

CHAPTER 6

FORECASTS FOR DIFFERENT OBJECTIVES

KEY LEARNING OBJECTIVES:

To understand the different types of forecasts and why they are necessary for optimal performance;

To increase the ability and confidence in developing and creating an accurate forecast;

To know what information is needed to create different types of forecasts;

To understand who needs which forecast and how frequently they are needed.

Sound forecasting is an essential part of any revenue management process. As a matter of fact, the forecast is so important that it is considered to be the foundation of a hotel's revenue management program. Without an accurate forecast and the right types of forecasting, even the best revenue strategies cannot be realized.

Ironically, forecasting is one of the biggest challenges for many hoteliers. One reason for this is that many revenue directors are not confident in their forecasting abilities. There are a variety of reasons for this lack of confidence. Perhaps they are unsure where to begin, or how to collect the information, or even what information should be tracked. Perhaps they are not confident in taking the steps that should be taken to put together a forecast.

The second reason that forecasting can be so challenging is that many hoteliers are not aware of the importance and purpose of the different types of forecasts that should be created and managed. Most revenue directors put together one or two different types of forecasts — one to satisfy the operational needs of the hotel and one to satisfy stakeholder needs.

There are however, different forecasts that allow hoteliers to satisfy different objectives. Each forecast may require a different approach and information may be specific to individual forecasts.

The third reason that forecasting can be such a challenge is that much of forecasting includes a certain amount of intuition or “gut” feeling that must be taken into consideration. Many hoteliers find this to be intimidating. Common questions surrounding this are, “How do I know exactly how much business I can anticipate?” and “Is

there a formula I can use to come up with the forecast?”

The good news is that there are specific steps that can be learned to improve the methodology and accuracy in forecasting procedures, as well as the comfort level in putting all of this information together.

This chapter will provide a better understanding of forecasting and its importance, and will answer the following questions:

- What are the different types of forecasts?
- What are the objectives for each of the types of forecasts?
- What information do I need to put each forecast together?
- How do I find this information?
- What questions should I ask when putting together each of the forecasts?
- How often should I be putting together each of the forecasts?
- What are the steps that I need to follow to put each forecast together?

One thing that is important to remember is that forecasting is an art. Therefore, it can and will take practice and over time if you follow the proper procedures and apply the level of detail that forecasting requires and deserves, the comfort level and accuracy will improve.

The ideal solution is having a fully automated revenue management system that provides the appropriate information and detail to support the forecasting process.

Automation allows hotels to monitor not only the historical aspect of channel business but also the future trends much more quickly than in a manual environment. This allows hoteliers to quickly identify shortcomings, as well as opportunities well in advance while there is still time to influence the outcome.

One important point to note about this chapter is that it is focused purely on rooms forecasting. But the same principles can be applied or expanded to other revenue streams throughout the organization or hotel. Refer to the chapter on Total Hotel Revenue Management for more ideas on additional revenue streams.



Different Forecasts for Different Objectives

As introduced earlier, there are different forecasts that should be put together for every hotel; and each forecast has a different objective.

The following table provides an introduction to the types of forecasts along with their supporting objectives. They are listed in the order in which they should be completed.

Each of the forecasts is explored in more detail in individual sections following the table. Those sections provide the supporting methodology for the different forecasts.

FORECAST TYPE	OBJECTIVE	WHEN/FREQUENCY
Demand forecast	To determine the anticipated demand for the hotel absent any constraints.	Long-term based on booking window / quarterly and / or monthly
Strategic forecast	To support strategic objectives such as understanding the impact of the unconstrained demand and its effect on occupied rooms.	Medium term / monthly
Revenue forecast	To have a realistic picture of probable future occupied rooms and rates to use to compare to budget and identify variances.	Short-term / weekly
Operational forecast	To use for operational necessities such as scheduling.	Short-term / weekly

Demand Forecasting

Of all the different types of forecasts that are critical to a hotel, demand forecasting is the most crucial. Ironically, this is the forecast that is most often not utilized and sometimes not even understood.

