



CASE STUDY ON THE CLOSURE OF THOMAS COOK

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Abstract

Today, we find that the hospitality industry has flourished and become a major source of revenue generation all over the world. While the hospitality industry gave birth to many other allied industries like tourism, hotel, facility, etc. and enhanced itself. One of the most famous name in Travel industry was Thomas Cook which was a British global travel group formed in 1841. But on 23 September 2019 Thomas Cook Group and all UK entities went into compulsory liquidation. So, this research is about the fall of Thomas Cook Empire.

Introduction

Thomas Cook was one of the big-name in hospitality industry. But due to some circumstances it was closed down. The study will help us to know what mistakes were made by the company. It will also help the new entrepreneurs in knowing what mistakes should be avoided while running an organization.

Objectives

- To identify different factors that culminated in Thomas Cook's demise.
- To find out what happened with Thomas Cook's assets in the immediate aftermath of its downfall.

Scope of the study

Established 178 years ago, Thomas Cook was the oldest travel group in the United Kingdom but a number of different factors led to the company's demise. The downfall of this much-loved brand will have far reaching consequences.

This case study explores the consequences of Thomas Cook's collapse, looks at what went wrong, and provides background on how to avoid such circumstances.

Research Methodology

Sources of data

Secondary Data=

Secondary data has been collected from books, theoretical evaluation, research papers published in magazines and web-sites. To study the problem at macro level Research reports and government reports, on the Hospitality Industry will be used.

Methods of data Analysis

Collected data will be classified and analyzed in order of objectives and the case study will be prepared.

Limitations of study

Secondary sources of data are usually of limited worth for research purpose because of the error incompleteness in basic data. The data which is shared by the researcher may or may not be reliable.



Literature review

In an article “Reasons for the Failure of Thomas Cook” by Lakshya Singh justifies in detail the fall of Thomas Cook. He firstly explains what Global travel industry is and well as gives the brief history of Thomas Cook. Author then emphasizes on the factors that have either changed or promoted the travel industry in recent years. He says that with the help of the internet, it has become easy to access all the information and book everything online; many hotels now provide personalized services based on the choices of the customers as well as the trend of making the hotels automated with the help of machines and robots to serve people, has changed the whole industry which gives new experience to travelers. Author even illustrate the reasons for the failure of Thomas Cook Group which are like Funding, Debts, Business Model, Airline Expenses as well as Brexit.

In another article, “Thomas Cook collapses: Why and what happens now?” by Kate Holton and Guy Falconbridge which was written very next day of TC’s collapse put down from customer point of view. They say that the firm ran hotels, resorts and airlines for 19 million travelers a year in 16 countries, which generating revenue in 2018 of 9.6 billion pounds (\$12 billion) will be badly affected. Further they inscribe that at the time of collapse there were 600,000 people abroad (on tour), including more than 150,000 British citizens. Company even employed 21,000 people will be affected directly. They further raise questions like “What happens to the tourists?” and in the answer they write, UK Civil Aviation Authority (CAA) to launch a repatriation program to bring Thomas Cook customers back to the UK. A fleet of aircraft was used to repatriate British citizens. In a small number of destinations, alternative commercial flights were used. The CAA also launched a special website, thomascook.caa.co.uk, where affected customers can find details and information on repatriation flights. For the question: What is the advice to the Passengers? They reply “Customers currently overseas should not travel to the airport until their flight back to the UK has been confirmed on the dedicated website,” the CAA said. “Thomas Cook customers in the UK yet to travel should not go to the airport as all flights leaving the UK have been cancelled.” They further say that “if customers have not yet started their trips most holidays and flights booked with Thomas Cook are now cancelled and customers should not go to the airport” is a note for the one who had booked holidays for the future. So, this article basically gives the suggestion to the customers of Thomas Cook.

