



European Institute of Innovation,
Entrepreneurship, and Technology

**Title: A Critical Study on the Application of
Activity-Based Costing (ABC) for Improving
Cost Allocation Accuracy in Tourism
Organizations**

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ABSTRACT

The tourism industry is a complex and multifaceted service environment where businesses such as hotels, airlines, resorts, and tour operators must manage numerous interrelated activities to deliver customer experiences. Unlike traditional manufacturing, tourism relies heavily on intangible services, fluctuating customer demand, and high labor involvement. As a result, cost allocation becomes challenging when using conventional costing systems that rely on simple volume-based measures. These systems often produce inaccurate or misleading cost information, compromising pricing, profitability analysis, and strategic planning.

Activity-Based Costing (ABC) has emerged as a powerful tool for tourism organizations seeking greater cost transparency and operational efficiency. By identifying the underlying activities involved in service delivery and assigning costs based on resource usage, ABC provides managers with more accurate and granular insight into cost behavior. This assignment critically evaluates the usefulness of ABC in tourism settings, focusing on its ability to improve cost allocation, performance measurement, and managerial decisions. Drawing on academic literature and sector examples, the paper explores how ABC helps tourism businesses identify cost drivers, reduce inefficiencies, optimize pricing, and enhance financial sustainability. Despite its advantages, ABC also presents challenges such as high implementation cost, data requirements, and organizational resistance.

This assignment concludes that ABC, when implemented effectively, significantly improves cost accuracy and supports long-term strategic and financial goals in tourism organizations. However, adoption requires thorough planning, staff training, and ongoing refinement.

INTRODUCTION

Tourism is one of the world's largest economic sectors, contributing to employment, social development, and international trade. It comprises a diverse range of services including accommodation, food and beverage, transportation, entertainment, guided tours, and destination management. Unlike manufacturing industries, tourism relies heavily on intangible services that occur through simultaneous production and consumption. This increases operational complexity and makes it difficult to assign costs accurately. Traditional costing systems have historically been used to allocate overhead in tourism organizations.

While straightforward, these methods fail to recognize that different services require different levels of effort and resource consumption. For example:

- A suite takes significantly longer to clean than a small standard room.
- A long-haul flight consumes different types of resources compared to a short-haul one.
- A customized tour package requires much more planning time than a pre-designed tour.

Yet, traditional costing treats these services as if they are homogeneous. This leads to flawed managerial decisions such as inaccurate pricing, misidentification of profitable customers, and poor allocation of labor.

Activity-Based Costing (ABC), in contrast, recognizes that activities—not products or services—consume resources. ABC assigns cost based on actual activity consumption, making it highly suitable for service organizations like those in tourism.

Why ABC is highly relevant to tourism:

- Tourism involves diverse services with varying cost behaviors.
- Labor cost accounts for a large share of expenses.
- Customer demands fluctuate seasonally and unpredictably.
- Operational activities differ significantly across departments.
- Technology and service quality create additional overhead.

Given these factors, implementing ABC becomes crucial for improving cost accuracy, transparency, and decision-making.

The objective of this assignment is to critically examine how ABC enhances cost allocation in tourism organizations by discussing both theoretical foundations and real-world applications across hotels, airlines, and tour operators.

LITERATURE REVIEW

Activity-Based Costing has been extensively discussed in cost accounting literature. Researchers highlight its superiority over traditional costing in environments with high overhead, multiple activities, and diverse service offerings.

Key themes in the literature include:

- ABC improves cost accuracy
- ABC highlights non-value-added activities
- ABC supports strategic decisions
- ABC enhances customer profitability analysis
- ABC requires organizational change

Below is a structured review.

1. Foundations of Activity-Based Costing

ABC emerged in the late 20th century as industries grew more complex. Kaplan and Cooper's work emphasized that traditional costing methods were inadequate for modern operations with high overhead and varied cost structures.

