A Case of Corporate Downfall: Thomas Cook's Leadership Crisis and Insolvency

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Abstract

The 178-year-old British travel giant, Thomas Cook Group PLC, ceased operations on September 23, 2019, due to compulsory liquidation. This case study delves into whether management complacency and strategic failures, ignoring warning signs, led to the demise of this once-prominent travel group. Drawing data from diverse sources, the study aims to analyze critical factors contributing to Thomas Cook's collapse comprehensively. Intended for MBA, BBA, and PG courses, the study fosters a collaborative environment, strongly encouraging group analysis on leadership, decision-making, mergers, acquisitions, business models, and technology innovation. The case study explores vital issues together and seeks to answer pertinent questions about Thomas Cook's strategic decisions and potential salvaging measures.

Introduction

The Travel Industry is one of the biggest service industries in the world. In a year, over 1.45 billion people travel globally, with a 3% to 4% increase in travelers up to 2019, resulting from an increase in people's disposable income.[1] All associated industries considered pillars of the travel industry include different modes of transportation, accommodation types, restaurants, clubs, pubs, shopping, casinos, films, insurance, banks, etc. In recent years, factors like online internet booking through apps, which makes it easy to access all the information and book everything online, personalized services provided by many hotels, the use of automation where robots and machines serve guests, travel vloggers influencing people by their video stories and influencing them to travel remote and various factors have promoted the travel industry. Therefore, in such a setting, it would be motivated to explore whether "Thomas Cook", one of the world's oldest and most trusted travel companies, was famous for offering affordable package holidays to more than 60 top travel and holiday destinations worldwide (Figure 1), making it a popular option for its valued customers and the reasons for its downfall.[2]

Figure 1. Thomas Cook's Top Travel Destinations Worldwide

Source: Thomas Cook and CNN[2]

Operations of Thomas Cook

Founded in Market Harborough in 1841 by businessman Thomas Cook, the company organized outings onboard railways for esteemed members.[3] Some 178 years later, it grew into a substantial global travel group, with annual sales of £9bn, 19 million customers a year, and happily employed approximately 21,000 staff operating in 16 countries. Thomas Cook Group successfully operated a fleet of 117 aircraft (Table 1) through its subsidiaries (i.e., Thomas Cook Aviation, Thomas Cook Airlines-UK, Condor, Scandinavia, and Balearics) and 200 own-brand hotels and resorts.[4]Once the company used the caption, *"Customer at Our Heart,"* it claimed to provide customers with excellent holiday experiences and retain them to continue their holiday with the company.[5]

Table 1. Thomas Cook Group Airline (TCGA) Fleet

Aircraft	In service	Orders	Passengers			Notes
			P	E	Total	
Airbus A320-200	16	—	–	180	180	Operated by Condor and Thomas Cook Airlines Balearics
Airbus A321-200	57	1	–	220	220	Operated by Thomas Cook Airlines UK and Scandinavia, Condor and Thomas Cook Aviation
Airbus A330-200	9	—	49	273	322	Operated by Thomas Cook Airlines UK and Thomas Cook Airlines Scandinavia
Airbus A330-300	3	—	–	408	408	Operated by Thomas Cook Airlines Scandinavia
Boeing 757-300	15	—	–	275	275	Operated by Condor
Boeing 767-300	16	1	53	217	270	Operated by Condor
Total	**117**	**2**				

Source: Thomas Cook[5]

The company had a different ownership pattern with the names (i.e., Thomas Cook, Thomas Cook & Son, Thomas Cook AG, Thomas Cook Group Ltd.),then moved between private companies (1841-1948, 1972-2001) and British-owned Transport Company (1848-1972).[6] The company operated through the names Thomas Cook, Airtours, Neckermann, Condor, Ving, and Direct Holidays Sunquest groups.[7] The activity-wise net sales breakdown included the sale of holiday packages (67.8%): flights, transfer, accommodation, travel insurance, etc.; and airline services (32.2%). At the end of September 2018, the group owned 186 hotels and operated a fleet of 100 aircraft. The Net sales breakdown geographically was the United Kingdom (24%), Germany (37.8%), and Europe (28.2%).

Spread of the business and troubled industry consolidation

Thomas Cook spent billions of dollars over the years without even revenues from their operating results. This situation forced the company to go for expensive borrowings.[8] It took place during the "deal-making" era of former chief executive Manny Fontenla-Novoa, and the industry consolidation effort wasn't successful because it is an expensive game. The three deals of Thomas Cook (i.e., 2007- merger with *MyTravel*, 2010- merger with *The Co-operative Travel*, 2010- merger with German tour operator *Öger Tours*) were expensive. Then, the incumbent managers faced external stress on their business model, which materialized as shrinking profits, and they had to address it with bold actions by acquiring big targets and justifying this with "economies of scale." However, harnessing several struggling businesses together and doing so with reduced cost is neither sustainable nor competitive. Such a strategy can make sense, but only in the short term.

For example, in 2007, without an appropriate assessment of the poor execution of the merger between Thomas Cook and MyTravel, which brought together two different business models and cultures, it left Thomas Cook with many liabilities.[9] The merger happened at a time when MyTravel, along with its UK operations, was continually making losses, and the 6-projected operating profit of €620 million for 2009-10 slipped to £167 million. On 12 February 2007, BBC News first reported the merger. MyTravel (48% shareholding) and Germany's KarstadtQuelle (52% shareholding), which owns Thomas Cook, said the firm would be named the "Thomas Cook Group."[10] The newly formed group would be based in the UK, listed in London, and would operate in the UK, Scandinavia, Ireland, Western Europe, and Canada. Further, board members for the group would be drawn from MyTravel, Thomas Cook, and KarstadtQuelle, with additional independent non-executive directors. The combined retail network of Thomas Cook and MyTravel was far too extensive, rationalized at a high cost, and attributed a value of £1.1 billion to the merger. This value was carried on the balance sheet as "*goodwill*," which should have been written down progressively over some time.

