

Impact of recession on thomas cook



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This paper deals with the impact of recession on Thomas Cook travel and tourism. How did Thomas Cook deal with the recession and what strategies and approaches they have adopted during this period of time.

Introduction:

This research is about Thomas Cook travel and holiday booking company that arrange holiday travelling to abroad and in UK. Travel industry was badly hit by recession during 2008 and 2009. In this piece of research, the researcher tried to find out what changes they made during and prior to recession. What type of strategies they implemented in this period and did they successfully overcome the recession.

Objectives:

- To find out the business strategy for change in recession.
- To find out approach of the firm during recession.
- Examine the change process carried out by Thomas Cook.

Contents

Thomas Cook plc.

Introduction:

Thomas Cook Plc. is a travel and tourism company. This organisation initially started in 1841 by an English man Thomas Cook. In 1855 this company started working internationally and Thomas Cook arranged his first party from Harwich to Antwerp and onwards to Brussels and around some cities of Europe to Paris. In 1865 an Office of Thomas Cook was opened in fleet street London. In 1873 Thomas Cook and son opened new head office in Ludgate circus, London and first time published Cook's continental time tables and

tourists guides. In 1919 Thomas Cook and Son was the first company in the world who was offering pleasure tours by air (Thomas Cook, 2009 A).

It has headquarters in Peterborough, UK. It employees approximately 10, 000 people just in UK and 31000 around the world. It has 93 aircrafts. 3400 outlets around the world including franchised and company owned. It has spread its network in 21 countries with 86 hotels and resort properties. It has market of £8. 8 billion with 22. 3 million worldwide customers (Thomas Cook, 2009 A).

Board of directors:

It has acquired my travel and now the board of directors is drawn from both companies. This board is led by non executive chairman Michel Beckett. Thomas Cook's board of directors has 8 members in it including 4 non-executive directors. And each of the committees is directed by the non executive director.

Board of executives:

Group secretary

CEO, East and West EU.

CEO, UK & IRELAND

Group director and PR communications

CEO, North America

CEO, Continental EU.

CEO, Group destination Mag.

Acting Chief Financial Officer

CEO, Airlines Germany

Group Director, Human resources

Chief executive officer heads the executive committee and it meets ten times a year to review the company's strategic growth and operational management. It has following order of power.

(Source: Thomas Cook (2009 B))

Complete picture of the company's beliefs

(Source: Thomas Cook, annual report 2007, p 6.)

- Vision statement:

“ We go further to make dreams come true”

- Strategy

Strategy of Thomas Cook is “ Strengthening its core mainstream business and investing for growth in independent travel, financial services and emerging markets.”(Thomas Cook, annual report 2008).

- Objectives:

This is a public company and its objectives are following:

“ To carry on any activity of business as general commercial company.

- To provide services of all descriptions.

- To lend money and grant or provide credit and financial accommodation to any person and to deposit money with any person.
- To invest money of the company in any investment and to hold, sell or otherwise deal with investments or currencies or investments or other financial assets.
- To enter into any arrangements with any Govt. Or authority, or person and to obtain from Govt. Authority or person any legislation, orders, rights, privileges, franchises or concessions.
- To borrow and raise money and accept money on deposit and to secure or discharge any debt or obligation in any manner. Etc.”

(Thomas Cook 2009 C)

Consequences of recession:

Wessels (2000) found causes or consequences of recession are different according to different people. But mainly recession occurs when genuine output falls for two repeated quarters. Recession can happen because the production falls down by its potential level or may be the prospective level decreases. He found that Monetary Economists believe that the large supply of money falls down suddenly, which is a biggest reason for recession.

Naturally, economy is fully employed but because of money shortage people start saving and do not spend in the market which results in decrease level of spending and leads to low production. Singh et al (2009) “ Technically recession means, of a country for two consecutive quarters”. In financial dictionary recession is deep slow down in the country’s economy

The impact of recession on UK's travel and Tourism industry:

Independent wrote (2008) that recession was proving not very bad for UK's travel industry because more people in UK are taking short breaks to local destinations. This gave comparatively good edge to the local tourism market.

