



The Hotelier's Field Guide to Total Revenue Forecasting

Learn how to tackle the art and science of forecasting all hotel revenue streams

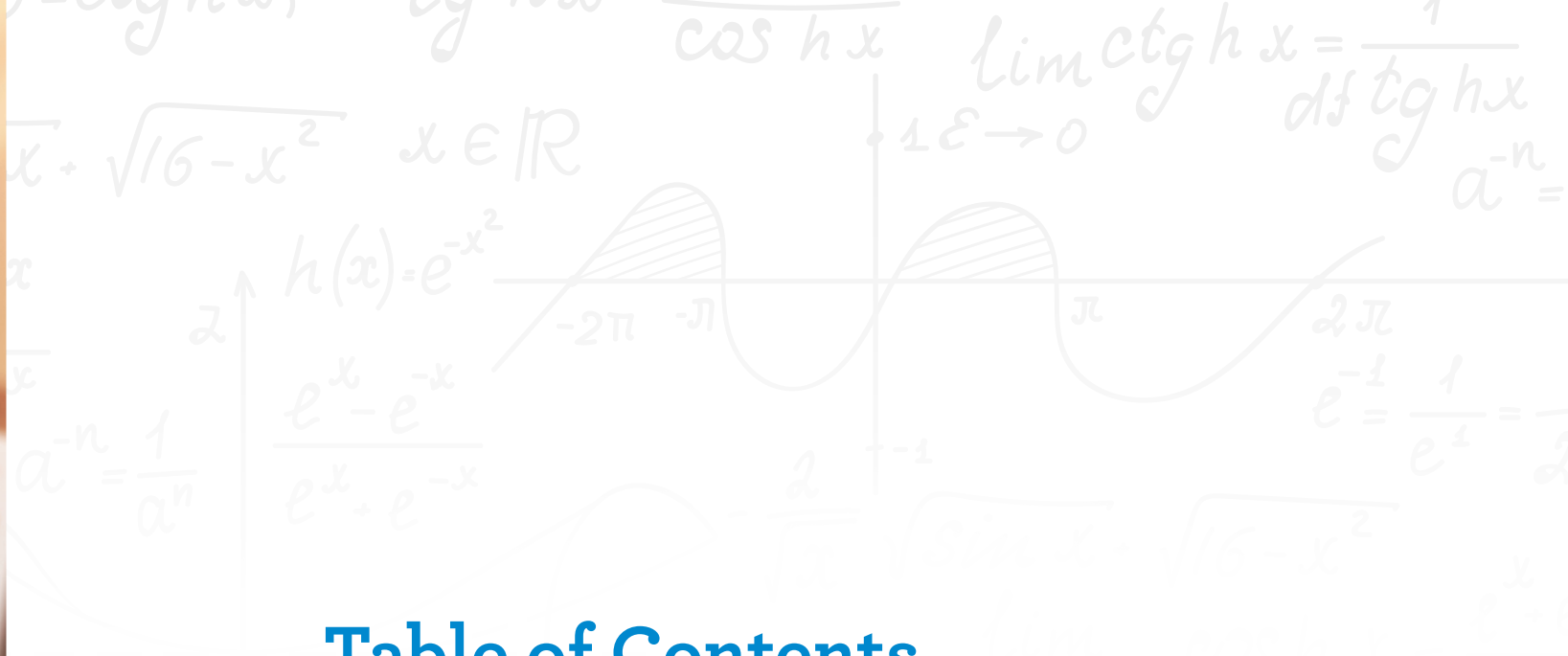
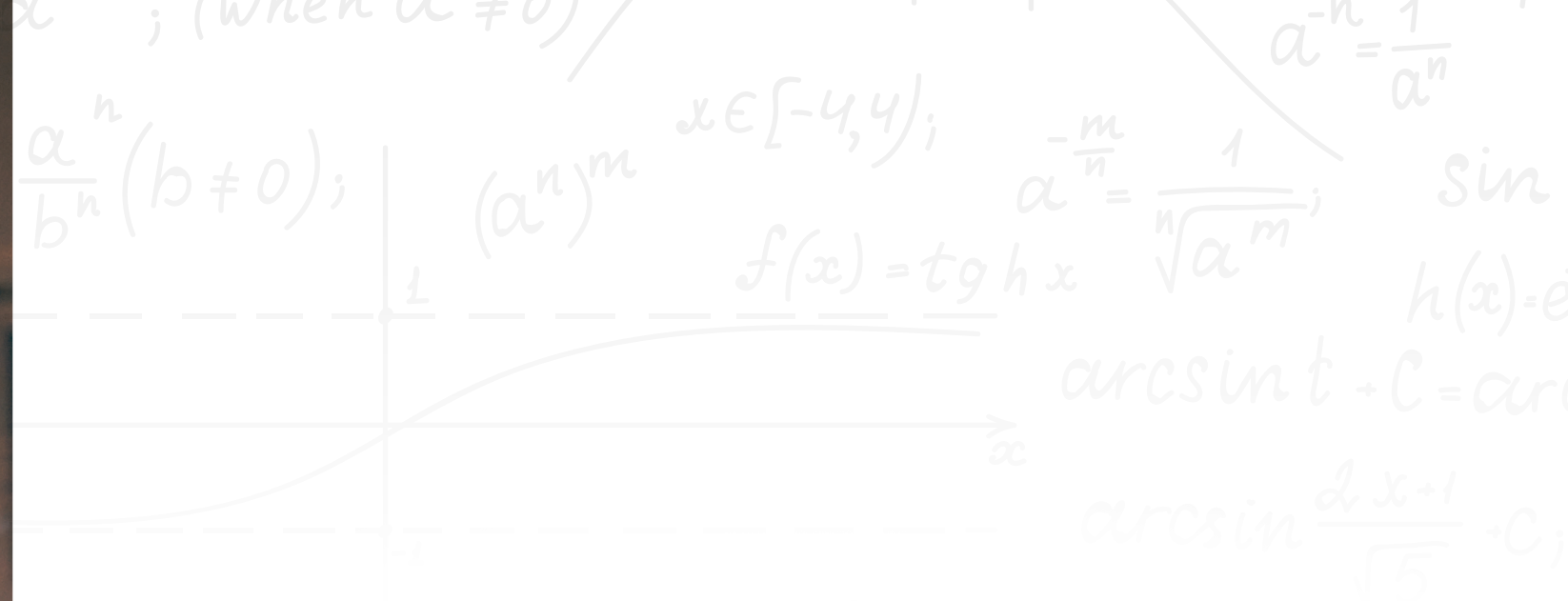