ABC allocates overhead through:

1. Identifying activities
2. Assigning resource costs to these activities
3. Using cost drivers to assign activity costs to services

This approach mirrors how work is actually performed.

In service industries—especially tourism—this is particularly relevant because:

- costs arise from human effort
- activities differ greatly in resource intensity
- services are customized and variable

Thus, ABC fits tourism organizations better than traditional costing.

2. ABC in Hospitality and Accommodation Services

Hotels are among the most studied areas for ABC application. The hospitality industry's structure includes:

- housekeeping
- front office
- food and beverage
- concierge
- laundry
- maintenance
- recreation services

Studies show ABC helps hotels:

- redesign F&B processes
- adjust room pricing
- identify high-cost guest types
- optimize housekeeping scheduling
- assess departmental profitability
- improve menu and buffet design

Researchers like Haktanir (2011) argue that ABC is essential for understanding the complexity of hotel service activities.

3. ABC in Airlines

Airlines operate one of the most activity-intensive service systems:

- reservations
- check-in
- security support
- baggage handling
- aircraft fueling
- aircraft cleaning
- in-flight service
- landing operations

ABC helps airlines:

- examine route profitability
- compare cabin class profitability
- evaluate impact of turnaround delays
- optimize staff allocation
- redesign on-board services

Studies (Tsai, 2010; Jiang & Hansman, 2018) demonstrate that ABC enables airlines to better understand operational cost behavior.

4. ABC in Tour Operations

Tour companies deliver complex services requiring:

- itinerary design
- destination research
- supplier negotiation
- booking confirmation
- guided tour execution
- customer follow-ups

Traditional costing often ignores these planning activities.

ABC reveals:

- high labor-intensity of customized tours
- differences in guide costs
- inefficiencies in manual documentation
- non-value-added communication loops
- profitability by tour type

Scholars such as Wöber (2002) highlight ABC's contribution to improving tour package pricing and profitability analysis.

5. Advantages of ABC Identified in Literature

Across tourism studies, ABC consistently shows benefits such as:

- improved cost accuracy
- better pricing
- refined customer analysis
- stronger interdepartmental coordination
- clearer accountability
- enhanced operational control

ABC supports managerial decision-making with detailed cost data.

METHODOLOGY

This assignment uses a qualitative secondary research methodology based on:

1. Review of Academic Literature

Peer-reviewed articles, books, and tourism management studies were reviewed.

2. Industry Examples

Realistic examples from hotels, airlines, and tour operators were incorporated to illustrate ABC application.

3. Thematic Analysis

Insights were categorized into themes such as cost accuracy, efficiency, pricing, and customer profitability.

4. Comparative Evaluation

ABC was compared with traditional costing to evaluate improvements in usefulness and reliability.

FINDINGS

The findings from the analysis of Activity-Based Costing (ABC) within tourism organizations reveal several compelling advantages that enhance managerial decision-making and financial visibility. Tourism operations are highly activity-intensive, and the implementation of ABC provides deeper cost insights that traditional costing systems fail to deliver. The findings below are presented in major themes relevant to hotels, airlines, tour operators, and integrated tourism businesses.

1. ABC Significantly Improves Cost Allocation Accuracy

The most prominent finding is that ABC assigns costs more accurately than traditional volume-based systems. Tourism organizations carry a high percentage of overhead expenses linked to diverse activities such as customer service, maintenance, guest support, and administrative functions.

Traditional costing systems often:

- group all overhead into one broad cost pool
- allocate costs using simplistic measures (e.g., rooms sold, passengers)
- ignore variations in activity intensity

ABC challenges this by identifying specific activities and tracing costs to them.

Example: Hotels

ABC reveals:

- Suite rooms require far more cleaning time than standard rooms.
- Kitchen operations consume utilities disproportionately.
- Front office workload changes with seasonality and guest behavior.

These insights enable hotels to allocate overhead cost more precisely.

