

6

Forecasting

- Why bother?
- What is it?
- Forecasting new products
- Budgets
- Strategic planning
- Forecasting cash



Introduction

Within every business there's a need to plan ahead. If we didn't then there's a likelihood of not having enough food to cook, not enough staff to serve or lots of empty rooms. You could also have too many staff, or too much food, which would lead to wastage and unnecessary expense.

Forecasting is a simple technique that lets any manager plan for the more efficient working of their area, and use of resources. Generally forecasting means to 'look ahead' but in hospitality we use it to mean planning on a short-term basis – that is: tomorrow, next week, next month. The term 'budget' is used to mean a formal, detailed plan for the next financial year and a 'strategic plan' is used for long-term (around five years) planning. We will look at these two briefly towards the end of this chapter but the main purpose is to look at forecasting and to see the effect of not planning ahead from both customer service and financial aspects. We'll also look at predicting cash flows, which helps the business manage their working capital.

By the end of this chapter, therefore, you will be able to:

- Understand the importance of forecasting to the business
- Calculate profits from forecasted volumes
- Differentiate between budgeting and strategic planning
- Calculate a cash forecast.

Why bother?

First of all let us consider the impact of *not* forecasting how many rooms in your guesthouse you will sell next Saturday night.

If you don't know how many guests you'll have:

- You won't be able to sell the empty rooms (losing revenue)
- You won't know how many sausages, or how much bread to order
- You won't know how many clean sheets and towels you will need
- You won't know how many staff to call in on Sunday morning to serve breakfast and clean the rooms.

Of course, you could order the same as you always do but that might cause wastage of food and have your staff standing around doing nothing – or run out of food and have the staff unhappy because they're overworked (and also unhappy customers who might not return).

Here's another example. If you run a theme park and don't forecast visitors for a Wednesday in autumn, term time, you could keep all your outlets open, resulting in:

- Over-staffing
- Wasting food that doesn't get purchased and wasting electricity
- Upsetting customers because the food looks stale and the staff look unmotivated
- A loss of money as a result.

For cost sector and other types of catering (such as in hospitals and inflight catering) forecasting can be even more important as margins are so tight – if they don't forecast accurately there could be wastage which could mean the difference between break-even and a loss situation. So you can see that whatever the size and type of operation, planning is important for everybody – and not just to save money.

What is forecasting?

Forecasting is usually a short-term prediction of levels of trade, and so is more accurate than a budget that was probably prepared months ago. It's often more realistic – what we are likely to do rather than what we hope might happen. The approach tends to be more simple than a budget and may just be a prediction of volume (rooms, covers, visitors) to assist with staffing and ordering, or to identify gaps where an extra push on sales is required. So, a forecast allows planning of:

- Selling strategy
- Staffing (ratio of fixed headcount and casuals, or using up of holidays)
- Maximisation of occupancy and rate
- Open/closure policy for outlets
- Purchasing and storage (particularly perishable products)
- Cash flow.

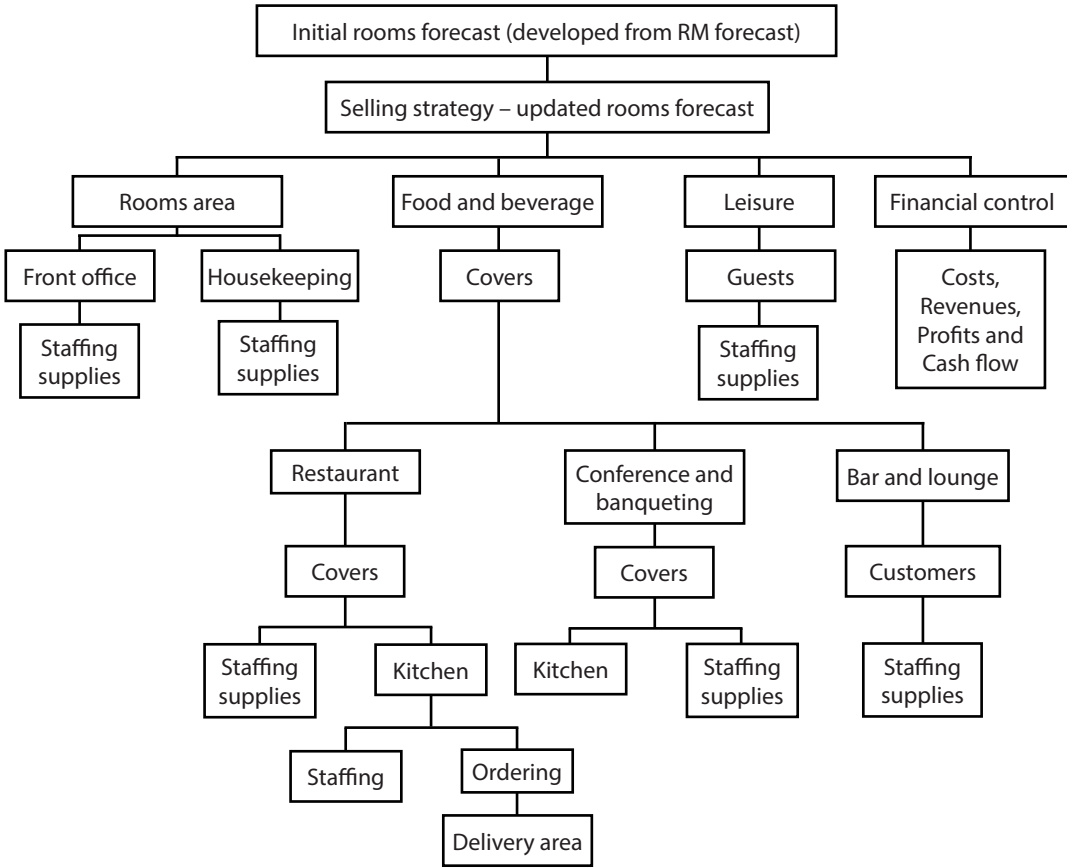
How it works

Let's look at the process for forecasting a leisure hotel – see Figure 6.1:

The forecast starts with the revenue management system which forecasts the rooms sold, and hence the sleepers (customers).

Rooms and sleepers information goes to:

- Reception and porters – for staffing levels at check in/out
- Housekeeping – for cleaning rooms and linen stocks

Figure 6.1: Forecast flow chart for a leisure hotel (the most complex type of structure).

- Leisure (do they need golf lessons, spa appointments?)
- Food and beverage
- Restaurants – for breakfast, lunch, dinner covers – and sales mix (and then to kitchen)
- Bars
- Conference and banqueting
- Purchasing.

All these areas need to schedule staff, order goods, plan cleaning and set-up, and so on.

Lastly, all this information goes to:

- Financial control – for planning cash flows and profit forecasts

Other sectors are, in theory, not so complex but may well be more difficult in practice. In hospitals, for instance, most of the cleaning is routine so