



European Institute of Innovation,
Entrepreneurship, and Technology

**Title: A Comprehensive Evaluation of Activity-
Based Costing (ABC) and Its Contribution to
Accurate Cost Allocation in Tourism
Enterprises**

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ABSTRACT

Tourism is a complex and service-intensive industry where organizations must coordinate numerous activities, including accommodation preparation, guest service operations, transportation management, catering, guided experiences, itinerary development, customer interaction, and administrative processes. These activities involve varying degrees of labor, technology, and managerial effort. However, traditional costing systems often allocate overhead using broad metrics such as the number of rooms sold or total passengers, resulting in inaccurate cost information.

Activity-Based Costing (ABC) has emerged as a more suitable and accurate cost allocation method for tourism organizations. ABC identifies and assigns costs based on actual activity consumption rather than volume-based measures. This allows businesses to understand operational drivers, evaluate profitability more accurately, reduce process inefficiencies, and make informed managerial decisions. The purpose of this assignment is to evaluate the effectiveness of ABC for tourism organizations, specifically focusing on hotels, airlines, and tour companies.

Using academic literature, theoretical models, and industry-based examples, this assignment demonstrates how ABC improves cost transparency, enhances pricing decisions, supports customer profitability analysis, and strengthens strategic planning. The findings show that ABC offers significant advantages in understanding cost behavior, uncovering hidden inefficiencies, optimizing resource usage, and aligning operations with customer expectations. Although ABC presents implementation challenges—such as complex data collection and staff resistance—the benefits outweigh the limitations.

The assignment concludes that ABC is an essential managerial tool for tourism companies striving for financial efficiency, competitive pricing, and service excellence in an increasingly dynamic global market.

INTRODUCTION

Tourism represents one of the most influential sectors in today's global economy, contributing significantly to employment, GDP, and cultural exchange. The industry encompasses a broad range of services including lodging, transportation, leisure activities, guided tours, hospitality operations, food service, and destination management. These services rely heavily on coordinated activities involving substantial human interaction, service customization, variable customer expectations, and fluctuating demand patterns. Such complexity makes accurate cost allocation a critical managerial function.

Tourism operations are activity-heavy. Consider:

- A hotel preparing rooms, delivering concierge services, managing events, and running restaurants.
- An airline managing check-in procedures, in-flight services, baggage handling, aircraft maintenance, and customer support.
- A tour operator researching destinations, customizing itineraries, coordinating accommodation, and providing guiding services.

Each activity consumes resources differently. A business-class passenger on a long-haul flight demands more staff attention, meals, and space than a budget traveler on a short domestic route. Similarly, a luxury hotel suite requires longer cleaning hours compared to a standard room, and a customized adventure tour consumes more planning time than a packaged holiday tour.

Traditional costing methods typically allocate overhead based on simplistic metrics such as:

- number of rooms sold
- number of guests
- number of flight tickets
- number of tour bookings

However, these systems fail to reflect actual resource consumption because they ignore variations in activity complexity.

Activity-Based Costing (ABC) emerged as a sophisticated alternative that assigns costs based on specific activities that drive resource usage. ABC enhances cost visibility, enabling tourism organizations to determine:

- which services are profitable
- which customers incur higher costs
- which activities consume excessive resources
- how labor should be allocated
- how to design pricing strategies based on true costs

Given the inherently variable and service-intensive nature of tourism operations, ABC is uniquely suited to improve cost allocation accuracy.

This assignment critically evaluates the role of ABC in tourism organizations by exploring its application in hotels, airlines, and tour businesses. It draws upon academic literature, case evidence, and managerial principles to demonstrate how ABC enhances operational decision-making and strategic planning.

LITERATURE REVIEW

Activity-Based Costing is widely recognized in academic literature as a superior method for understanding cost behavior in complex environments. Tourism organizations, with their diverse service lines and high overhead costs, represent an ideal setting for ABC implementation. The literature reviewed highlights ABC's advantages, challenges, and applicability to hospitality, airline, and tour operations.

1. Foundations of Activity-Based Costing

According to Kaplan and Cooper's foundational work, ABC operates on the principle that activities—not products or services—consume resources. Services then consume activities at varying levels. By identifying activities and assigning costs based on actual drivers, ABC provides more accurate costing information than traditional systems.

Core assumptions of ABC include:

- Activities consume resources
- Services consume activities
- Costs should be assigned based on cause-and-effect relationships

This approach is particularly valuable in service industries like tourism, where operations are dynamic and resource-intensive.

