IJETIR

ISSN (Online) 2583-0554

International Journal of Emerging Technologies and Innovative Research (IJETIR)
International Open-Access, Double-Blind, Peer-Reviewed, Refereed, Multidisciplinary Online Journal

Impact Factor: 5.731

Volume 6, Issue 5, May 2026

Predictive Analytics for Hotel Demand Forecasting and Booking Cancellation Risk Using Machine Learning Models

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Abstract: The hotel business is a very dynamic and sensitive sector in which the changes in the number of customers and the way they book rooms can significantly affect the sector. The problem of hotel cancellations is one of the biggest problems that hotels face because it directly impacts on hotel revenue management and efficiency. This study aims to present a framework of predictive analytics through the use of machine learning models to predict the hotel demand and the risk of cancellation. Multiple classification and regression models are evaluated based on the historical booking data, customer demographics, booking channels, and the temporal features of the given data. The study shows that by applying machine learning methods like Random Forest, Gradient Boosting, and Logistic Regression, prediction accuracy can be achieved that is much higher than what can be achieved using traditional statistical methods. The results are intended to help hotel managers in optimizing their pricing strategy, allocation of resources and loss of revenue from cancellation.

Keywords: Hotel Booking, Cancellation Prediction, Machine Learning, Demand Forecasting, Predictive Analytics, Hospitality Industry

I. INTRODUCTION

The hospitality business is one of the most volatile in which business demand can vary from one season to the next, depending on consumer habits and buying patterns, economic conditions, and external events. One of the top operational challenges hotels are dealing with is cancellation. This has a detrimental effect on hotel revenues, room allocation and forecasting.

Large amounts of data are created, both structured and unstructured, as digital platforms become more prevalent for booking. This gives a chance to employ machine learning algorithms to anticipate bookings cancellations, and to predict demand better. This research aims to develop an interpretable machine learning model that can help hotel managers in decision making process.

II. PROBLEM STATEMENT

Although the hotel revenue management systems have improved, there are still challenges that hotels face:

Occupancy planning issues are high cancellation rates.

Inaccurate demand forecasting

The absence of meaningful prediction models for decision making.

Inefficient pricing strategies

A system that can accurately predict booking cancellations and trends in demand with interpretability using machine learning is needed.

III. OBJECTIVES

- To analyze key factors influencing hotel booking cancellations
- To understand the factors that affect the cancellation of hotel bookings.

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- To build machine learning predictive models of the cancellation phenomenon.
- To predict the number of hotel bookings based on past information.
- To compare performance of different ML algorithms
- To make predictive models more interpretable for practical applications

IV. LITERATURE REVIEW

Previous studies have explored predictive modeling in hospitality using statistical and machine learning approaches. Logistic regression has been widely used for the prediction of cancellation because of its interpretability. New studies indicate, however, that ensemble models, such as Random Forest and Gradient Boosting is more accurate than traditional models.

Other studies also emphasize the role of feature engineering like the lead time, room type, booking channel and customer history. Also, deep learning models have been utilized, but they are usually not interpretable, which is essential for business decision-making.

V. METHODOLOGY

5.1 Data Collection

This data set contains hotel booking data from the past, which includes the following:

- Booking date
- Arrival date
- Lead time
- Customer type
- Room type
- Booking channel

The number of special requests made.The quantity of special requests.

5.2 Data Preprocessing

- Handling missing values
- Encoding categorical variables
- Feature scaling

The removal of outliers using specific methods.Removal of outliers using special techniques.

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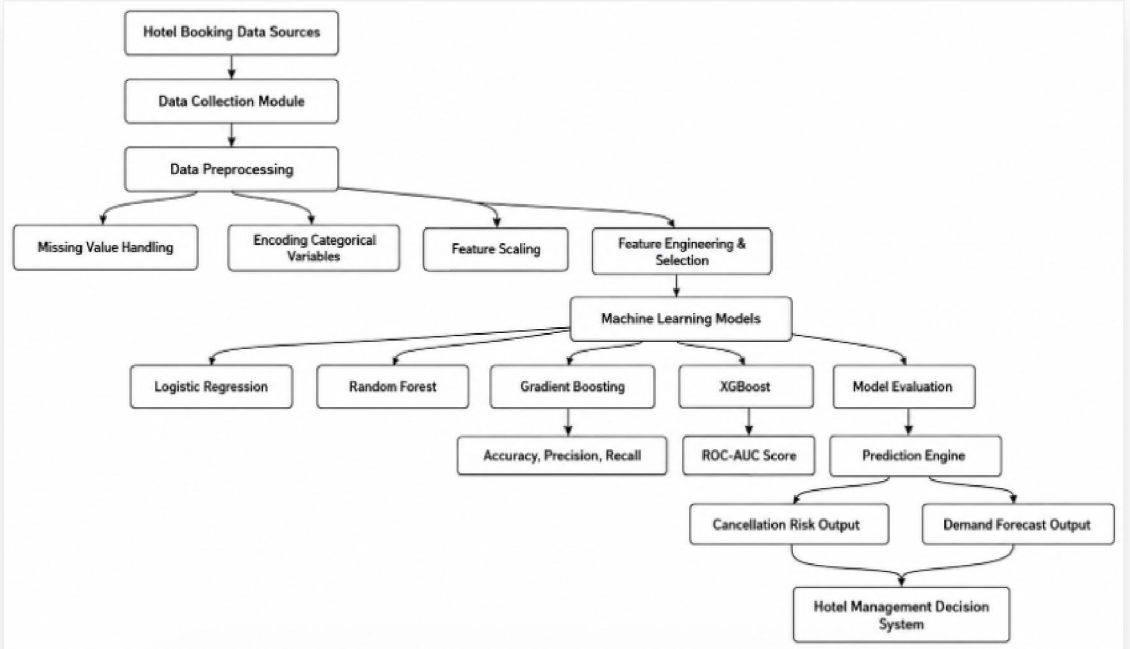

