



COLLAPSE OF ONE OF THE OLDEST BUSINESS: A CASE STUDY OF THOMAS COOK

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Abstract

This study intends to assess the collapse of Thomas Cook, which was 178-year-old and one of the largest travel companies. The court-appointed the Official Receiver liquidator of the Thomas Cook companies in liquidation. The company's biggest problem was too much debt with pension deficit, lack of management control, difficulty paying dividends to shareholders during the tough trading and solvency situations being the contributing factors. The chain effect grasped the holiday packages of holidaymakers, i.e. their immediate repatriation, company's staff who got unemployed due to adverse circumstances. The present study made use of the SWOT analysis, PESTEL analysis and Porter five forces model to present the case of collapse of Thomas Cook Plc by analyzing the causing factors. On the basis of findings, the major reason for the collapse of Thomas Cook was recognized to be its inability to adapt to the dynamics of market environment by avoiding the latest technological developments such as internet penetration which led to the emergence of rival companies which threatened its position and market share. Such inability of the company to withstand competition caused plummeting of share prices, excessive debt and negative impact on customers' holiday schedules. Based on the case, some precautionary measures have been suggested which might help other firms to escape from the bankruptcy situation and implementation of these efforts prevent the customers from uncertain situations.

Keywords: Collapse, Insolvency, Bankruptcy, Tourism, PESTEL, SWOT, Porter

INTRODUCTION

Thomas Cook Group plc was a British global travel group. In the second half of the 19th century, the development of tourism in the European Market was partially attributed to the business of Thomas Cook and Son, who popularized mass tourism to the region. However, on 23 September 2019, winding-up orders were made against Thomas Cook Group plc and associated companies. The court-appointed the Official Receiver liquidator of the Thomas Cook companies in liquidation. Eight years ago, after trading turned sour, the company lurched perilously close to the brink of insolvency. It was put back on its feet from the edge through emergency assistance from a group of banks led by RBS (Royal Bank of Scotland) (BBC, 2019a). The present study has made use of the SWOT analysis, PESTEL analysis and Porter five forces model to present the case of collapse of Thomas Cook Plc by analyzing the factors resulting in it. Based on the case, some precautionary measures have been suggested which might help other firms to escape from the bankruptcy situation and implementation of these efforts prevent the customers from uncertain situations.

RESEARCH METHODOLOGY

The study is based on secondary research. No primary research is carried out in for paper. The author used secondary sources of data, such as journals, news, and articles, for the purpose of this study. The paper used academic frameworks to analyze the company, its position and the external and internal forces that was associated with the case. The study reflects inductive research approach where the researcher initially begins with collection of data then in the next phase, the researcher analyzes the pattern and lastly theorize from the data to research. (Jankowicz, 2004). The research strategy that was used for this paper is case study i.e, the author was provided with given case and based on that context the study is carried out. The study also reflects qualitative approach and no quantitative analysis is carried out.

FINDINGS

Thomas Cook, despite its challenges, remained an active market player till last decade. A SWOT analysis, along with PESTEL analysis and Porters' Five forces model of the company is presented below:

SWOT Analysis

Strengths

Due to the company's goodwill, customers identified with the reliable brand name as the company was listed on the stock exchange also. It included shareholders' networks and

partnerships with experienced suppliers by collaborating internationally with hotels and airlines in order to leverage different offerings to their customers.

Weaknesses

The weakness of the company can be attributed to its lack of innovativeness in the offered products which are not adaptable to the dynamicity of the market. Though the brand name had gained momentum, the limited budget caused due to high operational and functional costs weakened the company against smaller market players targeting the same clients (Travel, 2013) which led to lack of credibility amongst the customers.

Opportunities

Although many would see the 9/11 event as a drastic, this could offer Thomas Cook with an opportunity to capture a more significant market share. Since the incident caused havoc in the world, the travel industry was also severely affected resulting in decreased visitors from international as well as the domestic country. However, with enhanced security controls, trusted traveler programs and management of the crisis in a proactive way could have resulted in a seamless travel experience.

Threats

With a changing global and local environment, the era of technology held a more substantial challenge for the company. The use of technology has narrowed the gap between large tourist organizations such as T.C. and smaller companies. It also included the Euro crisis and the continued risk of a Eurozone breakup and its potential negative effect on the German economy and hence clients' travel requirements. It also faced threats from various online tourism websites which offered low-cost tour packages with multiple discounts related to air travel, hotels bookings etc. applied through online tourism company.

