8 Steps to Improving Hotel Demand Forecasts

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Summary

Because hotel rooms are perishable goods with a shelf life of one day, it’s important for hoteliers to maximize their value. The clearer the picture you have of upcoming demand, the better you can prepare accordingly in many phases of operation, from staffing to marketing to pricing.

Forecasting upcoming demand allows you to identify needs and build a strategy based on projected occupancy. Forecasting is a complex discipline and can be overwhelming at first, but it can be broken down into simple steps.

However, it’s critical for hotel management to have a good understanding of their performance goals in terms of occupancy, rate and ultimately revenue. For example, if a popular event in the area brings a number of new guests to the door, forecasting helps hoteliers understand how to price to maximize revenue. In addition, it’s the first step to understanding when it may be necessary to lower rates to boost occupancy on days with lower demand.

Simply put: A forecast is a basic tool used to run a hotel more effectively and profitably. Hoteliers can begin building daily forecasts by segment rather easily. The following are eight tips for improving demand forecasts:
1. Use the right data

A basic forecast can be as simple as some notes on pen and paper, and as complex as computing algorithms that produce precise and accurate projections. But a forecast is only as good as the numbers that go into building it.

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Some hoteliers often make the mistake of biting off more than they can chew. While the amount of data available can be exciting, it’s important to include only what is going to truly make a forecast more accurate.

Beginners start by exporting Excel spreadsheets from their property management system. The first step is to look at historical data from a hotel’s own system that shows occupancy, rate and revenue figures from prior years. The further back a hotel has data, the more accurate a forecast will be. A hotel that has been open just one week will not have as good a base for a forecast as a hotel that has been open for a decade. Three years of historical data provides a great look at business and helps project a more accurate forecast, but even a year or two’s worth of data is helpful.

The most important data to include is booking date, rate code, arrival date, departure date and revenue by day. Once historical data is present in Excel, hoteliers can add, tweak or manipulate the data to make forecasts more accurate. The first numbers to incorporate are upcoming reservations that are already on the books. The more business on the books, the more accurate a demand forecast will be.

Market-level data, such as future flight demand, weather reports and geographical data, such as where guests are coming from, is yet another important source for more complex forecasts.
2. Segment your forecasts

When forecasting, it’s important to segment different parts of your business from the get go. Historical data should be extracted for both group and transient separately, as well as any business that is currently on the books for each. Build a forecast for both group and transient business and analyze them separately before overlapping them further down the line.

**Identify group business on the books first because that tends to be booked earlier, takes up large chunks of rooms and is often times more dependable.**

In forecasting both group and transient business, looking at prior-year booking pace can give you a good idea of what to expect and how much anticipated demand will actually materialize. New calendar events like conventions may lead a hotel to expect added group demand over prior years.

You can improve the accuracy of forecasts by taking length-of-stay into account. It’s important to measure demand by both arrival day and length-of-stay. Sophisticated managers will prepare multiple forecasts per reservation day based on predicting whether guests will be arriving for one or multiple nights.

If you can further segment your business into clearly defined groups that share booking behaviors, your forecasts will be more accurate and actionable. When possible, break down the transient segment into further subsets of customers and channels with similar behaviors. Do customers pay a similar price when booking through a collection of channels? Do they tend to book at around the same time in a booking window?

For example, customers shopping opaque online travel agencies may shop well in advance and be more price conscious than those booking directly. Forecasting them separately is the first step to yielding them independently of each other.
3. Monitor your hotel website

There are many more complex factors that can determine the accuracy of a forecast. One simplified way of determining the popularity of your hotel on a certain day is by monitoring your hotel’s website traffic.

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Tracking web-shopping behavior can get highly complex, but it can provide valuable insight on current and even future demand. It can shed light on how many people are visiting the website, which can help gauge the frequency of last-minute arrivals.

If you can track how many people are visiting the site versus how many are booking for future dates, you can see a much clearer picture of true demand. If you can see at what prices those customers are booking, and more importantly, when they are abandoning the site, you can gain incredible insight into the price sensitivity of those customers.

Getting an idea of how many potential guests are looking at your website is another dataset that can be worked into the forecast.

4. Monitor upcoming events calendar

The next influencer to take into consideration when forecasting is upcoming events near the hotel. The obvious events that will boost demand at your property are holidays, such as New Year’s Eve and Thanksgiving weekend. Map out the days of major sporting events in your area, as well as any local community events that will attract a crowd. Take note of the nearby
convention calendar and inquire about events that may draw a big business attendance. Concerts and nightclub activities may have certain nights that will attract more people than others.

