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8,322 viewsSep 23, 2019, 01:53pm

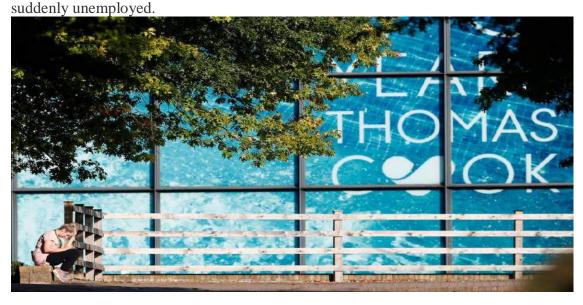
What Killed Thomas Cook? Brexit And Decline Of Package Holidays Undercut Venerable Travel Brand



Marisa Garcia Senior Contributor
Aerospace & Defense
I offer an insider's view of the business of flight.

(Updated 3:20 pm with new information on flights for Thomas Cook Scandinavia, Spies Denmark)

The package holiday firm Thomas Cook has ceased operations overnight after 178 years, leaving 600,000 travelers stranded around the world, including 150,000 British travelers who will be brought back home under the UK CAA's ATOL program. It also left 21,000 people



PETERBOROUGH, UNITED KINGDOM - SEPTEMBER 23: A worker sits outside the Thomas Cook Headquarters on ... [+]

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In a statement published on the <u>Virgin website</u>, Richard Branson said he was saddened by the demise of the long-standing travel company and by the effect Thomas Cook's closure has had on the lives of its employees.

"It's upsetting to see so many people lose their jobs and thousands of holidaymakers affected by disrupted travel," he wrote. "Our wonderful teams at Virgin Atlantic will do all they can to find people jobs and bring stranded people home."

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Branson also pointed to Brexit uncertainty as exacerbating the company's troubles.

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"The drop in the pound following the referendum has put even more pressure on the struggling business, which has been saddled with large debt for a number of years," Branson wrote. "All of the travel industry costs are in dollars – for example fuel maintenance and airplane leasing. With the weaker pound, the cost of everything has skyrocketed. For Thomas Cook, this has proved terminal."

Thomas Cook made a similar point in its financial filing this past May, saying Brexit uncertainty had contributed to its £1.5 billion (\$1.86 billion) loss. The company's CEO, Peter Fankhauser, also said the 2018 summer heat wave had contributed.

"The prolonged heatwave last summer and high prices in the Canaries reduced customer demand for winter sun, particularly in the Nordic region, while there is now little doubt that the Brexit process has led many UK customers to delay their holiday plans for this summer," <u>Fankhauser said</u>.

Brexit or not, there have been some high-profile airline failures in Europe in recent years. The most recent was French <u>budget airline Aigle Azure</u>, in which David Neeleman

is a stockholder. Another French budget airline, XL Airways, <u>suspended ticket sales this</u> <u>past Friday</u> and has reached out to <u>Air France for help</u>.

But the case of Thomas Cook is unique because it affects hundreds of thousands of travelers and thousands of employees; and raises questions whether Europeans are moving away from traditional package holidays and towards self-assembled budget adventures.

The end of the package holiday

Michael O'Leary pronounced package holidays dead in a conference in Copenhagen in 2016, in part because of the rise of digital platforms allowing holiday-makers greater options to put their own plans together.

"Sales of [traditional] package holidays have declined because what people are doing now is that there's so much readily available low-fares and services that people go online and book their own accommodations," O'Leary said. "That concept only existed 45 years ago because it was the only way you could get a cheap fare."

Ryanair's CMO Kenny Jacobs elaborated, "You're seeing all of these digital businesses which are de-bundling the package holiday as we know it. There are a few exceptions: Some Germans will still walk to the high-street travel agent and buy the classic two-week holiday. And in Scandinavia there has been more of a tendency for package holidays..But the UK and Ireland are more like the American market, where people choose to package their own holidays."

Thomas Cook's business model, more akin to charter flights than commercial airline operations, did not allow the efficiencies of scale necessary for its airline operations to compete with the cost structure of low-cost giants like Ryanair and easyJet in Europe.

The collapse of Thomas Cook raises questions going forward about whether other similar package-model companies, like TUI, will find a way to work around this digital divide.

More planes on the market

The closure of Thomas Cook airlines does create an opportunity in the airframe market. According to ch-aviation fleet data, Thomas Cook Airlines UK operated 28 A321-200s and seven A330-200s. Thomas Cook Airlines Scandinavia operates eight A321-200s, one A330-200 and three A330-300s. Most of these aircraft were leased. The 737 MAX grounding creates demand for single-aisle aircraft and might make it easier to return these aircraft to service quickly, according to aviation analysts at Air Insight.

"Thomas Cook had a good fleet," writes <u>Air Insight founder</u>, <u>Addison Schonland</u>, "The least attractive part of the Thomas Cook fleet, the A320s, are likely to be snapped up. The airline's A321s are probably being eyed right now. These are in high demand as evidenced by how quickly Air Canada took over WOW's A321s. The A330 fleet is also likely to find new employment as evidenced by the quick absorption of the Air Berlin A330s."

Condor continues to fly

While Thomas Cook airlines UK and Thomas Cook Scandinavia have ceased operations, German operator Condor, Thomas Cook Airlines Balearics, and Thomas Cook Aviation (formerly Air Berlin Aviation), continue to fly, at least for now.

Condor is asking the German federal government for a €200 million (\$220 million) bridge loan to sustain it.

Thomas Cook Scandinavia-which operates as Spies in Denmark-announced late on Monday evening that it had made arrangements to resume flight service starting on Tuesday, to help get stranded passengers back home. Spies CEO Jan Vendelbo told STANDBY.dk, "We deeply regret that so many of our guests have been affected by this and we will do our best to get our stranded guests home as soon as possible. We understand that this has created concern and inconvenience for those who have experienced it."

These airlines will need to find new missions in the long term, either sustaining TUI—which already relied in part on Thomas Cook planes, leading to some of its own flight cancelations today—or in the charter and wet-lease markets.

But the likely long-term winners, as more of Europe's travelers move to do-it-yourself holidays will be Europe's well-established low-cost carriers, namely Ryanair and easyJet and Europe's flagship airlines operating on sounder footing, including SAS, Lufthansa and IAG group carriers.

Source: https://www.forbes.com/sites/marisagarcia/2019/09/23/virgin-atlantic-steps-in-to-offer-jobs-to-displaced-thomas-cook-employees/#705a9ce5391c