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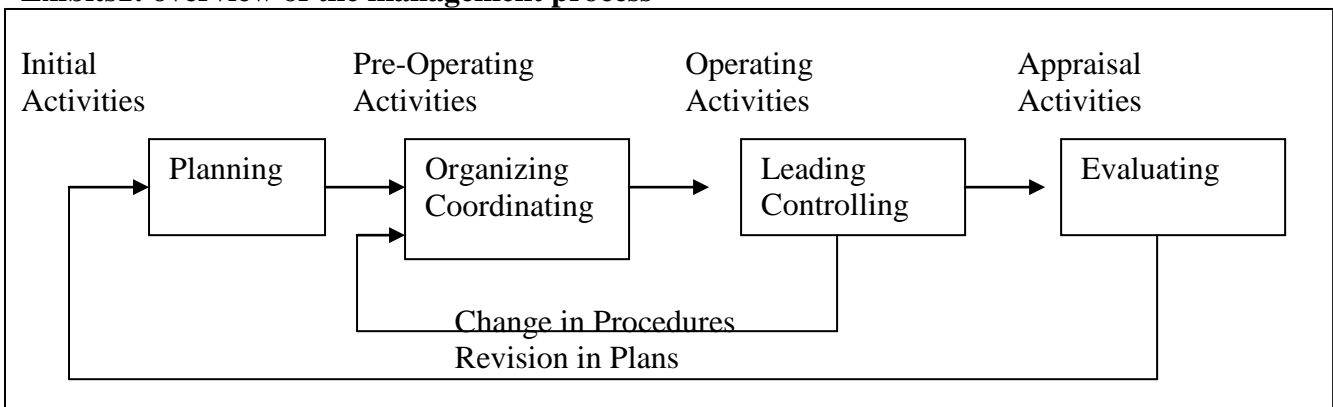## 1.6. Key Terms

1. Foreign Currency

Planning Operations

Most front office managers will readily admit that they rarely have all the resources they fell are necessary. Resources available to managers include people, money, time, materials, energy, and equipment. All these resources are in limited supply. An important part of a front office manager's job involves planning how to apply these limited resources to attain the department's objectives. An equally important part of a front office manager's job evaluating the success of front office activities in meeting the department's objectives.

Management Functions
The process of front office management can be divided into specific management functions. Exhibits 1 illustrate how management function fit into the overall process of management. Although specific front office management tasks vary from one hotel to another, fundamental management functions are similar in scope.

Exibits1: overview of the management process

Initial Activities   Pre-Operating Activities   Operating Activities   Appraisal Activities

Planning → Organizing Coordinating → Leading Controlling → Evaluating

Change in Procedures
Revision in Plans

Planning
Planning is probably the most important management function performed in any business, yet manager often give it less attention than it requires or overlook it entirely. Without the direction and function planning provides, the front office manager may become overly involved with task that are unrelated to or inconsistent with accomplishing the department's goals. A front office manager's first step is planning what the front office accomplish is to define the department's goal.

Managers should identify near term goals and long-term goals, and develop a plan to meet them. An example of near-term goal might be to raise occupancy to 85 percentages for the month. A

long term goal might be to improve guest satisfaction scores. The front office manager should use these general goals as a guide to planning more specific, measurable objectives. Planning also includes determining the strategies that will be used to attain the objectives.

Organizing
Using the planned goals as a guide, a front office manager organize the department by dividing the work among front office staff. The manager should distribute work so that everyone gets a fair assignment and all work can be completed in a
timely manner. Organizing includes determining the order in which tasks are to be performed and establishing completion deadlines for each group of tasks.

Coordinating
Coordinating involves bringing together and using the available resources to attain planned goals. A front office manager must be able to coordinate the efforts of many individuals to ensure that they perform the work efficiently, effectively, and on time. Coordinating may involve working with other departments, such as sales, housekeeping, and accounting. Many front office goals may depend upon other departments to help achieve them. For example, the goal of improving guest satisfaction scores may partially depend upon the housekeeping staff promptly notify the front desk of clean and vacant rooms for awaiting guests. A manager's ability to coordinate is closely related to his or her other management skills, such as planning and organizing.

Staffing
Staffing involves recruiting applicants and selecting those best qualified for positions. Staffing also involves scheduling employees. Most front office managers develop staffing guidelines. These guidelines are usually based on formulas for calculating the number of employees required to meet guest and operational needs under specific conditions.

Leading
Leading is complicated management skill that exercised in wide variety of situations, and is closely related to other management skill such as organizing, coordinating, and staffing. For a front office manager, leadership involves overseeing, motivating, training, disciplining, and setting an example for the front office staff. For example, to direct the work of others, a front office manager must first analyze work to be done, organize the task in logical order, and consider the environment in which the task will be performed. In addition, if the department is behind in getting the work done, the front office manager steps into the situation and assists until the workload is under control again.
        Leading often extends beyond the front office. With so much of the hotel's business activity flowing through the front desk, other departments head count on the front office manager to provide leadership. Senior managers at a hotel often depend on the strong leadership skills of the front office manager to ensure that assignments are completed successfully.

Controlling
 Every front office has a system of internal controls for protecting the assets of the hotel. For example, a form of internal control is requiring a witness's signature when cashier makes a deposit at the end of the shift. Internal control systems works only when managers believe in system's importance and follow the established procedure for their use. The control process insures that the

actual results of operations closely match planned results. The front office manager also exercises a control function when keeping front office operations on course in attain planned goals.

Evaluating
Evaluating determines the extent to which planned goals are, in fact, attained. This task is frequently overlooked in many front office operations, or is performed haphazardly. Evaluating also involves reviewing and when necessary, revising or helping to revise front office goals.

This chapter focuses on elements of two front office management functions: planning and evaluating front office operations. It begins by examining three important front office planning functions.
- Establishing rooms rates
- Forecasting room availability
- Budgeting for operations

It includes by examining various methods by which a front office manager may evaluate the effectiveness of front office operations.

Establishing Room Rates

A front office will always have more than one room category for each of it's guestrooms. Room rate categories generally correspond to types of rooms (suites, two beds, one bed, etc.) that are comparable in square footage and furnishings. Differences are based on criteria such as room size, location, view, furnishing, and amenities.

In commercial hotels, each room rate category is assign rack (standard or retail) rate based on the number of persons occupying the room. Resorts, on the other hand, often the same rate for one or two persons in the room, and used room sized, view, and location as a part of the room pricing structure. The rack rate is the standard price determined by front office management. The rack rate is listed on the room rate schedule to inform front desk agents of the selling price of each guestroom in the hotel. The term "rack rate" dates back before computers were used at front desks. Employees identify the retail room rate from manual filing system at the front desk called a "room rack" hence the name "rack rate". Today, front office employees usually use a computer terminal to access rack rate data during the reservations or registration process. Often, rack rates must be reported to local and state authorities. Therefore, they must accurately reflect the appropriate accommodation charge for each room category.

Front office employees are expected to sell rooms at the rack rate unless a guest qualifies for discounted room rate. Although rack rate are important more often than not, guests may ask for and qualify for discount rates. for example, special rates are often quoted to groups and certain guests for promotional purposes during low occupancy periods. Special room rate categories include:
- Corporate or commercial rate. The rate offered to companies that provides frequent business for the hotel or its chain.
- Group rate. The rate offered to groups, meeting and conversations using the hotel for their functions.

- Promotional rate. The rate offered to individuals who may belong to an affinity group such as American Automobile Association or American Association of Retired persons to promote their patronage. The rate may also be extended during special role low occupancy periods to any guests to promote occupancy.
- Incentives rate. The rate offered to guest in affiliated organization such as a travel agency and airlines because of potential referral business. The rate also be offered to promote future business; it is often extended to group leaders, meeting planners, tour operators, and other capable of providing the hotel with additional room sales.
- Family rate. A rate reserved for families with children's.
- Package rate plan. A rate that includes a guestroom in combination with other events or activates, such as breakfast, golf, tennis, or parking.
- Complimentary rates. A room rate provided to special guests/or important industry leaders. The term complimentary rate usually means the guest will not be charged for the room during the stay. However, the guest may charges for dining, telephone, etc.

The front office manager must be ensure that sale of rooms at a special rates is rigidly controlled. Special rates represent discounts from the rack rate and therefore may adversely affect the average room rate and room revenue. The front office manager should examine the circumstances under which special rates granted to ensures that front office staffs are adhering to prescribed policies. All policies should be clearly explained to front office staff. Who should obtain proper approval when applying a special room rate? For example, a complimentary room (provided no charge) does not increase room revenue, but it may or may not decrease the average room rate, depending upon the front office accounting system. Most hotels require the general manager or other senior member of the management team to approve complimentary rates before guest arrive.

  Establishing rack rates for room types and determining discount categories and special rates are major management decisions. To establish room rates that will ensure the hotel profitability, management should carefully consider such factor as operating costs, inflationary factors, and competition.

    Room rate often serve as a market positioning statement since they are directly reflects service expectations to the hotels target market. Room rate positioning can be critical to hotel's success. For example, a property offering economy facilities and limited guest services will most likely not be successful if its rates are positioned in the mid-price or upscale levels.

  The following sections examine three popular approaches to pricing rooms. The market condition approach, the rule-of-thumb approach, and the Hubbart Formula.

Market Condition Approach
This approach is the common sense approach. Management looks at comparable hotels in the geographical market and sees what they are charging for the same product. These properties often called the Competitive Set. A competitive set usually made up of 6 to 10 properties in a market that are the most important competition for a property. The competition can be based on a location, property ratings, property type, brand identification, or other factors. Not every lodging property in a particular location is a direct competitor. Guests who look for moderately priced lodging will generally limit their research to properties in that price range.

The thought behind this approach is that the hotel will charge only what the market will accept, and this is usually dictated by the competition. This information is available through various public domain sources, including a periodic blind call to competing hotels. a blind call does not identify the hotel making the call, and simply asks for arability and rates on specific dates. A competitive analysis usually focuses on these questions:

- How do our rates compare to those our competition?
- Are our rates are much lower or higher than those of the competition? How are our rates affecting our revenue and our share of the business?
- What is our occupancy percentage? What is the occupancy percentage of the competitive set?
- Have any trend emerged during the past six months?

Most of the answers to those questions can not be determined from blind calls. Two well-known commercially available reports providing this information from natural sources are the TIMS and Phaser reports. Future occupancy and rate trends can be determined by logging the quoted rates and availability for the competitive set. The TIMS reports list one month's rate information for a property and five local competitors. The rates are broken down daily and include information on sold-out nights, low rate, low rate varies from the subscribing property, low corporate rate, low corporate rate variance, special rate available, high –low comparisons and an index of room types and rates for the period.

Another, more reliable, way of determining historical market conditions is to subscribe to industrial reports that provide this information from natural sources. The best known historical report is the Smith Travel Accommodations Research (STAR) Report. The star report provides historical information on occupancy, average room rate, repair, and market share. Unlikely the blind call, which looks into future, historical, reporting, shows what happened in the past. However, by tracking this information over a period of months and years, the rates and occupancy of competitive set can be reasonably determined.

There are many problems with this approach, although it is used very often. First if the property is new, construction cost will most likely be higher than those of the competition. Therefore hotel cannot be profitable as the competition initially. Second, this approach does not take the value of the property into consideration. With property being new, perhaps having new amenities, the value of the property to guest can be greater. The market condition approach can is rally marketing approach that allows the local market to determine the rate. It may not take fully in to what a strong sales effort may accomplish. It can, in effect, allow the competition to determine the rates and this could significantly affect the profitability of a hotel's operation.

A hotel's management must not determine the rates of other hotels through direct discussion with competitors. Such discussion would be considering a violation of U.S. anti-trust laws. That is the reason for the blind call to the competition mentioned above. Rates can be also be found in many public sources, such as global distribution systems, publish rate brochures, directories from the American Automobile Association, the Internet, and many others.