BBC (b) (Nov. 2009) quoted global travel and tourism manager Caroline Bremner, " 2009 was a challenging year for the travel and tourism industry, we predict that 2010 will be much better but at the same time recovery will be slow."

World Travel Market report(a)(2009) says, the travel industry has been hit badly by the recession and is still struggling to overcome this difficult situation. People are still losing jobs and shortage of credit bringing the tourism industry to its knees. Up to 8% Global competitors are expected to leave the travel market, 16% hotels and 14% airline business is going down. Global travel revenues fell by approximately 40 % during the recession.

New strategy of the travel industry because of crisis:

According to WTM (b)(2009) the dramatic changes in the environment have made the travel industry to offer huge discounts. In 2009 the prices of holiday packages were 20-30 % lower as compared to 2008. Marriot and Starwood special promotional discounts ranged up to 50 % in 2009. There is new market is being searched and given name " FUNEMPLOYED".

Funemployed are those people who have lost their jobs and are cash poor but time rich. To offer huge discounts to these people mean making them thinking " now or never". Up to 15 % promotional offers to unemployed

people on holiday packages. Etc. With all to this the expectations of travel industry for the next few years about the growth are in the following figures.

Thomas Cook's problems in recession:

Thomas Cook had seen one serious problem when it's one of the partners "Arcandor" filed bankruptcy in June 2009. According to Guardian UK June (27th, 2009) Arcandor which owned Thomas Cook's 52% shares in Germany filed for bankruptcy. It was shock for the reputation of Thomas Cook but company announced it had no effects on the customers. It also faced problems in cash flow because they were getting money from the customers at the very last moments. In other words people were booking holidays at very last minute. This made difficult for the company to cope with day to day cash matters(The Finance Director, 2009).

Operational review:

One of the world leading travel group with sales of £8. 8 billion, 22. 3 million customers around the world, 31000 employees, 93 aircrafts, 3400 owned and franchised outlets, dealing with 86 hotels and resort properties and operating in 21 countries. In just UK it has 6. 3m passengers, 807 outlets and 42 aircrafts(Thomas Cook annual report 2008).

Corporate strategy of Thomas Cook during recession:

Thomas Cook has adopted a mixture of growth and portfolio strategy during the time of recession. According to Burnes (2004) in growth strategy, organisation focuses on the market and grows by diversification in number of industries. While he explained portfolio strategy as in this strategy company also grow but through acquisitions and mergers. in march 2008 Thomas

Cook acquired 74.9% shares of Thomas Cook India (Thomas Cook, annual report 2008). In June 2008, it acquires Jet tours France and Tri-west travel-holdings in Canada. In April 2008, the acquisition of UK's leading luxury travel company Elegant resort ltd. came into action by Thomas Cook.

February was the month of hotels4you. com's acquisition. In June 2007 Thomas merged with My Travel plc and from then till now is getting bigger and growing every day.

CEO of Thomas Cook Mr. Nonova believes that demand must exceed supply if you want a successful tourism business (citywire 2009). Thomas Cook believed in the historical fact that people do go for holidays even in a recession, they may spend less on meals, clothing, shopping etc. when they reach their destination but they cannot stop themselves from summer holidays. They even can go to domestic destinations but they do go. The following figure of Thomas Cook's share price shows how was the progress during week financial times in the travel industry.

Strategy adopted by Thomas Cook:

Cost leadership was being practiced during all the times of recessionary. According to Crums and Goldberg (1998) cost leadership has three main components in it, which are following:

Quality of the product should be according to the desires of the target market, it should not be over the expectations of the consumers and it must not be under the expected value for money. Because high quality cannot be offered in cost leadership.

The other important factor of cost leadership is that it must have reasonable profit margins in it. Sometimes markets trim their profit margins too much for keeping them alive in the market that they face losses.

At the end, position of the company should sustain as a least cost provider in the market if competitors want to cut their prices company should be in a position to respond quickly and maintain its position.