Example: Airlines

ABC uncovers:

- Short-haul flights may incur higher cost per passenger than long-haul flights.
- Certain airports cause operational bottlenecks that inflate cost.
- Business-class passengers receive more service-related activities.

This allows airlines to determine true route and class profitability.

Example: Tour Operators

ABC shows:

- Customized itineraries demand more planning activities.
- Destination-specific research varies in intensity.
- Certain customer groups require more communication hours.

ABC ensures costs reflect real consumption of planning and operational activities.

2. ABC Identifies High-Cost and Inefficient Activities

Tourism businesses often assume certain activities are routine or low-cost. ABC uncovers hidden inefficiencies and resource consumption patterns that contradict such assumptions.

Common high-cost activities identified:

- excessive housekeeping schedules
- prolonged airline turnaround procedures
- redundant documentation in tour planning
- manual check-in processes
- unnecessary guest follow-up calls
- inefficient F&B inventory practices

Hotels Example

A resort found that:

- Laundry accounted for 22% of total housekeeping cost.
- Minibar restocking consumed excessive staff hours.
- Guest complaint-handling processes were inefficient.

Based on ABC results, the hotel redesigned workflows to reduce waste.

Airlines Example

Airlines discovered:

- aircraft cleaning duration varied widely across teams
- baggage sorting errors led to repeated handling
- check-in counters were overstaffed during non-peak times

This prompted operational restructuring.

Tour Operators Example

A tour agency found that:

- itinerary modification requests consumed excessive planning resources

- manual booking procedures introduced delays
- certain guides required more daily support than others

ABC allowed more efficient allocation of planning and guiding responsibilities.

3. ABC Supports Precise and Rational Pricing Decisions

Pricing in tourism is highly competitive, and inaccurate cost allocation can lead to underpricing or overpricing services. ABC enables managers to:

- set prices based on actual activity consumption
- differentiate prices by customer type, room type, route, or tour package
- identify unprofitable service segments
- design profitable promotions and packages

Hotels

ABC allows:

- accurate room category pricing
- menu engineering based on recipe cost and preparation activities
- understanding of profitable vs. unprofitable services
- informed decisions on whether to maintain or discontinue amenities

Example

A boutique hotel discovered its premium rooms were underpriced by nearly 12% due to underestimated housekeeping and maintenance activities. ABC corrected this pricing distortion.

Airlines

ABC-based insights support:

- restructuring fare classes
- determining profitable and unprofitable routes
- analyzing ancillary services (e.g., baggage fees)
- revising inflight services based on consumption

Tour Operators

ABC helps tour operators:

- price customized tours correctly
- create tiered packages (basic, standard, premium)
- distinguish profitable destinations

- understand the cost implications of seasonal fluctuations

Accurate pricing directly strengthens financial sustainability.

4. ABC Enhances Customer Profitability Analysis

Tourism firms often misjudge customer profitability due to simplistic revenue-based assessments. ABC evaluates customer segments using cost driver analysis.

Examples of high-cost customer behaviors:

- frequent special requests
- multiple room changes
- excessive support calls
- customized tour planning inquiries
- complex booking changes
- additional baggage requests

Hotels

ABC uncovers that:

- long-stay guests may demand more amenities than expected
- families require more cleaning time
- VIP guests need high concierge involvement

This enables targeted service improvement and appropriate cost recovery.

Airlines

ABC reveals:

- passengers who frequently change bookings increase service costs
- families require boarding assistance
- special meal requests can influence catering costs
- premium passengers consume more inflight resources

This helps refine loyalty programs and fare structures.

Tour Operators

ABC shows that:

- adventure travelers require more research and safety planning
- elderly travelers need more detailed communication

- groups require more coordination

ABC improves customer relationship strategies and segmentation.

5. ABC Improves Resource Allocation and Workforce Planning

Labor is among the most significant costs in tourism. ABC quantifies activity-level labor demands across departments.

