The following provides details on a case study involving THOMAS COOK GROUP PLC. Candidates should read this case study carefully in preparation for the examination.

**Note:** A copy of this case study will be available in the examination. Therefore, you will NOT be allowed to take this case study into the examination room. Candidates are allowed to take into the exam a maximum of two pages/four sides A4 of draft working notes which should be handed in and attached to the exam script.

**DRAFT WORKING NOTES GUIDANCE [15 marks] – to be handed in with exam script.**

Researching, preparing and understanding the case study and compiling these notes provides the essential case preparation necessary for all candidates to be successful.

The draft working notes (maximum of two pages/four sides A4) should be handed in and attached to the examination script. They should be word-processed (min. word size 12 pt) and contain key headings and areas relating to the strategic analysis of THOMAS COOK GROUP PLC and should provide the analysis underpinning required to answer the exam questions.

The notes will be assessed as follows:

- Evidence of a good level of secondary research and understanding of the case [5 marks]
- Outline of FOUR strategic models relevant to the case analysis [5 marks]
- Report structure, readability and legibility [5 marks]

N.B. Whilst it is hoped that all, or most, information required to analyse and evaluate this case study is contained in the case, it is recognised that this might not always be the situation as information relating to most companies is sometimes changing on a daily basis. It is suggested that secondary information (facts, figures, etc.) contained in this case should be utilised first. If the student still considers there is an absence of information in a particular area then it is quite reasonable for material external to the case to be gathered and utilised. External sources mentioned in the report should, of course, be referenced.
Introduction

Thomas Cook Group plc is a British global travel company listed on the London Stock Exchange. It was formed on 19 June 2007 by the merger of Thomas Cook AG, itself the successor to Thomas Cook & Son, and MyTravel Group plc. It is a constituent of the FTSE 250 Index.

At the time of the merger, 52% of the shares in the new company were held by the German mail-order and department store company Arcandor (the former owner of Thomas Cook AG) and 48% owned by the shareholders of MyTravel Group plc. Arcandor filed for bankruptcy in June 2009, and its shares in Thomas Cook AG were sold in September 2009.

The group owns a number of tour operators, as well as charter airlines based in the United Kingdom, Belgium and Scandinavia. Thomas Cook also owns the scheduled airline Condor and booking website Hotels4u.

Background and History

The first-ever excursions

Thomas Cook’s idea to offer excursions came to him while “walking from Market Harborough to Leicester to attend a meeting of the Temperance Society”. With the opening of the extended Midland Counties Railway, he arranged to take a group of 540 temperance campaigners from Leicester Campbell Street railway station to a rally in Loughborough, eleven miles away. On 5 July 1841, Thomas Cook arranged for the railway company to charge one shilling (5p) per person that included railway tickets and food for this train journey. Cook was paid a share of the fares actually charged to the passengers, as the railway tickets, being legal contracts between company and passenger, could not have been issued at his own price. This was the first privately chartered excursion train to be advertised to the general public, Cook himself acknowledging that there had been previous, unadvertised, private excursion trains.

On 4 August 1845 he arranged accommodation for a party to travel from Leicester to Liverpool. In 1846, he took 350 people from Leicester on a tour of Scotland, however his lack of commercial ability led him to bankruptcy. He persisted and found success when he claimed that he arranged for over 165,000 people to attend the Great Exhibition in London. Four years later, he planned his first excursion abroad, when he took a group from Leicester to Calais to coincide with the Paris Exhibition. The following year he started his ‘grand circular tours’ of Europe.

During the 1860s he took parties to Switzerland, Italy, Egypt and the United States. Cook established ‘inclusive independent travel’, whereby the traveller went independently but his agency charged for travel, food and accommodation for a fixed period over any chosen route. Such was his success that the Scottish railway companies withdrew their support between 1862 and 1863 to try the excursion business for themselves.

In the aftermath of the First World War, Thomas Cook & Son was the first travel agent to advertise public trips by aeroplane during Easter 1919. The firm became a passenger agent for the principal air companies and was soon selling tickets (costing 30 guineas – equivalent to over £1,000 today) for return flights from London to Paris or Brussels.

A few years later Thomas Cook & Son organised the world’s first personally-conducted tour by aeroplane. A group of six people (four passengers, a Thomas Cook representative and a pilot) flew from New York to Chicago for the Tunney-Dempsey world heavyweight boxing contest. The price of the package – comprising return flights with inflight meal, first-class accommodation in Chicago and a ringside seat for the fight – was $575.00 (equivalent to over £6,000 today).