In 2010, Thomas Cook merged its retail business with Cooperative Travel and doubled its network of shops to 1,200 at a time when the Internet was making serious inroads into travel distribution. When Cooperative Travel withdrew from the merger, this proved to be very costly for Thomas Cook. It is important to note that the company expanded the traditional business model. In contrast, focusing on longer-term strategies and product differentiation, including the best internet distribution network, was the need of the hour. As a result, the company issued three profit warnings in 2011 to enable continuing trading, and its debt was restructured in 2012.

The Chinese group Fosun Tourism launched a joint venture with Thomas Cook in China in 2016, and the hotel investment fund companies set up together to show their 18.6% stake in Thomas Cook.[11] For its £450m ($584.4m) contribution, Fosun Tourism received a controlling stake in Thomas Cook Group.[12]

In September 2018, the former Thomas Cook chief executive Fankhauser went to China to convince Fosun Tourism chairman, Guo Guangchang that, though the Chinese group is already a leading shareholder and joint venture partner of Thomas Cook, *"further acquiring a majority stake in the business for £450 million, with the airline separated off and majority control of the carrier acquired by the banks and bondholders in return for £300 million and a debt-for-equity swap"* was a suitable solution for Fosun Tourism, as agreed by the banks.[13]

This elegant deal could have resolved many of Thomas Cook's problems immediately. However, as the strategic agreement was delayed, demands for upfront payments and withholding of incoming funds tightened. Banks sought an additional £200 million credit guarantee, and financial advisors corrected Thomas Cook's debt recovery from £750 million to £900 million.

Key elements of success

In 2005, Thomas Cook reported a £19 million profit after tax and posted an operating profit of £205 million. Encouraged by the fact that half its UK package holiday business was drawn from retail outlets, the company entered a retail joint venture in 2011 with two Co-operative travel groups, CGL and Midlands, adding some 460 stores to its portfolio of 780 – putting faith in the customer appeal of retail stores despite the prevalence of online booking.[14] The company paid a dividend to shareholders (Table 2) in 2016, despite its losses in 2014 (£158 million), 2013 (£283 million), and 2012 (£378 million). This situation still surprised many and ignited minds to analyze and study the case further to understand the strategies adopted by Thomas Cook during the past ten years.

Table 2. Shareholders of Thomas Cook Group

Name	Equities	%
Invesco Asset Management Ltd.	212,415,559	13.8%
Jupiter Asset Management Ltd.	122,302,474	7.96%
Aberdeen Asset Investments Ltd.	72,548,452	4.72%
Standard Life Investments Ltd.	60,273,866	3.92%
Schroder Investment Management Ltd.	48,678,950	3.17%
HSBC Global Asset Management (UK) Ltd.	47,540,238	3.10%
Norges Bank Investment Management	46,247,751	3.01%
JPMorgan Asset Management (UK) Ltd.	42,706,326	2.78%
DWS Investments (UK) Ltd.	39,890,093	2.60%

Source: marketscreener.com[7]

The present scenario

Fosun Tourism Group, the minority shareholder, led the effort to rescue the leisure giant. Still, the coming winter season in 2018 and the continuing pressures on the business gradually undermined the investment case. As the price for saving the company increased, Thomas Cook Group could not convince lenders to provide the funding necessary to keep the 178-year-old firm afloat[6]. Thomas Cook had requested £900 million ($1.1 billion) from its creditors and the Chinese company Fosun, Thomas Cook's largest shareholder.[15] Still, the deal did not materialize, as the banks additionally demanded that Thomas Cook raise a further £200m in contingency funding, which subsequently put the agreement in doubt. As a result, Thomas Cook went into compulsory liquidation on 23 September 2019 under the weight of a £1.7 billion debt pile.

The start of fall

The downward spiral of Thomas Cook started in 2007, when it merged with the ailing MyTravel and inherited some toxic hotel leases that led to the writing down of £1 billion by 2017, job losses of up to 9,000, repatriation of 150,000 customers and 800,000 more customers were refunded.[6,] Complemented by limited assets holding, the difficult cash crunch situation worked deadly for Cook, indicating that its management was a pole apart from the strategic business planning and execution. As a result, Thomas Cook has been declared a defunct entity. The fall of Thomas Cook (2007-2019) (Table 3) ended with the announcement of a review (sale) of its airline.[13]