Interim Management statement of Thomas Cook (March 2009) says: “ in the line with our focus on cost leadership, the steps we have taken to reduce overhead costs in all our major markets have resulted in a more efficient cost base. This has led to additional exceptional restructuring costs. ” The statement from the management clearly shows that Thomas Cook’s source of success in recession is “ cost leadership”.

Approach of Thomas Cook in recessionary:

The approach adopted by Thomas Cook was mixture of classical and human relations. According to (Taylor, Weber and Fayol, (1856-1920) the aim of classical approach is to get more from the employees and the firm by cutting cost, dividing roles and get strong hold on the sources. Thomas Cook became cost leader in the market and that is not possible without having in practice classical approach. According to Porter (1980) companies practice cost leadership due to their superior working practice, advance technology or economies of scale. Thomas Cook proved to be well prepared, thinking about far future and making policies which affected the market during recession. These all above show their capability to cost leadership. They have good management skills which allowed them to practice cost

leadership which was most suitable for travel organisation in recession. Then, they have also showed respect to their employees which states their interest in contingency approach. “ We are also very proud of our people at all levels within the Group. They live our company values and continually strive to understand the requirements of our customers and deliver their travel and holiday dreams. We believe their skills, diversity and experience are key to our flexible approach and to our continued success.”(Thomas Cook, annual report 2008, p 7). This means they also recognise the work of their employees but in respect with environment changes. They cut the cost of operations and input to be the cost leader in the market which is not possible without performing classical approach. But human relation approach is shown when talking about the people of the group. They behave according to the environment. Human relation approach says organisations are closed entities whose internal systems and structures are not dependent upon the external environment (Gane, 2007).

Rationale for the approach:

The organisation had to adopt new strategy because it offers luxurious life style. Travel and tourism is something which can be avoided if environment does not allow. They had adopted competitive force model. Because, the recession had changed outside world, this was not in the power of the group to continue on their own will.

Porter’s Competitive force model:

According to Porter’s competitive force model organisation has to change its strategy because they are not independent. They have to examine the changes taking place in the external environment. Thomas Cook was aware

of the recession and swine flow which did make difference to their thinking style and sales as CEO stated “ This is particularly pleasing as it comes despite the worldwide recession and the financial impact of the swine flu outbreak.” (Yahoo news 2009). He said this when he was talking on the quarterly profits of Thomas Cook.

What changes Thomas Cook made during recession:

The merger of Thomas Cook with My travel in 2007 gave the company a competitive edge over all small rivals. In this difficult times when these small firms could not maintain their cash flow Thomas Cook was doing so effectively and efficiently. They offered cheap holiday packages (Financial Times, 2009). They became cost leader in the market (annual report, 2008). They managed their cash flow and balance sheet effectively (The Finance Director, 2009). On 30th Nov. (2009) financial times wrote that Thomas Cook increased their prices even in recession. This was because collapse of few holiday maker companies. Due to this consumers were struggling to find good deals on holidays (FT, 30th Nov. 2009).

Main stakeholders of Thomas Cook:

According to (Thomas Cook {d}2009) the stakeholders of the company are:

- Employees
- Customers
- Investors
- Suppliers
- Local communities – in our source countries and in the destinations where we operate

- Industry partners
- Governments – in our source countries and in the destinations where we operate
- Non Governmental Organisations
- Experts in responsible travel.

Behaviour to change:

Customers:

For the change in the company the most affected stakeholders were customers because all the changes in the company, cost leadership were due to them. They have the prime power in the company because of them, this company works and make profits. They happily accepted cost leadership by the company and make the organisation profitable in the recessionary times.

Suppliers:

CEO Thomas Cook said, “ Our success in leveraging our buying power and restructuring to minimise our cost base is helping to maintain our industry-leading margins.” Interim mgt. report(March 2009). The change has been asserted on to the suppliers to take the responsibility of the new market conditions and to minimize the prices as much as possible. “ We are taking advantage of our buying power to manage accommodation costs, which represent over 30% of revenue. We are confident that negotiations with our suppliers will result in prices no higher than last year’s levels across the Group this year, despite adverse movements in currency.” CEO Thomas Cook (annual report 2008, p 14). This indicates the change has been accepted by the buyers of the firm.

