Forecasting Accuracy

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Forecasting Accuracy: Agenda

- Appreciate why forecasting accuracy is critical to success.

- Recognise the behavioural challenges to forecasting accuracy.

- Understand the key data sources that drive accurate and effective forecasts.

- Explore questions to ask to understand TORE (Total Revenue) and GOP forecasts.

- Consider the implications of the forecast and where and how to adjust the cost base effectively.

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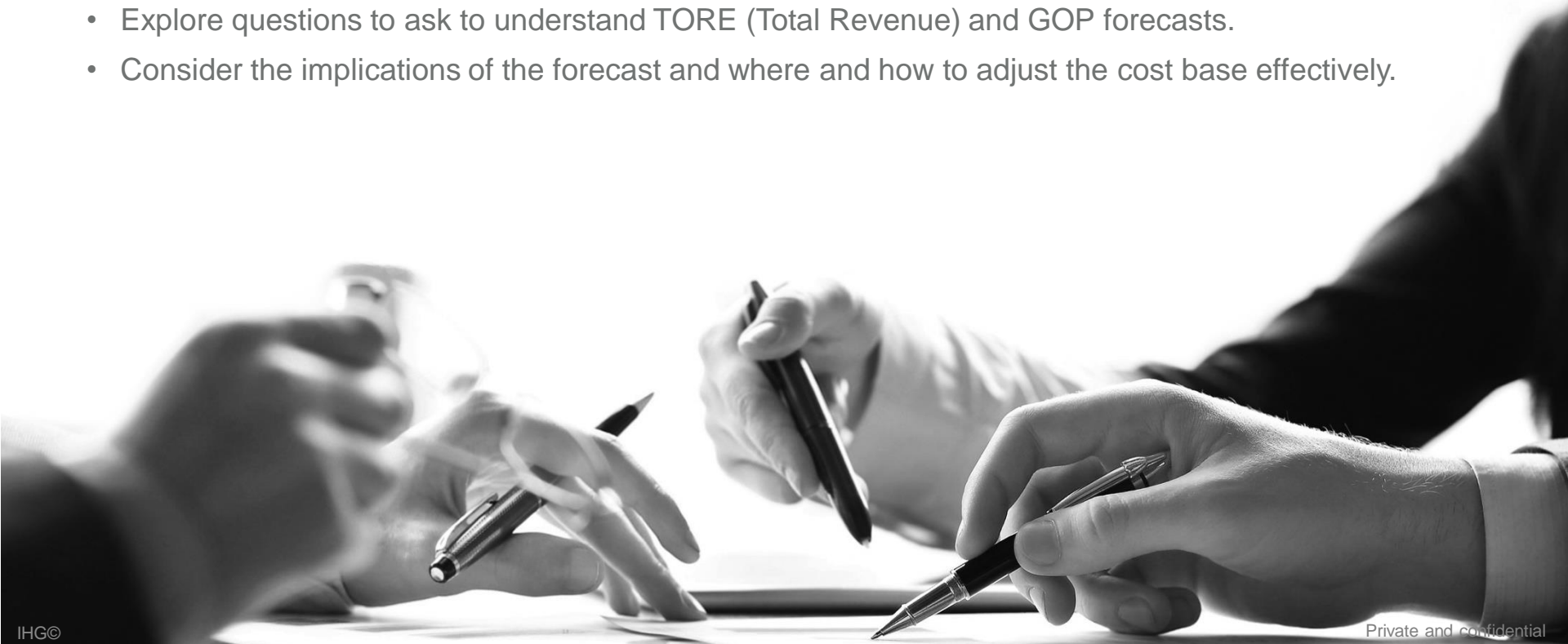
Forecasting Accuracy, what we heard...