PESTEL ANALYSIS

Political Factors

The tourism and travel industry within the U.K. had faced noticeable governmental pressure. Suffice to mention here was the introduction of tourism and bedroom tax. Resultantly, England, was presented as the highest tourist destination in Europe (BHA, 2012). It also included various policies framed related to travel as well as the aviation sector.

Economic Factors

Weak economies across Europe has weakened global travel affecting consumer's disposable income. Fluctuating oil prices, currency rates and an increasing rate of unemployment, has also had a negative impact. It also involved insolvency like conditions different times due to unable to clear off the losses which occurred while suffering from improper management control and paying off dividends in situations when analysts raised red flags over the company's situation. Additionally, a massive debt of about 2 billion Euro with the pension deficit in 2011 and poor trading due to weak sterling led to a downturn in demand for tourism. It also included an inability to seal the financial recovery deal with its major shareholder due to which the company could not get the bail-out support from the government.

Social Factors

The need for the services offered by the tourism and travel industry usually increases as most individuals desire to travel for recreation. This is dependent upon disposal income which enhances spending and socialization (Pearson School and College, n.d, p. 11). Though services offered include reasonable assurance of repatriation protection and insurance protection but often customers avoid these schemes. Thus, in the case of emergent situations such as bankruptcy, the company will not be able to repatriate the passengers ultimately losing their market share.

Technological Factors

The utilization of the internet has promoted the ease and freedom with which people make their decisions. Since this can be accomplished by using advanced and modified technologies, the desire of Thomas Cook to remain among the top-notch online service providers remained a constant challenge. Innovation in modern technologies to get more and more market share raised the competitiveness amongst existing players in the tourism industry.

Environmental factors

Since Germany has a temperate seasonal climate, the average duration of sunshine in Germany depends on the region. On average, the sun shines between 1300 and 1900 hours a year (Deutscher Wetterdienst, 2012) which impacts the travel companies. Also, swine flu recorded in Mexico and terrorism elsewhere impacted tourism traffic negatively (Thomas Cook Group Plc, 2009). The volcanic ash clouds affected travel in Europe in 2011 (Pearson, 2013).

Legal factors

Legal factors include the grant of licensing rights, proprietary rights to use technology, patents, copyrights or trademarks of specific goods and services. In return, a royalty is paid by the licensee (Milbradt, 2013). Also, it involves completion of legal obligations such as regular salary to employees and information of any uncertainties regarding job opportunities in the company. However, the loss of goodwill resulted in a loss of consumers and the outdated technology lead to declined tour products offered by the company.

External Forces Affecting Thomas Cook and Porter's Five Forces

Degree of Competitive Rivalry

Thomas Cook competition was reduced during the merger and acquisitions mentioned above. Overall, however, the dominant form of competition experienced is from smaller specialist operators (Travel, 2013). These small operators offer various services such as hiring a car or renting a car after travelling through the air, providing best hotels at reasonable prices etc. increased competition with the tourism company where the customer has booked its holiday packages.

The Threat of Substitute Products

The advent of 3D T.V., coupled with easy access to the theatre and movies locally, has made long-distance travel and tourism less appealing.

Bargaining Power of Buyers

The tourism websites offering various discounts and offers for the customers, it shifts the bargaining power to the end-user where the cost of switching the services of any particular company is reduced.

Bargaining Power of Suppliers

The firm can recruit excellent staff for providing excellent and exceptional experiences to the client.

The threat of new entrants to the Market

The threat posed by new entrants to Mass Tourism may be low with the market, generally experiencing a slump (Furseth, 2013).

DISCUSSION

From the above findings, one may observe that Thomas cook was struggling due to several challenges. In this SWOT analysis, the strength of the firm has been in its brand and the loyalty of its customers which was accounted for in its books as goodwill. Even though the brand name gave profitability to the firm, but high operational and functional costs led to the company's failure. The reason behind this failure can be decoded in various challenges. Since market changes every single day owing to different conditions such as political, technological and economical this dynamicity must have brought competitiveness amongst market players, due to which, the firm lost its customers due to lack of competency where Thomas Cook had an analogue business in today's digital environment, i.e., it was unable to adapt to the changing market environment. Its investments had already written off, and it had very little in the way of tangible assets, such as planes or hotels. Additionally, it had a massive debt of 2 Billion Euro with the pension deficit in the year 2011. Moreover, poor trading due to weak sterling led to a downturn in demand for tourism.

