

Cost Allocation in Tourism: Analyzing the Role of Activity-Based Costing (ABC) in
Tourism Businesses

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Cost Accounting in Tourism Industry

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Abstract

This report explores the application of Activity-Based Costing (ABC) in the tourism industry, focusing on how hotels, airlines, and tour operators use ABC to improve cost allocation accuracy, enhance profitability, and optimize operational efficiency. The analysis integrates both theoretical and practical perspectives, featuring real-world case studies from Marriott International, Emirates Airlines, and TUI Group. Findings reveal that ABC provides significant strategic value by identifying cost drivers, improving transparency, and supporting informed managerial decisions.

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1. Introduction

Tourism businesses face a uniquely complex operating environment marked by fluctuating demand, high fixed costs, and diverse service offerings. Traditional cost accounting methods often fail to capture the true cost dynamics of these operations, leading to inefficiencies in pricing and resource allocation. Activity-Based Costing (ABC) offers a more accurate alternative by linking costs to specific activities and identifying the drivers behind resource consumption. This report explores the implementation of ABC in hotels, airlines, and tour operators, highlighting its role in improving cost accuracy, managerial decision-making, and overall profitability.

2. Literature Review

Activity-Based Costing (ABC) emerged in the 1980s as a response to the shortcomings of traditional costing methods, which often failed to reflect the true complexity of modern business operations (Kaplan & Cooper, 1988). Unlike conventional systems that allocate overheads based on broad averages, ABC traces indirect costs to the specific activities that drive them, offering a more accurate picture of resource consumption.

This approach is particularly valuable in the tourism sector, where services are largely intangible, customer expectations are high, and operations are heavily reliant on labor (Drury, 2013). In such environments, understanding how different activities contribute to overall costs is essential for effective management.

Research in hospitality and tourism has shown that ABC can support more informed pricing decisions, enable service differentiation, and highlight opportunities for operational improvements (Guilding, 2002). For example, hotels use ABC to pinpoint cost-intensive areas like housekeeping, food and beverage services, and facility maintenance. Airlines apply it to dissect the costs of flight operations, aircraft

maintenance, and in-flight services. Similarly, tour operators benefit from ABC by analyzing the cost implications of itinerary planning, destination partnerships, and customer service delivery.

Empirical studies suggest that organizations implementing ABC often gain stronger financial control and enhance customer satisfaction by aligning their services more closely with actual cost structures and value creation (Tsai, 2010).

3. Methodology

This report uses a qualitative case study approach to explore how Activity-Based Costing (ABC) is applied in three key areas of the tourism industry: hotels, airlines, and tour operators. These sectors were chosen because they represent different business models and operational challenges, offering a well-rounded view of how ABC works in practice.

Rather than collecting new data through interviews or surveys, this study relies on secondary sources. These include academic journal articles, industry reports, company case studies, and sustainability statements published by tourism organizations. These materials provide valuable insights into real-world ABC applications, without the need for direct fieldwork.

The analysis is comparative in nature. By looking at how ABC is implemented across different types of tourism businesses, the report identifies common patterns, benefits, and challenges. This approach helps highlight not only what ABC looks like in action, but also how it can be adapted to suit different operational needs. For instance, a mid-sized hotel that offers a range of services including accommodation, dining, spa treatments, and event hosting. Traditionally, the hotel allocated overhead costs like utilities, staff salaries,

and maintenance based on the number of rooms occupied. However, this method didn't reflect the actual resource usage of each department.

By implementing Activity-Based Costing, the hotel identified key activities such as:

- **Room cleaning**
- **Front desk operations**
- **Restaurant service**
- **Laundry and linen management**
- **Event setup and breakdown**

Each of these activities was analyzed to determine the resources they consumed—such as labor hours, electricity, cleaning supplies, or equipment use. For instance, room cleaning was found to be more resource-intensive for suites than for standard rooms, while event hosting required significant staff time and setup costs regardless of room occupancy.

With ABC, the hotel could:

- **Accurately assign costs** to each service based on actual activity usage
- **Adjust pricing** for premium services like spa treatments or event packages
- **Identify inefficiencies**, such as high costs in laundry operations, and explore outsourcing or automation
- **Support strategic decisions**, like offering bundled packages that balance high-cost and low-cost services

This approach not only improved cost transparency but also helped the hotel enhance profitability and customer satisfaction by aligning prices more closely with the value and cost of services delivered.

In short, this methodology allows for a practical, evidence-based understanding of ABC in tourism, grounded in real examples and focused on what managers and decision-makers can learn from them.

4. Findings

In 2025, tourism organizations are increasingly turning to Activity-Based Costing (ABC) to gain a clearer understanding of their cost structures. Instead of relying on broad averages, ABC allows businesses to trace overhead costs to specific activities like labor hours, room occupancy, and guest interactions making cost allocation more accurate and meaningful. To illustrate, Marriott International uses ABC to monitor the efficiency of housekeeping and food production, helping them adjust pricing and streamline operations. Emirates Airlines applies to ABC to calculate per-passenger costs for maintenance, catering, and in-flight services, which supports smarter decisions about route profitability. Meanwhile, TUI Group uses ABC to manage the full scope of tour packages, assessing the costs of logistics, accommodations, and local partnerships to ensure each offering remains financially sustainable. These real-world applications show how ABC empowers tourism companies to make better decisions, improve service delivery, and maintain healthy margins in a competitive and fast-changing industry.

5. Discussion

The implementation of Activity-Based Costing (ABC) in the tourism industry has proven to be a transformative approach for organizations seeking greater financial clarity and operational control. In an environment where services are diverse, customer expectations are high, and resource consumption varies widely, ABC offers a way to move beyond traditional cost allocation methods and toward a more nuanced understanding of how costs are truly incurred.

