International Journal of Inclusive Development
Citation: **6**(1): 63-68, June 2020
DOI: 10.30954/2454-4132.1.2020.9

A Review and Situational Analysis of Thomas Cook Business Failure, A Successful Business Model for 178 Years: A Case Study

Jameel Mohammed Ahmed and Shanavas Moosafintavida*

Azteca University, Mexico, North America

*Corresponding author: shanavas.musafi@gmail.com

Received: 15 Mar., 2020 **Revised:** 03 Apr., 2020 **Accepted:** 29 May, 2020

ABSTRACT

Thomas Cook, the world's oldest travel brands with 19 million annual customers, operated and offered multiple services related to tourism and numerous one-stop-shops for all the travel demands. A 178 years old brand, trusted by travelers globally, and merged with My Travel group in 2007, was collapsed in 2019 due to failure to pay debts, acquiring higher costs, financial troubles, higher fuel prices and failure to meet customer demands. The study encompasses of a business review and a short analysis of Thomas Cook's business model, reasons for failure and important lessons to be learnt.

Keywords: Thomas Cook, Tourism industry, Travel agency

Thomas Cook, one of the leading recreation travel services company in the world, possesses 22,000 employees in 17 countries, 93 airplane and 3,170 Hotels [1]. In 1841, Thomas cook started its first business rail journey from Leicester to Loughborough. Later, it owned numerous verticals associated with travel services including cruise ships, aircraft fleets and hotels across the globe [2]. Thomas cook developed its business model by introducing one business package combined with means of transport, lodging, and tourists and began promotional activities through mediators, resulting a phenomenal growth on the map of world tourism[3]. Under a merger agreement with MyTravel Group plc, Thomas Cook AG owned 52% of the new group and the rest 48% owned by MyTravel Group plc [4]. Soon after completing the merger processing in 2007, they were listed on the London Stock Exchange under the name of Thomas Cook Group plc., expecting a savings of over £75 million a year [5].

In February 2007, it was announced that Thomas Cook AG and MyTravel Group plc were to merge. The companies announced they expected to make savings of over £75 million a year, following the integration of the two businesses. Under the terms of the merger, the owners of Thomas Cook AG, Karstadt Quelle (later Arcandor), owned 52% of the new group. The shareholders of MyTravel Group owned the remaining 48% share [4]. The merger was completed in June 2007[5], and took place through the formation of 'NewCo' which effectively purchased MyTravel and Thomas Cook and was

How to cite this article: Ahmed, J.M. and Moosafintavida, S. (2020). A Review and Situational Analysis of Thomas Cook Business Failure, A Successful Business Model for 178 Years: A Case Study. *International Journal of Inclusive Development*, **6**(1): 63-68.

Source of Support: None; **Conflict of Interest:** None

then listed on the London Stock Exchange under the name of Thomas Cook Group plc.[5].

According to Cadler [6], Thomas Cook Group plc collapsed due to funding, debts, business model, Airline expenses, Brexit process, and customer preferences. The first and the foremost reason for the collapse of Thomas Cook is that they were not able to secure the financing of £200 million or nearly $250 million. If the company would have received the sum of funding, it could have effortlessly survived rather than getting bankrupt [7]. Secondly, the investors backed out from investing and could not raise fund through money lenders and creditors in London, resulted a bad debt of over $2.1 Billion. Thirdly, the business model depends on one travel packages implemented by Thomas Cook became outdated or did not work out in the competitive internet market as a travel servicing company [7]. Fourthly, the company could not bear the Airline services running cost that includes fuel, maintenance, crew, etc. Lastly, Thomas cook could not adapt to changes in customer preferences due to the trading conditions because of Brexit Process [8].

Thomas Cook BMC (Business Model Canvas)

Business Model Canvas is a vital administration and inclines startup format for creating unused or archiving existing trade models [9]. It could be a visual chart with components portraying a firm's or product's esteem suggestion, framework, clients, and finances [10]. It helps firms in adjusting their exercises by outlining potential trade-offs. Based on Alexander Osterwalder Business Model Ontology (BMO) earlier work in 2015 [11], it proposed a new business model design template with the nine "building blocks" known as Business Model Canvas [12]. BMC permits the companies to know how it establishes values. However, it unclears how to deal with business Competitors, how the Competition can be eradicated, and it snubsvital aspects such as Business strategy, its vision and mission which are key to identifying business growth [13]. The Business model has been criticized and described as static for not capturing changes in Strategy or the progress of the Model [15]. BMC's Templates with limits emphasis on businesses and its resulting conceptual separation from its environment, whether this is linked to the industry structure or to stakeholders such as society and natural environment [16].