Rule - Of- Thumb Approach

The rule of thumb approach sets the rate of a room at Rs.1 for each Rs.1000 of construction and furnishings cost per room, assuming 70% occupancy. For example, assume that the average construction cost of the hotel room is Rs.80000. Using the Rs.1 per Rs.1000 approach results in an average selling price of Rs.80 per room. Singles, Doubles, Suites and other room types would be priced differently, but the minimum average room rate would be Rs.80.

The emphasis on the hotel's construction cost fails to consider the effects of inflation. For example, a well- maintained hotel worth Rs. Rs.100,000 per room. Today may have been constructed at Rs.20,000 per room 40 years ago. The Rs.1 per Rs.1000 approach would suggest average price of Rs. 20 per room. However a much higher room rate would be appropriate. The suggested rate of Rs.20 does not take in to account inflation and increased cost of labor, furnishings, and supplies. In these cases, management might consider the current replacement cost of the hotel, rather than its original construction and furnishing cost, as a basis of the rule-of-thumb application. Another way of accounting inflation would be index current cost against original costs. For example, the cost if a hotel was build 5 years ago and inflation was increasing at annual rate of 3%, the Rs.1 per Rs.1000, five years ago would require Rs.1.16 per Rs.1000 today.

The rule- of-thumb approach to pricing rooms also fails to consider the contribution of other facilities and services towards the hotel's desired profitability. In many hotels, guest pay for service such as food, beverage, telephone and laundry. If these services contribute to profitability, the hotel may have less pressure to charge higher room rates.

The rule- of – thumb approach should also consider the occupancy level of the hotel. As pointed out, the rule- of – thumb approach assumes 70% occupancy when determining the average room rates. However, if a lower occupancy percentage is expected, the hotel will have to capture a higher average rate to generate the same amount of room revenue. Hotels tend to have very high level of fixed expenses. For example, a mortgage payment is the same every month, regardless of the hotel's occupancy level. The front office managers must understood the effect of room rates and room occupancy on the room occupancy on the room revenue to ensure that the hotel meet its revenue goals and financial obligations.

Hubbart Formula Approach

Another approach to average room rate determination is Hubbard formula. To determine the average selling price room, this approach considers operating costs, desired profits; an nd expected number of room sold. In other words, this approach starts with desired profit, adds fixed charges and management fees, followed by operating overhead expenses and direct operating expenses. The Hubbart Formula considered a bottom –up approach to pricing rooms because its initial item- net income (profit) - appears at the bottom of the income statement. The second item- income taxes- is the next item from the bottom of the income statement and so on. The Hubbart Formula approach involves the following eight steps:
1. Calculate hotel's desired profit by multiplying the desired rate of return (ROI) by owners' investment.
2. Calculate pretax profits by dividing desired profit (step 1) by 1 minus the hotel's tax rate.

3. Calculate fix charges and management fees. this calculation includes estimations depreciation , interest expenses, property tax, insurance, amortization, building mortgage ,land, rate and management fees.
4. Calculate undistributed operating expenses. This calculation includes estimation of administrative and general, data processing, human resources, transportation, marketing, property operation and maintenance and energy costs.
5. Estimate non-room operated department income or loss that is food and beverage department income or loss, telephone department income or loss and so forth.
6. Calculate the required rooms department income. The sum of pretax profits (step2) fixed charges and management fees(step 3) , undistributed profits and operating expenses(step 4) and other operated department losses less other operated departments income. The Hobart formula, in essence, places the overall financial burden of the hotel on the rooms departments.
7. Determining the rooms department revenue. The required rooms department income(step 6) , plus rooms department direct expenses of payroll and related expenses, plus other direct operating expenses , equals the required rooms departments revenue.
8. Calculate the average room rate by dividing rooms department revenue (step 7) by the expected number of rooms to be sold.

Illustration of Hubbart Formula
The casa vane –inn, a 200 room property is projected to cost Rs.9,900,000 inclusive of land, equipment, building, and furniture. An additional Rs.100,000 is needed for working capital bringing the total cost of construction and operating to Rs.10,000,000. The hotel financed with a loan of Rs.7,500,000 at 12 % annual interest and cash of Rs.2,500,000 provided by the owners. The owners desired a 15% annual return on their investment. 75% occupancy is estimated; thus 54,570 rooms will be sold during the year (200 * .75 * 365) the income tax rate is 40 %. Additional expenses are estimated as follows:

Property tax expenses	Rs.250,000
Insurance expenses	50000
Depreciation expenses	300,000
Administrative and general expenses	300,000
Data processing expenses	120,000
Human resources expenses	80,000
Transportation expenses	40,000
Marketing expenses	200,000
Property operations and maintenance expenses	200,000
Energy and related expenses	300,000

The other operated departments incomes (losses) are estimated as a follows:

Food and beverage department	Rs.150,000
Telephone department	(50000)
Rentals and other departments	100,000

The rooms departments estimates direct operating expenses to be Rs. 10 per occupied room.

Exhibits 5 contain the calculations used in the Hobart Formula and reveals an average room rate of Rs.67.81.

Exhibits 5 calculating average room rate: Hobbart Formula

Item	calculation	amount
Desired net income	owners investment ROI	
	Rs.2,500,000 x .15=Rs.375,000	
	Pretax income= $\dfrac{\text{net income}}{1-t}$	
	Pretax income= $\dfrac{\$375,000}{1-.4}$	
	Pretax income=	Rs.625,000
Plus: Interest expense	Principal x interest rate=	
	Interest expense	
	Rs.7,500,000 x .12	+900,000
Income needed before interest expenses and taxes		
Plus: estimated depreciation,		1,525,000
Property tax, insurance		+ 600,000
Income before fixed charges		2,125,000
Plus: undistributed operating expenses		1,240,000
Required operated departments income		Rs.3,365,000
Departmental results excluding rooms		
Less: food and beverage department expenses		(150,000)

Rental and other department expenses	(100,000)
Plus: telephone department loss	50000
Rooms department income	3,165,000
Plus: rooms department direst expenses 54750*Rs.10	547,500
Rooms revenues	3,712,500
Number of rooms sold	- 54,570
Required average room rate	Rs. 67.81

Exhibits 6 contains the formula for calculating room rates for single room(x) and double room (x + y) , where the price differential between singles and doubles rate is represented by the variably y .Assume that the Casa Vane Inn has a double occupancy rate of 40% (that is, two out of every 5 rooms sold at the double rate) and the room rate differential of Rs.10. Applying the formula from exhibits6, single and double rates would be calculated as follows:

Doubles sold daily = doubles occupancy rate × number of rooms × occupancy percentage

$$= .4(200) (.75)$$
$$= \quad 60$$

Singles sold daily =   Rooms sold daily – doubles sold daily

$$= (200 * .75) – 60$$
$$= 90$$

Using the required average rate of Rs.67.81 calculated in Exhibit 5, the required single and double rates can be determined as follows:

Singles sold (x) + $\overline{(X + Rate\ Diffrence)}^{Double\ Sold}$ = average room rate x daily number of rooms sold

$$90x + 60(x+Rs.10) \quad = \quad (Rs.67.81) (150)$$

$$90x+60x+Rs.600 \quad = \quad Rs.10,171.50$$

$$150x \quad = \quad Rs.9,571.50$$

$$X \quad = \quad \frac{\$9,571.50}{150}$$

$$X \quad = \quad Rs.63.81$$

Single rate   =   Rs.63.81

Double rate   =   Rs.63.81+Rs.10.00

$$= \quad Rs.73.81$$

＝＝

Exhibits 6 : Determining single and double room rate from an average room rate

Singles sold (x)	+ doubles sold(x + y)	= (Average rate) (rooms sold)
Where:	x = price of singles	
	Y= price differential between singles and doubles	
	x + y= price of doubles	

Alternatively, the double rate could be set as a percentage of the single rate. When this is the case, the formula is slightly altered:

$$\text{Singles sold (x)} + \frac{Double\ Sold\ (X)}{(1 + Percentage\ Diffrential)} = \text{average room rate} \times \text{daily number of rooms sold}$$

The percentage differential is simply the percentage difference of the doubles rate over the single rate. To illustrate this approach, we will call again on the Casa Vane Inn example. Assume a 40% double occupancy and a price differential of 15%

$$\text{Singles sold (x)} + \frac{Double\ Sold\ (X)}{(1 + Percentage\ Diffrential)} = \text{Average room rate X daily number of rooms sold}$$

90x+60(X)(1.15)	=	(Rs.67.81) (150)
90x+69x	=	Rs.10,171.50
159x	=	Rs.10,171.50
X	=	$\dfrac{\$10,171.50}{159}$
X	=	Rs.63.97
Single Rate	=	Rs.63.97
Double Rate	=	Rs.63.97 (1.15)
	=	Rs.73.57

The Hubbart Formula is most useful in setting target average prices as opposed to actual average prices. It is important to note that the Hubbart formula generates an average room as a target price at the hotels point of profitability. It relies on management's best estimates of total rooms occupied and the single/double occupancy mix to determine target rates. If these estimates are incorrect the target will be incorrect.

Suppose a hotel company is planning to build a new property. Using the Hubbart Formula, management computes an average target room rat of Rs.75. Knowing the current average rate for competing in the area only is Rs.50, management ponders whether the proposed hotel, opening in two years, has too high a targeted room rate.

To evaluate its potential, management assumes the competitor's average price will increase at 5% per year to Rs.55.13 (that is, Rs.50 * 1.05*1.05). Since the proposed hotel would be new,

management reasons that a price premium may be acceptable. A difference of nearly Rs.20, however, appears to be too great. A more reasonable average room rate might be Rs.65 ; after three years of successive 5% price increases, the hotel's daily average room rate would be increased to just over Rs.75 as follows :

	Annual increase 5%	selling price
Initial room rate (new hotel)		Rs.65.00
At the end of 1 year	Rs.3.25	Rs.68.25
At the end of 2 year	Rs.3.41	Rs.71.66
At the end of 3 year	Rs.3.58	Rs.75.24

Considering the situation, hotel developers will have to finance the additional deficit in the first year (Rs.75 for the targeted average rate versus Rs.65 expected average rate when the hotel opens). In order to operate, the hotel will need to devise some method of financing the shortfall. As stated before, most hotels do not generate profits during the first few years of operation. In this respect, operating deficits should always be included in the hotel's financing plan.

Special Room Rates Offered

Rack room may change during a year, depending upon market factors. Rates may be change due to seasonality or to a major event in an area. Knowing this, hotels may publish a rack range instead of specific rack rate. For example, resorts may have several different rack rates during a year, reflecting pack, shoulders, and off-pick (or value) season. Rack rates may vary 50% or more between this season for same rooms and amenities. Another example of planned rate change was the summer Olympics in Atlanta in 1996. Hotels planned their rates for the two weeks of summer Olympics several years in advance. These rates were submitted to government and Olympic authorities for their planning and approval. Opening and closing rates takes careful planning. Discounts should not be left open when strong demand will fill rooms at a rack rates. At the same time, quoting only rack rates may not be desirable when demand is low.