Table 3. The Journey of Thomas Cook Group Between 2007-2019

Year	Event Description
2007	Thomas Cook AG and MyTravel Group plc (Airtours) merge to form Thomas Cook Group plc, which brings a stronger Nordic focus by incorporating Ving, Spies, and Tjäreborg lists on the London Stock Exchange.
2008	Global financial crash. XL Leisure Group fails.
2009	Recession- UK outbound travel numbers fall 20% from 2008 to 2010
2011	Cook merges its UK retail operations with The Co-operative Travel and the Midlands Co-operative Society, creating the UK's largest ever chain of travel agents, giving it 1,200-plus shops (July); issues third profit warning in 12 months (July); share price plummets; chief executive Manny Fontenla-Novoa resigns (August); new chairman Frank Meysman appointed (September); shares end the year at 14p
2012	Meysman rejects £400 million rescue bid (March); Cook secures £1.4 billion refinancings (May); Harriet Green appointed chief executive (July); Cook reports £378 million loss
2013	Cook reports the first operating profit in three years, but the overall loss is still £283 million.
2014	Green leaves abruptly; Peter Fankhauser takes over (November); £158 million full-year loss
2015	Fosun Tourism acquired a 5% stake (March). The beach massacre in Tunisia forced UK operators to withdraw (June), and Cook reported a £19 million profit.
2016	Cook switches 1.2 million seats from Turkey to Western Med, reports £205 million operating profit, and pays shareholders the first dividend in five years.
2018	Group issues two profit warnings, blaming summer heatwave (September) and reclassification of 'exceptional items' (November)

2019	Cook puts airline up for sale (February); reports half-year loss of £1.45 billion after £1.1 billion write-downs of 'goodwill' on MyTravel business (May); announces agreement in principle on takeover by Fosun Tourism, banks and bondholders, eradicating £1.6 billion debt (July); takeover value rises to £900 billion-plus debt (August); Cook goes into liquidation after banks demand additional £200 million credit guarantee (September 23)

Source: travelweekly.co.uk[11]

Leadership failure

There were myriad reasons behind its failure, many of which can be traced decades back to the controls of two of Thomas Cook's former CEOs: Manny Fontenla-Novoa (2003 to 2011) and Harriet Green (2012 to 2014).[16] Fontenla-Novoa was born and brought up in the travel industry. He worked for several years at Thomas Cook before eventually getting the top job. The Spanish-British businessman Fontenla-Novoa's tenure as CEO saw the company's massive expansion, including ill-fated mergers with MyTravel and Co-operative Travel and debt accumulation. Harriet Green was an outsider, brought in to undo many of her predecessor's actions, cutting the debt, reducing the deficit, disposing of businesses, and closing shops. In effect, both the CEOs characterized two different ways of running the travel business. After acquiring Co-operative Travel in 2011, Thomas Cook's business was set on a flawed path. Instead of strategically assessing the situation, the company's top-rated positions (2011-2019) (Table 4) recommend reductions in street agencies, streamlining call centers, and early exploration of migrating options for an online business module. The Board, including the Chairman, blamed the present and previous CEO's decisions for the downfall.[17] However, Clive Jacobs, owner and chairman of *Travel Weekly*, correctly pointed out that the Chairman and the Board of Directors of the public company, not the Chief Executive, are at fault and to be blamed for the crisis.[17]

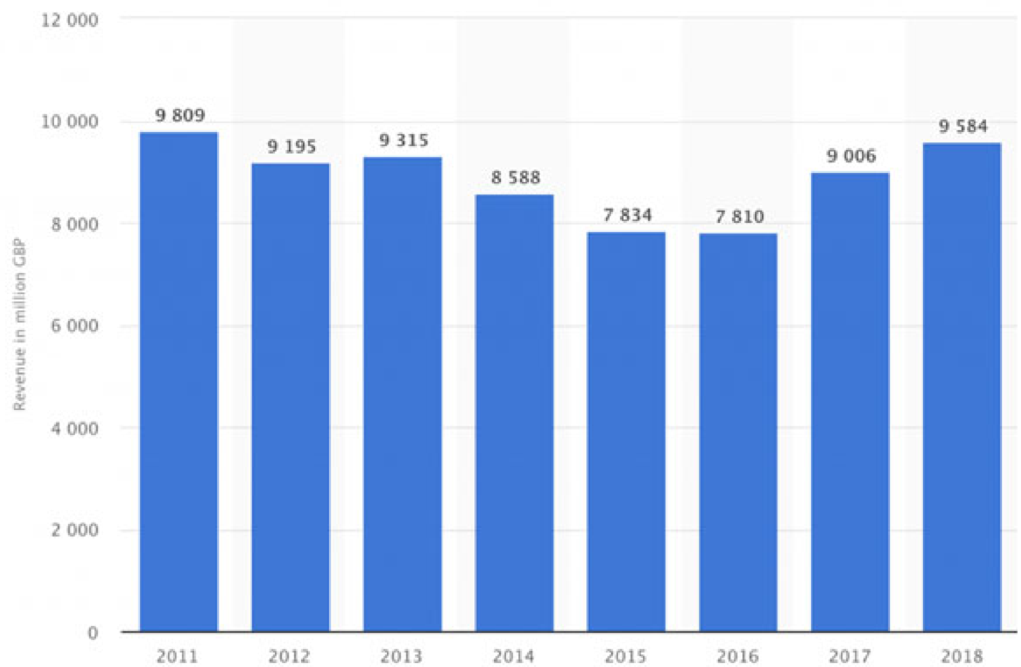
Table 4. Leadership Positions at Thomas Cook Group

Year	Name	Age	Title/Position
2011	Martine Germaine Verluyten	68	Independent Non-Executive Director
2012	Sükrü Emre Berkin	56	Independent Non-Executive Director
2012	François Louis Meysman	67	Non-Executive Chairman
2015	Alice Hannah Marsden	35	Group Secretary & General Counsel
2017	Jürgen Schreiber	56	Independent Non-Executive Director
2017	Paul Edgecliffe-Johnson	--	Independent Non-Executive Director
2018	Sten Daugaard	61	Chief Financial Officer & Exec. Director
2019	James Simpson Wilson	58	Non-Executive Director

Source: marketscreener.com[7]

