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Analysis of operations and processes at Thomas Cook.

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ABSTRACT

On September 23rd, 2019, one of the largest and most historic companies in the world within the Tourism industry went bankrupt, this was known as Thomas Cook Tour Operator. The following paper reviews the history of Thomas Cook as a company and the evolution of Tour Operators in general. Furthermore, it analyses the models and strategies adopted by the company, which led to its bankruptcy. This study examines the strategy Thomas Cook had over the years and how implementing vertical integration had a massive negative impact, as the company had little flexibility to adapt to new changes in the way the company was distributed. Thomas Cook remained with a traditional mentality, while the competitors were adapting rapidly to the new technology. Therefore, while other Tour Operators were reacting fast and experiencing the advantages of this new period within the industry, Thomas Cook was left behind and subsequently ended up bankrupt.

KEYWORDS

Tour operator, Thomas Cook, bankruptcy, vertical integration, online distribution

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1. INTRODUCTION

The bankruptcy of one of the largest tour operators in history, with 178 years of experience, had a great impact on the tourism industry. This affected thousands of tourists, employees, subsidiaries in different countries, and a large number of suppliers. “The bankruptcy of companies concerns not only shareholders and creditors, but also an entire economy, affecting all stakeholders directly or indirectly” (Akbulayev et al., 2020: 1). The 23rd of September 2019 will always be remembered as a before and after within one of the biggest tourist bankruptcy in the world in the tourism industry.

Thomas Cook was one of the leading companies with a strong presence in the tourism industry, therefore the study and analysis of the company’s bankruptcy are extremely relevant and a point of reference for many experts within the industry. They had a strong, powerful, and well-known brand with a multi-divisional structure. The company was vertically integrated having for instance shops at street level where customers could buy packages directly, a fleet of airplanes, and many hotels in a wide range of destinations. So what caused Thomas Cook’s bankruptcy, which strategies were adopted by the company, were these strategies the right ones? All these questions will be analysed in more detail in this study.

In the 1990s, Tour Operators’ most common approach was to integrate vertically, and therefore if we have a look back at the company’s history and management we can appreciate that these were the strategy models adopted back then. It is important to mention that these types of strategies had certain advantages during those days such as market power by having strong entry barriers, control prices, among others. However, this type of approach also had its disadvantages, such as higher costs, inflexibility within the value chain, and not much room for any changes. Thomas Cook’s strategy was mostly focused on acquiring companies or merging with them, which led the company to more debt (Akbulayev et al., 2020: 5-6).

One of the biggest mistakes that Tomas Cook made was not reacting on time when the Internet era arrived (Collinson, 2019). As mentioned earlier, being strongly vertically integrated and not willing to be flexible the company continued to operate and traditionally distribute its products and services. In the meantime, the main competitors took this new era as an advantage of new technologies and became stronger with even bigger market power. Tourism companies that innovated with technology had lower costs and could, therefore, lower their prices (Herrero Gómez, 2020: 49-50).

The following study has been structured as follows:

Firstly, a clear output of the main objectives followed by a detailed methodology used to achieve them.

Secondly, Thomas Cook's history will be explained in two parts. The first one will include the beginnings until the nineties and the second one will go from the nineties to its last days in 2019. The main aim is to provide the reader with the opportunity to be in context and to give a better understanding of the dimension of the company and its operations and its operations.

Thirdly, a conceptual framework has been created to analyse the evolution over the years of tour operators and the relationship within Thomas Cook. Then, the models of vertical integration have been studied and put into place its advantages and disadvantages. Also, the Tour Operators' distribution models including both traditional and online have been analysed and how this impacted Thomas Cook. Lastly, the results achieved and the conclusion has been commented.

2. AIM

The main aim of this research is to analyse and study the bankruptcy of Thomas Cook and the influence that the management of its operations had in generating such bankruptcy.

3. OBJECTIVES

1. To analyse and investigate Thomas Cook company's background and evaluate the management model followed by the firm and the causes of its bankruptcy.
2. To determine and analyse the main strategy model, such as the vertical integration model, its advantages and disadvantages, and its economic impacts on the firm.
3. To distinguish and analyse between offline and online distribution models and the consequences of a late market strategy by Thomas Cook.

