

A market analysis for thomas cook



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The recent increase in demand for leisure and recreation time along with the need to go on a vacation has led to the expansion of the package holiday industry all around the globe. Almost every country has a few giant companies providing tour package services. In UK, the package holiday industry is controlled by four major companies: Thomas Cook, First Choice, Air tours and Thompson.

It all began with a rail service initiated by Mr. Thomas Cook in 1841 from Leicester, UK which developed into an industry engaged in tour operation. In the early days, the company charged one shilling per person which was the total cost for ticket and the food provided on the train journey. Cook received a share from the fares charged to the passengers for the ticket. This became the first ever privately charged train journey which actually got advertised to the general public.

The tour operators provide transport, tourist services and accommodation simultaneously, selling their services directly or by the means of a travel agent. The company analyzed is Thomas Cook, a UK based company which is a well known name in the package holiday industry.

Background

According to Page (2009), Thomas Cook travel group merged with My travel in the year 2007. This merger was of great significance as it placed Thomas Cook at the 2nd position in the UK travel industry, with a market share of 27% in the travel industry and revenues up to 6971 million pounds (euromonitor, 2010).

The merger was used as a strategy for lessening the debt and cutting back on costs faced by the company. The market share of both the companies, when combined, was 21%. Thomas Cook retained its No. 2 position for another three years giving competition to TUI AG. As a result, the share prices of Thomas Cook went down.

The merger was also an attempt to remove competition and to gain economies of scale by obtaining access to a large number of customers through this move of theirs. Manny Fontela at that time said: “ The big four can only handle the future as they are with difficulty. The vertically integrated model is still hugely profitable; everyone’s talking about the death of the package holiday but it remains profitable.” (Thomas Cook MyTravel merger surprises travel industry – 12 Feb 2007, 2007)

Another big merger of Thomas Cook with the Cooperative group in the year 2010 is a noteworthy development. It is predicted to raise capital to as much as 35 million pounds. This sort of integration was brought about in the hope that costs would significantly reduce and the business would be restructured to bring synergy. Manny Fontela, the proposed chairman of the merged unit describes the purpose of this merger in these words: “ By consolidating the high street in tandem with delivering on our existing e-commerce targets, we are realising our strategic aim to increase in-house distribution and strengthening our proposition to consumers. (Thomas Cook share price up on FTSE 250 after news of merger with The Co-operative Group, 2010). As a result of this merger, the share prices have risen and deteriorating position of the stock market in UK has recovered.

Market standing of Thomas Cook, its macro and micro environment

Thomas Cook faces firm competition from TUI travel pic which is the number one package holiday company whereas Thomas Cook is second to it. The factors in the marketing environment such as sales volume, market share and the revenue and profit generated are crucial to its success. Total profit for the financial year and the number of travelers who used its services are the basis for its evaluation. Newly acquired assets by the company are also the representative of its success.

Over the years, there has been a decline in the market for package holidays. This is possibly because of the increased knowledge of travelers about how the tour operators have been dominating the market and the lengths to which they have gone in offering cheaper rates. About the status of the package industry, a news paper claims it to have weakened considerably. This is due to the practice of many families arranging their own holidays using the internet to obtain information about flight rates and destinations, thereby planning the whole vacation without employing the services of a travel agent. Easy access to internet has diminished the appeal of early bookings to get hold of economical rates. Observing this trend, many tour operators have now come to terms with working within minimal budgets and shrunken profits. And hence, as a consequence, the industry, from being the most profitable one is now left to be a sheer entity.

However, the travel and package tour service providers have recently experienced some significant developments with reference to inconsistency and unpredictability prevalent in independent travelling. The severe

problems of insurance, security in cases of emergencies, unpredictability in the weather conditions and airline delays faced by vacationers are enough for them to realize the importance and ease with which all these problems can be avoided with the aid of package service operators. Thomas Cook was keen enough to secure the opportunity of serving its stranded clients of the 2009 Iceland volcanic eruption. In spite of estimation of a huge loss worth 81.9 million pounds, the company made sure that every client was properly fed and given fine accommodation.

SWOT analysis

Strengths

UK travel market is well known for its strict policies and regulations. The possession of the Air travel organizer's license followed by the approval of DTI approved body on the package sold is essential for operating a tour package service. Airline rules and insurance should also be taken care of. In addition to this, the service provider must also look into the integrated promotion mix which is crucial for the success of any organization. The company must concentrate on both; the services and effective sales to the customer. This of course is only possible if the company owns outlets and maintains professionals which are apt in resolving the issues of the travelers, faced by them during their vacations. The budget should be set as such that is economical and the practices should be transparent so that the clients do not get a chance to complain and reject the package upon finding the real costs. Individual needs of the vacationers should also be taken into consideration, at the expense of an additional fee. This would make the service more personalized resulting in satisfied customers.

The merger of Thomas Cook has proved to be significant. This can be seen in its firm standing in the tourism industry at No. 1 position with reference to all of its core activities. Furthermore, integrating horizontally has resulted in the elimination of fierce competition. The only major competitor to Thomas Cook travel now is TUI travel pic.

Thomas Cook has had a remarkable reputation in the industry. And it is this brand image because of which people trust and choose Thomas Cook for travelling. This is supported by the fact that around 22 million people trusted it in the year 2009 (thomascookgroup, 2010) and the high income earned during this period further negates all the doubts about its insolvency, a major factor behind the customer loyalty for Thomas Cook travel. Customer loyalty is also powerful due to the market share of 30% in the package selling industry. Added to this is the trust that Thomas Cook travel would always help its clients at the hour of need. And the incident of 2010 Ireland volcanic eruptions revealed the high degree of effective risk management that the company possess. The buying power is also noteworthy. Thus the brand name and the strong financial position along with strong consumer base are two huge strengths for Thomas Cook.