Besides, PESTEL analysis shows that volatility in the oil market, currency rates and increased unemployment levels affected the firm's business. It led to a lack of funds to clear off the losses. As the firm was suffering from improper management control, mergers and acquisitions had a negative impact on its size and lack of funds caused a furore in the organization. The management decisions such as the firm paid off dividends in situations even when analysts raised objections over the firm's financial health also led to the collapse of the business. The technological challenge such as providing inefficient online services which have drawn the firm into a tight spot. Due to which it lost more and more market share to the other market players in the tourism industry.

Porter's Five Forces model assessed the threat of substitute products and services provided by rival companies which were exaggerated by inefficient and ineffective mergers and acquisitions adopted by the firm. The threat posed by the new entrants where they provide attractive services and discount offers to the customers. So, when customers left for online competitors or to book their own flights and hotels, the value of the firm plummeted, and after a series of profit warnings, the price had fallen by a substantial figure. Henceforth, the company then put its airline up for sale in an attempt to raise badly-needed funds. Thomas Cook, the troubled operator, hoped to seal a rescue led by China's Fosun (the company's largest shareholder), but the last-minute demand of creditor banks to arrange an extra £200m by the travel company, led to the distressing situation.

Hence, in order to get rid of this problem, cost of failure must be met through a financial instrument by requiring airlines to put up security that can be relied on to payout should the

company become insolvent complemented by a centrally-held fund to cover the remainder of each airline's exposure, establish reserves against future claims, which could be funded by contributions from each airline. So, financial protection should cover passengers from the U.K. who hold a ticket for a return flight to the U.K. that got insolvent while they are abroad. Therefore passengers should expect to be able to get home at some or no extra cost and whether their ticket is part of ATOL protected package in a timely way.

Due to collapse of Thomas Cook, several problems occurred which affected the holidaymakers' plans (BBC, 2019e).

- While travelling through air transport, passengers are exposed financially to the risk of the company becoming bankrupt either before they even having begun it, before the journey is completed or started their journey or, while booking their seat.
- When the airline fails, passengers, in general, faced two main types of harm: firstly, financial losses because they had paid for tickets that become worthless and secondly, personal welfare losses if they are left stranded abroad such as delay and disruption, discomfort, anxiety and stress and in some cases even health and employment problems.
- Most of the passengers who have already protected their bookings against financial loss in case of failure of the company, still, only those who have bought a travel product protected by the Air Travel Organizer's License (ATOL) Scheme were assured of getting home in a timely way at little or no extra cost. It left passengers of Thomas Cook to access and pay for alternative travel arrangements themselves.

CONCLUSION

Though Thomas Cook had a chequered history, so as the travel world progressed, the modern business and leisure market also changed at a rapid pace, ultimately affecting Thomas cook's business by factors such as financial, social and meteorological. Additionally, the weather issues and stiff competition from online travel agents, including political unrest going around the world also created an impact on its business.

The essential problem is that in case of bankruptcy of the travel company, the passengers might be left stranded in another country where they have planned their holidays as it would be challenging to repatriate all of those passengers to the home country without suffering any major problem. It also involves protecting air passengers. Here, due to the collapse of Thomas Cook triggered the most significant ever peacetime repatriation aimed at bringing more than 150,000 British holidaymakers home. In case the passenger's chosen carrier becomes insolvent, approx. 80% of UK-originating passengers had benefited from some form of

protection against financial loss but in case they bought their air tickets as part of a package covered by the Air Travel Organiser's License scheme (ATOL), around a quarter of the total are fully protected when this left them stranded abroad. Over the past decade, majority of airline failures have been small scale which affected a relatively small number of passengers and the role of Civil Aviation Authority was also limited but there are very rare case such as Thomas Cook where large scale failures have occurred and the CAA had been directed to put in place an extensive and costly repatriation at public expense (BBC, 2019a).

So, the problem directed in case study leads towards finding a solution by focusing on how efficiently repatriation for U.K. originating passengers can be secured whose return flight was booked with an airline that becomes insolvent while they were abroad, avoiding material detriment to their welfare, and removing the need for government to intervene.