2. ABC in the Hospitality Sector

Hotels comprise multiple departments with varying functions, such as housekeeping, food and beverage, concierge services, maintenance, and recreation. These services differ in both complexity and cost structure.

Literature shows ABC helps hotels:

- analyze the true cost of room categories
- reduce food and beverage waste
- determine profitable service bundles
- identify cost drivers in housekeeping
- understand guest behavior impacts on cost
- optimize resource scheduling

For example, a study found that deluxe rooms often require more labor and maintenance, which traditional costing fails to capture.

3. ABC in Airline Operations

Airlines manage numerous operational activities including:

- flight scheduling

- passenger boarding
- baggage processing
- aircraft cleaning
- catering
- safety checks
- ground crew coordination

Traditional costing oversimplifies these complexities by allocating overhead based on flight hours or seat numbers. ABC, however, uncovers differences across cabins, routes, and airports.

Research shows ABC allows airlines to:

- identify profitable vs. unprofitable routes
- compare cost structures between cabin classes
- evaluate passenger service costs
- improve turnaround efficiency
- refine fare models
- optimize staff allocation

ABC's granular cost analysis is especially valuable given the financial sensitivity of airline operations.

4. ABC in Tour Operations

Tour operators face unique challenges due to the customized nature of many tours. Activities include:

- researching destinations
- negotiating with suppliers
- booking accommodations
- designing itineraries
- managing customer inquiries
- coordinating transport
- leading guided tours

ABC helps reveal which tours require more planning, communication, or supplier coordination.

Studies highlight that ABC enables tour operators to:

- price customized itineraries accurately
- identify over-serviced customer segments
- understand destination-specific cost differences
- optimize guide scheduling
- reduce administrative redundancies

Because tours vary widely, ABC provides essential clarity in cost behavior.

5. Benefits of ABC Identified in Literature

Across tourism research, common advantages of ABC include:

- improved cost accuracy
- better decision-making
- enhanced pricing strategies
- stronger profitability analysis
- greater transparency
- leaner operations
- improved departmental communication

The consistent academic conclusion is that ABC aligns closely with the operational realities of tourism.

6. Challenges Associated With ABC

Despite its advantages, ABC faces challenges:

- high implementation cost
- complex activity identification
- significant data requirements
- need for continuous updating
- resistance from employees unfamiliar with detailed costing

However, most literature agrees that when implemented properly, ABC's benefits exceed its limitations.

METHODOLOGY

This assignment followed a qualitative research methodology using the following components:

1. Secondary Data Review

Academic journals, tourism operations textbooks, and cost accounting resources were reviewed.

2. Industry Case Interpretation

Examples from typical hotels, airline operations, and tour operators were incorporated to illustrate ABC in real-world contexts.

3. Thematic Analysis

Insights were grouped into themes such as cost accuracy, resource optimization, customer profitability, pricing, and process improvement.

4. Comparative Evaluation

Traditional costing systems were compared with ABC to highlight differences in usefulness and accuracy.

FINDINGS

The findings of this study highlight how Activity-Based Costing (ABC) contributes significantly to improving cost allocation accuracy in tourism organizations. Because tourism operations involve multiple interdependent activities with varying resource consumption patterns, a traditional costing system fails to capture the complexities of service delivery. ABC, however, provides detailed cost insights by assigning costs based on the actual activities performed.

The findings are presented in key themes reflecting how ABC affects hotels, airlines, and tour operators.

1. ABC Improves the Accuracy of Cost Allocation

The most fundamental finding is that ABC produces significantly more accurate cost allocation compared to traditional volume-based costing systems. Traditional systems allocate overhead costs using broad measures like number of rooms sold, seats filled, or tours conducted. These metrics ignore the diverse activity patterns associated with different services.

ABC resolves this problem by assigning costs based on activity consumption. Activities such as cleaning, flight boarding, itinerary planning, or guest handling are measured and costed according to actual usage.

Hotels

ABC reveals that:

- Luxury room categories require higher labor intensity than standard rooms.
- Maintenance costs differ across room types due to varying wear and tear.
- F&B operations have hidden costs such as preparation waste or utility intensity.

Airlines

ABC demonstrates:

- Certain routes have higher ground handling costs.
- Business-class cabins require more flight attendant labor and premium meal preparation.
- Short-haul flights may have disproportionately high turnaround costs.

Tour Operators

ABC uncovers:

- Complex tours demand more research time.
- Adventure packages incur higher guide preparation and safety training costs.
- Customized tours consume more administrative time and supplier communication.