Purpose

A demand forecast is determined by the amount of demand a hotel would have for its rooms on a given night in the absence of any constraints. This is referred to as unconstrained demand.

A hotel's unconstrained demand or demand forecast is the forecast on which all revenue management decisions including rates, availability, and restrictions are based.

Important note: This is NOT the forecast that is to be shared with ownership or senior management for the purpose of explaining the forecasted end result. The revenue forecast is the forecast that will be shared with them for that purpose. Instead, the demand forecast is to be used by revenue directors and shared with the revenue team to ensure proper strategies are discussed and implemented to support the projected demand. Provided ownership and senior management understand the purpose and definition of demand forecast, then they absolutely should review it as well.

In an effort to provide hoteliers with a guideline and to help understand the concept of demand forecasting, a general calculation is provided. It is vital to understand however, there is no one scientific calculation that can be followed for the purposes of calculating a demand forecast. This calculation is shown to illustrate the concept of how to arrive at the demand forecast. Each hotel must derive its own specific forecast.

Transient “On the books” bookings

+

Anticipated Unconstrained
Transient bookings

+

Group “On the books” bookings

+

Anticipated Group bookings

=

Demand Forecast

One final point to understand is that a hotel's unconstrained information will only be as good as the hotel's tracking of historical and future activity. Without solid tracking methods in place, the demand forecast will not be accurate.

Things to Know

Demand forecasting requires the use of historical patterns and current trends to forecast future demand. Therefore, there is specific information that must be



tracked and reviewed for the purpose of putting together the demand forecast.

Following is a list of items that hoteliers must have available and accurately tracked in order to create their demand forecast.

Room nights	Extended stays
RevPAR	Length of stay pattern
Revenue	Denials / Regrets
Cancellations	Transient and group mix
Lead time / Booking pace by segment	Demand generators
Transient rooms	"On the books" bookings
No shows (both guaranteed and non-guaranteed)	Rate changes
Arrivals	Group blind cut and group wash
Group rooms	Comp set availability
Walk-ins	Supply changes
Departures	Sell-out frequency of your hotel and the competitors
Early departures	Tracking of past marketing demand drivers (e.g. flash sales)
	Tracking significant weather events in your major source markets or in your own destination

It is ideal to have this information tracked day-by-day for one full year or more as it will assist hoteliers in understanding the patterns and trends for the hotel. This data will be used to determine the hotel's historical pattern and will assist with anticipating future demand patterns.

While a solid understanding of the historical pattern is very beneficial, understanding current trends should be weighted more heavily. Historical information is helpful to use as a base so hoteliers have a place to begin, but current booking information should supersede historical trends. This is because booking trends change and hoteliers must adapt their forecasts to incorporate the current trends and weigh these more heavily.

Tracking this information is not always easy and of course some information may be easier to track than other information. Ease of tracking depends on the technology available and the processes that each hotel follows. For

those using technology that limits the ability to track or retrieve any of the previously listed information, a business process needs to be put into place allowing it to be tracked from this point forward. For those using an automated revenue management system, this information is most likely being tracked and can be easily accessed.

The following are key points for each hotel to address before a demand forecast can be created:

- Identify the current technology that is being used such as the CRS, PMS, SCS, and RMS. It is important to review each and understand what information is able to be retrieved and/or tracked;
- Identify reports that are available and that can provide the necessary information;
- Identify all gaps in tracking ability. In other words, what information are you not able to retrieve from existing technology? What is missing?
- Where possible, implement manual business processes to track the missing information to close the gaps.

For those who lack sophisticated technology to help track much of this information, it is vital that you capture as much as humanly possible. It may not be possible to gather and track everything but the more you are able to track, the more accurate your demand forecast will be. It may require something as simple as using Excel spreadsheets to enter the data and possibly even cross reference the information so it can be sliced and diced according to the needs of the hotel.