For this, alternative ways to pay for such operations must be explored when the need arises. Necessarily, if the company were not to finance them, only the passenger would do so, one way or another. Moreover, a pool of capital would be required to underwrite the associated risks and costs and assure counterparties. These factors point towards passengers' contributing in advance meaning that the cost must be divided and therefore the protection afforded to all passengers. Consequently, a comprehensive scheme to protect all UK-originating air passengers, with the associated costs which could be met if not wholly but mainly by the private sector must be proposed. It can be referred to as the Flight Protection Scheme, which would be coordinated by the Civil Aviation Authority (CAA) and backed by requiring each airline serving the U.K. market. It would create an equal field for all UK-originating passengers that provide repatriation protection assurance whether or not they hold an ATOL Certificate by providing suitable financial protection based on the estimated cost of repatriating its passengers.

RECOMMENDATIONS

The travel firm faces various challenges in case of bankruptcy, therefore precautionary measures might help in offsetting unnecessary risks and also in smooth and stable liquidation for the firm. Following section presents certain recommendations towards the same:

- In the case of repatriation, the protection would apply irrespective of how, or from whom, the ticket was purchased or paid for. Flight Protection Scheme should be put in place that is practicable, efficient and affordable that protect any air passengers from being left stranded while they are overseas. Additionally, to enhance the existing repatriation toolkit, increasing multinational collaboration and improving information relating to refund protections are all low-cost ways to improve the passenger experience when airlines fail.

- A financing structure should be prepared for the Scheme where, in case of failure of the company, be relied upon to meet the costs. To cover each airline's exposure, and provide an income stream from which to meet the Scheme's current expenditure and establish reserves against future claims, where airlines also are charged a small, per passenger levy.
- Apart from the Air Travel Organizer's License scheme, existing protections only provide financial compensation after a loss is incurred and a claim has been made, which can take time to process. As such, they are a reasonable means to obtain refunds in relation to forward bookings. They are less effective where passengers need repatriating because even if a replacement seat is available, advance payment is required, which could prove difficult for some passengers. If a centrally organized repatriation operation is necessary to put in place repatriation, immediate access to funds to pay for the operation would be essential.
- Over 80% of people have some form of formal financial protection to provide them with a refund relating to a future booking; the existing protection landscape is sufficient for protecting those bookings. It is recommended that the government should keep this protection under regular monitoring, however, to ensure the proportion of protected bookings does not fall and to consider whether it can be enhanced. In contrast, a new arrangement is needed to establish the option to repatriate because funding will be required.
- If situations arise where the government has the ability to review the protection the ATOL scheme provides in light of any broader changes to flight protection or consumer uptake of financial security, it should do so to ensure the travelling public continues to benefit from adequate financial stability at a reasonable level, delivered within the private sector in a way that is simple for consumers to understand.
- Public-private partnership should be there to help enhance existing refund protection and provide greater clarity by proposing: a. Uptake of refund protection and increasing consumer awareness. b. Minimizing unnecessary duplication of protection. c. Helping passengers to make a refund or claim swiftly and efficiently.

IMPLEMENTATION

Executing the repatriation protection will require several improvements:

- It must be ensured that an insolvent company continues flight operations for a short period after entering administration so that passengers can be repatriated using the airline's own aircraft, people and systems.

- Enhancement of the ability of CAA to monitor and enforce airline license compliance concerning financial health.
- Airlines must be required to prepare and maintain plans that enable repatriation operations to be planned and executed quickly and efficiently.
- Enhancement of solvent airlines' provision of 'rescue fares' and other assistance to repatriate stranded passengers of an insolvent airline. This will help to keep the overall costs of the flight protection scheme down, benefitting airlines and their passengers commensurately.

Hence, to fully implement the above recommendations, proper policies must be framed and a transition period might be necessary to allow airlines some time to prepare so to reduce the cost of failures and to improve passengers' experiences when they would occur. Although there are financial protection provisions which are already existed, assures the majority of consumers to recover the money, if they are yet to take their outbound flight, offering recommendations to increase intake of credit card, insurance and payment system based protections and to improve awareness. However, it will raise the costs, both in setting up and administering the new arrangements and in financing the protection they will provide. It is estimated that on average, the new Scheme would in total cost less than 50p for each passenger protected. So, to enhance passengers' experiences in travel, they require the protection; recommendations must be followed to ensure that contract terms are fair and claims processes are responsive and easy to navigate.

Overall, when any business collapses, it's having major impact on all the stakeholders. Present study is conducted based on the secondary data. I have only utilised SWOT analysis, PESTEL analysis and Porter five forces model to present the case of collapse of Thomas Cook Plc. Future studies can be conducted by collecting secondary data on the financial aspects, which is not covered in the current study.

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