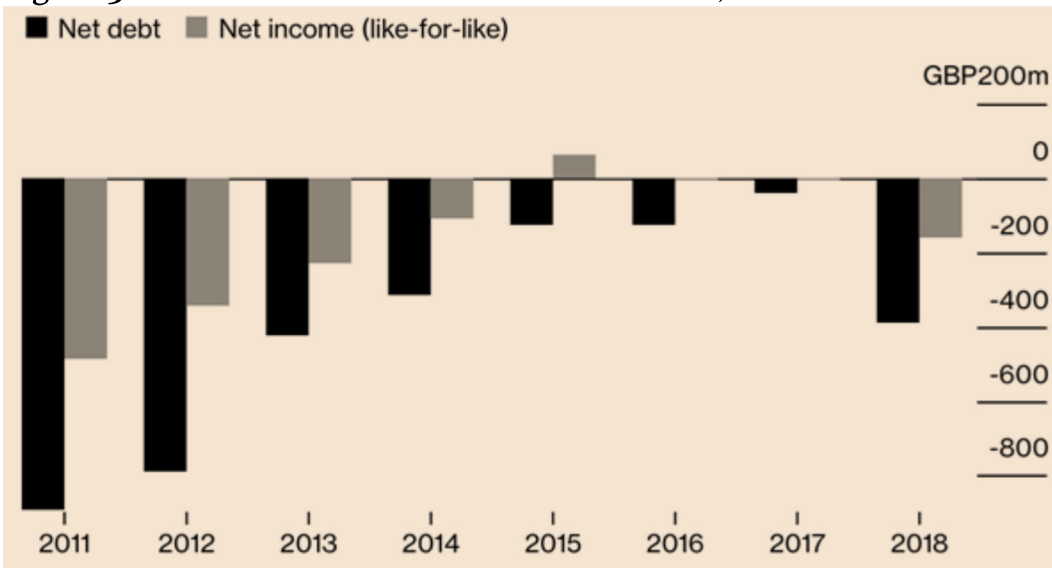
Fontenla-Novoa failed as a leader when he testified before the Business, Energy and Industrial Strategy (BEIS), a parliamentary committee of the UK, that Thomas Cook's debt pile could have been manageable, provided his management team had raised the issue of unmanageable debt in annual reports of the company.[18] Subsequently, Thomas Cook embarked on a leadership transformation journey in 2015, and its failure is also apparent. The new team introduced a new business model and reduced the annual salary of all, including the Fankhauser, anticipating reshaping Thomas Cooks over three years. Thomas Cook's financial results reveal that its revenues suffered a clear downward trend, i.e., £ 9,809 Million in 2011 to £ 7,810 Million until 2016. Then, it appeared to have made a recovery, reaching £9,584 million by 2018. However, by 2018, the net debt and net income figures had already gone into a more significant negative state (Figures 2 and 3). Surprisingly, during Fontenla-Novoa's period, Thomas Cook made a series of strategic decisions over several years, where instead of flourishing, the company was brought down with high debt. The strategic failures are discussed in the succeeding paragraphs.

Figure 2. Thomas Cook's Revenues, 2011-2018



Source: Telegraph[8]

Figure 3. Thomas Cook's Net Debt and Net Income, 2011-2018



Source: Telegraph[8]

Strategic failures

Clive Jacobs, owner and chairman of *Travel Weekly,* asserted that the debt, which sent the century-old Thomas Cook into liquidation along with all of its British subsidiaries, excluding the Westfort Capital (popularly known as Thomas Cook Hotel Investments Ltd. until 07 Aug 2019) because of bad management and bad strategic decisions is just travesty.[17] During the Brexit plan and deteriorating market scenario in March 2019, none of the revival initiatives worked for Cook. In May 2019, a goodwill write-down of £1.1 billion rose to £1.45 billion on the MyTravel business, acquired 12 years before, proved disastrous for Thomas Cook. While Thomas Cook cried foul by attributing its poor financial results to; rising fuel prices, overcapacity, uncertainty over Britain's exit from the EU, etc., and tried to hide its failure behind this, the reality is many wrong business decisions and wrong strategies adopted by Thomas Cook over a period crippled it as a business venture.

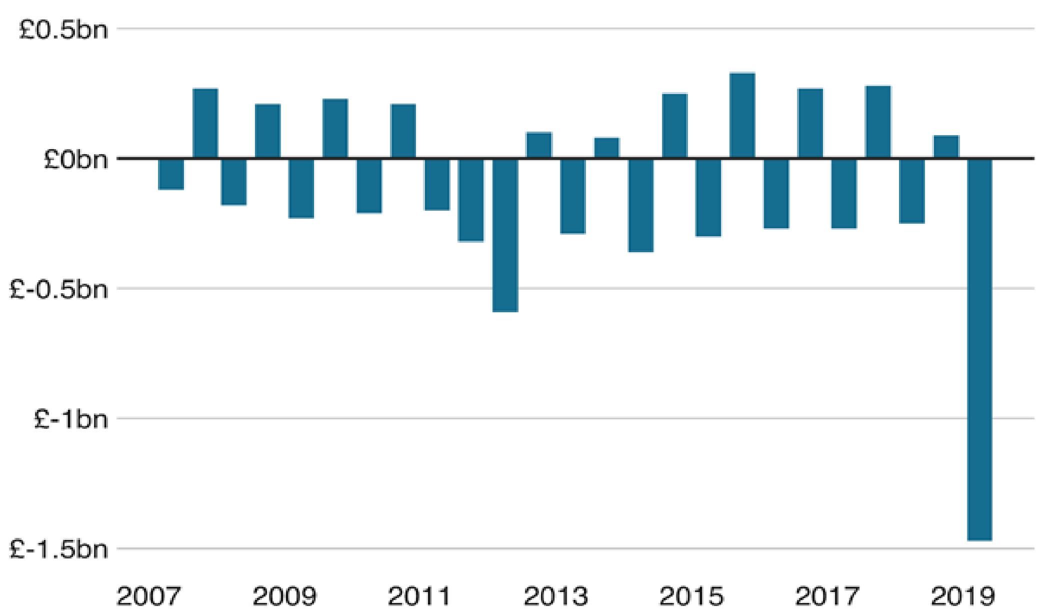
While Thomas Cook's board maintained that it was pursuing the right strategy for profitable growth, the company has remained vulnerable to external disruption, such as geopolitical events.[14] Even the weather (i.e., the summer heat wave of 2019) left a backlog of unsold holidays in an already heavily discounted market, helping to tip the company into losses of £163 million. However, post-Thomas Cook Group sank into losses of up to £1 billion in debt, Terry Fisher, a previous executive, and Jacob Fisher proposed to sell off the company's overseas business in Germany and Scandinavia to pay down the debt to finance a turnaround in the UK business[5] which the