The Process: Step by Step

Putting together a demand forecast can be quite overwhelming as there are multiple steps and requirements. As mentioned earlier the methodology to create a demand forecast can be broken down into steps that are technical in nature and easy to learn. But it also includes a level of intuition or "gut" feeling which is not easy to learn. A certain comfort level with it will develop over time. It comes easier to some than to others.

This section will outline a step-by-step process for putting together a demand forecast. However, depending on the sophistication of each hotelier's forecasting tool some steps outlined may or may not apply. Therefore, each hotelier must identify the steps that apply to the specific tool customized for their corresponding hotel or organization.



The flow chart below outlines the process. The explanation supporting the flow chart is provided immediately following.



The first step in putting together a demand forecast is identifying the right forecasting tool. There are probably as many versions of forecasting tools as there are hotels. Some hotel companies have a corporate standard while others do not. The key is finding the right forecasting tool that works for each hotel. It is also important to realize that a hotel will gain only as much benefit from the demand forecast as the amount of time and information put into it.

Once the tool is identified and agreed upon within the organization, it is time to set it up to reflect the constants of each hotel — for example, the customized market segments, the total number of rooms in the hotel and any type of special parameters that may be specific to each hotel’s forecasting philosophy, such as whether or not to include out of order rooms in the availability count. Some companies opt to include out of order rooms in their availability count and some consider they are not available for sale and therefore they do not include them. If they are not included, they do not impact the hotel’s RevPAR.

The next step is to determine how far out the demand forecast should be completed. It is recommended that the demand forecast be completed for as far out as the hotel receives bookings. For example, for a hotel that receives group inquiries five years in advance, the demand forecast should be put together five years out. (Do not panic...it is not as difficult as it may appear.)

Now it is time to collect all of the information that is required and available to you in support of creating the forecast. (see prior “Things to Know” section)

One important point to understand about forecasting in general regardless of the tool in use is that it is important to ensure the forecast is put together by market segment. This may seem overwhelming but it is truly the only way hoteliers can accurately create a forecast.

It is time to move on to using the tool itself. Now the data entry begins — by market segment.

1. Enter special parameters such as out of order rooms on specific days, as well as special events or demand generators.
2. Enter all of the “on the books” information including number of rooms, revenue, and ADR. This should be done day-by-day for as far out as there are bookings — including group bookings (blocks).
3. Now it is time to enter in the projected (gain or loss) demand for each market segment day-by-day. This should be done as far out as bookings are accepted.

For those who do not already have a forecasting tool or for those who may be interested in using a more sophisticated tool, a forecasting tool is available from HSMIAI for hoteliers to incorporate as part of their revenue management tools. To download the spreadsheet, go to the Revenue Management tools section in the HSMIAI Knowledge Center at www.hsmiai.org. This resource is free to HSMIAI members.

Entering in the projected demand for each market segment for every day into the future is obviously the most challenging part of demand forecasting. And remember, the projected demand means that it should reflect the total amount of demand a hotel would enjoy absent any constraints — the unconstrained demand. What this means for this forecast is that you must ignore length of stay restrictions, overselling, price restrictions, and any other types of restrictions. The projected demand number needs to reflect the total number of rooms the hotel could sell without restrictions or limits.

Use the information that is available to assist with identifying the demand for each day. Reference some or all of the following information as it is applicable:

- Historical information by market segment for the same day in the previous year.
- Demand generators that may be different from year to year.
- Current booking pace; compare it with the previous year’s booking pace if it is available. Identify differences to assist with adjusting the historical information and apply to demand information.



- Identify patterns such as every Tuesday in the month of March historically looks the same. Apply these patterns (if they still make sense based on the current booking trends).
- Refer to the internal analysis — what may be different within the organization compared to previous years? Are there new products or services that may impact the demand? Are there new targeted segments?
- Refer to the external analysis — what may be different within the marketplace compared to previous years? Is there a new product? Are competitors targeting new segments compared to previous years?

Once you are confident in the demand by market segment, by day, enter the information into the forecast. This includes rooms, revenue, and ADR information. Congratulations! The most difficult part of the forecasting process is now complete.

