

## Thomas Cook Analysis of a downfall

### MarketLine Case Study

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# 1. Overview

## 1.1. Catalyst

The failure of Thomas Cook has led to 9,000 UK job losses. Governments across Europe and Africa were plunged into crisis planning mode as they help with the repatriation of more than 500,000 stranded tourists and begin to count the cost of the holiday company's demise on already-battered economies. The collapse of the company has many reasons behind it. These include taking on too much debt and failing to adapt to a changing business environment.

## 1.2. Summary

The collapse of Thomas Cook was not something that came as a huge surprise as the writing was on the wall for a number of years. The large increases in debt started in 2007 when Thomas Cook merged with My Travel (a package holiday company). In 2009 the company had issued its first profit warning and by 2010 net debt had risen from \$321m in 2007 to \$1.04bn, and to further the debt, in autumn 2011 Thomas Cook was asking lenders for a \$129m extension to its loans.

By July, it was obvious that the business's debts were unsustainably high and it announced advanced discussions for a \$966m recapitalization funded by Fosun. This sum was then increased to nearly \$1.15bn, before exceeding \$1.29bn. The company also paid £160m in interest charges to its lenders last year. Some Thomas Cook officials suspect lenders, led by Royal Bank of Scotland and Lloyds Banking Group, were never committed to the financial rescue package.

Thomas Cook is at fault for much of its own demise, but there were still a number of external factors that contributed to the businesses liquidation. One influence that Thomas Cook executives immediately pointed to in the wake of the company's failure was Brexit. There is no doubt that Brexit has had, and will continue to have, an impact on the travel and tourism industry, particularly in the United Kingdom and Europe.

For many of the world's oldest and best loved companies it seems inconceivable that it could ever disappear, even though recent history tells us otherwise. In years gone by, no one would have predicted the fall of Thomas Cook, which had been transporting holidaymakers around the world for over a century, however, a combination of debt, mismanagement and pressure from competitors proved too much for the company.

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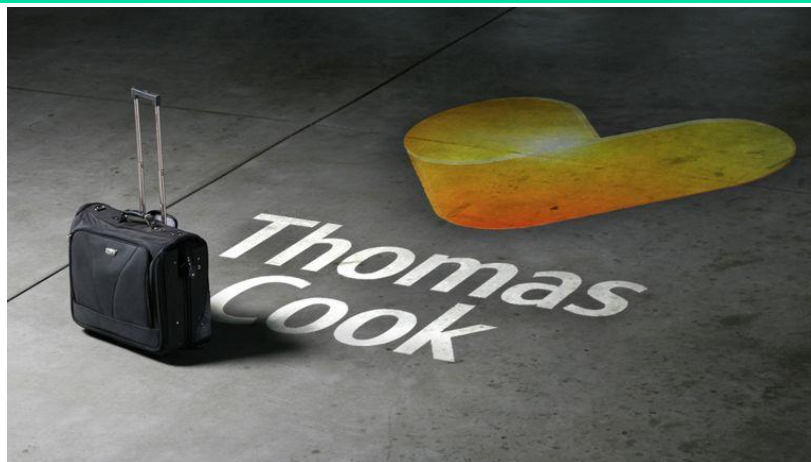
## 2. Thomas Cook was one of the most recognizable brands in travel

Thomas Cook has sales of over £7.8bn (\$10bn) and more than 20 million customers. The group was supported by approx. 22,000 employees and operated from 15 countries. In September 2019 Thomas Cook went into liquidation causing rolling chaos throughout the travel industry as it left 150,000 British holidaymakers stranded and 21,000 jobs at risk. When Thomas Cook went out of business, it was about £1.7bn (\$2.2bn) in debt to banks with a further £1.3bn (\$2.2bn) owed to suppliers. A parliamentary committee leading an inquiry into the failure of the travel giant also issued a damning verdict of mismanagement by successive bosses. Then a £200m (\$256m) deal to enable the firm to weather the winter season was abandoned, sealing the fate of the once revered business.