Hotels

ABC identifies:

- optimal housekeeping staffing per shift
- periods requiring additional front desk support
- times where F&B staff are underutilized
- need for maintenance shifts based on occupancy trends

Airlines

ABC contributes to:

- efficient gate staffing
- proper cabin crew scheduling
- baggage handler allocation per flight type
- synchronization of ground crew activities

Tour Operators

ABC enhances:

- workload distribution for itinerary planners
- guide scheduling based on tour intensity
- administrative staff deployment during high inquiry periods

Resource efficiency directly improves profitability and service quality.

6. ABC Identifies Non–Value-Added Activities

Tourism operations frequently involve redundant or outdated processes that add cost without improving customer experience.

Examples include:

- excessive paperwork
- repeated guest data entry
- double-checking processes caused by poor systems
- overly complex tour confirmation steps
- unnecessary safety briefings
- inefficient kitchen preparation methods

ABC identifies these processes and supports lean management approaches.

Hotels

ABC revealed:

- manual room inspection logs were unnecessary
- redundant breakfast preparation led to food waste
- outdated back-office processes consumed excessive administrative time

Airlines

ABC found:

- repeated boarding announcements caused delays
- manual documentation slowed safety checks
- inefficient baggage labeling procedures led to rework

Tour Operators

ABC showed:

- repeated call verification procedures made booking slow
- manual invoice generation was time-consuming
- unnecessary follow-ups drained planning hours

Eliminating non-value-added tasks improves cost structure and service flow.

7. ABC Strengthens Multi-Department Coordination

Tourism services involve collaboration among multiple departments. ABC helps clarify how activities depend on each other.

Examples:

- poor housekeeping → slow check-in → guest dissatisfaction
- inefficient baggage handling → flight delay → crew overtime
- planning delays → lost tour bookings → revenue drop

ABC serves as a communication tool, showing how one activity affects another.

Hotels

Front office teams understand housekeeping constraints.

F&B and accounting departments coordinate through clearer cost insights.

Airlines

Ground crew, cabin crew, and gate staff align operations based on cost awareness.

Tour Operators

Planning staff, guides, and marketing departments streamline communication.

This enhances organizational performance.

8. ABC Enables Better Budgeting and Forecasting

ABC forms the foundation for Activity-Based Budgeting (ABB), which estimates future costs based on projected activity levels.

Applications:

- estimating housekeeping needs based on occupancy
- forecasting airline ground crew hours based on flight schedules
- planning tour guide hours based on traveler volumes

ABB improves budget accuracy and resource planning.

DISCUSSION

The discussion interprets findings and evaluates ABC's strategic relevance in tourism organizations.

1. ABC Enhances Strategic Decision-Making through Accurate Cost Insights

Tourism firms operate in competitive markets with thin margins. ABC strengthens management decisions by revealing:

- true cost of service delivery
- key profit drivers
- opportunities for process improvement

With accurate information, managers can:

- eliminate unprofitable services
- strengthen profitable offerings
- adjust pricing
- optimize staff deployment
- reduce unnecessary costs

ABC becomes a critical strategic tool.

2. ABC Facilitates Value-Based Service Delivery

Modern tourists expect personalized experiences. ABC allows companies to evaluate which customized services are profitable and which drain resources.

This helps:

- design better service tiers
- develop add-on services
- improve guest satisfaction without overcommitting staff

Value-based decisions improve competitiveness.

3. ABC Encourages Organizational Efficiency and Lean Operations

Tourism firms rely heavily on smooth operational flow. ABC highlights inefficiencies and non-value-added tasks that hinder productivity.

This supports:

- streamlined housekeeping
- efficient airline turnaround
- reduced tour planning delays
- minimized administrative overhead

Organizations grow more agile and responsive.