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Now Is the Time for Total Revenue Forecasting

For some time now, it's been conventional wisdom in the hotel industry that revenue management needs to move beyond rooms to encompass all revenue streams to achieve total revenue management. However, some forward-thinking hotels are leapfrogging total revenue management completely and setting their ambitious sights on **achieving profit optimization**.

And yet here we are after years of discussion and most hotels continue to spend the vast majority of time and resources managing rooms revenue. Why such little progress? Until recently, numerous obstacles have stood in the way. Today, however, with advances in revenue strategies, data and technology, hotels have never been better positioned to overcome the obstacles.

And the timing couldn't be better. In this era of economic uncertainty, hoteliers need to find creative new ways to drive smarter revenue and profitability. And a treasure trove of untapped opportunities awaits in food & beverage, meetings & events and other revenue streams.

Whether your organization has sights set on total revenue management or profit optimization, both **require visibility and forecasting for your entire business**. And by doing so, hoteliers can expect **profit increases of 2%** which AMR Research found in companies that improved their forecasting accuracy by 3%. In this guide, we'll show you how to lead your organization and take that next step along the path with total revenue forecasting, from aligning departments under common objectives, to leveraging new tools and data, to adopting new metrics for tracking performance.

Forecast for Profit

2%

Profit Increase in companies that improve forecasting accuracy by 3%

Source: AMR Research

Hospitality Hierarchy of Profitability Processes

Profit Optimization

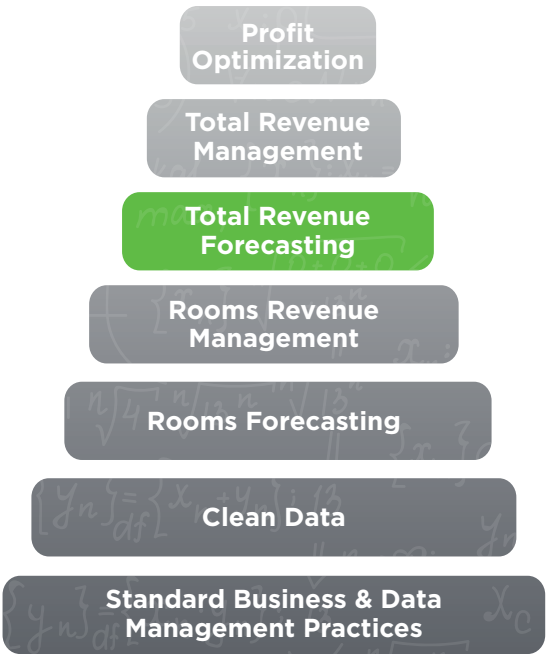
The process of capturing the most valuable business, considering the total profit contribution for each segment and room-type combination. This approach considers costs associated with acquiring and servicing each reservation and the profit of each revenue stream associated with the reservation or on-site spend.

Total Revenue Management

The process of applying revenue management principles and practices to all revenue streams and connecting them to optimize top-line revenues for the hotel.

Total Revenue Forecasting

The process of scientifically forecasting all revenue streams at a property, including guest rooms, food & beverage and connecting departmental performance to overall property performance.



Why Is Total Revenue Forecasting Important?

Shifting to a more holistic approach has intangible and tangible benefits for a hotel organization. As a simple example, what is more important when a hotel assesses a potential inquiry for a residential meeting: good RevPAR performance or good profit performance for the hotel? A property-wide approach to forecasting promises numerous benefits, including:

- **More revenue.** All too often, food & beverage and ancillary revenues are an afterthought. By taking a more holistic approach, hotels ensure that business decisions evaluate the impact on total revenue, not just rooms.
- **Reduced Costs, Increased Profitability.** Not all revenue is equally desirable or profitable. By utilizing sophisticated forecasting for the entire business, operations can more effectively manage labor, purchasing and utilities, three of the biggest cost drivers for a hotel. When revenue is up and costs are down, the benefits go straight to the bottom line.
- **Asset optimization.** Like guest rooms, function space, restaurant seating, food items, spa treatment rooms and even parking spaces are perishable inventory. Yet they often go empty or underutilized. Total revenue management optimizes all spaces within a hotel.
- **Better alignment.** A total revenue mindset requires managers to rise above departmental concerns and work together for the benefit of the entire property. As the saying goes, the whole is greater than the sum of its parts.
- **Increased asset value.** Better financial performance results in higher property valuations, more cash flow and more funds available for property upgrades, and that makes owners, operators and asset managers happy.
- **Improved portfolio performance.** By rolling out total revenue strategy across the portfolio, management companies can boast better performance, making it easier to sell franchises, secure management contracts and grow the brand.
- **A tangible next step.** Trying to achieve total revenue management or profit optimization all at once is a bit like attempting to eat an elephant in one bite. Incremental steps are the path forward, and for most organizations total revenue forecasting is a tangible and achievable next step.

Think Outside the Guest Room

Looking Up to the Airlines

Recognizing that travelers will pay extra for added comforts and conveniences, airlines have unbundled services and put a price tag on virtually everything. As a result, worldwide ancillary revenue reached an estimated \$109.5 billion in 2019, equal to 12.2 percent of total revenue and \$23.91 per passenger, according to IdeaWorksCompany. By conditioning travelers to expect to pay more than the base fare, airlines have paved the way for hotels to charge premiums for added services, amenities and conveniences.



Recognizing the Obstacles

Given the potential benefits, and the fact that total revenue forecasting has been a topic of discussion at industry conferences and in white papers for over a decade now, why have hotels made such little progress? Consider the following challenges:

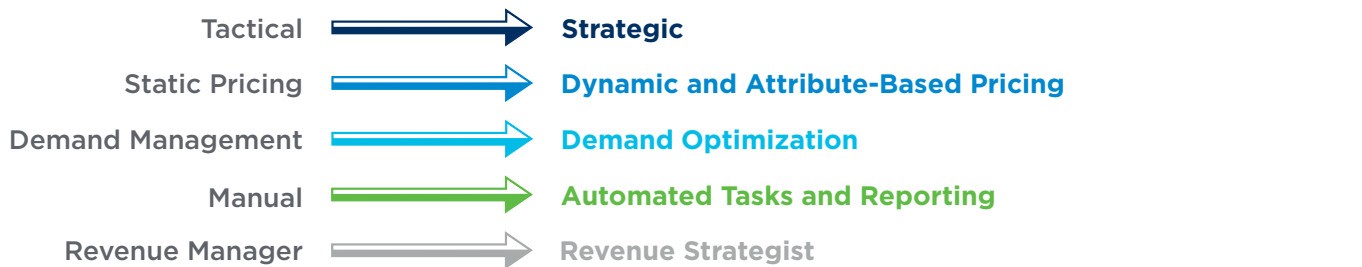
- **Rooms are more profitable.** For many hotels, rooms are the largest driver of revenue and profits, so it's only natural they command the most attention.
- **Data fragmentation.** Revenue data is dispersed across multiple sources, including the PMS, POS, RMS, CRM, accounting systems—the list goes on. For some hotels, data is aggregated and reported manually, making it an onerous process.
- **Data overload.** The volume of data available to hotels has increased exponentially in recent years. Making sense of rooms revenue data alone is challenging enough, and food & beverage can generate up to ten times more data.
- **Outdated technology.** More than 80 percent of hotels still don't have a revenue management system. Others have one, but it lacks the required functionality.
- **Old-school thinking.** Fear and distrust of technology and data is a common affliction in the hotel industry, especially among industry veterans who cling to old ways of doing things, valuing gut feelings and intuition over facts and data.
- **Departmental autonomy.** Department heads focus on managing costs and achieving revenue objectives in their department, often without considering the impact of their decisions on other departments and overall performance.

There's no question, the obstacles are real and can be daunting. But they are far from insurmountable. Hoteliers who allow such obstacles to interfere with progress risk being outsmarted and outperformed by competitors who are busy finding workarounds. Fortunately, advances in revenue management tools and practices can help.

The Evolution of Revenue Management

From its early beginnings in the hotel industry over three decades ago, revenue management has progressed in leaps and bounds. It has evolved from a relatively haphazard and misunderstood practice driven by gut feelings and guesstimation into a sophisticated and respected discipline driven by data, best practices and proven methods.

Along the way, the scope of revenue management has expanded in several key ways:



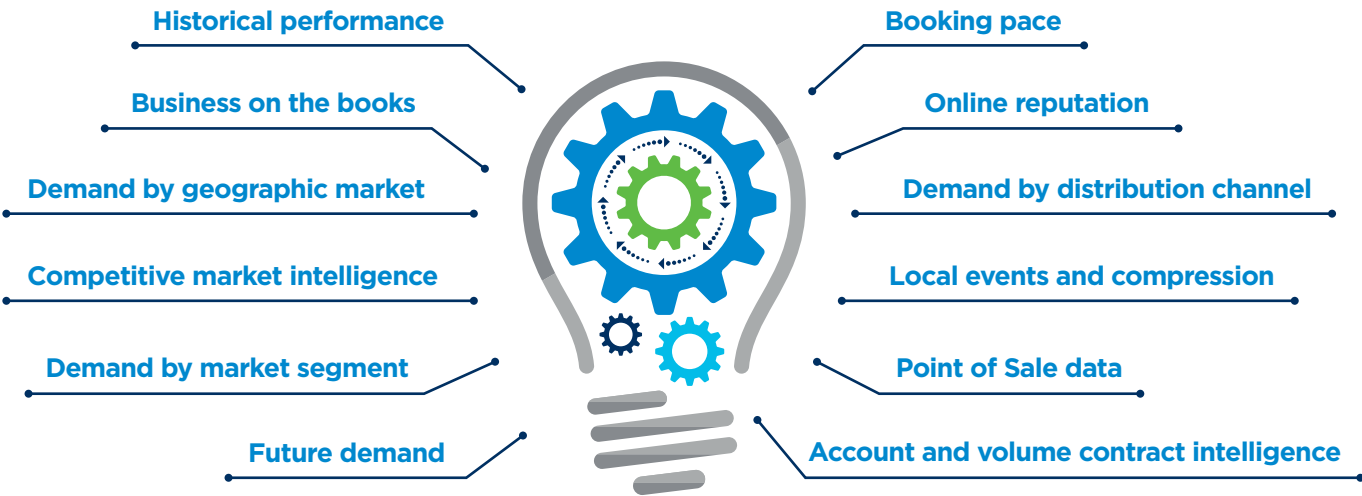
More recently, the shift from rooms revenue management to total revenue management has gained greater traction, but the transformation is still underway.