### 2.1. Thomas Cook had an image that it was able to build a brand on

The failure of Thomas Cook has led to 9,000 UK job losses. Governments across Europe and Africa were plunged into crisis planning mode as they help with the repatriation of more than 500,000 stranded tourists and begin to count the cost of the holiday company's demise on already-battered economies. Thomas Cook brought in 40% of the Gambia's annual visitors. For a low-income country like the Gambia, this is damaging as tourism accounts for more than 20% of GDP according to UNCTAD.

Figure 1: Thomas Cook



Source: Sky News

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Thomas Cook became one of the largest travel companies in Europe by providing affordable and accessible holidays to its consumers. It invested in having a strong global presence with a focus on services such as package holidays, flights, hotels and resorts. The company established a strong brand image that meant customers had trust in the business, giving it an advantage in business terms. The company built on this brand image by having a big presence in TV commercials, online, print adverts and hoardings. Thomas Cook also invested in sports advertising by sponsoring large sporting institutions such as Manchester City Football Club and the London 2012 Olympics. This exposure allowed Thomas Cook to build an enormous profile that helped it to become an almost ingrained institution within British society and a brand that was synonymous with the travel industry.

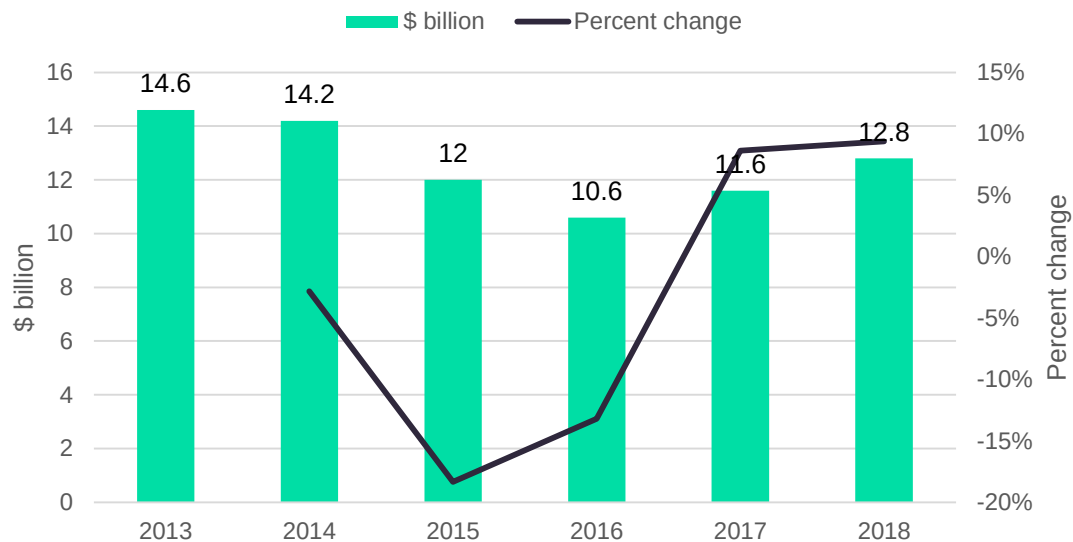
## 2.2. Thomas Cook rose from transport plans for devout Christians to one of travel's most iconic brands

Thomas Cook was born in 1808, in a small market town in Derbyshire, England. In 1841 he set up transport plans from Leicester to Loughborough for his fellow followers of the temperance and the rest is history. A tour to Liverpool just four years later was booked by 1,200 people and was so popular that another tour had to be put on two weeks later for an additional 800 further customers. From the 1800's, the Thomas Cook brand had lived through two world wars, the reigns of six British monarchs and the invention of the aeroplane. After a brief period of nationalization, the Thomas Cook Group as we know it today was formed in 1974. By 1990 the business had become the world's leading foreign exchange retailer after it acquired the retail foreign exchange operations of Deak International. In 1994 Thomas Cook became the largest supplier of traveler's checks outside of the United States and in 1997 it became the UK's first retail travel agency to offer customers a way to buy holidays, foreign currency, traveler's cheques and guidebooks online. In 2011 Thomas Cook merged its UK retail operations with those of the Co-operative Group and the Midlands Co-operative Society, creating the UK's largest ever chain of travel agents.