Thomas Cook's Board did not implement. Subsequently, Clive Jacobs, the owner and chairman of *Travel Weekly* parent Jacobs Media Group, and Terry Fisher put together a £400 million deal to acquire Cook in March 2012. However, the bid was rejected without explanation.[17]

Moral hazards

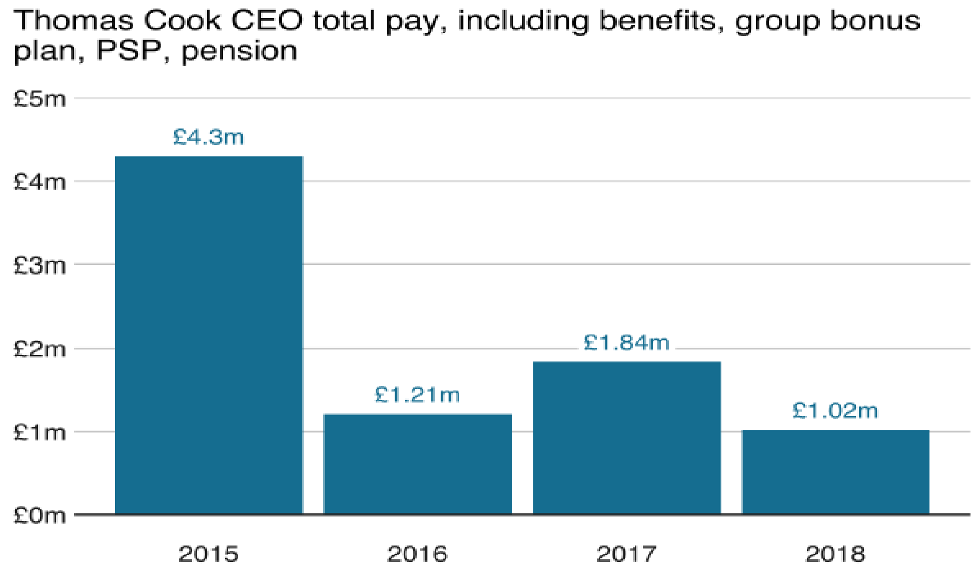
The remuneration structure benefiting the higher management, carrying forward the goodwill, and the auditor's complicit role were the critical moral hazards that can be attributed to the fall of Thomas Cook. The *first moral hazard* was when CEOs were handsomely rewarded despite running a business that struggled to break even from 2010 onwards.[21] The firm's last three chief executives took home combined pay packages – including bonuses –worth more than £35m in the past 12 years.[9] Specifically, the top directors have been paid a combined £20m in salaries and bonuses since 2014.[22] This situation triggered UK Prime Minister Boris Johnson to question, "*whether directors should pay themselves large sums of money as their businesses go down the tubes.*" Bonuses were understandably not paid in 2018, but in 2017, the CEO, Peter Fankhauser, received 117% of his base salary (i.e., £1.84m) as a bonus (Figures 4 and 5).[21]

Figure 4. Thomas Cook's Profits / Losses, 2007-2019



Source: Thomas Cook and BBC[20]

Figure 5. Thomas Cook: Peter Fankhauser's Pay



Source: Thomas Cook and BBC[20]

The company justifies that the bonus was paid according to five leading Key Performance Indicators (KPIs) based on non-standard accounting figures that excluded exceptional items, effectively stripping out £99m of extraordinary costs from Fankhauser's bonus calculation. Also excluded in the bonus accounting was the finance cost due to debt accumulation due to previous mergers and acquisitions. Thus, Thomas Cook realized the bonus was awarded based on the £312m "underlying EBIT," not the £12m net income (Figure 6). As Thomas Cook was already under substantial debt, not assessing the CEO's pay after the costs of financing and write-downs raised severe doubts about the company's functioning. Still, the downside costs are either excluded by using EBIT measures or classified as 'exceptional' and so are, again, excluded. This situation can be described as 'heads I win, tails you lose' managerial capitalism.