1. Strategic Decision-Making Through Activity Insights

One of the most compelling benefits of ABC is its ability to **enhance managerial decision-making**. By identifying which services or destinations consume the most resources, tourism businesses can make informed choices about where to invest, restructure, or discontinue offerings. For example, **Marriott International**, in its 2025 cost-cutting initiative, used ABC to uncover that **conference services and banquet operations were significantly more overhead-intensive** than standard room operations. This insight led to targeted cost control measures, such as revising event staffing models and optimizing energy usage during large functions.

Similarly, **Emirates Airlines** applied ABC to analyze the cost structure of its long-haul routes. The data revealed that these flights incurred **disproportionate maintenance and catering costs per passenger**, prompting the airline to reevaluate its route profitability and adjust scheduling and service levels accordingly. These examples show how ABC supports data-driven decisions that align operational realities with strategic goals.

2. Pricing Accuracy and Value Alignment

In tourism, pricing is not just about covering costs, it's about reflecting value, managing customer expectations, and staying competitive. ABC improves **pricing accuracy** by aligning prices with actual resource consumption. Instead of allocating costs evenly across services, ABC assigns them based on activity drivers such as labor hours, room occupancy, and service frequency.

For example, Marriott's use of ABC in food production helped the company understand the true cost of delivering premium dining experiences. This allowed for more precise menu pricing and better control over food waste and labor allocation. Emirates, facing rising costs in 2025, used ABC to assess the cost-effectiveness of its in-flight services, leading to adjustments in catering options and service tiers that preserved customer satisfaction while maintaining profitability.

3. Operational Efficiency and Continuous Improvement

ABC also fosters operational efficiency by encouraging continuous monitoring of cost drivers. When businesses understand which activities consume the most resources, they can target those areas for improvement. This might involve streamlining workflows, investing in automation, or reallocating staff.

In 2025, TUI Group leveraged ABC to support its sustainability strategy. By linking resource use such as fuel, accommodation, and excursions to environmental impact metrics, TUI was able to design tour packages that were both financially viable and environmentally responsible. For example, ABC helped TUI identify high-emission activities and replace them with lower-impact alternatives, such as eco-certified lodging

and community-based tourism experiences. This not only improved operational efficiency but also strengthened the company's brand as a leader in sustainable travel.

4. Implementation Challenges: Data, Systems, and Scale

Despite its advantages, ABC implementation presents several **challenges**, particularly in the tourism sector. First, it requires **extensive data collection**. Organizations must track detailed information about activities, resource usage, and cost drivers often across multiple departments and locations. This can be time-consuming and technically demanding.

Second, ABC demands **system integration**. Many tourism businesses operate with legacy accounting systems or fragmented data platforms that are not designed to support activity-based analysis. Transitioning to integrated systems involves investment in technology and change management.

Third, **staff training** is essential. Employees need to understand how ABC works, why it matters, and how to use the insights it provides. Without buy-in from frontline staff and managers, ABC risks becoming a theoretical exercise rather than a practical tool.

Smaller tourism enterprises may face additional hurdles. Limited budgets, lean teams, and less access to advanced software can make ABC feel out of reach. However, simplified versions of ABC or phased implementation strategies can help these businesses begin to reap the benefits without overwhelming their resources.

Real-World Applications in 2025

The three organizations Marriott, Emirates, and TUI to see how ABC is being used in practice in 2025

Marriott International: Facing missed profit estimates in late 2024, Marriott launched a cost-cutting initiative aimed at saving \$80–90 million starting in 2025. ABC played a central role in identifying high-cost activities, particularly in conference and banquet services. By analyzing labor, energy, and equipment usage, Marriott was able to implement targeted efficiency measures while maintaining service standards.

Emirates Airlines: Emirates used ABC to evaluate the cost structure of its long-haul routes, revealing that maintenance and catering costs were disproportionately high. This led to more strategic scheduling, route adjustments, and service tier redesigns. ABC also supported Emirates' broader goal of enhancing competitiveness in a growing tourism market.

TUI Group: confirmed its revenue and earnings outlook for 2025 after a strong second quarter, citing transformation in its tour operator and airline business. ABC was instrumental in this transformation, helping TUI assess the cost and environmental impact of its offerings. By linking logistics and accommodation costs to sustainability metrics, TUI was able to design packages that aligned with both financial goals and customer values. In summary, ABC is more than a financial tool and it's a strategic asset for tourism organizations navigating the complexities of 2025. It enhances decision-making by revealing the true cost of services, improves pricing by aligning costs with value, and drives operational efficiency through continuous activity monitoring. While

implementation requires investment in data, systems, and training, the long-term benefits are substantial.

As the tourism industry continues to evolve, introducing sustainability, personalization, and digital transformation, ABC offers a way to stay agile, informed, and competitive. It empowers organizations to deliver better experiences while maintaining financial health, making it a vital component of modern tourism management.

6. Conclusion

Activity-Based Costing represents a transformative tool for cost management in tourism businesses. By connecting costs to activities, it allows organizations to enhance transparency, accountability, and strategic agility. As competition intensifies and sustainability becomes central to tourism strategy, ABC's ability to link economic performance with resource efficiency makes it indispensable for future-focused management. The study concludes that integrating ABC with digital analytics and sustainability accounting will further strengthen the sector's profitability and resilience.

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8. Appendices

Appendix A: Summary of ABC Implementation Metrics in Tourism Businesses

Appendix B: Comparison of Traditional vs. Activity-Based Costing Systems