Because ABC captures the cause-and-effect relationship between activities and services, cost allocation becomes more realistic and reliable.

2. ABC Reveals Resource-Intensive Activities

Another key finding is that ABC identifies activities that consume excessive resources, enabling tourism companies to manage costs proactively.

High-cost activities commonly identified include:

- repetitive guest support communications
- manual check-in and checkout processes
- baggage handling and rehandling
- intricate itinerary planning
- maintenance tasks with high labor and material costs
- inefficient food preparation or storage
- flight turnaround operations with long idle times

Hotels

ABC shows that housekeeping often consumes the most labor hours. It also reveals inefficiencies such as:

- irregular housekeeping routes
- long room inspection times
- high energy consumption during laundry operations

Airlines

ABC identifies that:

- baggage sorting can exceed budgeted labor hours
- cleaning activities vary widely in time required per aircraft type

- catering processes involve hidden overhead such as packaging waste

Tour Operators

Resource-heavy tasks include:

- extensive research for unique destinations
- handling repeated itinerary changes
- frequent supplier negotiations
- specialized guide preparations

Knowing which activities consume the most resources helps managers redesign processes, reduce bottlenecks, and improve operational flow.

3. ABC Enhances Pricing Accuracy

Pricing decisions are crucial in tourism because they influence competitiveness and profitability. ABC supports accurate pricing by showing the true cost structure of each service.

Hotels

ABC helps determine:

- differentiated pricing for room categories
- accurate banqueting/event pricing
- realistic charges for laundry, spa services, and dining
- seasonal pricing adjustments based on activity load

Airlines

ABC supports:

- cabin class pricing based on service intensity
- ancillary service pricing (baggage, meals, seat upgrades)
- cost-driven route planning and pricing
- fare structure optimization

Tour Operators

ABC allows:

- cost-driven pricing of tailored itineraries
- premium pricing for labor-intensive tours
- seasonal variations in pricing for peak destinations
- identification of break-even points for group vs. individual packages

With accurate pricing, companies can avoid undercharging for high-cost services and overcharging for low-cost ones.

4. ABC Improves Customer Profitability Analysis

Traditional costing sees all customers as equally profitable, especially in tourism where revenue is easy to track but cost-per-customer is harder to measure. ABC changes this by assigning activity-level costs to each customer segment.

Hotels

ABC shows that:

- long-stay guests might require fewer resources than short-stay guests
- guests requesting repeated services (extra towels, room changes) increase cost
- corporate travelers may require more administrative communication

Airlines

ABC identifies:

- passengers with special assistance requirements increase boarding time
- frequent rebooking or luggage issues incur staff effort
- premium passengers require additional inflight services

Tour Operators

ABC reveals:

- clients requesting frequent itinerary changes are costly
- adventure tourists require more briefings, preparation, and safety equipment
- student groups require more administrative coordination

Understanding customer profitability helps managers design segmentation strategies, targeted marketing, and differentiated service levels.

5. ABC Strengthens Resource Allocation and Workforce Planning

Tourism is one of the most labor-intensive industries. ABC's detailed activity data helps organizations allocate staff more effectively.

Hotels

ABC supports:

- optimal housekeeping staffing levels based on occupancy
- front desk staffing during peak and off-peak hours
- restaurant staffing aligned with meal demand patterns
- maintenance workforce scheduling based on activity frequency

Airlines

ABC helps airlines schedule:

- ground crew based on flight load
- cabin crew based on cabin class composition
- aircraft cleaning teams based on aircraft size
- baggage handlers based on passenger volume and luggage trends

Tour Operators

ABC guides:

- itinerary planner allocation
- guide scheduling based on tour complexity
- customer support staffing during high inquiry seasons

Better workforce planning reduces overtime, avoids understaffing, and enhances service quality.

6. ABC Identifies Non–Value-Added Activities

ABC distinguishes between value-added and non-value-added activities. Many tourism operations contain tasks that do not contribute to customer satisfaction or operational efficiency.

Common non-value-added activities include:

- redundant paperwork
- repeated customer authentication
- manual data entry
- rework due to communication errors
- unnecessary quality checks
- excessive internal reporting

Hotels

Examples include:

- overly detailed room inspection protocols

- inefficient laundry folding procedures
- repeated front desk tasks due to system errors

Airlines

Non-value-added activities may include:

- multiple manual baggage verifications
- redundant inflight paperwork
- duplicate check-in processes

Tour Operators

ABC may identify:

- unnecessary supplier follow-ups
- repeated itinerary confirmation emails
- manual invoice preparation

Removing these activities saves time and reduces operational costs.

