Football Star Arrested for Drunk Driving After Delivering Keynote Speech for PADD.” According to the article, Mr. Napier had been arrested for suspicion of “driving while intoxicated” at 2:30 a.m. as he was turning from the Hotel’s parking garage onto the city’s main thoroughfare, and a subsequent breathalyzer test indicated that his blood alcohol content was more than three times the legal limit allowed under the applicable state/provincial law.

Outraged, 250 of the attendees staying at the Hotel immediately packed up their belongings and checked out of the Hotel, refusing to pay for the next two nights of the Conference. Disgruntled attendees also began calling the Conference’s phone line, which was being monitored by SMP, demanding that their registration fees be refunded and threatening to cancel their memberships in PADD. The registration averaged \$250 per registrant, which included a ticket to the opening dinner. Additional tickets for the opening dinner sold separately at the door for \$50. PADD’s annual membership dues are \$200.

On the Monday following the close of the Conference, SMP received a facsimile from the Hotel advising that PADD had failed

to meet its room commitment of 2100 room nights under the Hotel Contract by 500 room nights, and since the 1600 room nights actually used was less than eighty-five percent (85%) (1785 room nights) of the Total Room Nights for which PADD was obligated, the Hotel was entitled to recover liquidated damages in the sum of \$32,375 (1785 room nights minus 1600 room nights = 185 room nights times the \$175 PADD Rate) under the Hotel Contract’s attrition clause. With PADD’s consent, SMP forwarded this letter to its outside counsel, who will represent PADD in this matter. Lawyers representing PADD and the Hotel have contacted each other, and they have agreed to meet in Palmtreal as soon as possible to try to resolve this matter.

Under the applicable state/provincial law, a provision in a contract liquidating the damages for the breach of the contract is valid unless the party seeking to invalidate the provision establishes that the provision was unreasonable under the circumstances existing at the time the contract was made. If a party succeeds in invalidating a liquidated damage provision, an aggrieved party may nevertheless recover any actual damages that it can prove, subject to any defenses that may otherwise be available to the opposing party.

The applicable state/provincial law contains a new “dram shop” statute, which provides that “any person who serves or sells an alcoholic beverage to an individual who was obviously intoxicated to the extent that he or she presented a clear danger to himself or herself and others, shall be liable for any damages caused by such intoxication.”

For purposes of this negotiation, assume all amounts mentioned are stated in U.S. dollars.

Discussion Questions

1. Identifying relevant issues and subject matter for negotiation.
2. Identify the interests of each party prior to the negotiation.
3. Strategize to create options and/or alternatives.
4. What is PADD’s BATNA?
5. What is the Hotel’s BATNA?