Changing process during recession:

“ It is difficult enough to develop an effective working capital management strategy during a recession, let alone when you are integrating a major company post-merger; the challenge faced by Thomas Cook Group following its merger with MyTravel in 2007. However, as acting group CFO Ludger Heuberg explains to Steve Coomber, while it has been no holiday, the signs are that the hard work has paid off.” (The Finance Director, 2009).

The change process was carried out by Thomas Cook having in mind the importance of environmental factors. The recession, the most dangerous enemy of travel and tourism industry. This was needed inherent and immediate response from the management because this was the outside element which was hitting the business that operated in mental satisfactory situations. The head of finance management Heubere said it was not very difficult to manage the company funds because people used to pay money in advance in shape of deposits and advance booking. This made the company's conditions more flexible to pay to the suppliers. But with the recession situation started changing because now people were booking much later than usual. “ In times of uncertainty, such as the current recession, customers book much later,” says Heuberg. “ Prepayments are with us later, and for a shorter period of time. Usually the strongest booking month is January for the upcoming summer, this year it was March and April, so the prepayments were with us for three to four months, rather than six.” (The Finance Director, 2009)

The changing mood of customers made the organisation to think more seriously about capital management. Now the company had more candid

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approach to the capital management because of change environment with the short targets of money management. Mr. Heuberg said “ In the past the main target for the business has been the profit target. But we have implemented a system where working capital, the absolute numbers, most importantly deposits and payments from customers, and payments and deposits for suppliers, and further breakdowns of those figure, are targets as well. Furthermore, they will be tied with the bonus targets. So there is much stricter reporting, and a more sound approach to target setting, not just a forecast that constantly changes.” (The Finance Director, 2009). Now it was more to involve the people who were working in the finance department. The position now has been change as past all the business just used to think that just revenues, expenses and turnover was the main interest of the business and balance sheet and cash flow were just for finance department but now with this recession everybody had to concentrate on the every aspect of the business especially finances. The improvement could be done by sharpening the equipments in the finance department itself first, to set the examples for the rest of the business. This application started during the recession.

Achievement :

To achieve this goal, there was focus on few points to get the maximum money during the times of crises.

- Maximize money collection
- Tight payment policy to supplier
- Time extension
- Discounts on advance booking

This made the condition in the favour of the company and they were able to cope well in the times of crises. They just did not cope well the changes but they also proved to be one of the best travel companies in the world. They did earn huge profits and prove to be prospector organisation. Jones et al (2001) stated that prospector organisation produces a variety of products/ services in a changing environment and this does not commit to one technology. Thomas Cook exemplified the same in this difficult time of travel industry.

“ We have brought treasury and financial controlling closer together, for example,” says Heuberg. “ They were separate functions; treasury was taking care of banks, credit lines, and so on, while reporting was the province of financial controlling. Now the two functions are working together far better. We have enhanced each function’s understanding of what the other does.” (The Finance Director, 2009).

What could have been done better? Recommendations

Thomas Cook performed well during the recession and gone through it. They are expecting rise in profits in 2010 (annual report, 2008). They merged with my travel and became one of the largest travel companies of the world and few top listed travel companies in Europe but whatever they did, they did not leave their line of business. Everything products or services related to travel industry. According to Reeves and Deimler (2009) finance and banking are very good opportunities during recession. Stable banking companies make good profits during difficult times because of their strategies. Because at this time, normally just few lenders are in the market but borrowers increase

which make the market attractive. Thomas Cook should have started banking.

In travel industry Thomas Cook put all its intentions in existing destinations and did not introduce any new visiting place in the new world. They could have started their destinations towards poor countries like, Pakistan, Egypt, Syria and Zimbabwe. These countries are poor but reasonable for expenses to travellers. People can afford this market more easily as compared to traditional one because this is cheap which is very affective in recessions.

They could have started bus company connecting all Europe. This could have brought their travel deals cheaper and adventurous because in recession people are money poor but time rich. They cannot afford extra money but they can be flexible for time. Bus service is cheaper but attractive way of expanding travel and tourism market.