Forecasting Accuracy: The Living Forecast

By Jill Wilder

Forward-looking, continuously updated statistical trend analysis is emerging as a strategic tool that performs the practical magic of creating an accurate forecast you can take to the bank.

Accurate forecasting is the foundation of a meaningful budget. An accurate plan influences committed expense funds for the future and shows where it will come from. Without a reliable forecast, a hotel operator is managing his or her business in the dark.

The hospitality industry is expanding rapidly. Hotel companies break ground on new build projects every week. Many operators are renovating older properties and reopening them as new brands from Marriott, Hilton, IHG and others. Investor capital is driving this expansion and investors demand a return. How do management companies deliver this return? Profitability.

The Best Way To Predict Your Future is to Create It

Hotel companies today can access an ocean of data that will help them create their financial future. The right technology and processes enable operators to improve their properties' profitability through more effective management without a crystal ball. Forward-looking, continuously updated statistical trend analysis is emerging as a strategic tool that performs the practical magic of creating an accurate forecast you can take to the bank.

When a property has a living performance-based forecast for the coming period it can adjust

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rates and marketing to meet revenue requirements. By refining rates and offering promotions an operator can increase occupancy and overall revenue for a better finish to the period and fiscal year.

A Forecast Starts With a Budget

A budget is usually frozen and does not change once it is approved. A forecast starts with a budget and is updated frequently. Operators plan for the upcoming months and following year using the financial facts they have now. Accuracy is the goal. Hotel operators want to look at 'actual against forecast' to gauge how their year-end performance will be affected. Seeing their pace next to the previous year's performance is key.

Look Backward To See Forward

Every corporate financial manager knows the challenge of providing accurate forecasts. Hotel company operations are based on hundreds of revenue, expense and operational metrics that change daily. A single storm, city convention or economic upheaval can throw off the most carefully calculated forecast. Driver-based forecasting improves accuracy. Drivers can be based upon previous performance, hotel standards or other operating areas. For example, a specific market segment can increase by 5 percent over the previous year; cleaning supplies can be measured as a standard cost per occupied room; or housekeeper hours can be related to the number of occupied rooms. By creating these relationships, a minimal amount of adjusting or calculating is required by the general manager or controller when business changes and the forecast needs to be updated.

Accurate, continuously updated forecasts are essential to optimize operations for owner profitability. Concord Hospitality uses its forecasting system to generate business drivers to develop an operations roadmap. "A driver is a specific measurement we create in our forecasting system, such as percentage of revenue from a market segment or the number of housekeeping hours per room," said Concord CIO Brian Cornell. "For example, we use the cost of per-occupied-room expenses as a driver. Our system automatically applies the updated topline forecast against the driver's actual expenses. The system self-maintains the strategy we establish and reports daily. This enables us to manage a property effectively to plan. Our ability to forecast is much better and our crystal ball is much larger. We see further out more accurately."

Experienced financial managers offer five points on how incorporating daily data creates a living forecast that is more accurate:

1. The trend is your friend.

Hotel companies can improve future profitability based on past performance and on-the-books data. As revenue and expenses go up or down daily, a strong system's forecast may be automatically updated to reveal factors behind the shift. The system automates the laborious process of reforecasting frequently. The result is better expense management based on actionable trend data that reduces risk — "the trend is your friend."

2. Driver-based analysis pinpoints solutions.

Financial forecasts traditionally focus on revenue. A comprehensive system should provide forecasts based on all the factors that affect property profitability, such as labor, utilities and equipment. Financial managers can analyze specific expenses as a percentage of revenue and make positive budgetary adjustments to factors with the biggest impact on profitability.

3. "What if" simulations measure alternative outcomes.

When management has a strong budget and forecasting system with the flexibility to alter specific data, it can run "what if" simulations to evaluate how those changes affect profitability. If housekeeping costs exceed budget, a manager can easily analyze the impact of using cheaper cleaning supplies or adjusting the work schedule.

4. Accurate data supports performance-based incentives.

Daily performance snapshots provide operators with updated forecast data for performance-based management incentives. General managers can see which factors affected their forecast for greater forecasting accuracy in the future.

5. One version of the truth.

A comprehensive, networked forecasting system will automatically link property managers and stakeholders to their budgets and forecasts. "Our property managers see the same data that I do. There is one version of the truth," explains one vice president of finance. "We look at the same three columns: historical data, budget and forecast. Each hotel is unique with its own management style, market factors and utility costs, and we show our properties side by side. I may discuss best practices or offer guidance on a GM's forecast to help him or her stay in budget. It helps our managers see how they are doing alongside their peers. Comparing our *living* plan improves forecasting accuracy and overall profitability." ✷