Figure 6. Thomas Cooks Underlying Earnings

Source: Bloomberg[21]

The *second moral hazard* was treating the goodwill asset on Thomas Cook's balance sheet and keeping the company going.[21] Out of total fixed assets, 70% was intangible, and goodwill accounted for 85% of those intangibles. And the value of goodwill was more than double Thomas Cook's market valuation for the period between 2007-2018 (Table 5*)*. Technically, any company's goodwill values should equal the present value of the *expected* discounted future cash flows accrued from intangible things (customer loyalty and brand value).The impairment will be imminent if the more widespread goodwill is left unimpaired. Thomas Cook's intangible asset value dived down from £3.06bn (September 2018) to £1.96bn (March 2019), and due to the *double-entry effect*, the company's negative equity was created up to £1.35bn. The double-entry impact is when we write down the value asset; we must have a corresponding write down in the value of liability because both sides of the balance sheet must "balance." As a result, Thomas Cooks eventually had to prejudice £1.1bn of goodwill, which is evident from its balance sheet for the first half of 2019.

Table 5. Thomas Cook's Assets and Goodwill Value (2007-2018)

	Intangible to Total Fixed Assets %	Goodwill to intangible assets %	Goodwill to market value (times)
2007	68.7	86.1	2.1
2008	69.5	86.0	2.8
2009	73.8	80.3	2.1
2010	70.6	84.0	2.7
2011	71.4	84.0	2.8
2012	72.1	84.2	7.4
2013	73.7	85.3	1.4
2014	72.5	85.9	1.4
2015	71.2	85.5	1.4
2016	71.6	84.3	2.0
2017	73.4	83.8	1.4
2018	70.5	83.3	4.6

Source: opendemocracy.net[19]

The *third moral hazard* is when Rachel Reeves, who chairs the UK parliamentary committee on business, energy, and industrial strategy, accused Price Waterhouse Coopers (PwC) and Ernest & Young (EY) of being complicit in the failure of Thomas Cook and advocated for stricter regulations for audit industries in the UK.[22] As MPs on the committee, Reeves grilled bosses from PwC and EY, who audited Thomas Cook's accounts. Reeves questioned them about potential conflicts of interest as both firms did other lucrative work for the collapsed travel company while providing auditing services. EY and PwC are two big accounting firms in the UK. In 2017, EY took over from PwC as the official auditors of Thomas Cook. It emerged that EY and PWC signed off Thomas Cook's accounts despite the books claiming ongoing costs were one-off payments, and Thomas Cook paid EY £7m for reviewing its 2017 and 2018 editions and paid PwC £42m between 2008 and 2016 as auditing and consultancy fees. EY received nearly £1million, and PwC received £17.6m for non-audit-related work.[23] In 2018, the balance sheet of Thomas Cook, a total of £250m pre-tax profits, was reported by claiming £150m in costs to be "exceptional" and "one-off the kind." Thomas Cook's underlying earnings caught the eye of its auditors._EY challenged this decision and strongly recommended Thomas Cook be careful regarding future declarations on exceptional costs.[22,23] However, the audit firm still signed off on the books, which was a wrong move by the auditors.

Bankruptcy and denial of bailout package

In 2007, the merger between the German entity of Thomas Cook and "Airtours," a UK holiday carrier of parent MyTravel Group, is seen as a consolidation process of the leisure industry.[14] Goodwill of more than £1.1 billion relating to MyTravel's UK business, recognized during the merger, was written off over the first half of this year, catapulting Thomas Cook Group into a substantial interim loss as it sought to cope with a high debt burden and a challenging trading environment. Thomas Cook Group's half-year accounts illustrated the precarious position of the company. Intangibles had made up half its assets at the end of its last financial year, and the write-down meant that by 31 March 2019, its liabilities exceeded its assets – assets which still contained considerable goodwill – by some £1.34 billion. Among the commitments were traded payables of £1.3 billion, long-term borrowings of £1.6 billion, and more than £2 billion in revenues received in advance.

Also, the calls for bailing out Thomas Cook were set aside by the ministers in the UK Government, justifying that the move would set a precedent for other big firms in the country that may look for similar options when in trouble.[24] Three primary reasons for the denial of a bailout package for Thomas Cook by the UK include: *first,* the MPs were unhappy over Thomas Cook's use of "exceptional" and "one-off the kind" costs that were carved out of the initial income statement, *second,* carrying more than £1bn of goodwill (the intangible asset) of an acquired company which measures things like reputation, customer base, and brand value on its balance sheet for years. But despite its problems, the company failed to get rid of that goodwill gradually, instead slashing the goodwill abruptly in 2019; *third,* as told by Martin McTague, policy chairman at the Federation for Small Businesses, Thomas Cook had a "lousy payment record" and waited for 78 to 90 days before paying suppliers.[25,26]

The UK Government said it wouldn't support Thomas Cook's last-minute $310 million bailout request.[15] UK business secretary Andrea Leadsom said, "*Thomas Cook is sitting on trying to service £1.7 billion out of $2.1 billion of debt, and it would have been a waste of taxpayers' money to be throwing good money after bad.*"[24] Reportedly, the Turkish government and some Spanish hotel businesses offered to front £200 million ($247 million) to save the company if the UK government would guarantee the investment. However, the UK government rejected the deal, justifying that the amount would not have sustained the company for more than two weeks. Further, the UK Government stated that in a very competitive market, it isn't the

Government's role to prop up companies when an issue such as compulsory liquidation arises, and injecting cash into the situation in Thomas Cook's case would not make it any better. Further, the UK Government has defended its decision not to save Thomas Cook from liquidation as doing so would not have been a good use of taxpayers' money. If the government had had to repatriate people later, it would have been losing more money in the process.

