The revenue management position did not exist in most hotels prior to 1990, and even today does not show up in many property organization charts. Nevertheless, as hotel business survival demands more sophisticated management techniques, the revenue management job continues to expand in duties and responsibilities. The most critical chore that has fallen to the modern revenue manager is forecasting. Although, it is the most important and time consuming function of the revenue manager, it is the least appreciated and understood of his or her duties.

Some call forecasting a “no win black hole” where you are charged with setting the forecast and then charged with beating it. Then, when you beat it you are asked why your forecast was low in the first place. Unfortunately, these chase your tail discussions take place all too often in hotel properties around the world. If this dysfunctional conversation sounds remotely like your hotel, then read on for some tips that may be useful to get out of the forecasting fog.

First of all, many properties do not have a proper definition of what the forecast should be. I have witnessed all of the following:

1. The lowest revenue figure that the property owner will accept without firing the management company.
2. A reasonable number that we are 100 percent certain we can exceed for the period.
3. Any number as long as it is at least .0001 percent above the same period last year.
4. The revenue number for the period that is required for the annual plan.
5. A revenue or occupancy number that is at least as high as the previous forecast for this period. In other words, never lower a forecast.

All of these are counterproductive because they reduce forecasting to a mind game, where everybody in the process knows what is happening, but they continue it because it’s difficult to change. It is like setting your watch ahead by 5 minutes so you won’t be late.

The best place to start to transform your forecast from a mind game into a strategic tool is to come up with a set of common definitions for all stakeholders including ownership groups and all levels of the management company. A good one might be: the forecast is the best current estimate of rate, revenue and occupancy for a future specific time period based on common assumptions, such as no change in the current rate strategies, booking pace and competitive marketing initiatives.

With this definition, it is easy for all parties to see that the forecast is loaded with uncertainty. Nonetheless, it is extremely important for the business to understand where the current strategies and competitive environment are leading. For example, it is essential to know if the property should be in a sales mode or an allocation mode of marketing. A sales mode is where all departments should be aggressively attempting to bring in business with all channels open and rate promotions at full speed. On the other hand, an allocation mode is where the property is doing well and will probably end up with full occupancy. Here, the property departments should be focusing only on high yield revenue sources, closing down some channels, and not be offering any rate discounts or promotions.

There are many forecasts needed for the economical and efficient running of a hotel, but they all need a point of departure that is provided by the primary forecast of occupancy, rate and revenue. For example, housekeeping needs to forecast rooms to be cleaned, sheets to be laundered, room attendants to bring in on a daily basis, etc. Similar forecasts are needed throughout all other departments. Finance needs to forecast the source and use of funds, F&B ordering needs a forecast of table covers, and sales needs a forecast of rooms available for group sales. All of these are secondary to the four primary forecasts that come from revenue management. These primary forecasts are the annual budget, the annual forecast, the annual outlook, the 30-60-90 day forecasts throughout the year. They all focus on occupancy, rate and revenue. As an important side note, although revPAR and revPAR index are essential measures of a hotel’s performance, they are not inputs to the forecasts.
and budgets. Rather they are outcomes of the process and actual performance.

**The annual budget:** This is prepared in early fall each year and provides the basis for all other planning. It is usually prepared once for the year and is etched in stone so to speak, so it represents the thinking at the time of preparation. Usually there are several iterations of this plan before it is set. The most useful iterations are the top-down approach (that looks at the overall market and seeks to set a plan on what should be able to be attained on a macro basis) and the bottom-up approach (where each department estimates what results it can achieve). There are pitfalls in each effort if top management seeks to achieve record profits and individual departments seek an easy to achieve budget to preserve their job security. The proper approach calls for top management to provide a set of assumptions related to competition, market position, the local economy and the major initiatives to improve next year’s result. This allows department to bake in some resources to achieve the budget. Although the budget is out of date the day after it is presented, it is an important document and should be used as a basis for understanding the mindset at the time of preparation if nothing more.

**The annual forecast:** Since very few assumptions remain intact from the time the budget is set until year end, an annual forecast should be done just once on December 31 to capture these updates and document where the thinking stood before any implementation plans were embarked. This forecast also provides a base line for future forecast updates throughout the year.

**The annual outlook:** Each month, as the year unfolds, requires an annual outlook forecast. This is a snapshot of what the year-end will look like based on current performance and future forecast estimate. It is prepared in the first few days of each month and represents the actual year-to-date performance through the previous whole month and the current forecast for the rest of the months of the year.

**The 30-60-90 day forecast:** Technically this is needed each week so that all the hotel strategies and operational efforts are on the same page and are consistent with what is in the near future. In some hotel markets, the 30-day and 60-day forecasts can be done weekly and the 90-day updated every two weeks to save time. The key use of this forecast is to set rate strategies for each day in the booking window and to allow tactical decisions at the department level.

**Recipe for success in forecasting:** Regardless of whether you are forecasting for the first time, continuing a legacy forecasting approach, or using an automated revenue management system, the rules for success are similar:

1. **Recent history.** If you have historical results, put them into your forecasting spreadsheet. If you have no history, then start immediately to keep daily records of occupancy, rate and revenue by segment. Try for a minimum of three years, but keep all the results so when periodic events like floods or the Olympic Games occur you have historical benchmarks. This provides a basis for day of week and seasonal profiles of your property.

2. **Use small bites.** Unless your customers are monolithic, do not forecast at the property level. Although it is more time consuming, you must usually forecast at the market segment and sub-segment levels so you know right where the business is coming from and can check for reasonableness.

Also, although you only forecast weekly, all your forecasts should be done by day because each day represents a new situation to optimize.

3. **Market reference.** As you move from the known (history) to the unknown (forecast) assess appropriate market data points like Smith Travel results and trends for your comp set and local market. Include an estimate of the actual impact these forces will have on percent changes in your occupancy, rate and revenues.

4. **Competition.** Assess new entrants, renovated properties and closures, and estimate their impact on your revenues.

5. **Booking pace.** Always keep your eye on your booking pace in each segment so you can adjust either your forecast or your marketing strategies.

6. **Channels.** Stay abreast of third-party channels and their sales opportunities. Even if you do not participate you need to know what your market place and competitors may do that will impact your results.

7. **Communicate.** Gain agreement on all assumptions and definitions. There is no such thing as a perfect forecast of an uncertain future. Just do the best estimate and move on so you have time for implementation.

8. **Sanity check.** Finally, when you are finished with your forecast, just before issuing it, perform a sanity check. Ask yourself if it would take a personal best or record breaking performance to achieve any of these numbers.

9. **Honesty.** Never try to make up for a revenue shortfall by trying to pick it up later in the year. This is a surefire way to turn a small mistake into a career ending event.

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