Figure 1: System Architecture of Machine Learning-Based Hotel Booking Prediction System

5.3 Feature Selection

The following features are important and can impact on cancellations:

- Lead time
- Deposit type
- Previous cancellations
- Price sensitivity
- Seasonal indicators

5.4 Machine Learning Models Used

- Logistic Regression
- Decision Tree Classifier
- Random Forest Classifier

It includes Gradient Boosting Machines (XGBoost/LightGBM).

- For demand forecasting:
- Linear Regression
- Time Series Models (ARIMA)

Enables users to define their own Active Model with LSTM layers (optional).

5.5 Evaluation Metrics

- Accuracy
- Precision
- Recall
- F1-score
- ROC-AUC

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For forecasting:

- RMSE
- MAE

Table 1: Dataset Features Used for Model Training

Feature Name	Description	Data Type	Importance in Prediction
Lead Time	Days between booking and arrival	Numerical	Very High
Arrival Date	Date of hotel check-in	Date	High
Booking Channel	Source of booking (online, agent, direct)	Categorical	High
Customer Type	Transient / Corporate / Group	Categorical	Medium
Room Type	Type of room booked	Categorical	Medium
Deposit Type	Prepaid / No deposit	Categorical	Very High
Previous Cancellations	Number of past cancellations by customer	Numerical	Very High
Special Requests	Number of special requests	Numerical	Medium
Average Daily Rate	Price per room per night	Numerical	High
Cancellation Status	Target variable (0 = No, 1 = Yes)	Binary	Target Variable

VI. EXPECTED RESULTS

The aim of this study is to be able to conclude that ensemble models, such as Random Forest and Gradient Boosting, will outperform basic models when predicting cancellations. Lead time and booking channel are expected to be the two best predictors as revealed by feature importance analysis.

Demand forecasting models will help to better predict occupancy planning and minimize overbooking/underbooking.

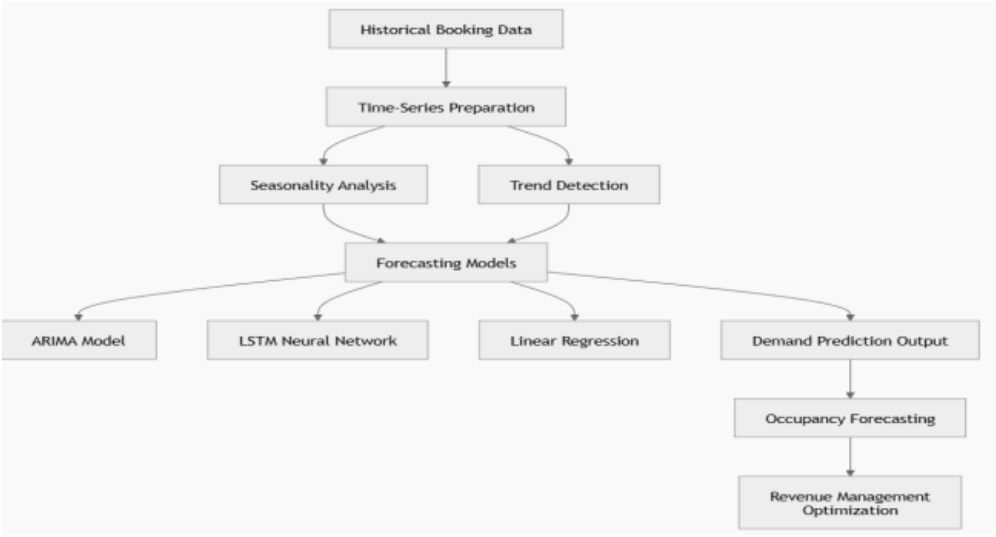

Figure 2: Demand Forecasting Framework Using Time-Series Models

Table 2: Performance Comparison of Machine Learning Models

Model	Accuracy (%)	Precision	Recall	F1-Score	ROC-AUC
Logistic Regression	78.5	0.76	0.74	0.75	0.81
Decision Tree	81.2	0.79	0.78	0.78	0.84
Random Forest	87.6	0.86	0.85	0.85	0.91

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Gradient Boosting	90.3	0.89	0.88	0.88	0.94
XGBoost	91.5	0.90	0.89	0.89	0.95

VII. APPLICATIONS

- Optimization of hotel revenues
- Dynamic pricing strategies
- Improved occupancy forecasting
- Customer behavior analysis
- Reduction in financial losses because of cancellations

VIII. CONCLUSION

The results of this study prove that predictive analytics, based on machine learning, can greatly enhance the accuracy of predicting cancellations for hotel bookings as well as forecasting demand. Interpretable models allow the hotel manager to forecast results and to have the knowledge of the factors that impact those results. There are potential future applications for integration of real-time data streams and deep learning-based hybrid models for more accurate predictions.

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