Special Room Rate Officered

- **Cooperate / Commercial rate.**
- **Group Rate**
- **Promotional Rate**
- **Incentive Rate**
- **Family Rate**
- **Package Rage**
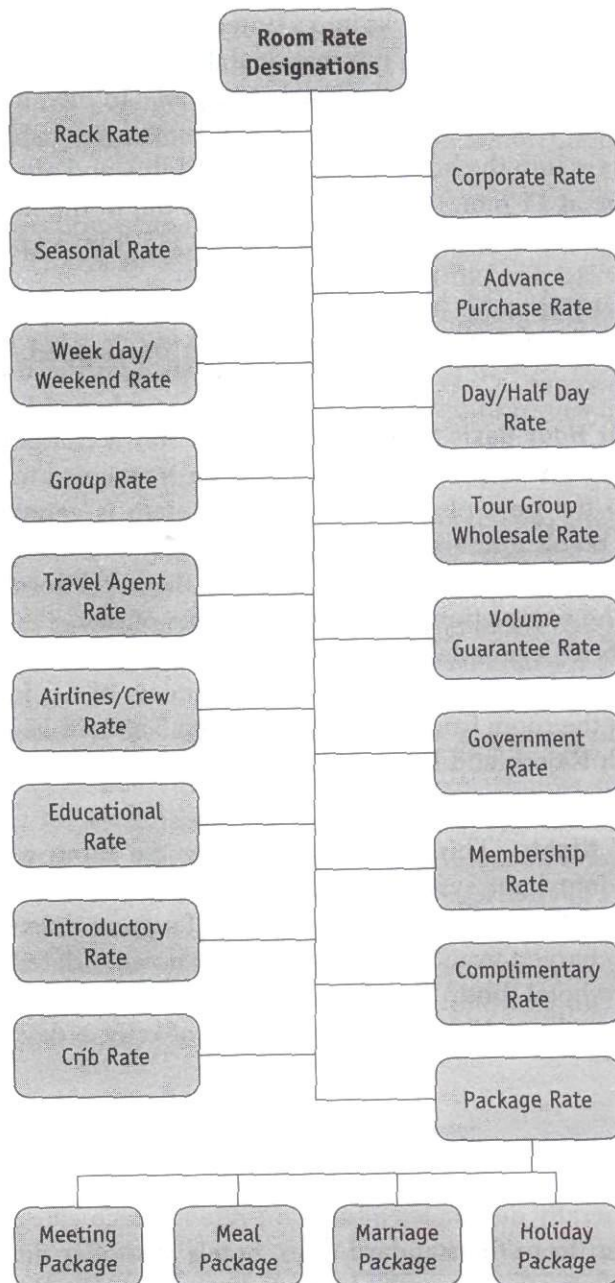- **Complimentary Rate**

I Front Office

Fig. 6.3 Room rate designations

Rack Rate

Hotels generally designate a standard rate for each of the category I of rooms offered for accommodation to guests. The standard rate of a particular | type of room before any discount is called rack rate. Traditionally, a rate board was placed near the room rack, hence the name rack rate. The tariff card of a hotel should mention the taxes applicable on room rents. For example, the rack rate for a standard room may be Rs. 5,000/- ++('++' means exclusive of taxes or taxes extra).

Corporate Rate

This is a promotional rate to attract the corporate market segment. The corporate rate is generally 10 to 20 per cent lower than the rack rate. For example, the corporate rate for a standard room may be Rs 4,000 ++.

Seasonal Rate

Depending on the desirability of a location at a particular time of the year, destinations may have high, low, and shoulder seasons. Destinations like hill stations, beaches, etc. receive heavy tourist traffic during particular period(s) of the year; the rest of the year is a lean period in terms of tourism. The duration when the tourist traffic (and so the demand for hotel rooms) at a particular place is high is known as the peak season; when the demand for hotel rooms drops down, it is known as the off-season. During peak season, hotels do not offer any discount; rather they may charge a higher room rate, known as the seasonal rate. To attract guests during low-demand periods, hotels offer a discounted rate known as the off-season rate. Hotels in these locations mention their seasonal and off-season rate clearly on the tariff card. For example, rainy season is off season in Shimla, while winters and summers are season time, as visitors go there to see snow in winters and to escape the heat during summers.

Advance Purchase Rate

Though popular in the airlines industry, the advance purchase rate is a relatively new concept in the hospitality industry. It entails heavy discounts on room rates when room bookings are done in advance. The rate of discount depends upon the advance period and the number of rooms available at the time of booking, i.e., a hotel may offer more discount for a room that is booked two months in advance as compared to a room that is booked fifteen days in advance. The advance booking of rooms ensures a certain amount of revenue at a given time and thus helps the management in planning a revenue management strategy.

Week Day/Weekend Rate

Some hotels observe a fluctuation in their occupancy levels with regard to the days of the week. The demand for rooms in a hotel maybe more on certain days in a week. Hotels analyse their demand levels over a period of time and fix a higher rate during high demand periods and a lower room rate during low demand periods. In vacation/resort hotels, the weekend rate would be higher than week day rate as the demand for rooms is higher on weekends. It would be reverse in the case of a commercial hotel.

Day and Half Day Rate

The day rate, charged from guests not staying overnight at a hotel, is lower than the rack rate. For instance, if a guest checks in at 10 a.m. and checks out the same evening at around *5* p.m., he may be charged the day rate. However, all hotels may not have day rates. Sometimes a guest may wish to stay for a very short duration of time, not exceeding five hours. For example, a transit traveller, who has to catch a flight in few hours, might want to take rest in a hotel, or a person might want to rent a room for a short business meeting. In these cases, the half day rate, which is a bit higher than the numerical half of the rack rate, is charged from guests.

Group Rate
As a large group (more than 15 persons) provides bulk business to a hotel, hotels offer discounted rates to groups. The group rate depends upon the number of persons in the group and the frequency of their visits. The rates are negotiated by the sales team of the hotel and the representatives of the group.

Tour Group (Series Group) Wholesale Rate
These are heavily discounted rates I for wholesalers who operate a series of tours for groups arriving and departing together. For example, a tour operator may conduct a week's tour of the Golden Triangle (Delhi-Agra-Jaipur-Delhi) on the 2nd, 12lh, and 22nd of every month for I groups of twenty persons. The tour operator guarantees the hotel that it woulfl provide this series of business every month for a period of one year. In return, the I hotel offers a heavy discount to the operator and allocates or 'blocks' rooms for the I series for the entire year.

Travel Agent Rate
Travel agents sell travel products like hotel rooms, airlines* bookings, etc. on a commission basis to the end users (guests). They provide a substantial volume of business to hotels, hence hotels offer them special discounts I and commissions. Some major travel agencies include Cox & Kings, ThomasB Cook, etc.

Volume Guarantee Rate
Hotels may offer a special rate (lower than the racfl rate) in order to attract high volume of business from special market segments. I A hotel may have a contractual agreement with a company, according to which I the company's representatives are entitled to a special discounted rate when they I reserve a room in the hotel. The percentage of discount will depend upon the I volume of business promised and the mutual understanding between the hotel I and company at the time of making the agreement. A frequent business customer might be offered a CP (Continental Plan) at the standard room rate.

Airlines/Crew Rate
It is a special discounted rate for the crew of one or more I airlines that offer certain volume of business throughout the year on a consistent! and continuous basis.

Government Rate
When government officials travel for official work, they are I given a travel allowance to cover their hotel, meals, and other out-of-pocket* expenses. Based on their designation, this amount is fixed and

given in advance. A I hotel interested in catering to this segment may quote room rates that match their travel allowances. The hotel may ask for proof of identity from guests before they can avail the government rates.

Educational Rate
Educational rates are special rates offered by hotels to students and educationists who have a limited travel budget. They are a significant source of business because of their large numbers and frequency of visits. They provide a large chunk of repeat business to hotels.

Membership Rate
Membership rates are offered to guests who are members of influential organizations that provide volumes of business to hotels. The membership rates are much lower than the rack rates and may also include discounts on food and beverage. Special discounted rates are given to FHRAI members, UN employees, travel writers, etc.

Introductory Rate
The introductory rate is offered by a hotel on the opening of a new property in town. It is a part of a new hotel's marketing strategy to make inroads into the existing market by offering a price lower than what is offered by competitors with the same standards. The introductory rate is generally offered till the hotel is established, or it may be revoked at the wish of the management.

Complimentary Rate
When a hotel does not charge the room rent from a guest, it is known as complimentary rate. Hotels generally offer complimentary rooms (also called comp rooms) to the tour/group leader. They may also offer comp rooms to tour operators, travel agencies, and local dignitaries who are vital to the public relations programme of the hotel. Hotels also provide complimentary rooms along with marriage packages and bulk bookings.

Crib Rate
This is the rate charged for children above five years and below of age 12 years who are accompanying their parents. The hotel provides a crib bed in the room for infants.

Package Rate
A package rate is quoted for a bouquet of products or services. The rate is generally lower that the sum total of the prices of individual products or services offered in the bouquet. These rates are tailor-made for specific guest requirements. A package rate may include room rent, meals, special arrangements (like marriage set-ups, banquet halls, meeting room, etc.), and may also include products and services offered by other services providers like transportation (rail, road, and air), sightseeing, and so on.
A package rate is more economical than the individual purchase of each of the products and services. It is a marketing strategy to sell the slow moving items along with the hot-selling products. Also,

when products and services are sold in a bunch, the cost of individual advertisements is cut down. The money thus saved by the hotels is passed to the guest in the form of lower prices.

Hotels may offer the following packages:

Meeting package
A complete meeting package includes the residential arrangement of the delegates, meeting room, food and beverage requirements (meals, tea/coffee, snacks), along with transportation facility, audio visual equipment like projectors, etc. to the meeting delegates.

Meal package
 A meal package is the combination of room rent and meals, which may be all meals or a combination of breakfast and lunch/dinner. The hotel may offer meal packages based on the requirement of guests and the suitability of the hotel's operations. The various meal plans offered by hotels are discussed at length in the subsequent section.

Marriage package
 A marriage package includes all the necessary arrangements for marriage, like mandap, priest, party hall/lawn, accommodation for the marriage party, arrangement of reception buffet, and even a complimentary room/suite for the newly-wedded couple.

Holiday package
A holiday package may include transportation, accommodation, meals, guide, and sightseeing at the destination. Generally, this package includes non-hotel products from other service providers like airlines.

MEAL PLANS

The room tariff of a hotel may be based on the choice meal plans offered to guests. Depending on the needs of their target audience, hotels offer a variety of meal plans.

European Plan European plan (EP)

consists of room rate only and the meals are charged separately as per actuals. It is generally preferred in a commercial hotel where business executives have to socialize with their clients and do not take meals at the hotel.

Continental Plan Continental plan (CP)

 consists of room rate and continental breakfast. Continental breakfast generally includes most or all of the following: sliced bread with butter/jam/honey, cheese, meat, croissants and Danish pastries, rolls, fruit juice and coffee/tea/hot chocolate/milk. This plan is generally found in hotels in Europe.
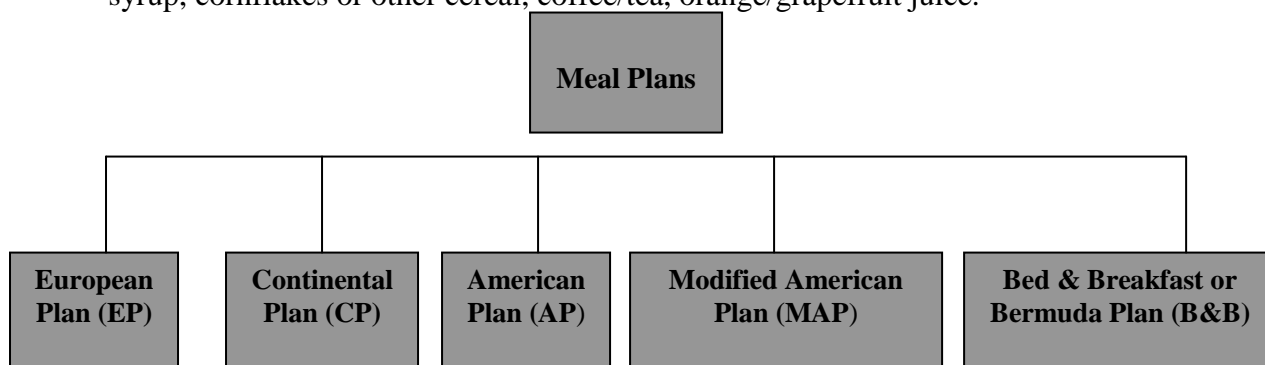
American Plan American plan (AP)

Is also known as en-pension (full board). The tariff includes room rent and all meals (i.e., breakfast, lunch, and dinner). This tariff plan is popular in resort hotels located at remote places where guests do not have a choice of food outside the hotel premises, e.g., in a jungle or desert.