4. METHODOLOGY

The methodology followed for the development of this project is the collection of information and the bibliographic search. To carry out this bibliographic research, we first sought all the necessary information on Thomas Cook and his history.

Subsequently, we researched the tour operation and its evolution over the years as general concepts, as well as other concepts that have appeared related to the subject. More in detail, information was sought on the strategic model of vertical integration, as well as the tourism distribution of tour operators.

Once the relevant information had been selected, the material that seemed most suitable and interesting was chosen.

5. THOMAS COOK GROUP

This section is divided into two points. The first is entitled Thomas Cook's beginnings and focuses on the company's beginnings and its evolution over the years from selling train journeys in the UK to selling package tours to the masses. The second point refers to the last decades of Thomas Cook and its mergers and acquisitions to become one of the largest tour operators in Europe and worldwide.

5.1. THE BEGINNING OF THOMAS COOK

Thomas Cook was a traveling Baptist preacher (González et al., 2014: 19). "It is no exaggeration to call Cook, a man who left his mark on travel and travel arrangements more than anyone else, a pioneer of tourism" (Pechlaner, 2014: 145). He was a pioneer, in 1841 when he created the first professionally organised tour in England (Buhalis & Law, 2008: 149) and promoting excursions there by train from Leicester to Loughborough, to later move on to Europe (Delgado, 2004: 2). He was ahead of his time, founding the first travel agency called Thomas Cook and Son in 1861 (ibíd, 2004: 2).

The tourist packages of that time unlike those of today was: the transport was by rail and did not include the hotel. In exchange, you had a hotel coupon (now known as voucher), with which you could stay in many hotels in Europe and Thomas Cook was responsible for payment (Sheldon, 1986: 351).

Furthermore, to encourage tourists Thomas Cook began to publish and deliver the first printed guides (Bonilla, 2013: 35). In 1874, the well-known circular note was launched being a true success that was accepted by stakeholders such as banks, hotels, restaurants, and commercial houses around the world (González et al.,2014:20).

Companies like Thomas Cook changed the model of tourism after the war with "all-inclusive" holidays outside Great Britain from the middle of the 19th century. Previously, the British travelled to British spa towns (Walton, 2002: 81).

After the Second World War, organized trips to coastal areas of Great Britain were decreasing. In 1948 Thomas Cook was nationalized and from the 1950's, they started with trips to Spain, France and Italy (Ranera, 2015: 25-26).

Thomas Cook was a 19th century entrepreneur. The British masses could see and perceive in their trips what before was exclusive to the richest people. All this thanks to Cook who transformed trips into tourism, they were easier, cheaper and safer (Newmeyer, 2008: 244). From the 50's and 60's, with the standardization of the tourist product at reduced prices and organized trips was one of the causes of the origin of mass tourism (Martínez, 2002: 103). That mass tourism means a large influx of tourists to a tourist destination.

According to World Tourism Organization (2019: 15), a tourism destination is defined as a physical place with or without a delimitation of analytical or administrative nature, where the visitor can stay an overnight. On the one hand, there is an alignment in the same space in the tourism value chain, of products and services, and of activities and experiences. On the other hand, a tourist destination integrates stakeholders and can expand networks to create larger destinations. The competitiveness in the market of a destination can be influenced by its image and identity (intangibles).

The origins were in the 1960s, with large numbers of tourists, longer holidays, cheaper transport and the main source market being the industrialised countries. Later, organized mass tourism developed, due to changes in consumption and marketing, the tourism industry began to integrate vertically and horizontally, prices changed (pricing) and also transport. It was characterized by several reasons, such as: product standardization, oligopoly of producers and intermediaries, market segmentation, etc. (Seaton et al., 2000: 383 - 384).

In Thomas Cook's business model, he brought together traveller's checks, vouchers and group travel, as he did not create them, but it served to make the

company work around the world. Later, his son John Mason Cook continued the expansion of the company with a clear economic objective (Pechlaner, 2014: 146).