The Fig. 1 validates Thomas cook Business Model Canvas: Travel agencies and Hotels are the key business partners whereas the key customers are travelers, hotels, and travel agencies. As a part of business deals, Thomas cook's holiday plans provided transportation and accommodation for its customers. It added value to customers by providing pre-packaged holidays and Omni distribution channels. The main source of revenue comes from commission and charge mark up prices, but its main costs are salaries from workers, sales marketing, and investments in technology. Therefore, it is identified that Thomas Cook was collapsed due to incompetence and outdated business model, failing to move with the trends in the industry.

Fig. 1: Thomas Cook BMC [14]

Situational Analysis of Thomas Cook Bankruptcy

On September 23, 2019, Thomas Cook entered liquidation while operating more than 560 shops employing 21,000 people, 100 aircrafts, and 180 eponymous hotels and resorts [17]. It became difficult to get an administrator willing to manage Thomas Cook operations as the size of its debt, connected with the scale and complexity of its business. As Thomas cook are broken up by rival businesses, many credit analytics risk indicators had warned them long before its eventual demise [18]. Thomas Cook fell into the 'Cash Conversion Cycle' territory and was unable to recover 10 months before the company filed for bankruptcy. The company could not recover due to its specific and systemic issues, which caused in mounting debts. Since it merged with MyTravel, the debt was accumulated, returns were declined, and the lenders showed unwillingness to extend financing [18]. Some of the specific and systematic issues include:

- Thomas Cook come up with ample additional costs coupled with expensive main street stores due to unexpected rise on online competition [17].
- City vacations has been dominated by Ryanair, EasyJet, and Airbnb, made a Change in consumer holiday trends, and turn out to be more popular in the UK [17].
- British holiday makers delayed, or cancelled holidays plans due to Brexit uncertainty and record Europe-wide heat waves last summer [18].

The most impactful factors driving the decline of the PDs (Probability of default) are:

- Total equity
- The profitability of the company's assets as the operations are financed by retained earnings or other assets.
- The percentage of the company's capital structure that consists of debt.
- The Return on Net Capital measure.

Thomas Cook experienced a huge misfortune drop in its total equity, from positive to negative figures (a five-fold diminish from £291MM to -£1.3BN), between September 30, 2018 and December 31, 2018. This was one of the most contributing components to a PD increment within the second to last detailed quarter. The diminish in total equity was a result of tireless negative held profit amid the ultimate 10 announcing periods, due to net wage misfortunes for seven out of those 10 detailing periods. The net losses were a result of thin working benefit edges, a noteworthy impedance of their MyTravel trade of roughly £1.1BN, coupled with intrigued costs that were, on normal, over £100M per annum for the past 10 detailing periods. This compared to normal working pay of roughly £260m over this period. Within the final detailed quarter, Return on Net Capital saw a noteworthy descending development, especially due to huge cash outpourings to providers and inn accomplices, with cash and short-term investments dropping by 106%. Operating income also fell by 38%. Thomas Cook's reducing margins and liquidity issues were exacerbated by the curiously large obligation of £1.9BN that the company was incapable to benefit, all of which made conditions that inevitably pushed the company to record for insolvency [19].

SWOT Analysis of Thoms Cook Group

SWOT analysis is a strategic forecasting method applied to facilitate an individual or organization identify strengths, weaknesses, opportunities, and threats connected to business competition or project planning [20]. This method is planned to operate in the initial stages of decision-making processes and can be exploited as a device for assessment of the strategic position of a city or organization [21]. This detailed SWOT analysis of Thomas Cook aims to analyze the strengths, the weaknesses, the opportunities, and the threats of Thomas Cook Group plc.

Strength

- Thomas Cook is one of the leading and oldest leisure travel industry in the world, operating from 16 countries and serves 20 million customers approximately a year [17].
- Thomas Cook has a user-friendly website with 12 million unique visitors land on the website every month and 10.5 million consumer profiles in its CRM database [17].
- It offers multi-services to tourism: Airlines, Hotels, Cruises, FedEx, Insurance, holiday packages, and many one-stop-shops for all the travel needs.
- It develops by multi-divisional structure separating Products, Services, and Geographical destination.
- It adores the opportunities of appealing takeoff and landing spaces in several remarkably busy and renowned airports such as Frankfurt, Dusseldorf, Gatwick, and Manchester [21].

- It provides flexible and modified Efficient training programs based on circumstances product, technology, customer division [22].
- Strong brand presence due to TVCs, online and print ads, and OOH hoardings.
- As it owns fleet with 100 aircrafts, insurance brands and FedEx services, it does not have to worry about airline regulations, insurance payments and Changing rates compare with other tourism company for their customers.