Modified American Plan (MAP)

Modified American plan is also known demi-pension (half board). The tariff consists of room rent, breakfast, and one major meal (either lunch or dinner). This tariff plan is popular in hotels located at tourist destinations, where the guest may want to go for sightseeing after breakfast, have lunch outside the hotel, and return to the hotel in the evening and have dinner. Alternately, they could have breakfast and pack lunch from the hotel, and then have dinner outside and come to the hotel late at night.

Bed & Breakfast (B&B) or Bermuda Plan

Bed and breakfast plan (B&B) or Bermuda plan consists of room rent and American breakfast. American breakfast generally includes most or all of the following: two eggs (fried or poached), sliced bacon or sausages, sliced bread or toast with jam/jelly/butter, pan cakes with syrup, cornflakes or other cereal, coffee/tea, orange/grapefruit juice.

Meal Plans

European Plan (EP)	Continental Plan (CP)	American Plan (AP)	Modified American Plan (MAP)	Bed & Breakfast or Bermuda Plan (B&B)

Plan	Plan includes				
	Room Rent	**Morning Tea**	**Breakfast**	**Lunch**	**Dinner**
European Plan (EP)	✓	x	x	x	x
Continental Plan (CP)	✓	✓	✓Continental Breakfast	x	x
American Plan (AP)	✓	✓	✓	✓	✓
Modified American Plan (MAP)	✓	✓	✓	Either Lunch or Dinner (One Major Meal)	
Bed & Breakfast (B&B) or Bermuda Plan	✓	✓	✓American Breakfast	x	x

Note: ✓ Means included in plan   x means not included in plan

1.1 Forecasting Room Availability

The most important short term planning performer by front office managers is Forecasting the number of rooms available for sale on any future date. Room available forecast used to manage the reservation process and to guide front office staff in effective room management, Forecasting may especially important on nights when full house (100% occupancy) is possible.

A room availability forecast can also be used as occupancy forecast. Since there is a fixed numbers of rooms in a hotel, forecasting the number of room available for sale and the number of room expected to be occupied forecasts the occupancy percentage on given date, the forecasted availability and occupancy numbers are very important to daily operations of the hotel. Occupancy forecast are the foundation of making room pricing decisions. Without an accurate forecast rooms may go unsold or be sold at inappropriate rates. Room occupancy forecast may useful to front office managers attempting to schedule necessary number of employees for an expected volume of business. These, forecast may helpful to other hotel department manager as well.

Obviously a forecast is only as reliable as on information on which it is based. Since forecasts can serve as a guide in determining operating costs, every effort should be made to ensure forecasting accuracy.

Forecasting is a difficult skill to develop. The skill is acquired through experience, effective recordkeeping, and accurate counting methods. Experienced front office managers have found that several types of information can be helpful in room availability forecasting:

- A through knowledge of the hotel and it's surrounding area.
- Market profiles of the constituencies the hotel services.
- Occupancy data for the past several months and for the same period of the previous year.
- Reservation trends and a history of reservation lead times (how far in advance reservations are made)
- A listing of special events scheduling in surrounding geographical area.
- Business profiles of specific groups booked for the forecast dates.
- The number of non-guaranteed and guaranteed reservations and an estimations of the number of expected no-shows
- The percentage of room already reserved and the cut-off date for group room blocks head for the forecast date.
- The room availability of the most important competition for the forecast dates(as found in a blind call)
- The impact of city wide or muti-hotel groups and their potential influence on the forecast dates
- Plans for remodeling or renovating the hotel that would change the number of available rooms.

- Construction or renovating plans for competitive hotels in area.

1.2 Useful Forecasting data

The process or forecasting rooms availability generally relies on historical occupancy data as well as what is already on books. Historical data can take the guesswork out of forecasting. To facilitate forecasting, the following daily occupancy data should be collected.

- Number of expected room arrivals: based on existing reservations and historical trends for new reservations and on cancellation prior to the arrival date.
- Number of expected room walk-ins: based on historical records.
- Number of expected room stayovers: based on existing reservations.
- Number of expected room no-shows: based on historical records.
- Number of expected room understays (checks-out occurring before expected departure date): based on historical data.
- Number of expected room checks-out: based on existing reservations.
- Number of expected room overstays(checks-out occurring after the originally reserved departure date) : based on historical records

Exihibits 7: occupancy History of the Holly Hotels

Occupancy History
First Week of March

Day	Date	Guests	Room Arrivals	Room Walk-Ins	Room Reservations	Room No-Shows
Mon	3/1	118	70	13	63	6
Tues	3/2	145	55	15	48	8
Wed	3/3	176	68	16	56	4
Thurs	3/4	117	53	22	48	17
Fri	3/5	75	35	8	35	8
Sat	3/6	86	28	6	26	4
Sun	3/7	49	17	10	12	5
Totals		766	326	90	288	52

Occupied Rooms	Overstay Rooms	Understay Rooms	Room Check-Outs
90	6	0	30
115	10	3	30
120	12	6	63
95	3	18	78
50	7	0	80
58	6	3	20
30	3	3	45
558	47	33	346

Number of expected room overstays (check-outs occurring after the originally reserved departure date): based on historical records.

Some hotels with a vary high double occupancy percentage may be as concerned with guest count as room counts. For example, an all - inclusive resort with a large amount of business from vacationing couples may want to forecast guest as well as count activity. Convention hotels may often have same concerns.

Chances are good that much of this information can be found in reports, documents and computer system at each property. The property's daily reports will likely be invaluable in this research. These reports should be stored in a way that is easily accessible.

Overall these data are important to room availability forecasting since they are used in calculating various daily operating ratios that helps determine the number of available for sale. Ratios are mathematical expression of a relationship between two numbers that results from dividing one by the other. Most statistical ratios that apply to front office operations are expressed as percentages. the ratios examined in the following sections are percentage of no-shows , walking, understays, and overstays. Occupancy history data from the fictitious property shown in exhibits 7 are used to illustrate the calculation for each front office ratio. Managers should look for consistency in ratios. Consistency may be roughly the same ratio every day or identifiable patterns. Without consistency, forecasting ratios and operations performance will be very difficult.

Percentage of no-shows

The percentage of no-shows indicates the proportion of reserved rooms that the expected guests did not arrive to occupy on the expected arrival date. This ratio helps the front office manager decide when (and if) to sell rooms to walk-in –guests.

The percentage of no-shows is calculated by dividing the number of room no-shows for a specific period of time day, week, month, or year by the total number of room reservations for the same period. Using figures from exhibits7, the percentage of no-shows for the Holly Hotel during the first week of March can be calculated as follows:

$$\text{Percentage of No-shows} = \frac{\text{Number of Room No-shows}}{\text{Number of Room Reservations}}$$

$$= \frac{52}{288}$$

$$= .1806 \text{ or } 18.06\% \text{ of reserved rooms}$$

Some properties track no-shows statistics in relation to guaranteed and non-guaranteed reservations. Non-guaranteed reservations typically have a higher no-shows percentage than guaranteed reservations since the potential guest has no obligation to pay if he or she does not register. Properly forecasting no-shows rooms also depends on the hotel's mix of business; for example, corporate group generally much have much less no-show percentage than other types of groups or individual business. A hotel with a corporate meetings market will most likely have a very low no-show percentage. Conversely, a hotel that does little group business may tend to have a higher no-show percentage overall (except on those occasions when a corporate group stay at the property). Hotels and resorts can control no-shows through a number a number of policies and procedures , such as requiring a deposits in advance and calling the guest before arrival to confirm arrangements,

Percentage of Cancellation

It is the percentage of total number of cancellations as against total number of reservations

The Formula $= \dfrac{Total\ Number\ of\ Cancellations}{Total\ Number\ of\ Confirmed\ Reservations} \times 100$

1.3 Percentage of walk-ins

The percentage of walk-ins is calculated by dividing the number of rooms occupied by walk-ins for a period by the total number of room's arrivals for the same period. Using figures from Exhibits 7, the percentage of walk-ins for the Holly Hotel during the first week of March can be calculated as follows:

$$\text{Percentage of walk-ing} = \frac{\text{Number of room walk-ins}}{\text{Total Number Of Arrivals}}$$
$$= \frac{90}{326}$$
$$= .2716 \text{ or } 27.16\% \text{ of room arrival}$$

Walk-in guests occupy available rooms that are not held for guests with reservations. Often, hotels can sell rooms to walk-in guests at a higher rate since these guests may have less opportunity to consider alternate properties. Front desk agents sometimes asked to show a guestroom to walk-in guests – which are much more effective than trying to sell rooms over the telephones. Walk-in sales help improve both occupancy and room revenues. However, from a planning perspective, it is always considered better to have reservations in advance than to count walk-in traffic.

It should be noted that other ratios can dramatically affects the walk-ins ratio. For example, if a hotel has ten no-shows beyond forecast, it may accept more walk-ins than usual to make up for the lost business. When this information is tracked for historical purposes, it is essential that the other ratios also be tracked to show how they are affected one another. One effective method to predict walk-ins is to know what is going on in the market. There will be better opportunity for walk-ins) and a higher rate) if nearby hotels are busy.

1.4 Percentage of Overstays.

Represents rooms occupied by guests who stay beyond their originally scheduled departure dates. Overstay guests may have arrived with guaranteed or non-guaranteed reservations or as walk-ins.

Overstays should not be confused with stayovers. Stayovers rooms are rooms occupied by a guest who arrived to occupy a room before a day in question and whose schedule departure date isn't until after the day in question.

The percentage of overstays is calculated by dividing the number of overstay room for a period by the total number of expected room check-outs for the same period. The number of expected room check-outs on the books minus understays plus overstays. Stated another way, the number of expected room check-outs f is the numbers of rooms shown by the front office computer or the manual count of occupied rooms as due for departure. Using fig. from exhibits 7, the percentage of overstays for the Holly Hotel during first week of march can be calculated as follows:

$$\text{Percentage of overstays} = \frac{\text{Number of overstays rooms}}{\text{Number of expected check - outs}}$$

$$= \frac{47}{346 \,\square\, 33 + 47}$$

$$= 1306 \text{ or } 13.06\% \text{ of Expected check-outs}$$

To help regulate room overstays, front office agents are trained to verify an arriving guest's departure date at check-in. such verification can be critical , especially when the hotel is at or near full occupancy and there are no provisions for overstay guests. Overstays may also prove problematic when specific rooms have been blocked for arriving guests. This is especially important for suites or other rooms that may have special importance to an incoming guest.

1.5 Percentage of understays.

Understays Represents rooms occupied by guest who checks out before their schedule departure dates. Under stay guests may have arrived at the hotel with guaranteed or non-guaranteed reservations or as walk-ins.

The percentage of understays is calculated by dividing the number of under stay rooms for a period by the total number of expected room check-outs for the same period. Using fig. from exhibits 7, the percentage of understays for the for the Holly Hotel during first week of March can be calculated as follows:

$$\text{Percentage of understays} = \frac{\text{Number of understays rooms}}{\text{Number of expected checks - out}}$$

$$= \frac{33}{346 \,\square\, 33 + 47}$$

$$= 0.917 \text{or } 9.17\% \text{ of expected checks-outs.}$$

Guests leaving before their stated departure date create empty rooms that typically are difficult to fill. Thus, understays, rooms tends to represents permanently lost   room revenue. Overstays, on other hand are guests staying beyond their stated departure date and may not harm room revenues. When

the hotel is not operating at full capacity, overstays results in additional, unexpected room revenues. In an attempt to regulate understay and overstay rooms, front office staff should:

- Confirm or reconfirm each guest's departure date at registration. Some guests may already know of a change in plans, or mistake may have been made in the original processing of the reservation. The earlier erroneous data are corrected the chance for improved planning.
- Present at alternate guestroom reservation card to registered guest explaining that an arriving guest holds a reservation for his or her room. A card may be placed in the guest's room the day before or the morning of the scheduled day of the registered guest's departure.
- Review group history: many groups, especially associations, hold large closing events for the entire group on the last day of meeting. Reservations may be made by guests to include attaining the event. However changes in the plans or other priorities may require guests to leave early. While it is difficult for the hotel to hold guests to the number of nights they reserved, managers can plan for an early departure, based on the group's history.
- Contact potential overstays guests about their scheduled departure date to confirm their intention to check out. Room occupancy data should be examined each day, rooms with guests expected to check-out should be flagged. Guests who have not left by check-out time should be contacted and ask about their departure intentions. This procedure permits an early revised count off over stays allows sufficient time to modify previous front office planning, if necessary.