7. ABC Improves Cross-Department Collaboration

Tourism organizations are interdepartmental environments where delays or inefficiencies in one department can affect others. ABC highlights how activities link across departments.

For example:

- Housekeeping delays increase front desk pressure.
- Baggage handling inefficiencies increase flight turnaround time.
- Poor itinerary preparation increases customer support workload.

With ABC:

- Departments see their cost impact on the organization.
- Communication improves because cost transparency encourages cooperation.
- Employees understand the importance of their tasks in the value chain.

This integrated understanding enhances organizational cohesiveness.

8. ABC Supports Activity-Based Budgeting (ABB)

ABC forms the basis for Activity-Based Budgeting, which forecasts future budgets based on expected activity levels rather than historical spending.

Benefits of ABB include:

- realistic budget forecasting
- resource allocation based on demand
- better control of operational fluctuations
- improved planning for seasonal variations

Hotels

Hotels use ABB to forecast:

- staff hours based on yearly occupancy cycles
- energy consumption during peak seasons
- expected laundry processing volume

Airlines

ABB helps:

- estimate future ground operation requirements
- forecast flight catering needs
- plan maintenance schedules

Tour Operators

ABB allows:

- forecasting of planning hours per tour
- estimating seasonal workload
- scheduling promotional activities based on demand cycles

Organizations using ABB become more proactive and financially prepared.

9. ABC Helps Tourism Businesses Manage Seasonal Volatility

Seasonality is a significant challenge in tourism. ABC helps organizations analyze how activity costs change with seasonal demand.

Hotels

ABC shows which months require:

- more housekeeping staff
- increased F&B production

- higher energy usage

Airlines

ABC identifies:

- high baggage volume periods
- seasonal staffing needs
- routes that perform better during specific times of the year

Tour Operators

ABC helps:

- schedule guides for peak seasons
- plan domestic vs. international tours according to demand
- identify months when administrative staff should increase

With seasonal insights, tourism firms can plan inventory, staff, and marketing more efficiently.

10. ABC Facilitates Technology Adoption

Another finding is that ABC helps organizations justify technological investments by showing which activities are inefficient.

Examples of technology often justified through ABC analysis include:

- hotel self-check-in kiosks
- digital housekeeping management systems
- automated baggage handling systems
- online itinerary builders
- AI-enabled customer service chatbots

Because ABC quantifies the cost impact of inefficient activities, it supports evidence-based technological upgrades.

DISCUSSION

This section interprets the findings and explains their significance for tourism organizations.

1. ABC Aligns with the Complex Nature of Tourism Operations

Tourism involves a variety of activities across multiple departments. ABC suits this environment because it:

- breaks down complex processes
- identifies cost drivers
- makes the cost structure transparent

Traditional costing fails because it uses simple volume measures that ignore operational diversity.

2. ABC Promotes Better Decision-Making

Accurate cost information is a managerial necessity. ABC supports:

- pricing decisions
- budgeting
- capacity planning
- product development
- performance evaluation

Tourism managers can make informed decisions instead of relying on broad assumptions.

3. ABC Enables Operational Efficiency

By identifying high-cost activities and waste, ABC encourages:

- process redesign
- leaner operations
- fewer customer delays
- better use of staff time

This creates both financial and experiential improvements.

4. ABC Encourages Customer-Centric Strategies

Tourism is a customer-driven industry. ABC enables:

- profitable customer segmentation
- personalized service design
- targeted promotional strategies
- differentiated pricing

Understanding customer profitability helps organizations serve customers more effectively while protecting margins.

5. ABC Supports Innovation and Competitive Advantage

Tourism companies innovate constantly—new room concepts, route expansions, tour packages. ABC provides quantitative backing for these decisions.

Without ABC, companies risk:

- overinvesting in unprofitable services
- underpricing complex offerings
- misallocating staff resources
- neglecting high-value opportunities

ABC strengthens long-term competitiveness.

6. ABC Supports Sustainability and Eco-Efficient Practices

Sustainability has become a central priority in the modern tourism industry. Hotels, airlines, and tour operators are increasingly judged not only on pricing and service quality, but also on their environmental responsibility. ABC plays a meaningful role in sustainability by revealing which activities consume excessive:

- water
- electricity
- cleaning chemicals
- fuel
- disposable materials

Because ABC assigns costs directly to consumption, it helps managers understand the financial implications of environmentally unsustainable practices.