Weakness

- Allegedly denied paying statutory EU reimbursement to customers.
- Strong rivalry means limited brand presence.
- Unoccupied hotel rooms and plane seats can directly lead to losses during off-peak time.
- The financial performances were concerning and reported a £1.5 bn loss for the first half of 2019 [23].
- According to Analysts, too many brands created confusion in the minds of customers have branded the services as poor and disappointing resulting a poor customer satisfaction at Thomas cook [24].
- Limited market shares due to intense competition.
- Persisting long-term debts are a headache to the firm even more vulnerable in the tough time.

Opportunities

- To become the largest travel company in Europe and UK.
- The travel industry is growing at a fast pace all over the world which is a great opportunity for Thomas cook to expand their services at right places to penetrate most of the market.
- To boost their share prices by expanding business and digitalize their operations for better penetration.
- Opening new hotels and resorts in existing and new markets is a good opportunity for Thomas Cook.
- The local community-centered activities offer holidaymakers opportunities to meet local communities, participate in traditional activities, is indeed a very good opportunity for Thomas Cook as two in five British holidaymakers are more likely to choose activities which benefit the local community in some way [17].

Threats

- Uncertainty in the airline sector and price wars reduced the market share
- Rise in liabilities due to unpaid reparations
- Faces Several powerful competitors include TUI, Jet 2, Virgin Holidays, First Choice, On the Beach, Air tours etc.
- Uncertainties like Brexit poses threat to a multi-border business like travel which needs to be taken care of on immediate basis.
- Change in government regulations effects industries which needs to be taken into consideration to avoid major setbacks.

A Review of Thomas Cook Collapse

- *Excessive Debt:* Due to high DTI ratio, Thomas cook cannot survive and drowned under the weight of its debts.
- *Over-expansion:* Thomas cook went in the path of expanding its business too quickly or taking on too much debt to expand, which is risky.
- *Lack of Transparency:* There should not be obscure how the business generates cash.
- *Certified accounts:* Qualified accounts, which are audited accounts where the auditor did not find any doubts about the company's management. Qualified accounts found less serious but shows the auditor is protecting themselves from litigation while still signing off on the accounts.
- *Profit signs:* a profit warning is the strongest sign that Thomas cook will not meet its revenues outlooks.
- *Profit against cash-flow:* It is a clear that Thomas cook was showing strong profits with little cash-flow, is an indication of doing some dishonest accounting.
- *Variable disbursements:* Thomas cook did not pay the debts and invoices regularly or on time, or even if it paid in lump sums after periods of non-payment, the cash flow might have compromised.

- *Volatile Management:* Many changes within Thomas cook's leadership is a sign of trouble.
- *Late filing of accounts:* Thomas cook considered as disorganized or had trouble getting the auditor to sign off due to late filing of accounts.
- *Business agility:* Thomas cook should adopt agility suggests to its firm's capability of adapting to market changes, environment changes, technological changes and customer changes.

CONCLUSION

The collapse of Thomas cook is a warning to other travel agents and businesses around the globe. Incorporating business agility, cutting debts, taking profit warnings seriously and changing leadership can improve to overcome concerns like this in the future. If businesses find any of the signs mentioned in the review of Thomas cook at any severe circumstances, it could be a sign that the business really in trouble and not need to overreact.

Firstly, Businesses must retain the value of customer at our heart, adhering customer promise: Excellent service, Consistency and delivering top expectation services to improve customer loyalty and appealing new customers.

Secondly, Businesses should improve multiple services particularly own-brand hotels and flights subscription, developing employee training to guarantee customers to get reliable service experience.

Thirdly, Businesses must improve viable destinations expanding, attaining 100% of own-brand hotels to be certified by travelife, using airline fuel more competence to reduce the impact on environment.

