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Selling to the Incentive Travel Market

Contract Negotiations

Participant Guide

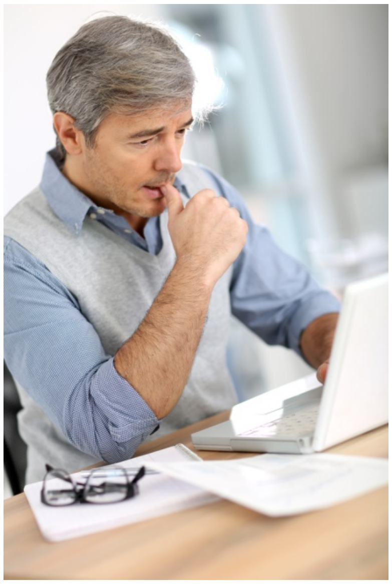
A contract is the legal expression of the expectations and responsibilities of the buyer and supplier in an incentive travel relationship. Successful contracts result when buyers and suppliers both approach negotiations in a collaborative manner, understanding the requirements and limitations of each other. In this course, participants will explore both perspectives of contract negotiations as well as “gotchas” that buyers should be aware of.

Learning Objective

After completing this course, you will be able—

- To negotiate an incentive travel contract for the mutual benefit of both the buyer and the supplier

Contract Negotiation Tips



For the Buyer

- Be prepared to work with the supplier's contract.
- Make realistic requests of the supplier, identifying the Must Haves vs. the Nice to Haves
- Provide realistic numbers and realistic dates to the supplier

For the Supplier

- Use standard contracts developed for the incentive travel/meeting industries and tailor it for your unique offerings and circumstances
- Be transparent. Spell out conditions and requirements clearly and clarify as necessary with the client.

“Gotchas”

When you discuss the potential “gotchas” up front, you can avoid unexpected challenges during the incentive trip.

With your group, review the information about one of the unique areas that can affect an incentive travel contract. Add information to the list from your own experience. You will report back to the group.

Charter Airlines

- **Benefits of charter air for incentive travel.** Chartering flights enables you to control the participants’ experience. As the beginning and ending of the journey, the flight can make a vivid impression—good or bad—of the entire incentive-travel experience. When a trip begins or ends with a nightmare flight, that bad experience colors the impression that the participants have of the entire trip.
- **Before signing a contract with a charter airline.** Buyers should visit to the charter airline’s home airport or ask for a tour when the next airplane is in their vicinity.
- **Passenger tax.** Charter airlines collect taxes per passenger. Contracts should break out passenger taxes by passenger, and a reconciliation should be provided post-flight so that the client pays only the amount of tax for the actual number of passengers—not the estimate originally provided.
- **Fuel surcharges**. Airlines assess surcharges for fuel, which the clients pays for. The contract should include the basis for fuel surcharges, along with the procedure for adjustment if the fuel price is higher at the time of the flight. The contract should also stipulate the method of fuel charge substantiation and a timeframe for reconciliation.
- **De-icing charges.** When de-icing is required for a flight, the airline passes the charge on to the client. There is no legal limitation on the timeframe for the airline to bill the client for de-icing charges. Therefore, buyers should make sure that their charter air contracts include the timeframe for post-flight charges.
- **Inability to operate.** If an airline ceases operations, it is only required to refund the charge for the flight to the client; the airline is not responsible for any compensation to the client for inconvenience or re-booking with another airline at a potentially higher price. There is no legal requirement for the amount of notice that the airline must give the client prior to the scheduled flight. Therefore, buyers should ensure that the contract indicates a timeframe for notification if the airline is not able to operate at the time of the scheduled flight, as well as stipulating compensation or assistance in re-chartering flights with another airline.
- **Association membership.** Industry associations such as SITE and ACANA require their membership to adhere to a Code of Ethics and to industry best practices in order for their membership to be accepted and continue. Don’t work with airlines or brokers that are not members of both SITE and ACANA.

Local and Regional Considerations

- **Restrictions at the destination.** Local government regulations can affect or limit activities at the incentive travel destination. Buyers should ask about regulations that might affect planned activities and plan mitigation for them.
- **Examples**. These regulations exist at some destinations:
  - No beach activities in Mexico when the sea turtles are hatching
  - Noise restriction ordinances
- **DMCs.** When the incentive travel destination is “exotic,” DMCs are excellent resources for information about local and regional considerations because they are aware of these regulations.
- **Foreign countries.** When dealing with parties in a country other than their own, buyers should determine what is and is not enforceable if their expectations are not met.

Destination Management Companies

- **Benefits.** Destination Management Companies have their fingers on the pulse of the destinations they market. This hometown knowledge enables them to give buyers definitive answers to their destination questions. The relationships they maintain in the destination enables them to offer services and experiences that “out-of-towners” could never emulate.
- **Relationships with vendors at the destination.** Destination Management Companies maintain relationships with vendors who ultimately provide services for the incentive travel experience at the destination. A DMC’s success in no small way depends on their good relationship with these vendors. It’s important for buyers to respect the DMC’s relationship with these vendors. Buyers’ requests should be reasonable.