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In 1939, just before the outbreak of World War Two, holidays by air on specially chartered aircraft to the French Riviera were included in Thomas Cook’s summer brochure for the first time. The company’s predicted popularity and growth was hindered by the start of the war meaning that overseas travel was put on the back-burner and with only limited business opportunities at home in the UK still possible.

After the war, and with Europe dedicating all of its resources to re-building towns and cities as well as manufacturing capability, there was little prospect of the company growing and expanding and there were several decades of lean business for the travel and tourism industry. It was only in the late sixties and early seventies with the onset of cheap fuel and airline flights which opened up new short haul and long haul destinations that companies such as Thomas Cook began to appear and flourish. The tourism industry was becoming highly competitive. Some of these companies decided strategically to become fully integrated by owning their own airlines and holiday hotels. This ensured they had complete control and provided a one-stop shop for budding customers. Other firms without the same financial muscle aligned themselves closely to airlines and hotel chains as a form of strategic alliance. By the mid-nineties Thomas Cook had acquired its first airline, Airworld, when it purchased UK tour operator Sunworld.

The Flying Colours Leisure Group was acquired by Airworld parent Sunworld (itself a subsidiary of Thomas Cook) in June 1998. The two airlines (Flying Colours and Airworld) merged at the end of the 1998 summer season under the Flying Colours name.

Creation of Thomas Cook Airlines

The original Thomas Cook Airlines was established on 1 September 1999 and started operations on 27 March 2000. It was created as JMC Airlines through the merger of Flying Colours and Caledonian Airways, following the integration of the Carlson Leisure group with Thomas Cook & Son, which brought both airlines under common ownership in October 1999. Previously, in 1998, Flying Colours was also integrated by Airworld Aviation Ltd into the airline. JMC Airlines was renamed as Thomas Cook Airlines UK on 31 March 2003.

Following the merger between Thomas Cook AG and MyTravel Group plc to form Thomas Cook Group plc in June 2007, Thomas Cook Airlines was formed on 30 March 2008 by the merger of Thomas Cook Airlines UK Ltd and MyTravel Airways. The airline commenced operations in time for the summer 2008 season, with a fleet of Airbus A320, A321 and A330 aircraft along with Boeing 757 and 767 aircraft.

In 2013, Thomas Cook Airlines, Thomas Cook Airlines Belgium and Condor merged into a single operating segment of the Thomas Cook Group. Thomas Cook Airlines carried around six million passengers during 2014, a slight reduction compared with 2013.

Formation of Thomas Cook Group plc

In February 2007, it was announced that the 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 both businesses. Under the terms of the merger, the owners of Thomas Cook AG, KarstadtQuelle (later Arcandor), owned 52% of the new group. The shareholders of MyTravel Group owned the remaining 48% share. The merger was completed in June 2007, and took place through the formation of ‘NewCo’ which effectively purchased MyTravel and Thomas Cook and was then listed on the London Stock Exchange under the name of Thomas Cook Group plc.

The New Millenium and Company Strategy

February 2008 saw Thomas Cook buy booking website Hotels4u.com for £21.8 million. The next month the company bought back its licence to operate the Thomas Cook brand in the Middle East and Asia from the Dubai Investment Group for an amount estimated to be around 249 million euros. In April 2008 Thomas Cook bought the luxury travel firm Elegant Resorts from its founders Geoff Moss and Barbara Catchpole for an undisclosed figure and also took over Preston-based Gold Medal International, owner of NetFlights, in a deal worth £87 million in December of that year.

The following year, 2009, Thomas Cook signed a deal with Octopus Media Technology to host, upload, and provide an online video player for Thomas Cook TV and at the same time signed a deal with International Entertainment Supplier The E3 Group, to exclusively supply entertainment to the group.

That year Thomas Cook’s majority shareholder Arcandor filed for bankruptcy although the group was not adversely affected. Arcandor’s shares in Thomas Cook were sold by its creditor banks during the year.

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The media announced on 8 October 2010 that Thomas Cook Group was to merge its branch network with that of Co-operative Travel to create the UK’s largest travel network. The deal saw the new network 70% owned by Thomas Cook and 30% owned by Co-operative Travel. Thomas Cook’s Going Places branded branches were rebranded under the Co-operative’s brand.

The following year Thomas Cook shares lost about three quarters of their value on the London Stock Exchange after the company announced it was in talks with its banks about increasing borrowing by some £100 million but the shares recovered somewhat the following day. There were also reports that the company was planning to close 200 of its 1,200 travel agencies and foreign exchange offices.