Data analysis

Some of the reasons for the failure of Thomas Cook Group are:

1. Failed merger: In the year 2007 Thomas Cook Group AG merged with another company known as My Travel Group. And they decided that they will save £75 million every year. But the main problem was that My Travel group was in profit just for once in past six years prior to the merger. So, there was nothing practical and beneficial for Thomas Cook. This led to the company’s loss of nearly £1 billion and so this deal was complete unsuccessful and fail down.
2. Increasing debts: Thomas Cook Group plc already suffered the loss due to wrong merger and their debts were increasing every year. From year 2011 to 2019 Thomas Cook had paid £1.2 billion interest to the financial institutions. It was equivalent to nearly 1/4th sale of their revenue that was made by Thomas Cook in year 2018. (TC was not able to pay principle amount).
3. Internet boom: Thomas Cook setup stores as when it was started in mid-19th century obviously there was no internet. When customers visited these stores, they were assisted by the guides or the representatives who will help them to choose the package. This system worked for many



years. But due to internet revolution everyone has an idea what's the air fare, accommodation expenses, etc. As TC was owning everything their services were quite expensive. But today we can get low cost airline on Ryanair, easyJet; and cheap accommodation on Airbnb. Today customers need personalized experience, self-travel which can't be possible to fit in the package tour. Hardly someone prefer for package tour. Normally people of the age above 60 are the one who want to travel with ease opt for the package. So basically, TC were not able to evolve and improve according to the time.

4. Seasonal package tour business: Package tour is a seasonal business. Customer purchase package according to the season. No one prefers to go to some specific destination in off-season. In 2018 there was a heatwave in Europe. So European travelers preferred to stay in their home country for sunbathe. And eventually they postponed their travel plans. Turkey and Tunisia which are the two highly promoted destinations by Thomas Cook saw a political unrest within their borders. So many tourists avoided these two countries.
5. But main problem arises ahead. Travel agencies purchase or block hotel rooms at the starting of the year and then sell to their customers. Hence, company should have an idea that how many customers will book the tour package in that year or else they have to sell packages in cheaper prices or they won't be able to accommodate guests in their hotel rooms. But because of heatwave and political issues Europeans didn't travel much in year 2018 and Thomas Cook reduced the prices of their packages but it didn't affect much for their business.
6. Brexit: People were waiting for the process of to get complete and for the situation to get under control. So, they were not taking any tours and many postponed their travel plans. Hence, Thomas Cook was negatively affected. One is supposed to pay Bills, Payments, Airline Turbine Fuel in US Dollars. But due to dropping Pound value and as TC have to pay it in dollars, they were facing consequences and losses.
7. Travel Agency + Airline = Disaster: Airline business is very difficult to run. So much that once British Billionaire Richard Branson (founder of Virgin group) said, "If you want to become a millionaire you must first become a billionaire and then start airline company. You will suffer with so many losses that you will become a millionaire".
8. So, airline industry is already tough and so do the travel industry. And Thomas Cook brought both of these separate businesses together which are strenuous, burdensome and complex and it was impossible for them to run both of these simultaneously. Firstly, Thomas Cook was earning more profit and so they were able to sustain. But as their profit reduced, competition increased, Online Travel Agencies gained popularity Thomas Cook started to suffer. And as an airline company they had fast downfall. TC had 34 fleet of aircrafts for nearly 82 destinations. But being a seasonal business in a specific season traffic will be very high and in off season there will be no work for airplane. Though they are supposed to give salary to their crew members, pay for maintenance expenses which made Thomas Cook unable to sustain. Shares of Thomas Cook's competitor TUI group from Germany were increased by 10% after the closure of TC. They also have full stack model like TC. Even they own air fleet more than TC. But they have expanded their business. They even own and acquire Cruise Ships and now it is their Unique Selling Price (USP). But as they have shifted their working model they are sustaining.



9. Failed to get Funds: Empire of Thomas Cook failed down as they had \$2.1 billion of debt. They even needed \$250 million emergency fund which they didn't get from investors nor from the government and so they needed to suddenly close down their services.

Aftermath: Hays Travel acquired all 555 former Thomas Cook travel stores in the UK, and retained most of the employee's jobs. Norwegian property tycoon Petter Stordalen and private equity firms Altor and TDR Capital acquired the assets of Thomas Cook Northern Europe (also known as the Ving Group) including the Ving, Spies and Tjäreborg travel agencies, Thomas Cook Airlines Scandinavia, and the Sunwing and Sunprime hotel brands, with Stordalen and Altor owning 40% each and TDR Capital owning the remaining 20%. Swiss-based investment firm LMEY Investments re-acquire the Aldiana hotel brand, which it jointly owned with Thomas Cook, by buying Thomas Cook's 42% minority shareholding. Fosun International purchased the Thomas Cook name and logo, along with the Casa Cook and Cook's Club hotel brands for £11 million. Thomas Cook's airport slots were sold to easyJet and Jet2holidays for £36 million. NesetKockar chairman of Turkish tour operator Anex Tours obtained Russian tour operator Intourist from Thomas Cook's liquidators. Anex Tours gained Thomas Cook Germany's tour operators Öger Tours, Bucher Reisen and trademark rights for tour operator NeckermannResien from Thomas Cook Germany's liquidators. German travel group DER Touristik purchased Sentido hotel brand. Polish carrier LOT Polish Airlines acquired German airline Condor.