1.6 Forecast formula

Once relevant occupancy statistics have been gathered, the number of rooms available for sale on any given date can be determined by the following formula:

The Total number of rooms that could their theatrically be sold and given day

	Total number of Guestrooms
-	Number of Out-of order rooms
-	Number of Room Stayovers
-	Number of Room Reservations
+	Number of Room Reservations * percentage of no-shows
+	Number of Rooms Understays
-	Number of Room Overstays
	Number of Rooms Available for sales

Note that the above formula does not include walk-ins. they are not included because the number of room available for sale determines the number of walk-ins a hotel can accept. If a hotel is full due to existing reservations, stay-overs, and other factors, it can not accept walk-ins.

As an example, consider the Holy Hotel a 120 rooms property, where on April 1st there are three out of order rooms and 55 stayovers. On that day, there are 42 guests with reservations scheduled to arrive. Since the percentage of no-shows has been recently calculated at 18.06%, the

front office manager calculated that as many as 8 guests with reservations may no arrived ($42 \times 1806 = 7.59$, rounded to 8). Based on historical data, 6 understays and 15 overstays are also expected. The number of rooms projected to be available for sale on April 1st can be determined as follows.

	Total number of guests rooms	120
-	Number of out-of order rooms	-3
-	Number of room stay-overs	-55
-	Number of room reservations	-42
+	Number of room reservations x percentage of no-shows	+8
+	Number of rooms understyas	+6
-	Number of room overstays	-15
	Number of rooms available for sales	**19**

Therefore, the holly hotel is considered to have 19 rooms available for sale on april1st. Once this figure is determined front office management can decide whether or not to accept reservations and can determined its level of staffing. Front office planning decision must remain flexible they are subject to change as the front office learns of reservations cancellations and modification. It should also be noted that room availability forecasts are based on assumptions whose validity may vary on any given day.

1.7 Sample forecast forms

The front office may prepare several different forecasts depending on its needs. Occupancy forecasts are typically developed on a monthly basis and reviewed by food and beverage and rooms division management to forecast revenues project expenses and develop labors schedule. A ten days forecast , for example , may be used to update labour scheduling and cost projection and may later be supplemented by a more current three day forecast. Together this forecast help many hotel departments maintain appropriate staff levels for expected business volumes and their by helped by contain cost.

Ten-day forecast

The ten day forecast at most lodging properties is developed jointly by the front office manager and the reservations manager possibly in conjunction with a forecasting committee. Many properties develop their ten-day forecast from their yearly forecast. A ten day forecasts usually consists of:
- Daily forecasted company occupancy figures, including room arrivals, room departures, and rooms sold, and the number of guests.
- The number of group commitments, with a listing of each group's name, arrival, and departures dates, number of rooms reserved number of guests, and perhaps quoted room rates.
- A comparison of the previous period's forecasters and actual room counts and occupancy percentage.

A special ten-day forecast may also be prepared for food and beverage, banquet and catering operations. This forecast usually includes the expected number of guests, which is often referred to as the house count. Sometimes he house count is divided in to group and non group categories so that the hotel's dining room managers can better understand the nature of their business and their staffing needs.

To help various hotel departments plan their staffing and payroll levels for the upcoming period, the ten day forecast should be completed and distributed to all department offices by mid-week for the coming period. This forecast can be especially helpful to the house keeping departments. A ten day forecast form, as shown in Exhibits 8 is typically developed from data collected through several front office sources.(the occupancy multiplier mentioned in section 10 is discussed later in this chapter.)

First the current number of occupied rooms reviewed. The estimated number of overstays and expected departures are noted. Next relevant reservation information is evaluated for each room by date of arrival, length of stay and date of departure. These counts are then conciliated with reservation control data. Then the actual counts are adjusted to reflects the projected percentage of no-shows, anticipated understays and expected walk-ins. These projections are based on the hotel's recent history, the reasonability of the business, and the known history of specific group schedule to arrive. Finally, conventions and other groups are listed on the forecast to alert various department managers to possible periods of heavy, or light, checks-in and checks-out. The number of rooms assigned each day to each group may also be noted on the sheet.

Most computers systems provide the data on the books in a report format for the front office managers to be used. How ever, most computer system do not "forecast" business. Programming to successfully analyze historical trends and market conditions has been tried in the past with little success. Therefore, while the computer system can assists in forecasting, it is a knowledge and skill of the front office manager that determines how accurate the forecast is. Exhibits 9 contain a check-list that some revenue managers used when revising forecaster.

Exhibit 8 Sample ten days forecast form

Ten-Day Occupancy Forecast
Location_____ # _____ Week Ending_____
Date Prepared: _____ Prepared By: _____

To be submitted to all department heads at least one week before the first day listed on forecast.

	Fri.	Sat.	Sun.	Mon.
1 Date and Day (Start week and end week the same as the payroll schedule)				
2 Estimated Departure				
3 Reservations Arrivals- Group (taken from log book)				
4 Reservations Arrivals- Individual (taken from log book)				
5 Future Reservations (estimated reservations received after forecast is completed)				
6 Expected Walk-ins (%of walk-ins based on reservations received and actual occupancy for past two weeks)				
7 Total Arrivals				
8 Stayovers				
9 TOTAL FORECASTED ROOMS				
10 Occupancy Multiplier (based on number of guests per occupied from average of the same day for last three weeks)				
11 FORECASTED NUMBER OF GUESTS				
12 Actual Rooms occupied (taken from daily report for actual date to be completed by front office supervisor)				
13 Forecasted Variance (difference between forecast and rooms occupied on daily report)				
14 Explanation)to be completed by front office supervisor and submitted to general manager ; attach additional memo if necessary)				

Tue.	Wed.	Thu.	Fri.	Sat.	Sun.

APPROVED: _____   Date : _____   General Manager's Signature

Three day forecast

A three days forecast is an updated report that reflects a more current estimate of room availability. it details any significant changes from the

Exhibits 10 sample Three Days Forecast Form
Three Day Forecast
Date Of Forecast : _____   Forecast Completed By : _____
Total Rooms in Hotel: _____

	Tonight	Tomorrow	3rd Night
Day			
Date			

Previous Night Occupied Room			
- Expected Departure			
- Early Departure			
+ Unexpected Stayovers			
+ Unoccupied Rooms			
= Rooms available For Sale			
+ Expected Arrivals			
+ Walk-ins and Same Day Reservations			
- No-Show			
- Occupied Rooms			
= Occupancy %			
= Expected House Count			

Exhibits 9: refining A forecast

A yearly forecast provides an excellent starting point for developing shorter turn, more accurate forecast. Managers can better assess the business by reliving current reservations and booking pace. The closer forecast is, the most accurate it will be

Here is a check list for revising forecaste ;

- List or group bookings and transient reservations on the books.
- Examining arrivals, departures, and group in formation for the given period.
- Determine if demand for this particular period of time is high or low.
- Chart the picks and valleys on a graph to better identify high / low demand.
- Have sales agents call competing properties for rates and consider adjusting your rates.
- Make decisions to maximize revenue during each time period.

Ten days forecast. The three day forecast is indeed to guide management in fine tuning labors schedule and adjusting room availability information. Exhibit 10 presents a sample three days forecast form. in some hotels, a brief daily revenue meeting is held to focus on occupancy and rate changes for next few days. The results of this meeting are upon included in three day forecast.

1.8 Room Count Considerations

Control books, charts, computers applications, projections, ratios and formulas can be essentials short – and long – range room count planning. Each day the front office performs several physical counts or rooms occupies, vacant reserve, and due to check out, to complete the occupancy statistics for that day. A computerized system may reduced the need for most final counts, since the computer can be programmed to continually update room availability information's.

It is important for front desk agents to know exactly how many rooms are available especially if the hotel expects to operate near 100% occupancy. Once procedure gathering room count information and established, planning procedures can be extended to longer periods of time to form a more reliable basis for revenue, expense, and labor forecasting. The check list in exhibit 11 may be applicable to now automated and semi automated operations alike.

1.9 Budgeting for operations
The most important long term planning function performed by front office managers is budgeting front office operations. The hotel's annual operation budget is a profit plan that addresses all revenue sources and expense items. Annual budgets are commonly divided into monthly plans, which, in turn, are divided in to weekly (and contains daily) plans. These budget plans become standards against which management can evaluate the actual results of operations. In most hotels' room revenue are greater than food, beverage, banquets, or any other source of revenue. In addition room's division's profits are usually greater than those of any other department. Therefore, an accurate room's budget is vital to creating a over all budget of the hotel.

1. Previous night occupied room is determined from either the actual number of rooms occupied last night or the forecasted number of rooms from the previous night
2. Unoccupied rooms equal the total number of rooms in the hotel less the number of rooms occupied.
3. Expected house count equals the forecasted occupied room's times the multiple occupancy percentage for the day (found on the computer)

Distribution: General Manager, Front Desk, Housekeeping, All Food and Beverage, Accounting, Sales, Banquets, Security

The budget planning process requires the closely coordinated efforts of all management personal. While the front office manager is responsible for rooms revenue forecasted, the hotel accounting division will be counted on to supply department managers with a statistical information essential to budget preparation process. The hotel accounting division is also responsible for coordinating budget plan of individual department managers into a comprehensive property – wide operations budget for top management's review. The hotel general manager and controller typically reviewed departmental budget plan and prepare a budget report for approval by the hotel owners. If the budget is not satisfied, elements requiring change may be return to the appropriate division managers for review and revision.

The primary responsibility of the front office managers in budget planning in forecasting room's revenue and estimating related expenses. Rooms revenue is forecasted with input from the reservations manager while expenses are estimated which input from all department managers in the rooms divisions.

Exhibits 11: sample Daily checklist for accurate room counts

• Make counts of the rack and reservations. On side days, a count should be made at seven a.m., noon 3 p.m., and 6.00 p.m. on normal days 7.00 a.m. and 6.00 p.m. count will suffix.
• Check room rack against the folio bucket to catch sleepers and skippers.
• Check housekeeping reports against room rack to catch sleepers and skippers.
• Check the rooms that are due out, but still have balances on their folios, especially where credit cards are the indicated source of payments.
• Check reservations for any other duplication.
• Call the reservation system to make sure all cancellation where transmitted.
• Check the switch board, telephone rack, and /or alphabetical room rack to make sure that the guest is not already registered.
• Call the local airport for a report on cancel flights.
• Check the weather reports for cities from which a number of guests are expected.
• Check reservations against convention blocks to catch duplication.
• Check with other hotels for duplicate reservation if a housing or convention bureau indicated the reservation was a second choice.
• Check the arrival dates on all reservation forms to be sure none where miss filled.
• Check the room cancellation list
• If a reservation was made through the reservation manager, sales manager, or someone in the executive office and the property is close to full, call that staff person. Often, such guests are personal friends and willing to help out by staying some where else.
• Close to the properties cut off time, consider placing a person – to – person phone call to may guest which a non guaranteed reservation who hasn't arrived. If the person accept the call , confirm whether or he or not she will arrived yet that night

- After the properties cut off time if it becomes necessary, pool any reservations that where not guaranteed or prepaid.
- If any rooms are out of order or not presently in used check to see if they can be made up. Let housekeeping know when a tight day is expected, so that all possible rooms are made up.
- Before leaving work, convey in writing all parturient information to the on coming staff. Good communication is essential.