Key Company Personnel Changes

The company needed more stability and in May 2012, Harriet Green was appointed as the chief executive officer of Thomas Cook Group, succeeding Manny Fontenla-Novoa who was CEO from 2003 until August 2011. July 2013 saw Thomas Cook announce that it would cease publishing the Thomas Cook European Timetable, along with closure of the rest of its publishing business. The final edition of the timetable was published in August 2013.

Strategic downsizing seemed to be the order of the day and in February 2014 Thomas Cook Group sold Gold Medal Travel including Netflights.com to dnata for a reported £45 million.

However, the board considered that the company still required further change to adapt itself to an ever-changing travel and tourism landscape in order to survive. On 26 November 2014, it was announced that Green was leaving with immediate effect, and that Peter Fankhauser, the COO would take over as CEO.

Operations

Thomas Cook Group operates in five main divisions, UK, Central Europe, German airlines, West Europe and Northern Europe.

With a joint fleet, at merger, of 97 aircraft, 2,926 stores, 32,722 employees, and over 19.1 million annual customers, the new group became the second largest travel company in Europe and the UK, behind TUI Travel.

The refusal by Thomas Cook to pay statutory EU compensation to customers who have been cancelled or delayed, means that there is a substantial liability accruing on the Airline’s balance sheet.

Thomas Cook Airlines Destinations

Thomas Cook Airlines operates flights to destinations in Europe, Africa, the Caribbean, North America and Asia. The airline also operates worldwide charter flights from the United Kingdom for a number of tour operators; however, Thomas Cook Tour Operations is the main user of the airline. The airline also provides direct customer bookings on a seat only basis, through their own website.

As of May 2015, Thomas Cook Airlines have begun flights to and from New York and Las Vegas, from Manchester and in 2016 start flights to Boston and Los Angeles from Manchester.

Marketing and Sponsorship

Thomas Cook has been a main sponsor of Manchester City and Peterborough United football clubs. On 22 May 2009, Manchester City announced that the six-year partnership with Thomas Cook would conclude at the end of the 2008/09 Premier League Season.

Thomas Cook was a sponsor of the London 2012 Olympic Games. As one of the UK’s biggest and most popular providers of package holidays, the company was appointed to provide ‘affordable and accessible’ holidays and accommodation throughout the games.

Social Responsibility and Adverse Publicity

In October 2006, two young British children, Christianne and Robert Shepherd aged seven and six years old respectively, died from carbon monoxide poisoning while on a holiday in Corfu booked through Thomas Cook. They were the first such deaths in the company’s history. Two Thomas Cook employees were subsequently amongst 11 defendants facing manslaughter by negligence charges at a criminal trial in Greece in 2010 – both were acquitted and the company was cleared of any wrongdoing.

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However in 2015, a UK inquest was held into the children’s deaths and some employees of the company exercised their legal right to decline to respond to questions put to them during the course of the inquest. The jury returned a verdict of unlawful killing and concluded that the travel group had ‘breached its duty of care’.

After the inquest, The Mail on Sunday published a news story saying that Thomas Cook had received £3m from the owners of the hotel where the children’s deaths had occurred. The parents of the deceased criticised the company and its handling of the accident. In response, Thomas Cook made a charitable donation of £1.5m to Unicef. However, the children’s family said that they had not been consulted about this donation, which itself became the subject of criticism. In another UK newspaper, The Independent, Joanna Bourke wrote: “Nothing Thomas Cook could ever do would bring back the two children killed by carbon monoxide poisoning on a Greek holiday in 2006”. It is still early days to assess how damaging to the company this negative publicity will eventually prove to be. However, the firm’s handling of the case has widely been regarded by most key stakeholders in the industry as a lesson in how not to manage a crisis.

The Future of the Company

The future of the travel and tourism industry and its key players remains very uncertain to say the least. Many popular regions and destinations have become no-go areas almost on a weekly basis due to acts of terrorism or economic uncertainty. The recent happenings in Tunisia where over 30 holidaymakers, mostly British, were gunned down and murdered on a single beach and the ramifications of the financial meltdown in Greece – both hugely popular destinations for travellers – has begun to re-draw the world map in terms of which countries the British Foreign Office has openly declared should not be visited for the present time. Turkey, with its borders located in close proximity to the war zones of the Islamic State army (ISIL), might well be next. It is now difficult for operators like Thomas Cook, who have to book planes and hotels months ahead, to plan for such an uncertain future.

As a result the Thomas Cook Group boardroom will need to fully consider all of the major stakeholders involved, including the Foreign Office, to continually monitor the ever-changing external environment whilst building future strategy around the core competences, experience and skills that the company has built up over the many years of trading. It will not be easy but the future survival of the company will depend on it.

(Reference source – Wikipedia)