  For example, a buyer requested that a DMC make arrangements for a four-course dinner at a four-star restaurant as part of the incentive travel, but the window available for the dinner was barely 45 minutes. Therefore, the request was unreasonable, because a restaurant of that caliber would not agree to rushing service of a four-course dinner. If the DMC asked for this on behalf of the buyer’s group, it could potentially strain the DMC’s relationship with the restaurant because the restaurant would view the request as unreasonable.
- **Pricing models and price breakdown.** When buyers ask DMCs to break down the prices of the incentive travel experience during negotiation, they should indicate the type of pricing model to use. If two DMCs quote on the same experience, the buyer should ask them to quote the cost on the same pricing model.
  - **Traditional model.** All services, taxes, and gratuities are added together and marked up to cover the DMC’s services.
  - **Cost Per Person.** The DMC price is based on a per person cost.
  - **Cost plus Management Fee.** All services, taxes, and gratuities are added together. The DMC adds a management fee for its service to the total cost.

Activity: Negotiation Case Study

Try to work with someone who does not work in the same role as you do. For example, if you are an incentive travel buyer, work with a supplier.

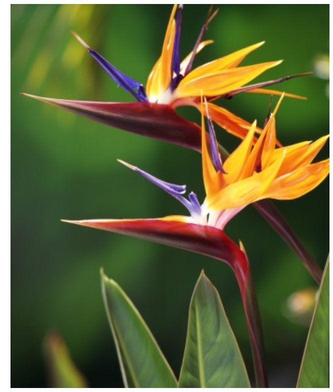
Review the case study. Discuss the case study with your partner and answer the questions at the bottom of the page together. Be prepared to share your answers and opinions with the entire group.

Questions to consider

Are the negotiations in the story a success, a failure, or something in between? Why?

What could have the buyer and supplier done differently during negotiations to improve the outcome?

Case study



Dan Sears is an incentive travel buyer for Axiom Industries. Dan prepared and issued a Request For Proposal for the annual incentive trip for top performers in their sales force. The community of qualifiers will consist of 300 top sales professionals as well as the executive and sales leadership team (about 45 more people).

Dan researched available options on the Pacific Coach of Mexico and short-listed three all-inclusive resorts. He sent Axiom's RFP to the three suppliers on his short list. After careful consideration, Axiom selected Playa Milagra Resort based on the response and bid submitted by their representative, Marta Scorsone. Playa Milagra Resort is a secluded luxury resort that caters to the incentive travel market.

Although Dan is an experienced incentive travel buyer, he is new to Axiom. He joined the company about three months ago. As a relatively new buyer, Dan asked Axiom's corporate counsel, Ed Green, to advise him on the contract. Ed recommended that he draw up the contract because it would be to Axiom's advantage.

Dan had not heard of a client writing the contract in an incentive travel deal, but thought this must be Axiom's way of handling deals. Dan prepared a detailed list and descriptions of the requirements for the incentive travel that he and Marta agreed to. The list included the requirements described in the RFP and in Marta's RFP response. He gave this list to Ed to incorporate the information into the contract.

When Ed forwarded him the contract, Dan glanced at it and faxed it to Marta for her review and signature so that it could be signed as soon as possible.

Marta was very surprised to receive the fax with a contract from Axiom. Playa Milagra Resort always uses their standard contract for incentive travel, customizing the contract based on the requirements in the client's RFP and the plans described in the resort's RFP response. Marta looked over the contract, noticing that it did not cover a number of the standard clauses that the resort's clause includes. She forwards the contract to the resort's legal department. After their review, their lawyer tells Marta that they will not agree to use Axiom's contract as there are a number of loose ends and red flags.

For example, the attrition dates are much closer to Axiom's arrival date than the resort usually specifies. Additionally, although Dan told Marta that they plan to send over 300 people, the number of guaranteed participants in the Axiom contract is only 200. The resort's pricing was based on the larger number of guests that Dan's RFP described. Marta begins to consider ways that Playa Milagra might cut corners on the deal while still providing an enjoyable and memorable experience to the Axiom team.

Marta phones Dan to see if they can use the Playa Milagra contract instead, and tells Dan that she cannot agree to the late attrition dates and the smaller number of guaranteed participants at the price in the resort's RFP response. Dan is irritated because he feels that Playa Milagra's offerings and the original price quoted was the best option for Axiom and that Marta is withdrawing something that he and his group need.

Knowledge Check Questions

1. Honesty and transparency smooth negotiations and usually result in a contract both parties are satisfied with.
    a. True
    b. False

2. Select all of the statements about Charter Airlines that are true:
    a. Charter airlines are required to bill the client for all additional charges within 30 days of the flight.
    b. Charter airlines are responsible for re-booking scheduled flights for their clients when they cease operations.
    c. Taxes are charged per passenger, not per flight.
    d. When the cost of fuel at flight time is more than specified by the contract, a charter airline assesses a fuel surcharge, which must be paid by the client.

3. Noise restrictions and areas unavailable for activities due to wildlife activities are examples of local restrictions that can affect incentive travel.
    a. True
    b. False

4. Which one of the following is **not** a pricing model used by DMCs?
    a. Cost plus management
    b. Price per-group
    c. Traditional model