Exhibits 12 : Rooms Revenue summary for the Emily Hotel.

Year	Rooms Revenue	Increased over dollar	Prior year percentage
2001	Rs.1,000,000		
2002	1,100,000	Rs.100,000	10%
2003	1,210,000	110,000	10%
2004	1,331,000	121,000	10%

Exhibits 13 : Rooms Revenue Statistics for the Bradly Hotel

Year	Rooms sold	Average daily rate	Net rooms revenue	Occupancy percentage
2001	30,660	Rs.50	Rs.1,533,000	70%
2002	31,974	52	1,662,648	73%
2003	32,412	54	1,750,248	74%
2004	32,850	57	1,872,450	75%

1.10 Forecasting Rooms Revenue

Historical financial information often serves as the foundation on which front office mangers build room's revenue forecasts. One method of rooms revenue forecasting involves an analysis of room's revenue from past periods. Rupeesand percentage differences are noted and the amount of room's revenue for the budget year is predicted.

For example, exhibits 12 shows yearly increases in net rooms revenue for the Emily Hotel. For the years 2001 to 2004, the amount of of rooms revenue increased from Rs.100,000,000 to to Rs. 1,331,000, reflecting a 10% yearly increased. if future conditions appear to be to those of the past , the rooms revenue for 2005 would be budgeted at Rs.1,464,100 – a 10% increase over the 2004 amount.

Another approach to forecasting rooms revenue bases the revenue projection on past room sales and average daily room rates. Exhibits 13 present room's revenue statistics for the 120- room Bradley hotel from 2001 to 2004. And analysis of this statistics shows that occupancy percentage increased

3%. From 2001 to 2002, 1%from 2002-2003, and 1% from 2003-2004. Average daily room rates increased by Rs.2, Rs.2, and Rs.3 respectively over the same periods. If future conditions are assumed to be similar to those of the past, a rooms revenue forecast for 2005 may be based on a 1Rs. increased in occupancy percentage (to 76%) and a Rs.3 increased in the average daily room rate (to Rs.60). Given this projections, the following formula can be used to forecast room's revenue for the year 2005 for the Bradly hotel

Forecasted rooms revenue= Rooms available x occupancy percentage x average daily rates
$$= 43,800 \times 0.76 \times Rs.60$$
$$\underline{=Rs.1,997,280}$$

The number of rooms available is calculated by multiplying the 120 rooms of the Bradly hotel by the 365 days of the year. This calculation assumes that all the rooms will be available for sale each day of the year. This will probably not be the case, but it is a reasonable starting point for projection.

This simplified approach to forecasting room's revenue is intended to isslustrate the use of a trend data and forecasting. A more detail approach would consider to variety of different rates corresponding to room types, guests profiles, days of the week, and seasonality of business. These are just a few of the factors that may affect rooms revenue forecasting.

1.11 Estimating expenses

Most expenses for front office operations are direct expenses in that day vary in direct proportion to room's revenue. Historical data can be used to calculate and approximately percentage of rooms revenue that each expense item may represent. This percentage figures can then be applied to the total amount of forecasted room revenue, resulting in Rupeesestimates for each expense category for the budget year.

Typical room division expenses are payroll and related expenses, guests room laundry (Terry and Linen) guest's supplies (Bath Amenities, toilet tissue, matches), hotel merchandizing (in room guests directory and hotel brochures), travel agents commission and reservation expenses, and other expenses. When these costs are total and divided by the number of occupied rooms, the cost per occupied room is determined. The cost per occupied room is often expressed in Rs. and as a percentage. Exhibits 14 presents expense category statistics of the Bradly Hotel from 2001 to 2004, expressed as percentage of each year's room's revenue. Based on this historical information and management current objectives for the budget. Year 2005, the percentage of rooms revenue for each expense category may be projected as follows: payroll and related expenses – 17.6%, laundry, terry, and guests applies – 3.2%, commissions and reservations expenses-2.8%, and other expenses- 4.7%

Using the percentage figures and the expected room's revenue calculated previously, the Bradly hotels room division's expenses for the budgeted year are estimated as follows:
- Pay roll and related expenses
    Rs.1997, 280　*　.176　=　Rs.351,521.28

- Laundry, linen, terry, and guests supplies
  Rs.1,997,280   *   .32   =   Rs.63,912.96

- Commissions and reservations expenses
  Rs.1,997,280   *   .28   =   Rs.55,923.84

- Other expenses
  Rs.1,997,280   *   .047   =   Rs.93,872.16

In this example, management should question why cost continuous to rise as a percentage of revenue. If cost continues to rise (as a %, not in real Rs.), profitability will be reduced. Therefore, one of the outcomes of the budgets process will be to identify where cost is rising as a percentage of revenue. Then management can analyze why this cost are increasing disproportionately with revenue and developed a plan to control them.

Since most front office expenses very proportionately with rooms revenue (and therefore occupancy), another method of estimating this expenses is to estimate variable cost per room sold and then multiply theses cost by the number of rooms expected to be sold.

1.12 Refining budget Plans

Departmental budget plans are commonly supported by detailed information gathered in the budget preparation process and recorded on worksheets and summary files. These documents should be saved to provide an explanation of the reasoning behind the decisions made while preparing departmental budget plans. Such records may help resolve issues that arise during the budget review. These support documents may also provide valuable assistance in the preparation of future budget plans.

If no historical data are available for budget planning, other sources of information can be used to develop a budget. For example, corporate headquarters can often supply comparable budget information to its chain-affiliated properties. Also, national accounting and consulting firms usually provide supplemental data for the budget development process.

Many hotels refine expected results of operations and revise operations budget as they progress through the budget year. Reforecasting is normally suggested when actual operating results start to very significantly from the operations budget. Such variance may indicate that conditions have changed since the budget was first prepared and that the budget should be brought into line

2. Evaluating Operations

    2.1. Evaluating Front Office Operations
        2.1.1. Daily Operations Report
        2.1.2. Monthly Income Statement
        2.1.3. Occupancy Ratios;
            2.1.3.1. Occupancy Percentage
            2.1.3.2. Room Count
            2.1.3.3. House Count
            2.1.3.4. Double Occupancy Percentage
            2.1.3.5. Bed Occupancy Percentage

1.13 Evaluating Front Office Operations

Evaluating the results of front office operations is an important management function. Without thoroughly evaluating the results of operations, managers will not know whether the front office is attaining planned goals. Successful front office managers evaluate the results of department activities on a daily, monthly, quarterly and yearly basis. The following sections examine important tools that front office managers can use to evaluate the success of front office operations. These tools include:

- Daily operations report
- Monthly Income Statement
- Occupancy ratios

Daily Operation Reports

The daily operations report, also known as the manager's report, the daily report, and the daily revenue report, contains a summary of the hotel's financial activities during a 24-hour period. The daily operations report provides a means of reconciling cash, bank accounts, revenue and accounts receivable. The report also serves as a posting reference for various accounting journals and provides important data that must be input to link front and back office computer function. Daily operations reports are uniquely structured to meet the needs of individual hotel properties.

Exhibit 15 presents a sample daily operations report for a hotel with food and beverage service. Rooms statistics and occupancy ratios form an entire section of a typical daily operations report. Enriched by comments and observations from the accounting staff, statistics shown on the daily operations report may take on more meaning. For example, statistics about the number of guests using the hotel's valet parking services take on added significance when remarks indicate that valet sales are down while occupancy is up. The front office manager may assume that the front office staff is not properly promoting available guest valet parking services.

The information provided by the daily operations report is not restricted to the front office manager or hotel general manager. Copies of the daily operations report are generally distributed to all department and division managers in the hotel.

Hotel Income Statement

The hotel's income statement provides important financial information about the results of hotel operations for a given period of time. The period may be one month or longer, but should not exceed one business year. Since a statement of income reveals the amount of net income for a given period, it is one of the most important financial statements used by management to evaluate the overall success of operations. Although front office managers may not directly rely upon the hotel's statement of income, it is an important financial indicator of operational success and profitability. The hotel income statement relies in part on detailed front office information that is supplied through the rooms division income statement. The rooms division income statement is discussed in the next section.

The hotel's statement of income is often called a consolidated income statement because it presents a composite picture of all the hotel's financial operation. Rooms division information appears on the first line, under the category of operated departments. The amount of income generated by the rooms division is determined by subtracting payroll and related expenses and other expenses from the amount of net revenue produced by the room division over the period covered by the income statement. Payroll expenses charged to the room division may include those associated with the front office manager, front desk agents, reservations agents, housekeepers and uniformed service staff.
Since the rooms division is not a merchandising facility, there is no cost of sales to subtract from the net revenue amount.

Revenue generated by the rooms division is usually the largest single amount produced by revenue centers within a hotel. Based on the figures in Exhibit 16, the amount of income earned by the Eatonwood Hotel's rooms division during the year was Rs.4528, 486—or 81.7 percent of the total operated department income of Rs.5,544,699.

Rooms Division Income Statement

The hotel's statement of income shows only summary information. The separate departmental income statements prepared by each revenue center provide more detail. Departmental income statements are called schedules and are referenced on the hotel's statement of income.

Exhibit 16 references the rooms division schedule as 1. The room division income statement appears in Exhibit 17. The figures shown in Exhibit 16 for the rooms division net revenue, payroll and related expenses, other expenses, and departmental income are the same amounts, that appear for the rooms division under the category of operated departments in Exhibit 17.

The rooms division schedule is generally prepared by the hotel accounting division, not by the front office accounting staff. The figures are derived from several sources, as follows;

Rooms Division Entry	Source Documents
Salaries and wages………………………	Times cards, payroll records
Employee benefits………………………………….Payroll records	
Commission…………………………………Travel agency billings	

Exhibite 16 Sample Consolidated Statement of Income

Eatonwood Hotel Summary Statement of Income For the year ended 12/31/20xx					
	SCHEDULE	NET REVENUE	COST OF SALES	PAYROLL & RELATED EXPENCES	OTHER EXPENSES	INCOME (LOSS)
OPERATED DEPARTMENT					
ROOMS	1	Rs.6,070,356		Rs.1,068,383	Rs.473,487	Rs.4,528,486
FOOD	2	2,017,926	Rs.733,057	617,705	168,794	498,372
BEVERAGE	3	778,971	162,258	205,897	78,783	332,033
TELECOMMUNICATIONS	4	213,744	167,298	31,421	17,309	2,284
RENTALS AND OTHER INCOME	5	188,092				288.092
TOTAL OPERATING DEPARTMENTS		9,269,091	1,026,613	1,923,406	738,373	5,544.699
UNDISTRUABLED OPERATING EXPENSES					
ADMINISTRATIVE AND GENERAL	6			227,635	331,546	559,181
MARKETING	7			116,001	422,295	538,296
PROPERTY OPERATIONS AND MAINTAINANCE	8			204,569	163,880	368,449
UTILITY COSTE	9			548,205	1,464,052	2,012,257
TOTAL		Rs.9,269,091	Rs.1,062,613	Rs.2,471,611	Rs.2,202,425	
INCOME AFTER UNDISTRIBUTED OPERATING EXPENSES						3,532,442
RENT,PROPERTY,TAXES AND INSURANCE						641,029

INCOME BEFORE INTRETS,DEPRECIATION AND AMORITIZATION,AND INCOME TAXES	2,891,413
INTREST EXPENSES	416,347
INCOME BEFORE DEPRECIATION AND AMORITIZATION,AND INCOME TAXES	2,430,066
DEPRECIATIONS AND AMORITAZTION	552,401
GAIN ON SALES OF PROPERTY	1574
INCOME BEFORE INCOME TAXES	1,879,239
INCOME TAX	469,810
NET TAX	Rs.1,409,429

Contract cleaning……………………………………….Supplier invoices
Guest transportation……………………………… ….. …. invoices
Laundry and dry cleaning……………… Housekeeping and outside
                           Laundry/Valet charges for
                           Employee uniforms.
Linen………………………………………………….Supplier invoices
Operating supplies………………………………… Supplier invoices
Reservation expenses (if any)……………Reservation system invoices
Other operating expenses………………………….. Supplier invoices
                 (such as from equipment rentals, etc.)