Thomas Cook (among others) was known metaphorically as the shepherd, by critics of organized, commercial and mass tourism. He was the one who guided tourists from one tourist destination to another with tourist packages, without the tourists being able to appreciate the local culture and the local people of the destination. Tourists travelled in a bubble (the tourist package) without knowing the real destination (Newmeyer, 2008: 247).

5.2. LAST DECADES OF THOMAS COOK

The four main Tour Operating companies in the United Kingdom in 1996 with about 56 % of the market were Thomson Holidays (of the TUI group), First Choice, MyTravel Group and Thomas Cook. While the smaller ones did not cover any of them even 2% of the market. In the 1990s, there was a trend towards vertical integration and the above-mentioned tour operators were vertically integrated, from air transport with charter flights to retail distribution (Clerides et al., 2008: 376). As Klemm & Parkinson (2001: 367) state in their search, commenting on the large increase in the 1990s of national and international mergers and alliances between tour operators, airlines and hotel chains.

In 1999, the tourism company Carlson Wagon Lit Travel joined Thomas Cook, becoming leaders at an international level (González et al., 2014: 20). In 2007, Thomas Cook carried out a very important merger that has an impact on the future of the company. This merger is with one of the major tour operators in the UK, MyTravel with its well-known brands Airtours and Going Places (Collinson, 2019).

According to the article of Robinson (2011: 287), in which the merger process of The Thomas Cook, CGL, Midlands companies can be commented:

On 8th October 2010, Thomas Cook, the Co-operative Group Limited (CGL) and the Midlands Co-operative Society Limited (Midlands) signed a joint venture which included a share of the main travel agencies stores. Thomas Cook would commit to their retail business, excluding its tour operating and internet travel agency business side. Transparency was vital for this agreement in order to meet the standards of this merging guideline. Therefore, Thomas Cook ended up with 780 travel agencies stores, CGL with around 360 and Midlands with more than 100.

Because of this merger, Thomas Cook would have significant influence over the other two companies and would be the industry leader with a very high regional and national market share, constituting the largest travel group in the United Kingdom. Therefore, the merger of the companies would have little effect, either horizontally on competition or vertically on Thomas Cook's retail agencies with the addition of new agencies (ibíd: 288).

In 2015, the Chinese international group Fosun bought Thomas Cook's shares with the intention of creating a global holiday and entertainment company having already acquired Club Med and Cirque de Soleil (Collinson, 2019). During the years 2017 and 2018 Thomas Cook Group wanted to expand by increasing its 100% share in the Russian "ntourist" and local markets by acquiring control of a UK travel agency group from partners (Akbulayev et al., 2020: 5-6).

Therefore, we appreciate that while in the early years of Thomas Cook the company sold tour packages to groups and later to the masses, in the last decades they had many acquisitions and mergers with the aim of having control of the market.

6. CONCEPTUAL FRAMEWORK

Based on the review of the literature, the conceptual framework has been constructed with the aim of analysing Thomas Cook's bankruptcy following some models.

The concept of Tour Operator will be deepened and developed by different authors over time and the relationship with Thomas Cook. Then, this chapter will analyse different models of vertical integration and the degree of homogeneity they have with Thomas Cook's model and his bankruptcy. Their similarities and differences will be established.

On the other hand, it will detail traditional and new distribution strategies and how Thomas Cook has dealt with these changes. Therefore, the tour operation, the vertical integration model and the distribution strategies over the years will form the set to make the analysis of Thomas Cook's bankruptcy.

6.1. THE TOUR OPERATOR CONCEPT OVER THE YEARS

In the next section, the meaning of tour operator will be explained from different perspectives, in order to obtain a broad view of the concept. The figure of the tour operator is a key element in the tourism sector and its definition has generated constant confusion. Therefore, to understand Thomas Cook's problem, some concepts must be analysed and developed.

Firstly, there is an observation of how the first tour operators and tourist packages originated at the end of the Second World War. As Martínez (2002: 103) states, it is possible to relate the origin of tour operators at the end of World War II and charter flights, since many aircraft pilots became unemployed and that is when tour operators like Thomas Cook started to hire them. In this way, they were more competitive than the flag airlines that had very high prices. Later, the merger with hotel establishments and charter flights made the tourist packages very valuable and they could control the service chain of the trip.