Market speculations and its effect on Thomas Cook India

The collapse of Thomas Cook has forced the media to speculate and report hypothetical situations that have been proven wrong. The Financial Times reported "questions over the concept of the package holiday," indicating that "package holidays are a thing of the past."[11] But in reality, "The number of overseas package holidays taken worldwide grew by 19% between 2013 and 2018 and is predicted to grow by 1.4% in 2019, whereas the number of independently booked holidays will decline by 0.5%".[27] The vice president of ICRA (Corporate Sector Ratings), Pavethra Ponniah, stated that Thomas Cook is a significant global player, and its exit from the travel and leisure industry ecosystem will cause disruptions in a shorter period.

As the negative perception was witnessed in India, it also impacted Thomas Cook (India) domestically.[28,29] Madhavan Menon, CMD of Thomas Cook India Limited (TCIL), stated in an interview with *ET Now* that, although the failure of Cox & Kings resulted from a default in their commitments to banks and the collapse of Jet Airways with airfares both domestically and internationally shooting up by between 40% and 60% in the April-May-June quarter of 2019 had impacted Thomas Cook India, the slowdown of Thomas Cook (India) was certainly not due to Thomas Cook UK. The genesis of TCIL can be assessed to appreciate further the company's strong position in the travel and leisure industry. In August 2012, a 77% stake in TCIL Group was acquired by Fairfax Financial Holdings (Fairfax), a Canada-based multinational investment company.[7] Thomas Cook (UK) ceased to be the promoter and has had no stake in TCIL after transferring its entire stake in TCIL to Fairfax.[30] However, the Indo-Canadian billionaire Prem Watsa-led TCIL can retain its name till 2024.[31] According to Romil Pant, Senior Vice-President – Lesuire Travel, TCIL is listed on the BSE and NSE and pays rupees two crores a year as the fee for the brand. TCIL is performing better, and in 2018, the company served over 1.25 lakh international and more than 0.75 lakh Indian customers, which is expected to increase by about 15-18%, which is a growth indicator in terms of the number of travelers.[32] Romil Pant said that TCIL is assessing both options: buying out the Thomas Cook brand, which would have pros and cons, or floating a separate travel brand, but the TCIL board would decide. Notwithstanding the above developments, the underlying truth is that TCIL is debt-free and generates an average annual free cash flow of around ₹250 crores.[33]

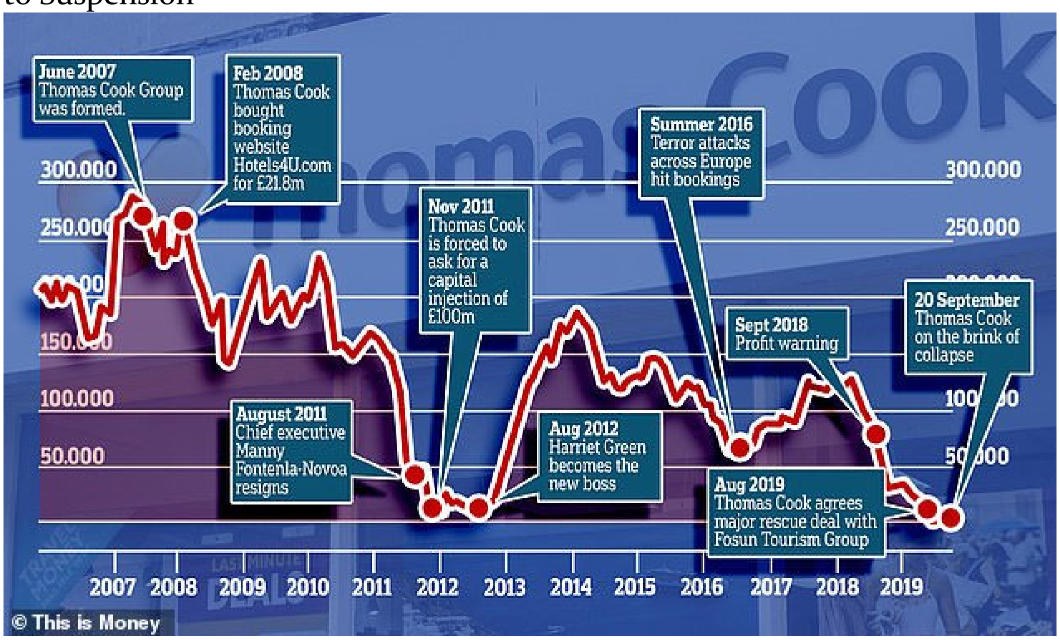
Case Analysis

The collapse of Thomas Cook on 23 Sept 2019 marks the end of a brand name that had been in continuous use since 1841.[34] After thoughtfully analyzing the pertinent issues (i.e., leadership failure, strategic failure, industry consolidation, moral hazards, bankruptcy, denial of the bailout, market speculations, the effect on TCIL, and diversification of business through an established digital distribution channel), the case is now summed up comprehensively.

