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THE ABC MODEL: FROM COST MANAGEMENT TO SUSTAINABLE STRATEGY FOR A TRAVEL AGENCY

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Abstract

Understanding global tourism trends and integrating them into business strategies represents a key challenge for travel agencies, directly impacting their competitiveness. The contemporary tourism market demands precise resource management, yet traditional costing systems often fail to reflect process complexity, leading to price distortions and inefficient resource allocation. The aim of this paper is to examine the application of the ABC model as a tool that enables the transition from cost management to a sustainable strategy for a travel agency. Through a cost structure simulation using three destinations (Greece, Italy, and Spain), the paper analyzes the use of cost drivers for their accurate allocation. Results demonstrate that the ABC model reveals "hidden" costs, eliminates cross-subsidization, creating a reliable foundation for strategic decision-making. The findings indicate that implementing the ABC model contributes to cost transparency, more efficient resource management, and long-term profitability, supporting the sustainable business transformation of travel agencies.

Key Words: *Strategic Management Accounting, Activity-Based Costing (ABC model), Travel Agencies, Strategic Decision-Making, Competitiveness, Sustainable Business*

JEL classification: *M41, L83, Q56*

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Introduction

In the face of digitalization and intense competition, travel agencies strive to balance profitability with the quality of personalized services. While direct costs (accommodation, transport) are easily measurable, indirect operating costs are becoming increasingly significant yet remain non-transparent in traditional costing systems. However, the share of labor costs in the service sector is considerably higher, while the service delivery process is more complex. The tourism product is most often viewed as a set of interconnected elements-such as transport, accommodation, and various activities during the stay-which further complicates precise pricing (Pellinen, 2003). Consequently, traditional systems often fail to accurately reflect resource consumption in tourism organizations, potentially leading to inaccurate cost calculations per destination and service.

In contrast, the Activity-Based Costing (ABC) method links costs to specific activities within the tourism service delivery process, typically using time-based consumption drivers. This significantly contributes to greater precision and reliability in cost accounting (Wennergren & Wilewska, 2006). In this context, the application of the ABC method allows for a more detailed insight into resource consumption by activity within a travel agency, creating a better foundation for understanding internal processes and identifying potential weaknesses. Ultimately, this enables more precise profitability analysis of services, improved operational efficiency, higher quality strategic decision-making, budgeting, and long-term development (Vazakidis & Karagiannis, 2011). The aim of this paper is to analyze the application of the ABC method in travel agencies from the perspective of improving cost allocation, increasing cost structure transparency, and supporting strategic decision-making within the modern tourism market.

ABC as a driver of strategic growth in tourism

The ABC concept represents a significant innovation in management accounting that contributes to a more precise allocation of costs and enhances the quality of strategic decision-making within organizations, as confirmed by the findings of modern systematic literature reviews (Putra et al., 2025). Within the framework of Activity-Based Strategic Management, decisions are made regarding product mix structure and pricing, customer relationship management, supplier selection and

cooperation, as well as product design and development (Kaplan & Cooper, 1998). In this way, ABC transcends the boundaries of traditional costing and becomes a vital instrument of strategic management in service industries, including tourism. In this context, according to Eshtaev (2011), research on the application of the ABC system in tourism enterprises in Uzbekistan shows that this method serves as a reliable tool for improving the cost management of tourism services; by linking costs to actual activities, it contributes to enhanced profitability and the quality of business decision-making. Similarly, research on ABC implementation in the Greek hotel sector indicates a relatively high adoption rate, confirming the growing importance of modern costing methods in service industries. The results demonstrate that the ABC system is primarily applied in the areas of pricing, customer profitability analysis, and service mix management, thereby improving the quality of the information base for decision-making (Pavlatos & Paggios, 2009; Anton, 2022).

In addition to improving the accuracy of cost calculations, the ABC system contributes to more efficient business process management by identifying non-value-added activities and optimizing resources. This enhances overall operational efficiency and creates room for the development of more competitive and innovative tourism products. Consequently, it enables the improvement of planning, budgeting, and strategic management processes within the tourism sector (Stojmenović & Mrvić, 2017).

Application of the ABC Model in a Travel Agency

Based on the literature, the implementation of the ABC system in a travel agency involves several key phases. First, activities and their corresponding cost drivers are identified, after which overhead costs are allocated to these activities. In the next phase, activity usage is analyzed by customer groups; common activities (e.g., accommodation and transfers) are distributed among all customers, while specific activities (e.g., tours) are allocated according to their participation. Finally, activity costs are assigned to customer groups to calculate their contribution to profitability (Koşan et al., 2014). In this context, it can be assumed that a travel agency performs three key activities:

- A1: Sales and Consultation for travel arrangements (individual and group);
- A2: Creation and Development of tourism products (group trips, tours, package deals);
- A3: Marketing and Promotion of tourism services.