Tour Operators are mainly known as large wholesale travel agencies. Nevertheless, the strategies involved are a bit more complicated composed by horizontal and vertical integration besides strategic agreements negotiations with considerable companies (ibid: 36). The terms tour operator and wholesaler do not mean the same thing, as the tour operator can sell to the end customer, while the wholesaler must sell through a retailer. Therefore, if the tour operator sells to the final consumer it will be considered a retailer and if it sells to a retailer it will be considered a wholesaler (ibíd: 102).

Therefore, a new concept arises to be taken into account in the world of intermediation, such as travel agencies. The following is a brief description of the meaning of these. Depending on the criterion, we observe in which group the tour operator is located and Thomas Cook as such.

According to González et al. (2014: 19) travel agencies or retailers are companies formed by public and private business associations. These companies are the mediators in charge of organising tourism activity and delivering excellent services based on the requirements and the industry's policies.

González et al. (2014: 20-23) states that travel agencies are classified in four different ways depending on different criteria:

1. The first criterion is according to the type of clients, where we find on the one hand, Outgoing agencies in the place of origin, whose function is to advise and issue customers to the place of vacation. On the other hand, there are the Incoming agencies that are characterized by being in the final destination, among their functions are those of receiving, giving information, planning excursions and so on, to the client. Finally, there are the mixed ones, transmitter-receiver that act like the previous ones.

2. The second criterion is according to the degree of specialization. They can be specialized in products such as sun and beach tourism, cruises, etc. They can be specialized in destinations, with the advantage of having a wide knowledge of it and having professional advice, an example are the agencies that organize safari trips to Africa. Or, specialized in segments such as LGTB or MICE.

3. The third criterion is according to the distribution channel. Where In Plant agencies are located within companies with a high volume of work and there is a mutual benefit. Franchise agencies where there is an association of independent companies among themselves, are distributed with the same brand and commercial image, with a series of advantages and disadvantages, such as the payment of a franchise fee to the parent company. There are also online agencies known as OTAs, which are characterized by not having physical offices and working on the Internet. These have a great impact on Thomas Cook that will be analysed later. Finally, there are the mixed agencies that have a physical site and at the same time operate on the Internet.

4. The fourth and last criterion, is according to the legal regulations. On the one hand, there are the Wholesalers that are in charge of organizing, elaborating and offering services and tourist packages to the retailers on a large scale, since these cannot sell directly to the final client. On the other hand, there are the retailers who sell the wholesalers' tourist packages, although they can also manufacture their packages but on a smaller scale. Finally, there are the mixed wholesaler and retailer agencies that do both functions. Normally this last classification corresponds to groups that are vertically integrated, as Thomas Cook was, who will be explained later.

The tour operators or also known as wholesaler travel agencies stand out because they project and design their tourist packages (holiday packages or even tours) that are configured by accommodation, transportation and other complementary services (Sancho, 2001: 151).

It is important to highlight the following definition from Sheldon (1986: 352) on Tour operator, as he introduces some ways of marketing the tourist package through distribution channel, such as Central Reservation System that is a database of all the suppliers that are part of it, who in turn pay a fee, and also depending on the reservations executed, a variable commission. The information is constantly updated. They direct the wholesale actions to retailers and from retailers to the final customer. It also gives access to the GDS by the suppliers (González González et al., 2014:32). Another distribution channel is Global Distribution System that offers services of all type of tourist suppliers, facilitating this way to the agencies, the confection of products to measure of the client, with the following saving of time and major efficiency in the transactions (ibíd: 38).

The combination of certain vacation components such as hotels, transportation and others, are a package tour and are defined and negotiated by companies known as tour operators. A travel distribution system is how the tourism package is marketed. The role of the tour operator is to act as an intermediary between suppliers and travel agents, or with suppliers and customers. These definitions did not yet take into account the digitalization of media because in 1986 the world was not digitalized, therefore the tour operation was offline, traditional. Since the late 1990s, tourism has been changing as a result of information and communication technologies (ICTs), especially thanks to the development of the Internet, where best operational and strategic practices in the tourism sector have been significantly altered. Later, when everyone could connect to the Internet, it became a key element for the intermediation companies (Buhalis & Law, 2008: 609).

