



Effective Room Forecasting is Key to the Hotel's Future Performance

By **Serge Chamelian** - March 1, 2011

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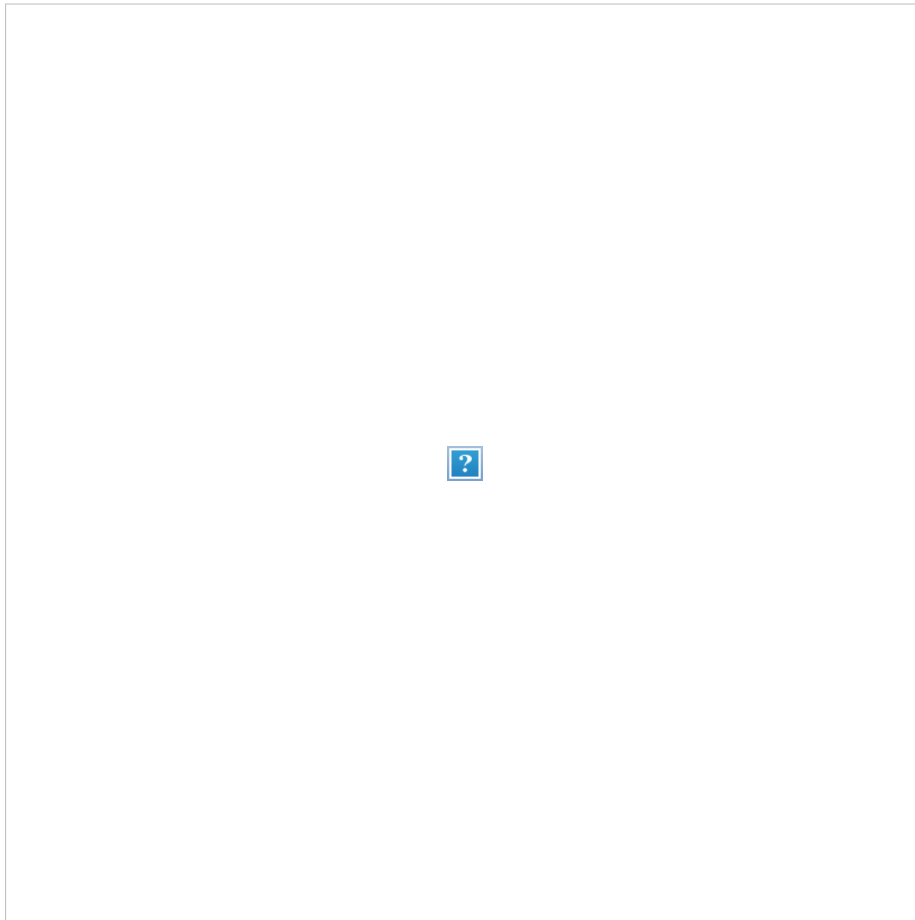
Hotel forecasting is the ultimate resource for anticipating the future performance of hotel's key (Average Daily Rate), and RevPAR (Revenue Per Available Room).

Forecasting future demand in the lodging industry is crucial because it leads to an efficient plan making to all the departments, and most importantly it is one of the drivers of pricing.

Accurate forecasting is one of the ways to increase the predictability of duration of use. In hotels, length of stay; in airlines, as time in flight (known as origin-destination); in restaurants, as length of meal depending on the number of persons per table; and rental-car companies predict length of keep.

The accuracy of the forecast is essential because the forecast is the main driver of the pricing. Inaccurate forecasts or predictions will diminish the hotel's revenues and profit margin. In fact, forecasting accuracy translates into a 1.5 to 3% increase in revenue generated from a revenue will probably impact the net income in a much larger way, due to the small margins existing in the industry. Therefore, in addressing the importance of forecasts, one can state that forecasting is the most effective revenue management optimization approach.

Figure 1: Occupancy Forecast and Reservation on Hand:



Forecasting remains the job of the Revenue Manager and is performed in different ways; few hotels use an excel-based approach to forecasting, and others implement automated systems called Revenue Management Systems. Many hotels decide to invest in such systems considering that inaccurate forecasting may lead to severely impact revenues and profit margins. Forecasting may be the heart of any hotel operation. Revenue Managers produce forecasts/predictions for one year and more, but this task may become challenging if it is not completed daily and broken down by segments, source of business or channels, in this case it can be an issue.

Types of forecasting may be divided into three categories:

- Occupancy Forecast: Revenue Manager predicts the occupancy level.
- Demand Forecast: Revenue Manager produces the unconstrained demand for the hotel (when no restrictions on capacity and price is applied).
- Revenue Forecast: Revenue Manager estimates the revenue to be generated.

The main challenges for an accurate forecast consist of predicting the exact figures for the no-shows, over rooms, early departure rooms and walk-ins guests. To assist the forecast, these data must be collected and analyzed.

by DOW (day of week), season and event type.

Different methods/approaches are adopted by hotels to forecast demand; these can be grouped into historical booking models and advanced booking models. Historical booking models consider occupancy time series, and apply time series models on these. No use is made of the reservation booking approach, on the other hand, makes use of the reservations data, and utilizes the constraints. For instance, most major hotel chains use linear-programming-based models that require detailed length of stay, and rate category.

Hence, forecasting is estimated as such: a hypothetical automated system scans historical booking internal and external events, and reservation and rates information and fits quantitative forecasting models. Using the fitted models, the revenue management system arrives at predictions, which are then used for making rate and allocation decisions.

Nowadays, forecasting has taken a different turn by adding new variables/data to the above models, such as prices of the hotel's competitive set, city demand, event automated entry, and airline/airport prices. That is, the optimization algorithms recommend rates and allocation based on the predicted variables. Moreover, room occupancy is not anymore the only key metric forecasted by hotels, RevPAR by market segment, source of business, and even channels of distributions are also considered.

For instance, a new system is identified to be using this novel approach:

Figure 2: Forecast error %



This forecasting tool adjusts future predictions by constantly learning from previous practices; combines real/constrained demand achieved versus forecasts for specific previous dates and business inputs used in making rate decisions with actual results. Thus, the accuracy of this forecasting revenues and profit margin.

Forecasting in the lodging industry has been relatively important to depend on the nature of its characteristics and difficulties. This importance is not only related to wide demand fluctuations but also to the need to increase occupancy rates, ADR and RevPar. The forecast is the most important driver of any revenue optimization approach. Hotels should forecast at a detailed level if the true benefits available from it are to be achieved.

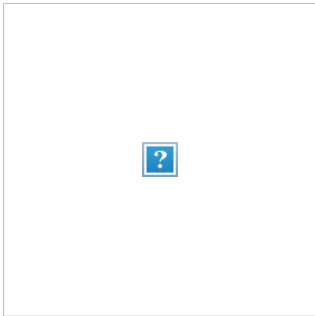
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