Sales and consultation represent the central, customer-facing function, while the creation and development of tourism products contribute to shaping a competitive and differentiated offer. Simultaneously, marketing and promotion play a significant role in attracting potential clients and strengthening the agency's market position. These activities form an interconnected whole and serve as the foundation of an efficient travel agency business model. The total cost structure of the travel agency (€17,450) is distributed as follows: personnel costs (€8,725), rent expenses (€3,490), utilities such as internet, electricity, and water (€1,745), telephone expenses (€873), and other expenses (€2,617).

The cost structure of a travel agency is primarily determined by a high share of labor costs, given that it is a service industry where the quality of services directly depends on the engagement and expertise of the employees. A significant portion of total costs is also comprised of rent expenses, as the location and visibility of the business premises influence the agency's accessibility to clients. Overhead and communication costs account for a relatively smaller share, while the category of "other costs" encompasses various supporting activities, including marketing, administration, and technical support. The allocation of these costs to the previously defined activities will be performed using appropriate cost drivers. Although employee wage costs are largely characterized as relatively fixed costs-as they do not fluctuate in the short term based on business volume-within the ABC model, they will be allocated across specific activities) in the same manner as other operating costs (Table 1).

Table 1: *Allocation salary costs and other operating costs to activities*

Activities	Working hours	% share	Allocated salary cost amount	Allocated other operating cost amount
A1	625.00	50.00	4,362.50	1,308.50
A2	375.00	30.00	2,617.50	785.10
A3	250.00	20.00	1,745.00	523.40
Total	1,250.00	100.00	8,725.00	2,617.00

Source: *Author*

The allocation of payroll costs was carried out based on an estimate of the share of specific activities in the total working time of employees (1.250 working hours). The largest portion of labor engagement relates to sales and customer consultation, given that this activity directly generates revenue. The activity of creating and developing tourism products also accounts for a significant portion of employee time, due to the requirements

for planning, organization, and coordination with partners. Other costs represent a heterogeneous category of indirect costs, including marketing, administration, and technical support expenses. The cost driver for other expenses is defined as the working time dedicated to specific activities. The largest portion of these costs relates to marketing and promotion, given the significance of these activities in attracting clients, while the remainder is allocated to sales and tourism product creation. Rent, electricity, water, and internet expenses represent indirect fixed costs and are most commonly allocated to activities based on an assessment of the utilization rate of business premises and resources (Table 2).

Table 2: *Allocation of Rent and Utility Costs*

Activities	Surface in m ²	% share	Allocated rent costs	Allocated utility costs
A1	17.50	50.00	1,745.00	872.50
A2	8.75	25.00	872.50	436.25
A3	8.75	25.00	872.50	436.25
Total	35.00	100.00	3,490.00	1,745.00

Source: *Author*

The allocation of rent, electricity, water, and internet costs was conducted based on the utilization of the business premises, where the total area of 35 m² was divided according to the share of specific activities within the business process. The largest portion of the space and resources is utilized for sales and customer consultation, while the remaining parts are equally distributed between the activities of tourism product creation and marketing. Telephone service costs are allocated to activities according to the intensity of communication with clients or business partners (Table 3).

Table 3: *Allocation of telephone costs to activities*

Activities	Number of com. contacts	% share	Allocated cost amount
A1	720.00	60.00	523.80
A2	240.00	20.00	174.60
A3	240.00	20.00	174.60
Total	1,200.00	100.00	873.00

Source: *Author*

The highest number of contacts is generated within the sales and consultation activity for travel arrangements (inquiries, bookings, and confirmations). The remaining contacts relate to product development activities, which involve communication with hotels, carriers, tour operators, and similar partners.

Marketing and promotion activities involve communication with potential clients, including responding to inquiries, providing information via the website and social media, and conducting promotional campaign activities. In the next step, the total costs for each of the defined business activities of the travel agency will be calculated (Table 4).

Table 4: *Total costs of activities*

Activities	Staff salary cost	Rent costs	Utility costs	Telephone costs	Other operating costs	Total
A1	4,362.50	1,745.00	872.50	524.00	1,308.50	8,812.30
A2	2,617.50	872.50	436.25	175.00	785.10	4,885.95
A3	1,745.00	872.50	436.25	175.00	523.40	3,751.75
Total	8,725.00	3,490.00	1,745.00	873.00	2,617.00	17,450.00

Source: *Author*

The results obtained indicate that the largest portion of costs is attributed to sales activities, which is consistent with its dominant share of working hours and its direct impact on revenue generation.

In the second phase of the ABC model, activity costs are allocated to cost objects, which in this case are defined as the number of travel arrangements. Within the ABC model, activities do not consume resources in the same way for every arrangement, even though each arrangement passes through the business process to some extent. The sales and consultation activity is involved in every arrangement, but the intensity of resource consumption varies depending on the market and the complexity of the sale; therefore, it is not uniform. The creation and development of tourism products activity does not include all arrangements, but refers only to new or modified ones that require additional work and adaptation. The marketing and promotion activity is partially involved, as it depends on targeted markets and specific promotional campaigns; consequently, the level of resource engagement varies depending on the scope and intensity of marketing activities. Table 5 presents the activity account.