According to Clerides et al. (2008: 373), Packages tours are sold by tour operators. The way they operate includes three key intermediary functions:

1. Gathering objective information on the different tourist destinations and displaying it on the internet and in brochures so that customers can compare and analyse the various tourist destinations.

2. Providing subjective ratings based on the customers and the tour operator feedback of the various tourist destinations and their facilities.

3. Grouping together accommodation, transport and other services and selling them to consumers as a package holiday.

In order to achieve an outstanding commercial development, Tour Operators are precisely involved in the planning, development and promotional process within the tourism product (Drobotova et al., 2019: 1). The tour operators were born as a result of mass tourism and associated with the markets of origin of the demand, because of this, they have been able to make a policy of very low prices and impacting negatively on the destination, especially on suppliers. Besides it should be added that tour operators own charter airlines that focus widely on offering leisure routes to potential clients on a weekly basis (Buck & Lei, 2004: 73).

Furthermore, tour operators offer accommodation establishments (hotels) and other complementary services, all of which are to a greater or lesser extent. They are defined as vertically integrated. Finally, it can be seen how in recent years the role of the tour operator goes beyond the tourist package and also focuses on quality and cost reduction due to globalization and competition (González et al., 2014: 36).

According to Bedradina & Nezdoyminov (2019: 82), a determining factor in the globalization of the tourism sector to stand out from the rest of the companies in the tourism market, it is the quality of the tourism product. If the intermediary companies, in this case the tour operators, offer high quality tourist services and a reduction in costs, they manage to position themselves in the market and also a high profitability of economic activities.

According to González et al. (2014: 37) some of the main characteristics of tour operators are:

- ❖ Group of small businesses that have merged with larger companies.
- ❖ As a result of an extensive number of operations, they have the chance to drive at extremely low prices.
- ❖ They have a wider margin when it comes to handling the company's risks. Therefore, they can afford to choose their own accommodation and carriers which provides them a better allowance.
- ❖ They have a better room when it comes to negotiation with suppliers.
- ❖ They have a huge economic impact on the agent of each destination.
- ❖ They have the advantage of using various brands for a variety of travel programs.

Consequently, when we analyse the different points of view of the authors during different years, we appreciate how the concept of tour operator has changed. Despite the different definitions that all the authors express, some similarities can be seen, such as the fact that tour operators market tourist packages, that many are vertically integrated as a business strategy and there is a time before and a time after the explosion of the Internet, the digitalisation of companies and their ways of distributing and marketing themselves.

At this stage, as per the authors mentioned earlier, we can see how tour operators have moved forward for the past years within the tourism industry. We can see examples of wholesale companies that used to sell holiday packages or otherwise companies which were vertically integrated in the 1990s by implementing physical stores, airlines, hotels, and complimentary services. These companies ended up controlling the entire value chain dominating the market and its prices.

On the other hand, due to the new digital era with the implementation of the Internet, there has been a radical change in how the tourism industry is distributed and managed. To meet the new customers' trends and needs, tourism

companies have been compelled to change their strategies and adopt new digital practices. Therefore, the following section will look a bit more in deep at the vertical integration model and online distribution.

6.2. OPERATIONS, PROCESSES AND MANAGEMENT IN TT.OO.

6.2.1. VERTICAL INTEGRATION AS A BUSINESS MODEL

This section will analyse vertical integration as a business strategy. On the one hand, the reasons and positive arguments why companies choose to carry out this strategy with the aim of reducing costs in the value chain and bringing together greater market concentration. On the other hand, the negative arguments or disadvantages of vertical integration as a business strategy will be analysed.

According Cabiscol & Feixa (1999: 577), vertical integration is defined as “to the merger or absorption of companies in sequentially different phases of the value chain, such as internalisation through internal growth”. The strategic decision to integrate vertically and which functions or activities within the company's value chain should be executed by the company, to subcontract or to acquire them in the market, all these decisions determine the limits of the company and the relationship with customers and suppliers (ibíd, 1999: 573).