REFERENCES

1. Hitesh, B 2017. SWOT analysis of Thomas Cook. Available: https://www.marketing91.com/swot-analysis-thomas-cook/.
2. Thomascookgroup.com. 2018. Thomas Cook Annual Report 2018. [online] Available at: https://www.thomascookgroup.com/investors/insight_external_assest/Thomas_Cook_AR_20 18_web.pdf [Accessed 9 Oct. 2019].
3. Brendon, P. 1991. Thomas cook: 150 years of popular tourism. Harvill Secker.
4. "MyTravel and Thomas Cook merging". BBC News. 12 February 2007. Retrieved 6 October 2013.
5. "Annual Report & Accounts 2007" (PDF). *Thomas Cook Group*. 2007. Retrieved 5 October 2013.
6. Cadler, S. 2019. Thomas Cook collapse was 'a failure of corporate finance', says travel boss. [online] The Independent. Available at: https://www.independent.co.uk/travel/news-and- advice/thomas-cook-collapse-travel-abta-corporate-finance-failure-mark-tanzer-a9146851.html [Accessed 8 Oct. 2019].
7. The Week UK. 2019. Thomas Cook: how it collapsed and what customers need to do next. [online] Available at: https://www.theweek.co.uk/98281/is-thomas-cook-about-to-collapse [Accessed 8 Oct. 2019].
8. Hancock, A., Thomas, D. and Parker, G. 2019. Thomas Cook collapses after knife-edge rescue talks fail | Financial Times. [online] Ft.com. Available at: https://www.ft.com/content/dd402b2c-dd9e-11e9-9743-db5a370481bc [Accessed 9 Oct. 2019].
9. Joyce, A. and Paquin, R. 2016. The triple-layered business model canvas: A tool to design more sustainable business models. *Journal of Cleaner Production*, [online] 135, pp.1474-1486. Available at: https://doi.org/10.1016/j.jclepro.2016.06.067 [Accessed 5 Oct. 2019].
10. Barquet, Ana Paula B. *et al.* "Business model elements for product-service system". Functional Thinking for Value Creation. Springer Berlin Heidelberg, 2011. 332–337: They stated that "The Canvas business model was applied and tested in many organizations (e.g., IBM and Ericsson), being successfully used to easily describe and manipulate business models to create new strategic alternatives."
11. Osterwalder, Alexander. 2005. "What is a business model?". business-model-design.blogspot.com. Archived from the original on 2006-12-13. Retrieved 2019-06-19.
12. Osterwalder, Alexander. 2004. The Business Model Ontology: A Proposition In A Design Science Approach (PDF) (Ph.D. thesis). Lausanne: University of Lausanne. OCLC 717647749. See also: Osterwalder, Alexander;
13. Pigneur, Yves; Tucci, Christopher L. 2005. "Clarifying business models: origins, present, and future of the concept". *Communications of the Association for Information Systems*, **16**(1): 1.
14. Nkwabi, J. 2018. A Review of Uber's Main Phenomenon: Bad Leadership Practices. [online]Availableathttps://www.researchgate.net/publication/324439397_A_Review_Of_Uber's_Main_Phenome non_Bad_Leadership_Practices [Accessed 9 Oct. 2019].
15. Henne, J. 2014. Business model dynamics in the tourism industry. [online] Essay.utwente.nl. Available at: https://essay.utwente.nl/65327/1/Henne_BA_MB.pdf [Accessed 9 Oct. 2019].
16. Sinkovics, Noemi; Sinkovics, Rudolf R. and Yamin, Mo. 2014. "The Role of Social Value Creation in Business Model Formulation at the Bottom of the Pyramid – Implications for MNEs?". *International Business Review,* **23**(4): 692–707.
17. Bocken, N.M.P., Rana, P. and Short, S.W. 2015. "Value mapping for sustainable business thinking". *Journal of Industrial and Production Engineering*, **32**(1): 67–81.

18. Thomas Cook Half Year Results 2019, Peter Fankhauser, May 16, 2019, https://www.thomascookgroup.com/investors/insight_external_assest/TCG+H1+2019+Statement+Final+16May19.pdf
19. The Guardian, why did Thomas Cook collapse after 178 years in business? September 23, 2019: https://www.theguardian.com/business/2019/sep/23/thomas-cook-as-the-world-turned-the-sun-ceased-to-shine-on-venerable-tour-operator
20. S&P global, 2019. Https://wwwspglobalcom/. [Online]. [5 September 2020]. Available from: https://www.spglobal.com/marketintelligence/en/news-insights/blog/thomas-cook-bankruptcy-case-study-what-were-the-warning-signs
21. "SWOT Analysis: Discover New Opportunities, Manage and Eliminate Threats". www.mindtools.com. 2016. Retrieved 24 February 2018.
22. "Ving, Spies, Tjäreborg and Thomas Cook Airlines Scandinavia acquired by consortium". CAPA. 30 October 2019. Retrieved 9 November 2019.
23. Taylor, I. 2019. Comment: Who will buy Thomas Cook's airline? Available at: http://www.travelweekly.co.uk/articles/324229/comment-who-will-buy-thomas-cooks-airline (accessed 01 July 2017)
24. Gerry, J. 2017. Exploring Strategy. 11th ed. United Kingdom: Pearson, p.115, p.119, p.174, p.443, p.481.
25. Wilson, B. 2019. Thomas Cook: What is gone wrong at the holiday firm? Available at: https://www.bbc.co.uk/news/business46452374?intlink_from_url=https://www.bbc.co.uk/news/topics/c416n3k3156t/thomas-cook-group&link_location=live-reporting-story (accessed 01 July 2019)
26. Trip Advisor. 2019. Thomas Cook Airlines (UK) https://www.tripadvisor.co.uk/Airline_Review-d8728952-Reviews-or20-Thomas-Cook-Airlines-UK#REVIEWS (accessed 01 July 2019).