Table 5: *Activity costs*

Activities	Activity cost drivers (ACD)	Greece	Italy	Spain	Total
A1	Number of travel packages	220.00	120.00	160.00	500.00
A2	Number of travel packages	50.00	30.00	40.00	120.00
A3	Number of travel packages	80.00	40.00	60.00	180.00

Source: *Author*

This structure clearly demonstrates that activity costs are not distributed evenly across all markets; instead, they depend on the volume and intensity of engagement within specific activities. Thus, the ABC model has been correctly applied, as it enables a more realistic cost allocation compared to simple, linear distributions. Table 6 presents the calculation of the cost driver rate for each activity pool, calculated as the quotient of the activity cost and the corresponding activity cost driver.

Table 6: *Activity cost rate*

Activities	Total costs	Activity cost driver (ACD)	Cost rate
A1	8,812.00	500.00	17.62
A2	4,886.00	120.00	40.72
A3	3,752.00	180.00	20.84

Source: *Author*

The sales and consultation activity for travel arrangements has a cost rate of 17.62 per arrangement, indicating a relatively moderate cost per unit. This is expected, as it is an operationally frequent activity but not excessively resource-intensive per individual arrangement. In contrast, the creation and development of tourism products activity recorded a significantly higher cost rate of 40.72 per unit. This is logical, as product development is a much more complex and resource-intensive process, yet it occurs less frequently than sales activities, causing the cost to be distributed over a smaller base. The marketing and promotion of tourism services activity has a rate of 20.84 per unit, indicating a medium level of cost burden. This is consistent with the nature of marketing activities, which are periodic and depend on specific campaigns and market needs.

The allocation of costs from activities to cost objects is presented in Table 7. Based on the cost allocation using the ABC model, it can be concluded that the total cost burden varies significantly across destinations.

Table 7: *Allocating activity costs to cost objects*

Activities	Cost rate	Greece		Italy		Spain	
		ACD	Costs	ACD	Costs	ACD	Costs
A1	17.62	220.00	3,877.41	120.00	2,114,95	160.00	2,819,94
A2	40.72	50.00	2,035.81	30.00	1,221,49	40.00	1,628,65
A3	20.84	80.00	1,667.44	40.00	833,72	60.00	1,250,58
Total	-	-	7,678.00	-	4,188.00	-	5,584.00

Source: *Author*

Greece has the highest total costs (7,678.00), indicating that this market generates the highest level of activity within the agency. While this may point to high business activity and revenue potential, it also implies greater resource engagement, which could impact profitability if revenues do not grow proportionally with costs. Spain, with total costs of 5,584.00, represents a moderately burdened market, likely maintaining a balanced relationship between activity volume and resource consumption. This market can be a stable source of revenue with moderate cost pressure. Italy has the lowest total costs (4,188.00), suggesting both a smaller volume of activity and a lower level of resource engagement. Depending on the realized revenue, this could indicate either lower market potential or a more efficient business model in this specific market.

Under the ABC model, profitability is measured by the revenue-to-activity cost ratio rather than volume alone. By identifying actual resource consumption across markets (a factor traditional models often overlook), this methodology enables more effective strategic management. Furthermore, its application reveals varying degrees of resource engagement across different activities and markets. The following table presents a comparative analysis of costs per passenger for each destination using both traditional and ABC methods.

Table 9: *Comparison of ABC and Traditional Costing Methods per Passenger*

Tourist destination	Total costs	Number of passengers	ABC Cost per passenger	Traditional Cost per passenger	Difference
Greece	7,678.00	19,800.00	0.39	0.41	-0.02
Italy	4,188.00	7,264.00	0.58	0.41	0.17
Spain	5,584.00	15,362.00	0.36	0.41	-0.05

Source: *Author*

While the traditional method uses a single average (0.41), treating all passengers the same, the ABC model reveals actual differences by destination. The traditional approach overestimates costs for Greece and Spain, which can lead to flawed decisions such as unnecessary price increases. Conversely, costs for the Italian market are underestimated by over 40% (€0.17 per passenger), creating a false impression of its profitability at the expense of other markets. These differences in cost structure provide a basis for redefining pricing strategies and optimizing resource allocation by destination.

Conclusion

This study demonstrates that ABC methodology outperforms traditional costing by accounting for service complexity, offering a more precise basis for strategic decisions in tourism. Precise costing models are essential for market survival. The ABC methodology uncovers hidden losses, enabling the transformation of offerings toward maximum profitability. The analysis of cost per passenger reveals significant differences in efficiency across destinations, with Spain emerging as the most efficient market, followed by Greece, while Italy records the lowest level of cost efficiency. These findings confirm that market decisions cannot be based solely on business volume but rather on the relationship between costs and realized outcomes, highlighting the importance of the ABC approach in modern management. Based on the obtained results, it is possible to establish customer segments and develop differentiated strategies for specific segments. Additionally, the model is applicable within the context of spa destination transformation, where the integration of health and tourism services requires precise management of complex cost structures. In this regard, the ABC model contributes to greater transparency, more efficient resource utilization, and long-term value creation.

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