Strategic Forecasting

The strategic forecast is used to support strategic objectives such as understanding the impact of the demand forecast and its effect on occupied rooms.

The strategic forecast is the place where hoteliers will assign their rate strategies based upon the demand forecast.

Things to Know

The two major requirements to complete this forecast are:

1. Demand forecast
2. Pricing strategy

Example:

Forecasted Occ %		Rate Level	RAC	COR	NEG	SPC	WKD	DISC
99%	90%	1	open	COR High	only with LRA will remain open		LEISURE High	
89%	80%	2	open	COR High	Pref 1, 2, 3	open	LEISURE High	
79%	70%	3		COR Med	Pref 1 — 6	open	LEISURE Med	
69%	60%	4		COR Med	Pref 1 — 10	open	LEISURE Med	\$60.00
59%	60%	5		COR Low	Pref 1 — 10	open	LEISURE Low	\$60.00
49%	40%	6		COR Low	Pref 1 — 10	open	LEISURE Low	\$60.00
39%	1 %	7		COR Low	Pref 1 — 10	open	LEISURE Low	\$60.00

As mentioned, the demand forecast will be used for the creation of strategies such as which rates will be offered for specific time periods based on the unconstrained demand.

The pricing strategy is important because it will be required when creating rate strategies based on the forecast. The rates that will be assigned to the demand forecast will be based on the hotel’s pricing strategy and will be in line with its philosophy.

The Process: Step by Step

As mentioned earlier, the demand forecast is the most challenging of all the forecasts. So the good news for those hoteliers who have completed the demand forecast is that the most difficult part is finished...until you have to do it again.

The strategic forecast has the potential to be much more of a streamlined process provided the hotelier sets up the hotel’s rates according to the forecast. The tool provided with this publication offers that as an option. By taking the time to set up the rates in advance the overall process for this forecast will be much easier and much less time consuming in the long run.

For those hoteliers who are using a different tool, it is strongly suggested that the same approach be taken to incorporate the rate setup into the tool chosen.

The following is an example of what this setup may look like. Of course, each hotel would need to customize this according to its needs and philosophies. For example, a hotel would need to define its own rates that best fit into each rate level. This may be done by month or by season. Additionally, hotels will need to customize the setup to reflect their own market segments.



For those hoteliers using the tool provided, the format is already set up to allow customization based on each hotel's needs. Once each hotelier defines their hotel's specific needs the information will automatically be "pulled" into the rate strategy worksheet(s) for each month. It will display the rate levels based on the forecast for each day. Hoteliers will then be able to update the appropriate systems based on the assignment of rates with each rate level.

The strategic forecast should be completed for the same timeframe as the demand forecast. It should also be updated and reviewed each time the demand forecast is updated.

Revenue Forecasting

Once the strategic forecast is complete the next step is to complete the revenue forecast.

Purpose

The purpose of the revenue forecast is to provide hoteliers with a realistic picture of probable future occupied rooms that they can use for budget comparison purposes and to identify variances.

This is the forecast that is appropriate to share with stakeholders to communicate the realistic forecast for the hotel. It is not, however, to be confused with the budget. Instead, it should be used as a comparison to the budget in order to understand the variances (both positive and negative).

Things to Know

In terms of the information that will be needed, the revenue forecast is similar to the demand forecast. It requires the use of historical patterns and current trends to forecast future realistic occupied rooms, revenue, and ADR. Therefore, the information that was reviewed for the purpose of creating the demand forecast will also be used for the revenue forecast. However, this time the focus will be on what hoteliers believe will actualize for the hotel.

The following is a list of items to reference.

RevPAR	Departures
Revenue	Early departures
Cancellations	Extended stays
Lead time / Booking pace by segment	Length of stay pattern
Transient rooms	Denials / Regrets
No shows (both guaranteed and non-guaranteed)	Transient group mix and group wash
Arrivals	Demand generators
Group rooms	"On the books" bookings
Walk-ins	Rate changes

The Process: Step by Step

The process of creating the revenue forecast is essentially the same as the process for the demand forecast. The only difference may be in the forecast totals. The same information should be included and the same patterns should be applied. This time, however, the total forecasts by market segment may (may not) be lower than the unconstrained information.