## 2.3. Crippling debt became too much for the airline and mismanagement compounded debts

Unfortunately, the collapse of Thomas Cook was not something that came as a huge surprise as the writing was on the wall for a number of years. The large increases in debt started in 2007 when Thomas Cook merged with My Travel (a package holiday company). In 2009 the company had issued its first profit warning and by 2010 net debt had risen from \$321m in 2007 to \$1.04bn, and to further the debt, in autumn 2011 Thomas Cook was asking lenders for a \$129m extension to its loans. This massive rise in debts was followed by two further profit warnings. Although there was a slight increase in share prices in 2012, by 2013 Thomas Cook was forced to ask its shareholders for extra funds. Later that year the company purchased a number of hotels to improve profit margins, however, its debts continued to rise. By 2018 the company had been trying to reduce its debt for the past decade, successive managements had attempted to shed meaningful chunks but ultimately failed. In May 2019, Thomas Cook reported the worst half-year loss in the company's long history, following more profit warnings.

Figure 2: Thomas Cook Group PLC revenue (\$bn) 2013 to 2018



Source: MarketLine

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By July, it was obvious that the business's debts were unsustainably high and it announced advanced discussions for a \$966m recapitalization funded by Fosun. This sum was then increased to nearly \$1.15bn, before exceeding \$1.29bn. The company also paid £160m in interest charges to its lenders last year. Some Thomas Cook officials suspect lenders, led by Royal Bank of Scotland and Lloyds Banking Group, were never committed to the financial rescue package, and were instead trying to prolong talks in the hope the government would offer backstop funding and thereby improve the position of creditors. When the company went into liquidation in September 2019, it was in \$2.2bn worth of debt. These enormous costs were ultimately too much for the company and undoubtedly the reason why the British government refused to save the business.

Top directors at Thomas Cook had been paid a combined \$25.8m in salaries and bonuses since 2014 and these large salaries have come under intense scrutiny since the company went into liquidation. The business also made a number of poor strategic decisions including spending hundreds of millions on buying back its own shares soon after merging with My Travel. Harriet Green who had been brought in as a new chief executive in 2009 had a feisty management style, which may have gone down well with some investors but was regarded by many as abrasive and staff morale reportedly began to rapidly deteriorate. Peter Fankhauser was then brought in and attracted considerable criticism for allegedly refusing to apologize for the death of two children who died from carbon monoxide poisoning whilst staying in a Thomas Cook approved hotel in 2006. The brand's long standing public image was beginning to show signs of irreversible damage, something it would ultimately not recover from.

Criticism from Rachel Reeves, Parliamentary Committee Chairwoman, was scathing: "During our inquiry, we've witnessed buck-passing and blame-shifting but precious little humility or reflection from those at the top of the business...directors and senior management pocketed hefty sums in annual salaries and bonuses that Thomas Cook staff will only have dreamed of earning throughout their entire careers."