Findings and suggestions

Findings = Through this research, researcher has found out that there were many aspects for the closure of one of the oldest Tour Company known as Thomas Cook.

1. One of the most important reason was that the company was not able to pay the debt. Which later got increasing year by year and at the end company filed for liquidation?
2. The company also failed to use the automation which was a shame for such a big name. They were not able to evolve with time and failed for continuous improvement and innovation (Kaizen).
3. Thomas Cook even failed to attract investors due to the lack of lucrative ideas within the products and services.
4. 4.The other most important reason for the downfall was running airline business. Airline industry is extremely onerous. For an instance, within last 21 years 13 Indian airlines were shutdown. For airline one needs to pay the amount in US dollars. Due to constant fluctuation of the international currency it's difficult for the airline to manage maintenance, salary, airport permit charges (Aircraft Landing Fee), international use of airspace permit, etc. Brexit was also another reason for TC's closure as customers were postponing their travel plans.
5. 5.Due to heat wave and political unrest at some famous tourist destination, it demoralized travelers to take tour packages.
6. 6.After the company was closed down its assets were acquired either by shareholders or by the competitors. They even employed most of the Thomas Cook's employees to avoid mass unemployment.



7. There were 600,000 tourists who were stuck at different destinations. Nearly 150,000 Britishers were airlifted by CAA (Civil Aviation Authority). As many as 250,000 were having booking with Condor which was still working.

Suggestions/Lesson to be learnt

1. Businesses should embrace agility: Business agility refers to the firm's capability of adapting to market, environment, technological and customer changes. With the advancement of technology, businesses have been forced to adapt to newer technologies to offer exceptional customer experiences. In the case of Thomas Cook however, the company's business model was outdated. Despite some customers' preferences to visit high street shops to plan their travel, for many it was an inconvenience given the number of travel platforms available online where travelers can easily book holidays without the hassle of visiting high street shops.
2. Keep an eye on the amount of debt held: Although businesses consider carrying debt as a normal source of cashflow, firms must be able to control debts to avoid spending revenues. In the case of Thomas Cook, the company had accumulated debts of over £3bn which led to the company's demise despite efforts to find solutions such as the partnership with Fuson and a bailout from the UK government.
3. Profit warnings: Companies must take profit warnings seriously. Profit warnings allow companies to communicate to investors about being unable to meet company projected earnings. In June and July 2019 Thomas Cook shares fell to about 25% where the company blamed the heatwave which made customers stay at home instead of booking holidays.
4. Changing company leaders: Company leaders contribute highly to the success of the business; this is because they do hold the power to formulate long term strategies for growth and profitability of the company. They are also reliable for making important decisions such as entering new markets, partnerships, terminating contracts etc. However, recently the leaders of most big companies have been the major causes of trouble for companies. For example, Uber's CEO Travis Kalanick was the reason for Uber's bad reputation in 2017 due to his ignorance of toxic work culture. A similar case has been observed by Thomas Cook where despite the signs such as two profit warnings in 2018 and 2019, accumulation of debts and higher costs of running high street shops, CEO Peter Fankhauser was unable to cut down on costs and debts leading to the liquidation of the company.

Conclusion

Thomas Cook was doing great business since its birth. The company changed the way people traveled. In the age when it was a luxury to travel to another city, the company made it possible to easily travel to other countries. Along with its travel business, it has also been a great financial company for travelers. However, everything has an end. So, it is an acceptable truth and not a surprise that the company ceases to operate anymore. Even though the travel industry has grown as a whole, but it has also evolved in the process.

To conclude the collapse of Thomas Cook should be a lesson to other travel agents and businesses across the world. A company cannot rely by saying, "we were popular before, we were market leader, so in future we will continue with the brand goodwill." No. Customers always choose the one who offers the best deals. Embracing business agility, reducing debts, taking profit warnings seriously, changing leadership, continuous improvement, evolving according to the time and adapting change according to the generation can help overcome issues like this in the future for others.