Exhibit 17 Sample Rooms Division Income Statement

Rooms—Schedule #1 Eatonwood Hotel For the year ended 12/31/20XX	
	Current Period
Revenue	Rs.6,124,991

Allowances	54,635

Net Revenue	6,070,356
Expenses	
Salaries and wages	855,919
Employee Benefits	212,464

Total Payroll and Related Expenses	1,068,383
Other Expenses	
Cable/Satellite Television	20,100
Commissions	66,775
Complimentary Guest Services	2,420
Contract Services	30,874
Guest relocation	1,241
Guest Transportation	48,565
Laundry and Dry Cleaning	42,495
Linen	12,140
Operating Supplies	122,600
Reservations	40,908
Telecommunications	12,442
Training	7,122
Uniforms	60,705
Other	5,100
Total Other Expenses	473,487
TOTAL EXPENSES	1,541,870
DEPAREMENTAL INCOME (LOSS)	Rs.4,528,486
	========

(Reservation expenses are fees the hotel pays for central reservation services and reservations made through global distribution systems.)

By carefully reviewing the rooms division income statement, the front office manager may be able to develop action plans to improve the division's financial condition and services. For example, the income statement may indicate that telephone revenue is down due to the application of a long-distance surcharge. This analysis reveals that guests are making fewer telephone calls because the cost per call was increased, by the surcharge. Therefore, even though the revenue per call may have increased, overall telephone revenue have decreased. In many hotels, there is a surcharge for direct dial long-distance telephone service by the hotel. Yet, there is no surcharge or a minimal charge to use a telephone credit card. Housekeeping provides another example. If a hotel increased the number

of rooms a room attendants is assigned to clean per day from 14 to 15, it will likely need fewer attendants. This can produce saving in wages, benefits, and possibly cleaning supplies. Front office managers must note, however, that taking measures to reduce costs may reduce guest service.

Rooms Division Budget Reports

Generally, the hotel's accounting division also prepares monthly budget reports that compare actual revenue and expenses figures with budgeted amounts. These reports can be provide timely information for evaluating front office operations. Front office performance is often judged according to how favorably the rooms division monthly income and expenses figures compare with budgeted amounts.

A typical budget report format should include both monthly variances and year-to-date variances for all budget items. Front office managers are more likely to focus on the monthly variances since year-to-date variances merely represent the accumulation of monthly variances. Exhibit 18 percents a rooms division budget report for the Gregory Hotel for the month of January. This budget report does not yet contain year-to-date figures since January is the first month of the business year for this particular hotel.

It is important to note that Exhibit 18 presents both Rupeesand percentage variances. The Rupeesvariances indicate the difference between actual results and budgeted amounts. Rupeesvariances are generally considered either favorable or unfavorable as follows:

	Favorable Variance	Unfavorable Variance
Revenue	Actual exceeds budget	Budget exceeds actual
Expenses	Budget exceeds actual	Actual exceeds budget

For the example, the actual amount of salaries and wages for rooms division personnel in the month of January was Rs.20,826, while the budgeted amount for salaries and wages was Rs.18,821, resulting in an unfavorable variance ofRs.2,005. This Rupeesvariance is bracketed to indicate that it is unfavorable. However, if the revenue variances is very favorable, an unfavorable variances in expenses (such as in payroll) is not necessarily negative. The comparative variances may merely indicate the greater expense associated with serving more guests than were anticipated when the budget was created. One way to verify whether a variance is really unfavorable or favorable is to divide the actual rooms occupied for the period into the actual cost and budgeted cost. If the actual cost is at or below the budgeted cost per room, the variance is actually positive, even though there was more expense.

Percentage variances are determined but dividing the Rupeesvariance by the budgeted amount. For example, the 7.61 percent variance for net revenue shown in Exhibit 18 is the result of dividing the Rupeesvariance figure of Rs.11,023 by the budgeted net revenue amount of Rs.144,780.

The budget report shows both Rupeesand percentage variances because Rupeesvariances alone or percentage variances alone may not indicate the significance of

Exhibit 18 Sample Monthly Rooms Division Budget Report

Gregory Hotel
Budget Report—Rooms Division
For January 20XX

	Actual	Budget	Variances Rs.	%
Revenue				
Room Sales	Rs.156,240	Rs.145,080	Rs.11,160	7.69%
Allowances	437	300	(137)	(45.67)
Net Revenue	155,803	144,780	11,023	7.61
Expenses				
Salaries and wages	20,826	18,821	(2,005)	(10.65)
Employee Benefits	4015	5,791	1,776	30.67
Total Payroll and Related Expenses	24,841	24,612	(229)	(0.93)
Other Expenses				
Commissions	437	752	315	41.89
Contract Cleaning	921	873	(48)	(5.50)
Guest Transportation	1,750	1,200	(550)	(45.83)
Laundry and Dry Cleaning	1,218	975	(243)	(24.92)
Linen	1,906	1,875	(31)	(1.65)
Operating Supplies	1,937	1,348	(589)	(43.69)
Reservation Expenses	1,734	2,012	278	13.82
Uniforms	374	292	(82)	(28.08)
Other Operating Expenses	515	672	157	23.36
Total Other Expenses	10,792	9,999	(793)	(7.93)
Total Expenses	35,633	34,611	(1,022)	(2.95)
Departmental Income	Rs.120,170	Rs.110,169	Rs.10,001	9.08%

The variances reported .For example, Rupeesvariances fail to show the magnitude of change from the budgeted base. The monthly budget report for the front office of a large hotel may show that actual net revenue varied from the budgeted amount by Rs.1,000. This may seem to be a significant variance, but if the Rs.1,000 variance is based on a budgeted amount Rs.500,000, it represents a

percentage difference of only 0.2 percent. Most front office managers would not consider this significant variance. However, if the budget amount for the period was Rs.10,000, Rs.1,000 Rupeesvariance would represent a percentage variance of 10 percent, a percentage variance most front office managers would consider significant.

Percentage Variances lone can also be deceiving. For example, assume that the budgeted amount for an expense item is Rs.10, and the actual expense was Rs.12.

Occupancy Ratios

Occupancy ratios measure the success of the front office in selling the hotel's primary product: guestrooms. The following rooms statistics must be gathered to calculate basic occupancy ratios;

- Occupancy Percentage
- Room Count
- House Count
- Double Occupancy Percentage
- Bed Occupancy Percentage
- Foreign Guest Percentage
- Average Daily rate (ADR)
- Revenue per Available Room (RevPAR)
- Average Rate Per Guest (ARG)

Generally, these data are contained on the daily operations report. Occupancy ratios that can be computed from these data include occupancy percentage, average daily rate, revenue per available room (Rev PAR), revenue per available customer (Rev PAC), multiple (or double) occupancy ratio, and average rate per guest. Computed occupancy percentage and average daily rate may also appear on a property's daily operations report. These ratios typically are calculated on a daily, weekly, monthly and yearly basis.

The night auditor typically collects occupied rooms data and calculates occupancy ratio, while the front office manager analyzes the information, the front office manager must consider how a particular condition may produce different effects on occupancy. For example, as multiple occupancy increases, the average daily room rate generally increases. This is because when a room is sold to more than one person, the room rate is usually grater than when the room is sold as a single. However, since the room rate for two people in a room is usually not twice the rate for one person, the average room rate per guest decreases.

Occupancy Percentage-
Relationship of the number of rooms sold to the number of rooms available for sale. (This ratio is the barometer for measuring the market success of the sales department of the hotel.)

$$\text{Occupancy Percentage} = \frac{\text{No of rooms Sold}}{\text{Number of Rooms Available}}$$

Room Count-
The number of rooms occupied on a particular night.

   i) Total Number of Available Rooms- Number of Vacant Rooms
   ii) Total Number of Rooms on Previous Night + Number of Rooms Sold to New Arrival Guest-
       Number of Rooms Vacated by Departure Guests.

House Count-
The Number of guests staying on a particular night.

   House Count = Previous House count + Arrivals- Departures.

Total number of guests in the hotel can be also be calculated as follows:

   Total Guests = Single rooms + 2 x (Double Rooms) + Extra Beds

Double Occupancy Percentage or Multiple Occupancy Ratios-
Number of rooms sold with 2 persons occupying each room is called double occupancy

$$\text{Multiple Occupancy Percentage} = \frac{\text{Number of Rooms Occupied by More Than One Guest}}{\text{Number of Rooms Occupied}}$$

Or

$$\text{Double Occupancy Percentage} = \frac{\text{House Count - Number of Rooms Sold}}{\text{Number of Room Sold}} x100$$

Or

$$\text{Double Occupancy Percentage} = \frac{\text{House Count}}{\text{Number of Room Sold}} - 1 x100$$

Bed Occupancy Percentage-
Guest occupancy or Sleeper Occupancy

$$\text{Bed Occupancy Percentage} = \frac{\text{Number of Beds Sold}}{\text{Number of Beds Available for Sale}} \, x100$$

Foreign Guest Percentage-
Total Guest (H.C) – No. of Locals (Indians) = Number of Foreign guests

$$\text{Foreign Guest Occupancy Percentage} = \frac{\text{Number of Foreign Guests in Hotel}}{\text{Total Number of Guests in Hotel (H.C)}} \, x100$$

Average Daily rate (ADR)-
Ratio of room's income to the number of occupied rooms.

$$\text{Average Daily Rate} = \frac{\text{Rooms Revenue}}{\text{Number of Rooms Sold}}$$

Revenue per Available Room (RevPAR)-

$$\text{RevPAR} = \frac{\text{Actual Room Revenue}}{\text{Number of Total Available Rooms}}$$

Average Revenue per Guest (ARG)-
It is the ratio of room income to the total number of guests staying in the hotel.

$$\text{Average Revenue per Guest} = \frac{\text{Total Room Revenue}}{\text{Total no of Guests in Hotel / House Count}}$$

Yield Statistics –

Yield Statistic. Potential rooms revenue is the amount of rooms revenue that can be generated if all the rooms in the hotel are sold at rack rate on a given day, week, month or year. The ratio of actual to potential rooms revenue is known as the yield statistic. .

$$\text{Yield Statistic} \quad = \frac{\text{Actual Room Revenue}}{\text{Potantial Room Revenue}}$$

Market Share Index :- Rev-par is a useful tool to measure the performance of a hotel. It uses occupancy percentage and ADR for comparing the performance of hotels. However, in a competitive environment, hotels may not provide information about ADR. In such situations, the evaluation of the hotel's performance is done by using market share. Market share is defined as a hotel's occupancy performance in relation to other hotels within a predetermined competitive set.

A major task in calculating the market share is the determination of the competitive set. The answer to the question—if a guest is not staying at our hotel, where can he possibly stay?—constitutes the competitive set. The total market potential is the sum total of *the* number of rooms that are available in the total number ofI participating hotels.