## 2.4. Competition took advantage of the rise in city breaks

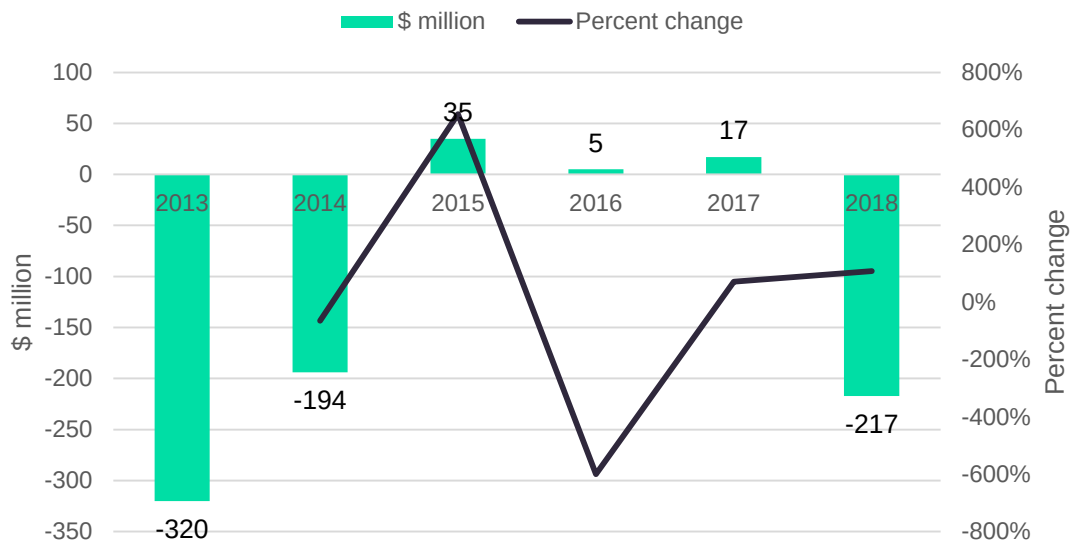
Weekends away to some of Europe's most iconic cities have grown massively in popularity over the years. According to GlobalData's 2019 Q3 Consumer Survey, 45% of those in the UK (Thomas Cook's biggest market) now typically go on city breaks, compared with 53% of those who go on sun and beach holidays. Sun and beach holidays are clearly the most dominant holiday type within the market, however, city breaks are playing an increasingly important role. Competitors such as Ryanair, EasyJet and Airbnb are profiting from this, with all customers booking their holidays online. In Europe alone, \$248bn was made in online travel sales showing the enormity of the market. Although there may still be a market for high street travel agents, it may be a more niche sector, whereas Thomas Cook owned 560 high street outlets – something that was not sustainable.

According to travel agent trade body Abta, only one in seven brits now use high street travel agencies, this highlights the need for companies to modernize their business and keep up to date with their competitors. However, Thomas Cook still managed to sell 11 million package holidays in 2018 and had a partnership with Expedia to try and attract online consumers. Thomas Cook's plan to target the online market was positive, however, reinventing the company's business model required heavy investment, something that Thomas Cook did not have. The business's demise was catalyzed by an accelerating consumer preference for booking holidays online with the UK online travel sales market value set to grow by 6.3% between 2019 and 2020 and 8.4% between 2020 and 2021 according to GlobalData forecasts.

## 2.5. There were a number of external factors that also contributed to Thomas Cook's downfall

Thomas Cook is at fault for much of its own demise, but there were still a number of external factors that contributed to the businesses liquidation. One influence that Thomas Cook executives immediately pointed to in the wake of the company's failure was Brexit. There is no doubt that Brexit has had, and will continue to have, an impact on the travel and tourism industry, particularly in the United Kingdom and Europe. Brexit has created an uncertain consumer environment, which has led to intense competition. Brexit has also impacted tour operators as the weakness of the pound has dampened demand for foreign travel. Matt Hancock the Health Secretary of the British government hit back at these claims saying there was no Brexit connection and cited the company's long term problems]. Another external factor that impacted Thomas Cook was the 2018 heatwave which led to company executives saying many customers had been put off going abroad. There is no doubt Brexit and the weather affected Thomas Cook's profits in 2018, but it is naïve to suggest that this was the primary reason for company's downfall.

Figure 3: Thomas Cook Group PLC profit/loss (\$m) 2013 to 2018



Source: MarketLine

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## 2.6. The digital age is crucial for businesses in the travel and tourism industry

For many of the world's oldest and best loved companies it seems inconceivable that it could ever disappear, even though recent history tells us otherwise. In years gone by, no one would have predicted the fall of Thomas Cook, which had been transporting holidaymakers around the world for over a century, however, a combination of debt, mismanagement and pressure from competitors proved too much for the company. No matter how long-standing and well established a company is, it is important to remember that no business is ever immune to financial difficulties. This can make it difficult for consumers when choosing a company to travel with as there is no real guarantee of stability in the current economic climate. One of the biggest lessons from Thomas Cook's demise was the importance of keeping up to date with the latest technology.

