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 plar 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 hote length of stay; in airlines, as time in flight (known as origin-destination); in restaurant, as leng cars, as length of keep. To help increase the predictability of duration, hotels forecast demand different rate categories; airlines try to forecast demand by origin-destination city pairs; restau length of meal depending on the number of persons per table; and rental-car companies predi and 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 Therefore, in addressing the importance of forecasts, one can state that forecasting is the mos 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 h excel-based approach to forecasting, and others implement automated systems called Revenue Many hotels decide to invest in such systems considering that inaccurate forecasting may lead severely impact revenues and profit margins. Forecasting may be the heart of any hotel operat Managers produce forecasts/predictions for one year and more, but this task may become chal be completed daily and broken down by segments, source of business or channels, in this case 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 (h 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-s over rooms, early departure rooms and walk-ins guests. To assist the forecast, these data mus by DOW (day of week), season and event type.

Different methods/approaches are adopted by hotels to forecast demand; these can be groupe historical booking models and advanced booking models. Historical booking models consider or occupancy time series, and apply time series models on these. No use is made of the reservati booking approach, on the other hand, makes use of the reservations data, and utilizes the con 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 boo internal and external events, and reservation and rates information and fits quantitative foreca Using the fitted models, the revenue management system arrives at predictions, which are the making rate and allocation decisions.

Nowadays, forecasting has taken a different turn by adding new variables/data to the above m prices of the hotel's competitive set, city demand, event automated entry, and airline/airport p pace. That is, the optimization algorithms recommend rates and allocation based on the predic 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 co

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 b 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 in characteristics and difficulties. This importance is not only related on wide demand fluctuations increase occupancy rates, ADR and RevPar. The forecast is the most important driver of any re optimization approach. Hotels should forecast at a detailed level if the true benefits available fr are to be achieved.

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