> *There is an attitude in some camps that the Finance Director and Revenue Manager are responsible for the numbers – and the GM submits them. However, the GM has to know what to ask for, to question the numbers and stand behind them.* (AGM)

> *F&B expense management is still an issue. Need to look at the entirety of the F&B offer (not just restaurant) and identify where and why revenues are coming or not coming and/or why certain areas are not profitable.* (Asset Manager)

> *GMs need to work with their Heads of Department and have the confidence to challenge their revenue forecasts and question expenses.* (Asset Manager)

> *We need to manage better if we want to get accurate forecasts – you can't plan staff numbers or investments if you don't know what your business performance is, and will look like. GM has to put his name to the numbers.* (AGM)

> *Some GMs don't like to give bad news, so they don't flag early enough when market conditions, trends, unforeseen events might impact performance - but it's always better to pick up the phone and be honest.* (General Manager)

> *Accuracy of the forecast has been lacking in the past in my view. When we agree the budget, we expect a forecast that will deliver on it unless there are drastic market conditions or events.* (Owner)

> *We're good at TORE forecasts but not expenses and GOP. I'm not sure why. 80% of our costs are fixed so there is little variance. Forecasting is easier if you have an accurate view of your expenses.* (General Manager)

> *You have to have facts to back you up – owners may want more attractive forecasts to take to their bank and service a loan – but you have to show data points about why your forecast is solid. Also, you need great relationships with IHG area teams and experts to back you up.* (General Manager)

> *Sit with your Department Heads and say 'Talk to me about your P&L' – not the numbers but the story behind them, what they mean today, next month, next three months.* (General Manager)

> *You can predict anything you like on paper but if you can't deliver it, your owner won't trust you.* (General Manager)

Why Forecasting Accuracy is critical to success…

- Enables effective action planning – bad forecasting is a distraction.

- Helps you to resource effectively and align priorities as a team.

- Allows you to identify risks and opportunities early and plan strategies.

- Enables central support to focus on need areas (e.g. tactical campaigns).

- Helps us stay ahead of the competition.

- Enables hotel/owners to manage cash flow to meet financial obligations.

- Builds and establishes your reputation and credibility.

Effective tools and processes will help us forecast more accurately...

However, we still have some behavioural and relationship issues we need to acknowledge and address too...

Behavioral challenges to Effective Forecasting

Expectations of Owners or Leaders

Forecast for better alignment & focus.

Reducing forecasts during budget.

Tentative forecasting.

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What should we be doing and asking to make us more effective in forecasting TORE and GOP?

TORE Forecasting

Total Revenue (TORE) includes:

Rooms Revenue

F&B Revenues
(Restaurants and Bars + Conference and Banqueting)

Other Operated Departments
(OOD Revenue)

Miscellaneous Income
(Space rental income, Commissions, Cancellation fees)

Accuracy = ± 5% variance

TORE Forecasting – data sources

- On-the-books (OTB) for Rooms and Conference & Banqueting (C&B).

- Pace (Rooms and C&B).

- Trend analysis.

- Pick Up/Wash (Group Bookings).

- Meetings, Incentives, Conferences and Events (MICE) or C&B Conversions.

- Capture Ratios.

The Revenue Manager's role is...

- To analyse and present findings and recommendations to the Sales & Marketing, Front Office, F&B and Finance Teams Heads.

- So the hotel leadership team can agree:

  - Action plans to address revenue shortfalls in a key area.

  - Strategies to compensate for shortfalls in one area but growing revenues in other.

  - Communications to the hotel team and to the owner.

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TORE Forecast questions for Revenue Managers...

- Are we up or down on this year's OTB compared to the same time last year?

- Which segments are impacted positively or negatively compared to last year?

- Are there changes to lead times compared to last year?

- Is trending in line with last year, with budget and with expectations?

- What analysis and data is there to support the forecasts?

- What market risks and opportunities have been identified and how are they included/excluded in forecasts?

- How is our performance compared to local competitors (e.g. in RevPAR)?

- What competitor intelligence do we have that might impact our revenues (e.g. key marketing campaigns, events, future pricing etc.)

- What opportunities do we have from city/area events, coming up in the next 3-6 months, to maximise revenues?

Summarising and evaluating the session.

HOSPITALITY SALES & MARKETING ASSOCIATION INTERNATIONAL

Forecasting Accuracy: session summary

- Why forecasting accuracy is critical to success.

- Where forecasting accuracy has improved and where improvements are still needed.

- The behavioural challenges to forecasting accuracy and how to address them.

- Key data sources that drive accurate and effective revenue and expense forecasting.

- Questions to ask to understand the data and rationale that underpins TORE and GOP forecasts.

Thank you