Building an Accurate Forecast: The Lifeblood of Any Hotel Revenue Manager

By **Patrick Bosworth** - March 14, 2019

Over the past 40 years, hoteliers have made significant progress in the field of revenue management. Revenue management is no longer just thought of as yielding or pulling levers to get a price to match demand. Many organizations have adopted a more holistic revenue strategy approach, aligning several departments around the same data, goals, and metrics.

As the role of revenue management has progressed and systems have been developed to assist, the industry has seen two cornerstones emerge. First, automated pricing has allowed directors of revenue management to stop spending all their time gathering data, running macros, and manually entering rates into various applications. But perhaps more importantly, the development of an accurate hotel forecast has become a critical guide to making decisions across the entire practice of hotel operations.

A hotel's forecast is the lifeblood of any revenue manager. It's their currency across the organization that shows the fruits of a revenue manager's labor. Subsequently, the rest of the organization can use the forecast to guide business strategy and make more data-driven decisions.

For example, a hotel's marketing team can determine when they should increase promotional spend to spur demand based on forecasts. And operational departments can use a forecast to increase or decrease staffing based on projected occupancy and mix of business.

There are several reasons to forecast: for a clearer picture on pricing, staffing, product inventory, development work, and performance evaluations. Nailing the forecast is critical.

How to Build an Accurate Forecast

Traditionally, hotel forecasts have been driven by PMS reservation data to measure historical trends and seasonality, future reservations to determine what is currently on the books, and booking pace to monitor how rapidly reservations are being booked for future stays. To better understand how busy a hotel is going to be on an upcoming

day, hoteliers look back at how busy they were on the same day last year and compare the current level and pace of bookings.

But because so many departments have become reliant on a forecast, it's important to distinguish between a demand forecast and a financial forecast. A good demand forecast looks at total demand irrespective of the size of the hotel or remaining inventory. It's a theoretical look forward that provides a value assuming a hotel was able to capture every single potential guest. This means a demand forecast can be over 100 percent and helps revenue managers decide whether price should move up or down.

A good strategy is to forecast demand by market segment and by day of the week. Managers can view this on a timeline or a curve, and if the curve is spiking too high as the day of arrival approaches, they can yield rates up or consider altering the business mix to lower the spike, and vice versa.

From here, hoteliers can get a better understanding of their financial forecast, which is constrained by the number of rooms available and gives operating teams insight into how much revenue the hotel is expected to capture on those upcoming days.

While a hotel's demand forecast can change multiple times a day depending on a number of factors—group reservations, availability restrictions, events, cancellations, pace, pickup, etc.—its financial forecast should be more stable and can be used to measure against a hotel budget.

Price Over Forecast

Recently, a debate has risen over which comes first: the price or the forecast. Some believe the forecast is what leads to the price, others believe that price is elastic and will, therefore, have a significant effect on continually shaping a forecast in real time. Optimizing price should come first and the demand should be calculated in light of a pricing strategy.

The bottom line is that revenue managers should not price to meet their forecast, but price to make the most money and drive the most revenue and profit. This means that a hotel's financial forecast must be considered a guide. Say a hotel is forecasted to make $10,000 on an upcoming day. If instead, the hotel tweaks pricing and ends up making $12,000 on that day, this means the revenue forecast is going to be off by 20 percent. Rather than constantly overriding pricing recommendations from the hotel's RMS to meet the forecast, revenue managers should instead accept that their initial forecast may have been too low and opt to generate the most revenue.

Your Work Is Not Done

Evaluating forecasting after the fact is just as important as actual forecasting. Testing is the only way to know the accuracy of a forecast. Consistent errors must be addressed and can often be corrected.

Forecasts are a fact of life for revenue teams. Every hotel manager needs a forecast to be able to put a stake in the ground to start making decisions. But it must be done knowing the forecast is not written in stone and will at times need to be updated. That uncertainty is a fact of life, and managers must be prepared to hedge their bets based on it.

As more data becomes available and hotels can store that data in the cloud, the role of a hotel forecast becomes more complicated but more critical. Forecasting will continue to evolve, but revenue managers have finally gotten to a point that they can answer demand questions more intelligently and gain future financial insight using the data at their fingertips.

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