Today, revenue management is recognized as playing a vital role in a hotel’s financial success. The progress has been facilitated by advances in technology, improvements to data quantity and quality, and escalation of revenue managers within the hotel organization hierarchy

At IDeaS, we call it revenue science: the discipline of infusing sophisticated mathematics with industry expertise to transform data into accurate, automated and actionable revenue-enhancing decisions.

A Wealth of Data

More data points than ever are incorporated into revenue strategy these days, including:



This information guides decisions on pricing, inventory, distribution and operations. It also shapes sales and marketing strategy, helping staff determine which markets to pursue and which business opportunities to accept, decline or negotiate, whether it’s a new corporate account, a group booking or a wholesale agreement. Given what’s at stake, clean, reliable data and efficient data management tools are essential.

A Wealth of Knowledge

Through years of practice and experimentation, revenue managers have accumulated vast knowledge and skills. They know even slight changes to pricing can significantly impact demand and profitability, as can stay restrictions, inventory controls and channel management. And they know demand, price sensitivity and value perception can vary by market segment, room type and distribution channel, so each requires its own forecast and pricing strategy.

Today’s revenue managers also **factor costs into decision-making**, as costs can vary by segment and channel as well as by room type, guest type and other factors. In addition to costs of acquisition, there are also displacement costs to consider as well as the costs of servicing one type of business over another.

Furthermore, revenue managers also understand the importance of consistent, accurate forecasting for anticipating upturns and downturns in demand and developing strategies to drive incremental revenue, save costs and reduce risk.

Sharing the Wealth

Today, revenue management sits at a crossroads. When a hotel is falling short of budget or needs a bump in revenue, all eyes turn to the revenue manager. But revenue managers have only so many tricks up their sleeves. In the current economic climate, meeting expectations has become increasingly challenging.

One clear path to improved results can be found in total revenue forecasting. It’s already happening in many hotels, but only by applying the discipline systematically and holistically across the property can hotels expect to see substantial, long-term results.

The good news is that with so much progress in revenue science, hoteliers have never been readier to make the transition. The next steps involve bringing departments into alignment and leveraging new tools and metrics for harnessing data.



Aligning Your Teams

Perhaps the biggest opportunity in transitioning to total revenue forecasting lies in bringing diverse **departments together** to share knowledge, skills and data. While revenue managers are well-versed in collaborating with sales and marketing, securing the cooperation of other departments may be more challenging.

Typically, hotel departments operate relatively independently from one another, with different priorities, technology platforms, profit margins, demand patterns and performance metrics. And yet decisions in one department can directly impact other departments. For example, catering staff know all too well that if sales books a large group with no function-space needs, it may be difficult or impossible to sell that space. By the same token, if catering staff sell function space without a guest-room block, sales may lose lucrative groups that require meeting space over that period.

Such interdependence provides a key argument for cross-departmental collaboration. When departments align under the shared goals of identifying, attracting and capturing the most profitable business, there are more synergies and fewer conflicts. When data and market intelligence are shared across departments, the staff has a clearer idea of which business opportunities to pursue and when to negotiate or decline.

Assembling the Team

When the overarching objective is total revenue forecasting, the number of stakeholders expands beyond the usual revenue team. Depending on the property, stakeholders may include the director of food & beverage, head of catering & events, financial controller, general manager, and corporate office. When it comes to organizational change, incremental steps are best. So rather than bring every department together at once, start with one or two, and once there are successes, apply the takeaways to the other departments.

Strong leadership is also important because at times departmental interests will need to be set aside on behalf of the greater good. The general manager is ideally positioned to take the leadership role but may be too busy to participate in day-to-day decision-making. This responsibility should fall to the revenue manager given their expertise in pricing and demand management. In any scenario, the support of senior management, ownership and corporate office is integral to success.

5 Key Steps – Laying the Foundation for Total Revenue Forecasting

Whether your property is well along the path to revenue forecasting or still in the early stages, laying a solid foundation on which to build involves five key steps.