Hotels

ABC often highlights:

- laundry cycles as major water and electricity consumers
- excessive use of air-conditioning in common areas
- food waste in buffet restaurants
- energy-heavy swimming pool operations

This encourages hotels to invest in:

- eco-efficient laundry technologies

- LED lighting
- optimized HVAC systems
- sustainable kitchen practices

Airlines

Fuel consumption is the biggest sustainability concern in aviation. ABC helps airlines:

- analyze fuel usage across flight types
- measure ground operation inefficiencies
- assess waste generated from catering
- evaluate carbon emissions per route

Such insights support fleet modernization, efficient flight planning, and sustainable catering initiatives.

Tour Operators

ABC helps evaluate:

- environmental impact of transportation choices
- waste generation during tours
- sustainability of destinations and suppliers

Thus, ABC provides hard data that promotes greener practices.

7. ABC Strengthens Crisis Management and Demand Shock Response

The tourism industry is highly vulnerable to global disruptions such as pandemics, natural disasters, fuel price spikes, and political instability. During crises, understanding activity-level costs is vital because organizations must cut costs quickly without compromising essential operations.

ABC identifies:

- non-essential activities that can be eliminated
- high-cost services that can be temporarily suspended
- efficient ways to redeploy staff
- core services that must remain operational
- cost-saving opportunities in back-office functions

Hotels

During a crisis, ABC can show which floors or room categories should be closed to reduce utility and labor costs.

Airlines

ABC helps airlines analyze:

- which routes must be discontinued
- which flight services can be simplified
- where staffing can be reduced without compromising safety

Tour Operators

ABC helps tour operators identify:

- tours that can be rescheduled or replaced
- administrative roles that can be merged
- suppliers that offer cost-effective alternatives

Thus, ABC supports resilience and survival during periods of volatility.

8. ABC Fosters Organizational Transparency and Accountability

One of the greatest advantages of ABC is how it clarifies the relationship between activities and costs. Traditional costing hides inefficiencies because costs are aggregated and allocated broadly.

ABC reveals:

- which departments consume the most resources
- why certain services cost more
- how staff time is being used
- whether activities align with organizational goals

This transparency creates accountability.

Managers can use ABC to:

- monitor performance more accurately
- reward efficient teams
- highlight training needs
- benchmark against competitors
- communicate financial realities to employees

Accountability fosters a cost-conscious organizational culture that improves overall performance.

9. ABC Enhances Interdepartmental Integration and Communication

Tourism organizations function as interconnected networks of departments:

- Housekeeping affects front office availability.
- Baggage handling affects flight delays.
- Tour planning affects customer service workload.
- Restaurant service affects guest satisfaction scores.

ABC maps out these interdependencies, allowing each department to understand how its activities influence others.

Benefits of improved integration include:

- smoother workflows
- faster problem resolution
- reduced duplication of tasks
- improved customer experience
- better alignment of goals

Staff members become more aware of how their work contributes to organizational success.

10. ABC Encourages Continuous Improvement and Learning

ABC is not just a costing tool—it is a continuous improvement system. The activity-level data it generates encourages organizations to:

- track performance
- identify trends
- refine processes
- eliminate waste
- introduce efficiency-enhancing technology
- retrain staff
- redesign service delivery

This aligns with modern management philosophies such as Lean and Total Quality Management (TQM).

Continuous improvement driven by ABC can result in:

- faster service delivery
- higher customer satisfaction

- lower operational costs
- greater employee engagement
- stronger long-term competitiveness

For an industry as dynamic as tourism, continuous improvement is essential.

CONCLUSION

This assignment explored the effectiveness of Activity-Based Costing (ABC) in improving cost allocation accuracy within tourism organizations. Tourism is one of the most complex service industries, involving numerous interrelated activities that vary in labor intensity, resource consumption, and customer value. Traditional costing systems oversimplify these complexities by allocating overhead based on general volume measures such as rooms sold, passengers carried, or tours booked.

ABC addresses these limitations by assigning costs based on actual activity consumption. This enables tourism organizations to understand the true cost of delivering services, price offerings more accurately, evaluate customer profitability, and optimize resource allocation. The findings illustrate that ABC provides many advantages over traditional costing, particularly in tourism environments characterized by diversity, competition, and service customization.

Overall, Activity-Based Costing is more than a costing method—it is a strategic management approach that supports intelligent decision-making, operational excellence, and long-term success within tourism organizations. Its detailed insights into activity-level resource consumption make it an indispensable tool in a dynamic, customer-driven industry.

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