Fankhauser believed customers from generations were loyal to Thomas Cook for their family holidays as the company always kept the customers at the heart of their business.[35] As the company's business has been put to rest, the demise can be attributed to a multitude of factors. One such pivotal factor was Thomas Cook's struggle to provide service under a mountain of debt.[36] Further, another key aspect was ignoring the symptoms of financial distress by the leadership and strategy failure to restructure the business when the landscape of leisure and tourism was rapidly changing. The unsuccessful mergers and acquisitions in the past, including Thomas Cook's decision to rapidly expand its high street presence through its merger with the Co-operative at a time when more and more bookings were shifting online, proved detrimental. [25] For years, travel operators haven't adapted sufficiently to the digital era and disruptors, including budget airlines and accommodation apps like Airbnb.[26] Thomas Cook had minimal tangible assets, such as planes or hotels.[2] So, when customers left for online competitors or to book their flights and hotels, the firm's value plummeted; as such, the firm had "an analog business model in a digital world." Thomas Cook was late in adopting the digital mode, and in 2008, it snapped up hotel bookings website hotels4U.com for £21.8m in a bid to up its game within the ever-competitive online travel market.[8] Though this move was strategic, as Hotels4U, founded in 2003, had 500,000 customers a year and access to 30,000 hotels internationally, the decision was too late to tap the online market already established by then. In March 2019, Thomas Cook UK admitted this fact while announcing the closure of its 21 travel offices and laying off 300 staff, as 64% of bookings had been made online in 2018.[34]

When the business failed to obtain rescue funds from its lenders, and a request for government support was rejected, thousands of customers were left in disarray, thousands of staff lost their jobs, and businesses in Thomas Cook's supply chain still felt the aftershocks of the collapse.[37] However, after buying UK travel agency Thomas Cook's 555 shops, John and Irene Hays, who runs Sunderland-based Hays Travel, the Just Go Travel operator, have declared to save the jobs of all 2,500 former Thomas Cook staff and employ them in the acquired shops, as these former employees have lost their jobs due to fault of Cook's management.[38] Thomas Cook's share price crashed 89 percent over the period.[1] The shares were suspended as the stock market opened on 23 September 2019 (Figure 7), with earnings per share, which went down from +20.4p (2010) to -0.3p (2018), probably the only beneficiary final during the collapse in 2019 will be the US hedge funds which bought credit default swaps on Thomas Cook's debt are set to make as much as $250 million on the liquidation.[15,11] Further, the market speculations were ineffective and could not hinder the business of TCIL much as Fairfax owns the group and has no original business connection with Thomas Cook (UK); however, as per the existing agreement, TCIL would be able to use the "Thomas Cook" name till 2024.

Figure 7. Thomas Cook's Share Price Performance and History Since 2007 up to Suspension



Source: thisismoney.co.uk[39]

Back in 2007, it was clear that the Internet as a channel would dominate travel in the future.[40] Thomas Cook saw and recognized that fact, and they also tried to use the Internet as a channel. However, it was hard for the company, as it was so large, although it had exceptional talents, to master a new digital distribution channel. Thomas Cook tried a plethora of strategies to get their hands on the online channel (e.g., substantial investment into "booking engines" to boost online sales, a deal in 2009 to provide an online video player for Thomas Cook TV- "Content is king"). However, Thomas Cook had neither the skills, systems, structure, culture, nor governance to operate a digital distribution channel. The new players or the competitors of Thomas Cook (i.e., booking.com and AirBnB) did not merely show the path that, to be successful on the Internet, you had to operate in *new business logic/ models*. In the traditional travel industry, the dominant paradigm was operational excellence. The conventional travel industry considered *"brochure production"* (products were just packaged trips put into brochures) as one of their core processes, along with running trips. Unfortunately, this old way of thinking was ingrained deeply into their cultures. The internet, however, allowed for something completely different: *''Speed and Flexibility."* It turned out that consumers worldwide appreciated personalized components more than the rigid package structures of the old paradigm. The former travel industry mostly missed the megatrend of individualism. Without knowing the deal's details, Thomas Cook tried diversifying its business models by acquiring the booking website *"Hotels4U.com"* for £21.8 million. He took over *"Gold Medal International,"* owner of NetFlights, in a deal worth £87 million in 2008. However, none of those deals ultimately grew the *new business* for the non-digital Thomas Cook and were susceptible to the same disruptive forces.

Three strategies that Thomas Cook could have pondered upon are the "*Blue Ocean Strategy," "Malcom Baldrige Criteria for Performance Excellence," and* "*Real-Time Strategic Planning."*[41] The "*Blue Ocean Strategy"* developed by W. Chan Kim and Renée Mauborgne, professors at the European Institute of Business Administration (INSEAD) recommended the ways to create uncontested market space and make competition irrelevant. Thomas Cook, the oldest and most famous player, could have quickly created market space to give the company a massive value boost with all its stakeholders on board. The *"Malcom Baldrige Criteria for Performance Excellence"* was instituted in the US to help organizations innovate and improve while achieving their mission and vision. Having adopted this strategy and undergone a competitive process that involves demonstration of achievement and improvement in primary factors, i.e., Leadership, Planning and strategy, Customers, Measurement analysis, Knowledge Management, Workforce, Process, and Results, Thomas Cook could have already rectified or realigned all wrongdoings of the past before the downfall. While the issue-based and goal-based strategic planning by Thomas Cook failed, it could have been considered "*Real-Time Strategic Planning,"* which involves three levels of strategy, i.e., *organizational* (mission, vision, market position, competitors, and trends are defined), *programmatic* (identification of approaches from the external environment to achieve organization's mission by strategic brainstorming that should cover opportunities, threats, and competitive advantages), and *operational* (analysis of internal processes, systems, and personnel that help leaders to form criteria for developing, testing, implementing, and adapting strategies).Further, it can be concluded that in the digital era, companies extensively use ICT, Artificial Intelligence (AI), and the Internet of Things (IoT), which has completely transformed the way travel companies and airlines engage with their customers and accordingly raised the bar, including the expectations.[41] Therefore, to sustain the business model and provide a delightful customer experience, the leaders in travel companies have to harness the technological capabilities and tune in to ever-changing consumer demand in a digital transformation age.

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