The key here is to best understand how these events will affect your market and assign a number value to them. Use historical data to get a clearer picture of annual events; new events may be harder to predict. When looking at past events, pay attention to booking pace, or how far in advance guests typically booked their rooms, and chart the booking patterns. This will give you a more accurate picture of when to expect a surge in demand.

5. Get to know your competitors

Along with collecting and analyzing your hotel’s internal data, key insight for an accurate forecast can be gleaned from keeping a close eye on the competition.

Build a competitive set by identifying hotels nearby that are of similar size, operate in an equivalent segment and are priced comparably. Much can be gleaned about competitors’ demand by their pricing. There are many third parties that provide tools to analyze the room rates of a competitive set, but remember, it’s a street-corner business.

Looking deeper at competitors’ pricing across various channels, such as brand.com websites, OTAs and the global distribution systems, can give you a better picture of what kind of demand the competition is expecting.
While the Internet makes competitive analysis easier, building relationships with nearby hoteliers can also be extremely beneficial. Talk to the neighbors about demand patterns, but avoid discussions about pricing and rate strategy.

6. Partner with sales and marketing

Many hotels will have a marketing department or marketing manager to assist in promoting the hotel and advertising in the right places to boost demand. Although pricing responsibilities may fall in another department, it’s imperative the two work hand-in-hand.

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Sales, marketing and revenue management functions in hotels should integrate all of their customer acquisition strategies. When sales and marketing departments work in tandem with those pricing the hotel, the two departments can share data and other insights into future demand that can lead to a more accurate forecast.

And those forecasts can give visibility to marketers on periods of high demand versus low demand, and on what segments are coming each day, so promotions and specials can be used more tactically.

7. Understand the Impact of Discounting

Before acting on your forecast, it’s important to understand that it’s not going to be 100-percent accurate. Predicting the future is not that easy. So, in advance, you’ve got to prepare for events or shifts that may alter your forecast, whether slightly or by a wide margin.
One thing that might alter your forecast is a discount strategy, either by you or your competitors. For example, if your forecast shows an upcoming day with limited demand, a targeted promotion might boost business. But remember that rate will suffer. Work with the sales and marketing team to ensure promotions aren’t being run on high-demand days and help the team target days when there is little to no demand.

Short-term sales, such as a 24- or 48-hour sale, will often generate a good deal of business in a very short window. Use your forecast to determine if and when they are needed, and then adjust the forecast accordingly. Once the promotion is run, you might find you increased your base business to a level that allows you to increase rates.

8. Check Your Forecast After the Fact

There are many more numbers and data sets that can help with the accuracy of a hotel’s forecast. Some may become available as the day or week in question gets closer. Therefore, you need to continue to monitor and adjust your forecasts accordingly and in real time.

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Just as important as the actual forecasting is the evaluation of it after the fact. Testing is the only way to know the accuracy of your forecast and consistent errors must be addressed and
Most hotels do not calculate forecast error and many that do are calculating their forecast error by averaging the daily margin of error. For example, a hotel may forecast 100 rooms one day and end up with 80 filled, hence a negative (-) 20 margin of error. The next day the forecast may be for 100 again, and the result is 120, for a plus (+) 20 margin. If you average the two, the net error is zero, but the reality is both days are 20% off.

The further out you’re forecasting, the harder it gets. A margin of error that high for dates six months out wouldn’t necessarily be unexpected. There’s no right answer to what margin of error is acceptable. It all depends on the amount and quality of data available and most importantly the volatility of the data. The closer in dates obviously should and will have less margin of error than those six, eight and 10 months out.

There is another factor that confounds a forecast that is often overlooked. Even if the demand data is stable and robust, and the math is perfect, a forecast can be invalidated by changes in strategy by the management team or changes in the market that deviate from historical patterns.

For all these reasons, it’s is critical to continually check your forecasts so you can improve their accuracy. If forecasts aren’t as accurate as expected, there are a number of ways to go about fixing and retesting. Double-check the math, verify the data is correct and look for outliers that may be skewing the forecast.

**Conclusion**

Revenue management is evolving into a critical tool that no hotel can ignore. With the addition of multiple OTAs with various pricing and commission models, as well as a shrinking booking window, having an accurate demand forecast is the first step to better pricing and more profits.