



Operations Management in Hospitality

Assignment 9

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The Demand Forecasting in Hospitality management

The field of demand forecasting is important in the hospitality business where companies are operating in a perishable and competitive environment. The hotels, resorts and any hospitality organization has to expect customer demand and make correct decisions regarding pricing, promotions and utilization of capacity. Promotional planning and yield management constitute two major areas of application of demand forecasting. Demand forecasting can enable hospitality managers to maximise revenue through the analysis of historical data, trends in the market and the behavior of the customers so as to meet their expectations.

Hospitality Demand Forecasting and Promotional planning

Hospitality promotional planning entails the formulation of offers, discounts, and marketing promotions in order to entice customers in certain seasons. Demand forecasting can be used to a significant extent in enhancing this process as it is a way of enabling managers to know when demand would be high or low. Rather than basing forecasting on intuition or past behavior, forecasting offers information relied on facts that will guide a better promotion decision.

Demand forecasting has one of the greatest advantages in the fact that it allows them to know when there is low demand. As an illustration, hotels tend to have a low occupancy rate during weekdays, during off-season months or after some major events. Predicting enables the managers to anticipate these lean seasons ahead of time and design specific promotion to attract customers like, discounted rates, packages or loyalty packages to spur demand. This makes sure that promotions are made in a strategic manner as opposed to being provided in a haphazard manner at a time that is naturally experiencing a high demand.

Demand forecasting is also useful in ensuring that hospitality businesses do not over-discount. Providing promotions without knowing future demand will lead to hotels losing the revenue trying to sell the rooms at a lower price since the guests would have made a booking. Proper predictions enable the managers to know whether a promotion is necessary or not, and the level to which the prices ought to be lowered. It will result in the improved management of marketing budgets and a brand perception safety.

Also, forecasting assists in segmentation of a market in promotion planning. Hospitality managers can use the pattern of booking, the demographics of the customers and the behavior of traveling customers to create promotion packages that attract particular group of customers like business travelers, families or foreign tourists. As an example, when the projections show that there is more leisure travel during school holidays, hotels do not need to advertise generic discounts but they can advertise family friendly packages. This will be a focus strategy that will enhance the efficiency of the promotions and customer satisfaction. All in all, the use of demand forecasting enhances promotional planning in the sense that the marketing activities are well established, topical, and consistent with the anticipated demand trends. This leads to increase in occupancy, improved utilization of resources, and also enhanced profitability.

Demand Forecasting and Yield Management Decision

Revenue management or yield management is concerned with how to sell the right product to the right customer at the right time at the right price. Demand forecasting is a key aspect of effective yield management in the hospitality industry where unsold rooms cannot be stored so that they can be sold in future.

Demand forecasting helps managers to make decisions related to pricing in the future since it assists in predicting the level of booking in the future. With projections of high demand, the hotels can raise the room rates to get maximum revenue since the guests are ready to pay more during the peak seasons. On the contrary, when the scale of anticipated demand is low, the managers are able to lower the prices or to make value added offers to access booking. The pricing decisions will not be strategic but reactive without proper forecasting.

Forecasting is also useful in capacity management which is a fundamental component of yield management. Hotels have to choose the number of rooms to assign to each distribution channel or the online travel agency (OTA), direct, or corporate bookings. Demand forecasts aid the managers in determining the demand of every channel and stocking the inventory. To illustrate one of these, should direct bookings be anticipated to rise, hotels can restrict their availability on OTAs to reduce the cost of commission and enhance profit margins.

Overbooking control is another significant contribution of the demand forecasting to the yield management. Due to the high rate of cancellations and no-shows in the hospitality industry, hotels typically overbook their rooms to guarantee the maximum occupancy rate. With correct demand forecasts, managers can make predictions on the level of cancellations and safe overbooking. This will reduce the chances of under-utilization of rooms and will not result in the dissatisfaction of the guests due to overbooking.

Moreover, long-range strategic planning is made possible through demand forecasting. Determining the trends in demand with time help hospitality organizations to make sound decisions regarding staffing, renovations and services provided. As an example, regular growth in demand at specific times of the year can be a reason to invest in new facilities or experience upgrade.

To conclude, demand forecasting forms the basis of yield management since it allows proactive pricing, effective inventory management and improved capacity utilization. This results in the maximization of revenue performance with excellent service delivery.

Conclusion

Demand forecasting is an important instrument in hospitality management especially in promotional management and yield management. This means that through proper forecasting of the future demand, the hospitality businesses can be able to plan good promotions, prevent useless discounts, and reach the right segments of customers. Meanwhile, forecasting assists in the management of yields as it enlightens the pricing strategy, inventory distribution, and overbooking. Due to the high competition and perishable nature of the products in the industry, demand forecasting enables hospitality organizations to shift to more strategic and data-driven decision-making, eventually improving profitability and customer satisfaction.

References

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