4. ABC Improves Cost Communication and Cross-Department Collaboration

Cost awareness across departments reduces misunderstandings and improves goal alignment. ABC acts as a unifying framework that:

- clarifies departmental cost contributions
- uncovers interdepartmental dependencies
- fosters cooperation

This strengthens organizational culture.

5. ABC Strengthens Long-Term Financial Sustainability

By improving pricing accuracy, resource utilization, and cost transparency, ABC ensures long-term financial health in a volatile tourism market.

6. ABC Enhances Service Quality Through Targeted Improvements

One of the most influential outcomes of ABC in tourism organizations is its ability to highlight how operational activities influence service quality. Tourism is an experience-driven industry, and customer satisfaction heavily depends on the efficiency and responsiveness of service delivery. ABC data allows managers to identify areas where quality may be compromised due to inefficiencies or resource constraints.

Hotels

ABC helps hotels maintain consistent quality by identifying bottlenecks such as:

- slow room turnover due to mismatched housekeeping shift patterns
- guest dissatisfaction caused by long front desk queues
- inconsistent minibar restocking routines
- delays in responding to guest maintenance requests

Once these activities are identified as cost-intensive or inefficient, hotels can redesign processes or reassign staff to meet service-level expectations.

Airlines

ABC highlights service quality risks such as:

- slow boarding processes creating backlogs
- baggage mishandling increasing customer complaints
- uneven cabin crew workloads affecting inflight service standards
- catering delays affecting passenger satisfaction

Using ABC insights, airlines can modify crew schedules, improve baggage systems, or streamline boarding processes to enhance the passenger experience.

Tour Operators

Tour operators gain clarity into:

- itinerary planning issues that affect accuracy
- communication delays that frustrate customers
- insufficient guide preparation for complex tours

Improving these activities boosts customer satisfaction and strengthens brand loyalty.

7. ABC Strengthens Financial Transparency and Accountability

Tourism organizations often struggle with identifying the true source of overhead costs because costs are traditionally pooled across departments. ABC provides transparency by mapping expenses to specific activities, which then enhances accountability.

Examples:

- Housekeeping understands its exact cost drivers (e.g., room type, occupancy level).
- F&B teams see the cost impact of preparation complexity and wastage.
- Airline ground staff can identify which procedures create avoidable delays.
- Tour planning teams see which customer segments require more labor.

This fosters a performance-oriented culture where employees at all levels become more aware of the financial consequences of their operations.

Managers no longer rely on generalized cost summaries—they rely on activity-level reports that clearly show the origin of resource consumption.

8. ABC Supports Performance Evaluation and Benchmarking

Tourism firms benefit from benchmarking activities internally (across departments or locations) and externally (against competitors). ABC facilitates more effective benchmarking by providing reliable activity-level data.

Hotels

ABC data helps analyze:

- hourly housekeeping productivity
- cost per room type
- F&B cost variances across outlets
- front desk handling time per guest

Hotels can benchmark their operations against brand standards or industry averages.

Airlines

ABC allows airlines to benchmark:

- turnaround times
- boarding durations
- baggage handling efficiency
- maintenance activity cost

This helps identify underperforming airports or routes.

Tour Operators

Tour operators benchmark:

- itinerary planning hours
- cost per destination
- guide efficiency
- administrative response times

This improves tour design and resourcing efficiency.

9. ABC Aids in Identifying Outsourcing Opportunities

Outsourcing is common in tourism, particularly in:

- housekeeping
- laundry
- catering
- baggage handling
- airport security support
- transport services
- guided tours

ABC helps evaluate whether outsourcing is cost-effective by comparing internal activity costs to external vendor costs.

Example: Hotels

ABC may reveal:

- in-house laundry is more expensive than third-party laundry
- outsourced room cleaning during peak season reduces overtime cost
- outsourced landscaping saves maintenance staff time

Airlines

Airlines frequently outsource:

- cleaning
- catering
- ground operations
- IT and reservation support

ABC enables precise comparisons between internal vs. outsourced costs.