Thomas Cook does not only cater to Europe and the Western world but also has its subsidiaries in countries in the East such as Egypt and India. It also owns about 1200 distribution channels, with which there is not a need for employing the services of any middle men. As a result, costs have reduced, prices have become competitive and the company gets to stay in direct contact with its customers. This along with the global recognition of the company is also among the many strengths of the company.

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Lastly the company owns around 1200 outlets and has its own fleet of planes. In addition to these technical strengths it has also diversified into its own insurance company. This ensures the avoidance of hassles regarding airline regulations and the payments to be made to other insurance companies. Savings in time and cost effectiveness verifies its strong market position. Thomas Cook masters the art of providing one stop travel need services. Furthermore, the company is involved in the foreign exchange market and provides foreign exchange to its customers at the most reasonable rates. Along with the reliability of reasonable rates the customers are also guaranteed easy access to getting their currencies changed any time that they wish to. It has its own prepaid credit card which is widely popular. Thus, Thomas Cook aims to satisfy every customer by providing the services unique to their desires and it does it by managing multiple brands like Sunset, Thomas Cook sport and Thomas Cook essentials and Cresta direct holidays.

Weaknesses

Every company has a weak, vulnerable side to it which is continuously dealt with in the hope that it would not hinder progress and would one day transform into a strength for the company. Fixed costs are extremely high at Thomas Cook. These mainly include the high costs of operation. And so are the variable costs such as administrative and marketing costs. The company has the potential to serve more travelers than it currently is and hence it is because of this low capacity utilization that the company is not benefiting from economies of scale which it would have otherwise.

Secondly, in spite of owning multiple brands, Thomas Cook lacks recognition for all of them. Ineffective marketing has led to a confusion and chaos as to which brand does what and how is each catering to its customers. Moreover, it also faces coordination problems with regard to handling a large number of head offices. It should develop separate marketing strategies for each of its brand and differentiate them according to the consumer profile and promote them effectively.

Opportunities

Thomas Cook has the opportunity to explore and develop into new markets. It has frequently merged with companies and acquired new businesses and it can continue such activities to discover new markets and cater to them. According to Emma Holland, holiday makers should be given a range of distinctive packages to choose from to make their vacations enjoyable, adventurous and memorable. She went on to claim that only those who can distinguish between their customers and focus on serving them efficiently can be successful travel agents. Therefore, it is likely for Thomas Cook to get customers for places where travelers are hesitant to spend their vacations, planning them independently. This could be done by offering cheap packages rates and promoting them in an attractive way so that customer is intrigued enough to find out about it. Also unpopular destinations can be made a part of popular travel packages so that path for new tours can be paved.

The mighty brand name is enough in itself to open a wide spectrum of opportunities for Thomas Cook. Reinforcing it along with combining the strength of notable customer reliability, the company could penetrate the

small tour operating business in the industry. Small tour operators face severe competition from the giants in the industry and have been forced to shut down. Filling in the gap left by these operators is possibly a bright opportunity for them.

Threats

The most obvious threat is the decline in the demand for package holidays. Statistics show that market is growing but at a very sluggish pace. The reason behind this state of market is the custom made holidays available to everyone from the internet. Keeping this in mind, Thomas Cook should retain its customers by offering the most affordable rates through value addition and creating custom made vacations to fit their unique demands.

Severe competition from other tour operators including the virtual ones in the form of large scale promotions also pose a dire threat to Thomas Cook. This is because online tour operators have low overheads and so they can fund exclusive advertisements and manage to sell at cheaper rates. However, the company has formed a coalition with Expedia to counter this threat but it still needs to look into its integrated promotion mix to gain potential customers and thereby resulting in success for the whole operation.

The company also needs to keep a close check on its competitor's- TUI AG's new environment related strategies. Being at no. 2 position in the industry following the merger, it should keep observing all the actions of the competitor and review its own strategies implemented. The recent merger with Cooperative was also followed by layoffs. Such actions by the

management usually lower the employee morale and gives the company a bad name.

The perishable nature of products and the environmental factors that the company depends on are also potential threats to it. Cancellation of bookings, unoccupied seats and severe weather conditions where flying is not undertaken are all such cases where the tour operator has to incur losses. It should initiate a penalty on last minute cancellations as to discourage travelers from doing so. Also once the company knows about the eventual cancellations it can provide those seats to other vacationers at reduced prices. This action would bring in dual benefits; extra revenue in the form of penalties and reduced unoccupied seats. However, such circumstances cannot be overcome even if countless efforts have been made into planning the tour properly.

Thomas Cook is a renowned company and has a solid reputation in the eyes of the travelers. All the challenges faced by an air travel company are also faced by Thomas Cook but aspirations, novelty and high customer loyalty has always aided it to get through these challenges. If it keeps progressing like this, then no one can stop it to going global from being international.

Conclusion

To conclude, it is just enough to say that Thomas Cook, being a market leader is an exceptionally competitive company, easily proven by its affordable rates and high customer base in the form of loyal travelers choosing Thomas Cook travels over the years. It has everything that a successful organization needs; from ample resources, committed workforce,

enviable market standing to loyal customers and a remarkable financial position. The current Sport tourism that has been sponsored by the company in the form of 2012 Olympics event clearly represents this position. It has been chosen to provide economical holidays and accommodations to the athletes and sports enthusiasts milling to reach there. The CEO of the company says: “ More than a century after Thomas Cook escorted British travellers to the first modern Olympic Games in Athens in 1896, it is a privilege to once again have the chance to give British families and sports fans the opportunity to experience such a rare and special event in their own country”. The partnership with Expedia is among many recent developments in the company. Thus it can be rightly said that Thomas Cook undoubtedly has a unique way of satisfying every kind of customer.