- 1

Educate stakeholders on the importance of total revenue forecasting, expectations and responsibilities. Provide training and support as needed.
- 2

Apply revenue management strategies and practices , like demand forecasting and yielding, to every applicable department.
- 3

Set up a system and procedures to guide business decisions that generate maximum revenue and profitability for the entire hotel.
- 4

Adopt a total revenue management mindset in everyday decision-making, planning, meetings and performance reviews.
- 5

Implement systems, tools and metrics for tracking, reporting and forecasting revenue at the department and property levels.

Total Revenue Forecasting by Department

When implementing total revenue forecasting practices, each department will face its own unique challenges and opportunities. Here are a few things to keep in mind:

Revenue Management

More than anyone, revenue managers are uniquely positioned to drive the transition to total revenue forecasting. In addition to sharing data and expertise with other departments to help them optimize revenue, revenue managers can incorporate total revenue strategy into pricing decisions, promotions, packages, fees, restrictions and forecasts. At the same time, find creative ways to drive incremental rooms revenue through new and ongoing initiatives like cancellation fees, refundable rates, early check-in/late departure fees, day-use rooms and upsells.

Marketing

The goal of maximizing total revenue should guide marketing campaigns, promotional messaging and packaging. Marketers should take advantage of the wealth of data available on traveler preferences and behavior, combining it with revenue data to create targeted, personalized campaigns that drive spending across the property.

Mine guest profile data to identify those who have the greatest value to the hotel. Go beyond room spend to understand their total value through purchases of food & beverage, and ancillary items like spa, golf and retail. Find creative ways to entice them back, attract more travelers like them and increase total spend.

Sales

Sales prospecting, proposals and contract negotiations should be geared toward maximizing total revenue rather than simply filling guest rooms. To help expedite the transition, provide guidelines, training and incentives.

Groups provide a vital base on which to build more profitable business, and the benefits aren't limited to guest rooms. Whether it's group bookings, corporate agreements or wholesale contracts, the goal should be to better optimize spaces throughout the hotel, including meeting rooms, food & beverage and ancillary revenue. At the same time, be careful not to lose sight of what will presumably remain the chief breadwinner: rooms.

When putting together proposals and negotiating agreements for accounts, consider the costs of displacement and look for opportunities to boost ancillary revenues. For example, when clients request lower room rates, make a habit of suggesting alternative dates or asking for concessions in return such as an additional group breakfast or cocktail reception. In addition, when it comes to evaluating corporate business, each hotel organization should be able to quickly determine which accounts are most valuable today and which provide the greatest potential for growth in the future.

Labor Is **Costly**

52%

Labor accounts for 52 percent of Food & Beverage expenses at hotels.

Source: CBRE Hotels' Americas Research

Food & Beverage

Much more varied and complex than rooms, the food & beverage department may comprise restaurants, cafés, bars, meetings & events, in-room dining, minibar and more. To add even greater complexity to the puzzle, some outlets may be operated by third parties and others may share revenue and expenditures with other departments. Yet food & beverage is also the area of greatest opportunity, representing 50 percent or more of total revenue in some hotels.

As with other departments, food & beverage can greatly benefit from revenue management strategies normally applied to rooms. This includes demand pricing, menu engineering and precise forecasting to identify promotional needs and find opportunities to reduce labor expenses, costs of goods sold, and spoilage. Leverage rooms demand by bundling breakfast, drinks and other food & beverage items with rooms while also reducing dependency on rooms by further developing local business.

Meetings & Events

Meetings & events is another area of significant potential—not only in food & beverage revenue but also in room rental fees, audio/visual, equipment rentals, decoration, labor and professional services. When function rooms sit empty, opportunities are lost. Function space rental fees in particular can be highly profitable, yet often they're the first concessions in group negotiations.

Revenue managers should work closely with catering staff to implement forecasting methodology, demand-based pricing and stricter cut-off dates, minimum spend and length-of-stay requirements when demand is high. With better forecasting and reporting, managers will know when to turn away business and hold out for more lucrative opportunities, when to be flexible, and when to focus on sourcing local events.