1. Review special parameters such as out of order rooms on specific days, as well as special events or demand generators to ensure they are complete and up to date. Because they should be the same as the demand forecast, they can be carried over from that tool.
2. Ensure all of the "on the books" information including number of rooms, revenue, and ADR is accurate and up-to-date. This should be done day-by-day for as far out as there are bookings and should include group bookings (blocks).
3. Now it is time to enter in the projected (gain or loss) forecast for each market segment day-by-day. Remember, the projection should reflect only the totals you believe will actualize for the hotel.

The timeframe for how far into the future this should be completed will vary by hotelier. Most will need to complete one year into the future but some may need to go farther out.



Information is available to assist with identifying the demand for each day. Reference some or all of the following information as it is applicable for each respective hotel:

- Historical information by market segment for the same day in the previous year.
- Identified demand generators that are different from year to year.
- Compare the current booking pace with the previous year's booking pace if it is available. Identify differences to assist with adjusting the historical information and to apply to demand information.
- Identify and apply patterns (e.g., "every Tuesday in the month of March historically looks the same").
- Refer to the internal analysis — what may be different within your hotel or organization compared to previous years? Are there new products or services that may impact the demand? Are there new targeted segments?
- Refer to the external analysis — what may be different within the marketplace compared to previous years? Are there new products? Are competitors targeting new segments as compared to previous years?

Once you are confident in the demand by market segment, by day, enter the information into the forecast. This includes rooms, revenue and ADR.

4. The final step for the revenue forecast is to determine how often it should be completed. This is another area that will vary by hotel based on specific requirements and needs. There are a couple of factors that need to be considered when deciding how often to complete the revenue forecast:
 - The most obvious factor is the requirements of each hotel or company's management. Some companies require weekly updates for one to three months into the future while others require monthly updates for one full year out;

- The other factor is how busy the hotel is and what type of activity it has. Hotels located in a downtown city center that cater to business travelers will most likely have a very busy booking window 30 days out but find that outside 30 days the activity significantly slows down. In this case the hotelier may opt to revisit the revenue forecast two to three times per week for the next 30 days and less often for 30+ days.

Operational Forecasting

The operational forecast is the final forecast created.

Purpose

The purpose of the operational forecast is exactly what the name implies — it is for operations. It provides the operational departments with the information they need to know in order to properly prepare their areas of responsibility.

Things to Know

The operational forecast is relatively easy to put together and in most cases requires only basic information that is easily extracted from the revenue forecast. Some hotels will simply distribute the revenue forecast to the appropriate departments while others prefer to extract the specific information required for each department and distribute that.

The following are the items required to complete an operational forecast:

- Identify each of the departments that will rely on this forecast;
- Understand the specific information each department requires and for what purpose. For example, front desk and housekeeping will most likely need to know the arrivals and departures for each day in order to staff their departments appropriately;
- Identify how often and when each department requires updates.



The Process: Step by Step

The process for the operational forecast is relatively simple once you have identified the appropriate information.

1. Identify a format that works best for the hotel.
The required information can either be extracted directly from the revenue forecast with some supporting formulas to calculate certain information (e.g., total occupied rooms / Average Length of Stay [ALOS] will result in arrivals) or be entered by hand into a spreadsheet.
2. Determine a schedule for distribution, communicate this schedule, and stick to it.
3. Upon completion, distribute the report to the appropriate departments.

KEY REVIEW QUESTIONS

What are the four types of forecasts that should be completed?

What are the objectives for each of the forecasts?

What information is needed in order to properly complete each forecast?

How should hotels obtain the information?

How often should the forecasts be completed?

What is the most important goal as it relates to forecasting?

What needs to be implemented to measure and achieve this goal?