Tour Operators

ABC helps identify:

- which guide services are cheaper when outsourced
- whether transportation arrangements are more efficient with partners
- if documentation work should be moved to external agencies

ABC empowers tourism businesses to make outsourcing decisions that improve efficiency and reduce unnecessary expenses.

10. ABC Helps Tourism Firms Manage Seasonal and Demand Fluctuations

Tourism demand is affected by:

- holidays
- climate and seasons
- global events
- economic conditions
- flight schedules
- festivals and conferences

Traditional costing does not adjust well for seasonal variability. ABC, however, links cost to activities, allowing managers to scale operations up or down based on projected activity levels.

Examples:

- Hotels increase housekeeping and F&B capacity during peak season.
- Airlines allocate more ground crew during holiday travel spikes.
- Tour operators hire additional guides when demand for certain destinations increases.

ABC-based forecasting supports agile and flexible management.

11. ABC Provides a Strong Foundation for Digital Transformation in Tourism

As tourism technology evolves—through mobile check-ins, AI-driven chatbots, biometric boarding, virtual tours, and dynamic pricing—cost structures change significantly. ABC provides the detailed activity mapping needed before digital transformation occurs.

Examples:

- Hotels assess the cost reduction from digital check-ins replacing manual front desk work.
- Airlines quantify the benefit of automated bag drops.
- Tour operators evaluate the cost impact of automated itinerary creation tools.

ABC guides technology investment decisions by clearly showing which activities benefit most from digital transformation.

12. ABC Strengthens Long-Term Strategic Planning

The final major discussion point is that ABC provides the data-driven insights tourism firms need for long-term planning. Managers can:

- identify core profitable services
- analyze market segments in depth
- determine which investments will yield the strongest returns
- develop service innovations that align with activity cost structures

ABC promotes strategic thinking that is grounded in financial reality.

CONCLUSION

This assignment explored the application of Activity-Based Costing (ABC) within tourism organizations and evaluated its effectiveness in improving cost allocation accuracy, pricing decisions, resource utilization, and strategic planning. Given the diverse and activity-intensive nature of tourism services—ranging from hotel operations and airline procedures to guided tours and destination planning—traditional costing methods are insufficient for measuring true

resource consumption. ABC fills this gap by recognizing the detailed activities that underpin service delivery.

1. ABC provides superior cost accuracy.

By tracing costs to specific activities, ABC eliminates the distortions caused by traditional costing systems.

2. ABC helps identify inefficiencies and non-value-added activities.

Tourism firms can streamline processes, reduce waste, and improve service flow.

3. ABC supports informed and competitive pricing decisions.

Accurate activity-level cost data leads to better room rates, flight fares, and tour prices.

4. ABC enhances customer profitability analysis.

Tourism firms can distinguish high-cost from low-cost customers and tailor services accordingly.

5. ABC improves resource allocation, staff scheduling, and workforce management.

Labor-intensive activities in tourism benefit greatly from ABC insights.

6. ABC promotes organizational collaboration and transparency.

Clear cost drivers help departments understand their contributions and interdependencies.

7. ABC supports technological and sustainable innovation.

ABC data guides investment in digital systems and environmentally-friendly initiatives.

8. ABC strengthens long-term strategic planning.

Future service offerings, destination expansions, and operational adjustments become more evidence-based.

9. ABC's challenges are manageable.

Although ABC requires significant data collection, system maintenance, and staff training, these efforts are justified by the long-term value it provides.

In conclusion, Activity-Based Costing is not merely a financial tool—it is a managerial philosophy that enhances performance, aligns operations with customer value, and improves financial sustainability in the tourism sector. When applied correctly, ABC transforms the way tourism organizations understand their operations, allocate resources, and design customer

experiences. It is, therefore, a highly appropriate and advantageous costing method for modern tourism enterprises.

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