Spa, Retail & Other Revenue

Revenue from spa services, retail outlets, Wi-Fi fees, recreation, parking and other services may seem minor relative to other sources, but over the course of the year they can add up, making substantial contributions to revenue and profitability. Resort fees, while not suited for every property, can be an effective way to bundle services and drive incremental revenue. Explore every potential revenue source, leaving no stone unturned.

Total Revenue Forecasting Fundamentals

By providing day-by-day projections of anticipated revenue performance, forecasts indicate if a hotel is on track to meet budget, ahead of the game or falling behind.

Marketing, sales, and revenue management rely on accurate, consistent forecasting to identify promotional needs, plan campaigns and guide pricing and inventory decisions. Operations uses forecasts to anticipate business flows, manage resources and control costs. And management companies and owners use forecasts to anticipate profits and guide planning, purchasing and investment decisions.

And yet today’s forecasting largely remains a rooms-focused exercise. When forecasting is done in food & beverage and other departments, it tends to be a basic and imprecise process—often a matter of taking last year’s actuals or this year’s budget then adding (or subtracting) a few percentage points.

As a result, hotels miss out on opportunities to improve planning, save costs and drive incremental revenue across the property. To truly optimize revenue and profits, hotels need to apply forecasting methods to all revenue streams.

Three Types of Forecasts

To gain the full picture of future property performance, three forecasts are needed:

1. The **demand forecast** projects unconstrained rooms demand—the total rooms that could be sold without capacity constraints or restrictions. It is the foundation on which pricing and inventory decisions are made.
2. The **operational forecast** projects check-ins, check-outs, stay-throughs, guests and non-residents in all business units based on constrained demand or maximum capacity. It is utilized for staffing, purchasing and budgeting.
3. The **financial forecast** combines revenue projections with projected expenditures, providing a snapshot of profitability for the entire property.

Total Revenue Forecasting Checklist

-  Apply unconstrained-demand thinking to all revenue streams and know the associated costs where possible. If capacity were unlimited, how much revenue could you generate in each department? Use the insights to guide pricing and inventory strategy.
-  Data hygiene is a prerequisite for total revenue forecasting. Use standard formats and definitions for important data points like market segments, source and channel codes to facilitate the aggregation of data from all business units.
-  Within each department, break down revenue using outlet-specific data points such as meal period, covers, resident vs. non-resident revenue and costs (where possible).
-  Identify opportunities to yield more aggressively in times of high demand and manage costs more effectively and efficiently in times of low demand.
-  Look for areas to save costs in all departments, paying special attention to labor, the largest single operating expense, in addition to equipment, supplies, marketing spends and food wasteage.
-  For groups and events, use standard definitions for status levels and strive to accurately predict pickup, attrition, cost of acquisition and lost business.
-  Provide outlet managers with the training, data and tools they need to produce timely, accurate forecasts.
-  Organize corporate and wholesale business information by ensuring company profiles are complete, duplicates are removed, and reservations have a company profile attached.
-  Update forecasts monthly, bearing in mind that the closer the date, the more accurate forecasting tends to be.
-  Regularly compare previous forecasts with actuals, adjusting tactics as needed to improve accuracy.



Leveraging Tools & Data

Revenue management wouldn't have come so far so fast without major advances in technology. New features and functionalities in revenue management systems, forecasting tools, booking engines and channel managers enable hoteliers to harness the data critical to making smart revenue decisions. And yet many properties are held back by outdated technology, data fragmentation across multiple systems and lack of integration.

To transition to total revenue forecasting, hotels need tools that facilitate data collection, analysis and reporting. With the right tools in place, hoteliers can plan for various business scenarios and adapt quickly to changes in market conditions.

When choosing revenue tools, look for the following capabilities:

- ▶ A central solution connecting all major systems and data sources, including the PMS, sales & catering, outlet point-of-sales and finance.
- ▶ Automated data collection, consolidation and reporting, with the ability to manage and forecast revenue in all business units by day, week, month and year.
- ▶ The ability to turn large data sets into actionable intelligence and make strategic revenue decisions in rooms, food & beverage, events and other business units.
- ▶ Advanced food & beverage reporting capabilities, including the ability to track and forecast revenue by outlet, meal, covers, average check, resident vs. non-resident, function type and other important data points.
- ▶ Tools for tracking group bookings by market segment, status and cut-off date and for analyzing lost business, cost of acquisition, ancillary profits and displacement.
- ▶ Notifications to alert staff of changes in demand, group status, pickup levels and other scenarios that require quick action to replace lost business.
- ▶ Ease and speed in which a team can re-forecast is mission critical during those dynamic periods of uncertainty.
- ▶ Artificial intelligence and machine learning capabilities to automatically improve recommendations over time and anticipate and adapt to market changes.
- ▶ Key performance indicator (KPI) tracking and reporting to assess the success of strategy and tactics, and accuracy of budgets and forecasts.
- ▶ Tools to streamline budgeting, forecasting and reporting at the enterprise level and track performance by region, property type, brand and other variables.



Moving Beyond Rooms-Only Performance Metrics

The final element of a total revenue strategy is to adopt more representative performance metrics. Critical to transformation in any organization is the ability to establish clear, measurable objectives and metrics for evaluating performance over time.

While average daily rate, occupancy and RevPAR remain vital performance metrics, they present only part of the picture. To make meaningful advances toward total revenue management, hotels need to adopt more inclusive metrics for tracking revenue and profitability.

Here are a few examples:



Rooms

- ▶ Total Revenue Per Available Room (TRevPAR)
- ▶ Gross Operating Profit Per Available Room (GOPPAR)
- ▶ Customer Acquisition Cost (CAC)
- ▶ Customer Lifetime Value (CLV)



Food & Beverage Outlets

- ▶ Revenue Per Available Seat Hour (RevPASH)
- ▶ Profit Per Available Seat Hour (ProPASH)
- ▶ Residential vs. Non-residential Revenue



Function Space

- ▶ Revenue Per Available Square Foot/Meter (RevPAF/M)
- ▶ Revenue Per Attendee (RevPA)
- ▶ Attendee Density
- ▶ Inquiry Conversion Performance



Spa

- ▶ Revenue Per Available Treatment Hour (RevPATH)



Recognition & Rewards

Nothing accelerates change quite like bonuses and incentive plans. To motivate staff to support initiatives, hotels should include departmental and property wide KPIs in bonus plans and performance reviews. With shared targets, managers will have built-in incentives to collaborate with other departments.

As total revenue becomes more integrated into daily operations and culture, sharing results and recognizing achievements will become a natural part of management meetings, strategic planning, coaching and performance reviews.

Asking the Right Questions

In addition to the usual criteria, hoteliers need to get into the habit of assessing total revenue and profitability when qualifying business. For example:

- ▶ If we don't take this group, how likely are we to replace it with more profitable business?
- ▶ Will meetings or meals be held off-site or on-site? And, how would this impact staffing and supply planning?
- ▶ How would pick-up be affected if we adjusted marketing spend?
- ▶ How much ancillary revenue is the group estimated to generate?
- ▶ How can we increase the total guest's spend on-site?
- ▶ Will the group positively or negatively impact our usual operating costs?
- ▶ Are there cost savings and revenue generation opportunities across our portfolio of properties?
- ▶ If dates are flexible, what alternatives and incentives should we propose?

Let's Do This

With so many moving parts, pulling together all the elements of total revenue forecasting may seem overwhelming at first. Don't feel obliged to implement everything at once. Take one step at a time.

If you're in the early stages, start by calling a meeting with your revenue team. Discuss your ideas and ask for their input. Then develop an action plan. Share the plan with key stakeholders and get their buy-in. And then it's time to start rolling out the plan.

Regardless of where you may be in the process, never lose sight of your two main objectives:

1. Apply revenue management practices across the property to improve performance in every department.
2. Make decisions that maximize total revenue and profitability for the hotel.

Set the process into motion today, and the next time the topics of total revenue management or profit optimization are raised at a conference, you won't be just talking about it anymore, you'll be well along the path to success and reaping the many benefits.

Check out our other resources:

- ▶ F&B Forecasting – The Missing Piece of the Revenue Pie
- ▶ Total Revenue Forecasting – Sunny with a Chance of Profits
- ▶ Hotels Strive to Get Savvier About Forecasting Total Revenue
- ▶ Revenue Management for Meetings & Events: Measure, Monitor, Improve
- ▶ Introducing IDeaS RevPlan – Science-Based Total Revenue Forecasting



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