Let's suppose there are five hotels in a competitive set, namely Hotel A, Hotel B, Hotel C, Hotel D, and Hotel E, with a total of 200, 300, 400, 500, 600 rooms respectively. The total market potential will be 2,000 rooms, and the individual market potential of each hotel in the set will be equal to the number of rooms available for sale in the hotel. The rightful market share of a hotel is the maximum share that can be occupied by the hotel, i.e. the number of rooms divided by the *total **market potential.*** The rightful market share in this example can be summarized as under:

Hotel	Number of Rooms	Total Market Potential	Rightful Share (Number of rooms/Total market potential)
A	200	2,000	0.10 **or** 10%
B	300	2,000	0.15 **or 15%**
C	400	2,000	0.20 **or** 20%
D	500	2,000	0.25 **or** 25%
E	600	2,000	0.30 **or 30%**

If we feed the actual occupancy data of all the participating hotels of the competitive set, we will be able to know the actual market and share taken by each hotel, and can compare the performance of each participating hotel.

Let's suppose in the above example, Hotels A, B, C, D, and E have sold 1,300, 1,500, 2,100, 2,600, and 3,000 rooms respectively in one week. We can calculate the actual and potential market share as under:

Hotel	Number of	Total number of rooms in a	Actual number of

	rooms	(No. of rooms X No. of days)	sold in the week
A	200	1,400	1,300
B	300	2,100	1,500
C	400	2,800	2,100
D	500	3,500	2,600
E	600	4,200	3,000
		14,000 (potential)	10,500 (actual)

One can find out the performance of the entire set by dividing the actual number of rooms sold by the potential number of rooms available during that week.

$$10,500/14,000 = 0.75 \text{ or } 75\% \text{ occupancy}$$

From the available information, one can calculate the actual market share captured by each hotel in the set. The market captured by each hotel is as under:

Hotel	Market Share	Percentage
A	1,300/10,500	12.38%
B	1,500/10,500	14.28%
C	**2,100/10,500**	20.00%
D	**2,600/10,500**	24.77%
E	3,000/10,500	28.57%
	Tota	100.00%

On comparing of the actual market share with the rightful market share, one can find the performance of each hotel in the competitive set. The comparative analysis of the present example is as under:

Hotel	Actual market	Rightful share	Differenc
A	12.38%	**10%**	+ 2.38
B	14.28%	**15%**	-0.72
C	20.00%	**20%**	Nil
D	24.77%	**25%**	-0.23
E	28.57%	30%	-1.43

From the above analysis, one can gauge that Hotel A's performance in better than Hotels B, D, and E, whereas Hotel C has been able to capture its rightful market share.

Market share index enables the managers to assess their hotel's performance with respect to the competitors. It assists the managers to develop plans to combat the loss of fair market share and also to gain market share from the competitors.

EVALUATION OF HOTELS BY GUESTS

We have looked at some methods by which hotels evaluate their performance. Let us also take a look at how guests evaluate a hotel (Exhibit 15.1). Guests base their evaluation of hotels on various criteria like location, hotel staff, service level, cleanliness, etc. A 2007 survey of the hotel and restaurant industry in Europe concluded that 80 per cent of UK consumers are now researching online before booking a hotel, and that half of them said they have refrained from booking a hotel as a direct result of a negative review on travel information websites such as TripAdvisor. Hence, it is very important that the hotel provides consistent excellent services to all the guests so that no guest leaves the hotel with a negative experience, which might lead to negative word-of-mouth publicity and to the lowering of hotel sales, and thus affecting the revenue and performance of the hotel.

Key Terms ───

average daily rate – an occupancy ratio derived by dividing net rooms revenue by the number of rooms sold.

Average rate per guest – an occupancy ratio derived by dividing net rooms revenue by the number of guests.

Competitive set – the competitive group of hotels in a market that are the most important competition for a hotel.

Daily operations report – a report, typically prepared by the night auditor, that summarizes the hotel's financial activities during a 24-hour period and provides insight into revenues, receivables, operating statistics and cash transactions related to the front office; also known as the manager's report.

Forecasting – the process of predicting events and trends in business; typical forecasts developed for the rooms division include room availability and occupancy.

House count – the forecasted or expected number of guests for a particular period, sometimes broken down into group and non-group business.

Hubbart Formula – a bottom-up approach to pricing room; in determining the average price per room, this approach considers costs, desired profits, and expected room sold.

Income statement – a financial statement that provides important information about the results of hotel operations for a give period of time.

Market condition approach – an approach to pricing that bases prices on what comparable hotels in the geographical market are charging for a similar product.

Multiple occupancy percentage – the number of rooms occupied by more than one guest divided by the number of rooms occupied by guests.

Multiple occupancy ratio – a measurement used to forecast food and beverage revenue, to indicate clean linen requirements, and to analyze daily revenue rate; derived from multiple occupancy percentage or by determining the average number of guests per room sold; also called double occupancy ratio.

Occupancy percentage – an occupancy ratio that indicates the proportion of rooms sold to rooms available for saleduring a specific period of time.

Occupancy ratio – a measurement of the success of the hotel in selling rooms; typical occupancy ratios include average daily rate, revenue per available room, average rate per guest, multiple occupancy statistics, and occupancy percentage.

Operating ratio – a group of ratios that assist in the analysis of hospitality operations.

Overstay – a guest who stays after his or her stated departure date.

rack rate – the standard rate established by the property for a particular category of rooms.
Revenue per available customer(RevPAC) – a revenue management measurement that focuses on revenue per actual guest.

Revenue per available room(RevPAR) – a revenue management measurement that focuses on revenue per available room.

Room rate variance report – a report listing rooms that have not been sold at rack rates.
Rule-of-thumb approach – a cost approach to pricing rooms; using this approach, the room rate is set at Rs.1for each Rs.1,000 of construction and furnishings cost per room, assuming an occupancy of 70 percent.

Stayover – a room status term indicating that the guest is not checking out today and will remain at least one more night; a guest who continues to occupy a room from the time of arrival to the state date of departure.

Understay – a guest who checks out before his or her stated departure date.

Yield statistic – the ratio of actual rooms revenue to potential rooms revenue.

Review Questions

1. How do the seven functions of management fit into the overall management process? How do these functions apply to the front office manager's position?
2. What kind of special room rates might a hotel offer?
3. What are the three common methods of establishing room rates?
4. What information do front office managers require to develop room availability forecasts?

5. How three-day & Ten Day forecasts help ensure efficiency in front office operations?
6. What are the primary responsibilities of the front office manager in budget planning? How are they performed?
7. What methods can affront office manager use to evaluate how effectively the front office is selling rooms?
8. How can front office managers use budget reports to analyze operations? Why is reporting of both Rupees and percentage variances valuable?

Foreign Exchange

3.1   Handling Foreign Currency
3.2   Foreign Currency Exchange
3.3   Procedures to be followed while exchanging Foreign Currency
3.4   Currencies Accepted by RBI
3.5   Foreign Exchange Certificate – Format
3.6   Foreign Exchange Settlements using Credit Cards.
3.7   Export Promotion Capital Goods Scheme (EPCG)

Foreign Currency Exchange

The Tourism industry is a prime source for the generation of foreign exchange. The government thus likes to keep a close tab on all foreign currency released. This is done through a strict system of checks & records which extend to each hotel as well.

1. Hotels need to get a license from the Reserve bank of India to exchange the foreign currency of the guest and settle their bills against the foreign currency
2. This license is renewed every year
3. Front Office Cashier is authorized by the management to act on their behalf
4. Of Course daily exchange rates are to be taken into consideration while exchanging the foreign currency

Procedure to be followed while exchange of foreign currency

The front office Cash is the only place in the hotel where foreigners can exchange foreign currency into rupees. The daily exchange rate is to be prominently displayed for the guests to see. The exchange rate may differ from time to time. The following steps may be taken while exchanging currency.

1. The currency to be exchanged should be exchangeable as per government banking regulations.
2. Look for the passport of the guest to verify the identity of a guest. Request the guest to produce the passport to determine the credentials and take the room number
3. Determine whether the currency can be exchanged or not
4. Fill the foreign currency exchange certificate
5. Take the signature of the guest on the certificate and the travelers cheque
6. Tallying the signatures of the guest on the certificate and the travelers cheques
7. Write the exchange rate in the certificate and find out the value in the Indian currency
8. Pay the value of the Indian currency to the guest along with the certificate
9. Receive the amount of foreign currency in cash or travelers cheques and calculate the amount to be paid in local currency
10. Give the original copy of the certificate & total amount in local currency to the guest
11. Attach the foreign currency notes / travelers cheques with the duplicate copy of the certificate
12. Let the third copy remain in the book for the hotel
13. Enter the transaction in the cashier sale service
14. Enter the transaction in the foreign exchange control sheet

Currencies Accepted by Reserve Bank of India (RBI)

COUNTRY	CURRENCY
Afghanistan	Afghani=100 pulse
Argentina	Argentina peso=10,000 Australes
Australia	Australian dollar 100 cent
Austria	Euro=cent
Bangladesh	Taka=100 poisha
Belgium	Euro=100 centimes
Bhutan	Ngultrum=100chetrum
Brazil	Real=100centavos
Bulgaria	Lev=100stotinki
Canada	Canadian dollar=100cent
Chie	Chilean peso=100 centavos
China	Yuan=10jiao or 100 fen
Columbia	Columbian peso=100centvos
Costa Rica	Colon=100 centimos
Denmark	Danish krone

Currencies Accepted by Reserve Bank of India (RBI)

Maldives	Rufiyaa=100 laris
Mauritius	Mauritian rupee=100 cents
Mexico	Mexican new peso=100 centavos
Nepal	Nepalese rupee=100 paisa
Netherland	Euro=100 centavos
New Zealand	New Zealand dollar=100 paisa
Philippines	Philippinepeso=100
Poland	Zloty=100 groszy
Portugal	Euro=centimes
Qatar	Qatar riyal=100 dirham
Russian	Rouble=100 copocks
Saudi Arabia	Saudi riyal 20 qursh
Seychelles	Seychellois rupee=100 cents
Singapore	Singaporean dollar=100 cent
South African	Rand=100 cents
Spain	Euro=100 cen
Sri lanka	Lanka rupee
Switzerland	Swiss franc=100 cents
Thailand	Baht=100 satangs
Turkey	Turkish lira=100 kurus
U.A.E	Dirham=100 fils
United kindom	Pound sterling=100 pence
U.S.A	Dollar=100 cents
Vatican city	Lira
Zimbabwe	Zimbabwean dollar=100 cents

Currencies not Accepted by Reserve Bank of India (RBI)

Iran	Rial=100 dinar
Sudan	Sudan pound
Mayanmer	Kyat
Syria	Syrian pound
North korea	North korian won

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FOREIGN EXCHANGE ENCASHMENT CERTIFICATE
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(NAME & LOGO OF HOTEL)   RBI LICENSE NO_____

We hereby certify that we have purchased today foreign currency from _____
holder of passport no _____Nationality_____ and paid Rupee
equivalent as per details given below (rupee equivalent in words)_____

(A)

Currency purchased (indicating clearly notes/ coins & travelers checks separately (1)	Amount (2)	Rupee equivalent (3)	Exchange rate (4)
Notes / coins			
(enter currency note number)			
Travelers Cheques			
(enter travelers cheque number)			

(B)Details of adjustments made towards settlement of goods supplied & services rendered

Bill nos	Date	Amount

(C)NET AMOUNT PAID IN RUPEES_____
AMOUNT IN WORDS_____
(total under (A) minus Total under (B)

Authorized Signatory_____
Name_____Designation_____

Note : this certificate should be preserved by the holder to facilitate re conversion of the rupees balance from the amount dispensed in (C) at the time of departure from India, or to make payment in Indian currency for the services rendered.

EPCG(Export Promotion Capital Goods Scheme)

 is a scheme in which one can import the capital goods which may be for pre-production, production or post production as well as computer software systems, spares parts, fixtures, dies, moulds at very concessional rate of custom at 0% in some sectors and 3.09% for all sectors whereas the normal custom duty is 23.895%. Thus this scheme saved at least 20% of the duty value on the import. This scheme is subject to the export obligation equivalent to 6 times or 8 times (sector wise) of duty saved in the time frame of 6/8 years. This scheme is for manufactures as well as vendors, service providers as well.