Thomas Cook underestimated the shift in customer demand, with more customers caring about ease of access, then meeting face to face with a travel agent. The age of digital transformation has been a testing time for many organizations ranging from all industries. Those that keep innovation at the forefront are poised to embrace change and evolve alongside customer demands. E-commerce tourism competitors were able to amass invaluable data in just a few years that Thomas Cook would have struggled to gather in its entire existence. Surviving amid a rapidly changing industry requires a willingness to approach challenges with creativity, flexibility, and resilience.

Thomas Cook found itself trapped between the low-cost airlines such as EasyJet and Ryanair, who could attract even the most loyal of customers by offering flights at a much lower cost and companies such as Airbnb who were taking advantage of the growing city breaks market, where consumers could go away multiple times a year. This left Thomas Cook in a position where it was no longer able to target one particular market. As many customers could now tailor their holidays online, usually at less of a cost, the need for travel agents reduced. However, if Thomas Cook had found a gap within the market that it could have exploited, it may have been a different story. For example, it could have focused on a more luxury experience that consumers would struggle to put together themselves and it could have increased the need for package holidays once more. Ultimately, the company had no focus on offering personalized experiences, no focus on using data to better understand customers and no pivot towards city breaks in non-bucket list destinations.

## 2.7. Brand will live on but many former employees may not find work in the same industry

Since the liquidation of Thomas Cook there has been a lot of uncertainty surrounding what will happen to Thomas Cook and the thousands of employees that worked for the company. According to a survey by Unite Union, 67% of former Thomas Cook staff had not found any kind of work six weeks after the company's downfall. According to the same poll, 93% of respondents had not found work with another airline and just 10% of the affected workforce had secured full-time employment. Of those that had applied for universal credit, only 19% have received any kind of payment. These statistics highlight the human level of the downfall of Thomas Cook and goes someway to ensuring the same kind of incident does not happen again.

Figure 4: Thomas Cook closure



Source: The Express

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Although the Thomas Cook Group has ceased trading, it looks likely that the company's name will carry on in one form or another. Fosun, a Chinese company that held a major stake in the collapsed travel company purchased the business's naming rights for around \$14m. The deal which includes hotel brands Casa Cook and Cook's Club, gives Fosun access to Thomas Cook trademarks, websites, social media accounts and software across most of the world. The company's UK branch network has been bought for around \$7.7m by a Sunderland based travel firm, Hays Travel. The shops will be rebranded under the name of the Hays family firm. The Ving Group – Thomas Cook's Nordic business, including brands such as Globetrotter, Spies and Thomas Cook Airlines Scandinavia, has continued operating despite the liquidation.

The Nordic branch has been purchased by an investment consortium consisting of the Strawberry Group, Altor Funds and TDR Capital, and will be rebranded as Sunclass Airlines. Many of Thomas Cook's 135 hotels in Turkey, Greece and Spain have been taken over by TUI. This will be welcome news for many hotel owners and tourist boards in the region. Finally, all of Thomas Cook's landing and take-off slots in the UK have been purchased by easyJet and Jet2. EasyJet bought slots at London Gatwick and Bristol for a combined total of \$46.4m. Jet2 has acquired slots at Manchester, Birmingham and Stansted airports for an undisclosed fee. The two companies acquiring these slots will reinforce their position in the market and bring the British industry even closer to an oligopoly.

## 3. Appendix

### 3.1. Sources

Sky News

<https://news.sky.com/story/thomas-cook-name-to-live-on-after-11m-brand-buyout-by-fosun-11851227>

The Express

<https://www.express.co.uk/travel/articles/1103813/thomas-cook-holidays-shop-closures-store-full-list>

### 3.2. Further reading

United Kingdom – Travel & Tourism – Industry profile published by MarketLine

Global – Travel & Tourism – Industry profile published by MarketLine

## 4. Ask the analyst

We hope that the data and analysis in this case study will help you make informed and imaginative business decisions. If you have any questions or further requirements, MarketLine's research team may be able to help you. The MarketLine Research team can be contacted at [ReachUs@MarketLine.com](mailto:ReachUs@MarketLine.com).

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