Another point of view of vertical integration by authors D’Aveni & Ilinitich (1992: 596) is that vertical integration is a model that blends different levels of business allowing corporations to adopt their outputs and inputs. Hence, companies that have a vertically integrated system integrates products and/or services which are in different phases of production within the value-added chain. In this way, businesses have the chance to alternate those products and services that contrarily would have been managed by external companies or markets.

Atalay et al. (2014: 1145) state that vertical integration of firms is not simply about transferring goods into the value chain, but enables the efficient transfer of

intangible inputs within firms. Vertical integration was the main strategy adopted by the tours operated, especially the British ones. Therefore, in order to achieve a greater integrated vertically strategy, mass tourism tour operators focused on obtaining products such as charter airlines, retail travel agencies, hotels, and cruise liners (Buck & Lei, 2004:73).

The three main strategies adopted by tour operators to improve their profits over the long term were: On the one hand, the vertical integration of the airline, the travel agency and the tour operator. On the other hand, the improvement of market segmentation and targeting. And finally, building brand loyalty (Klemm & Parkinson, 2001: 369).

6.2.1.1. ADVANTAGES OF VERTICAL INTEGRATION

Some of the economic explanations for vertical integration (both backward and forward) are that it increases monopoly profits and companies can regulate prices as they wish (Sheldon, 1986: 355). The main purpose of vertical integration is to expand market share controlling what we call the distribution channel (Klemm & Parkinson, 2001: 369).

Some classic arguments in favour of vertical integration by economists are to increase market power in relation to competitors and to have greater bargaining power over suppliers and customers. This is because high barriers to entry are created for other companies and thus price discrimination can occur. Another argument in favour is that companies can choose certain sources of supply or outlets for their products or services, thus reducing certain difficulties they would have if they were not vertically integrated. By overcoming all these difficulties, executives can take advantage of changes in both cost and demand, thus reducing uncertainty (Cunill, 2006: 38-39).

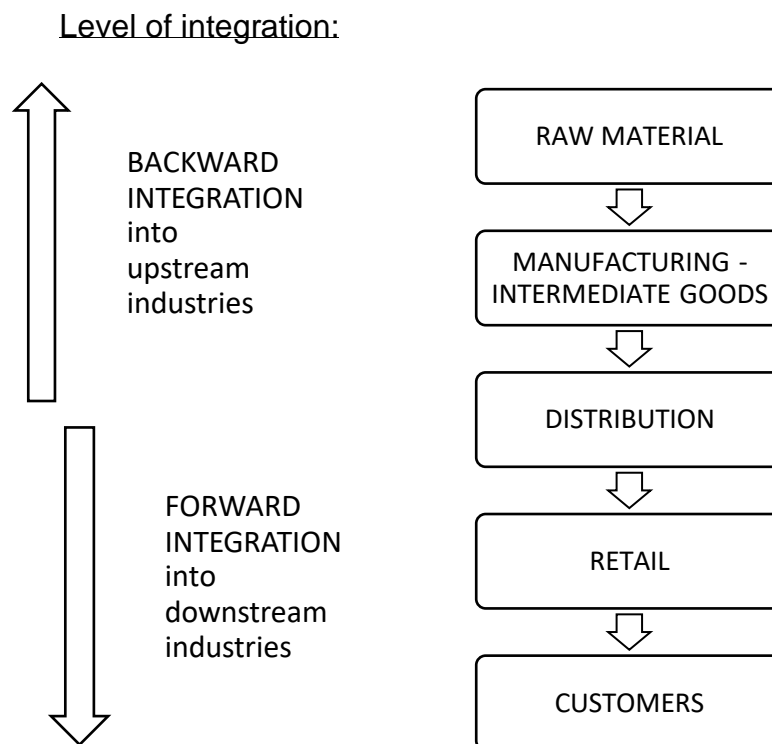
More positive arguments are that vertically integrating with other companies is to try to have, on the one hand, certain cost advantages, such as economies of

scale, suppression of transaction costs, shortening of production processes, limitation of control and coordination costs, economizing by eliminating profit margins of intermediaries, increasing efficiency of functions and on the other hand, certain strategic advantages, such as positioning in the market against competition (ibíd, 2006: 37).

Having highly advanced technological knowledge is also a positive argument for vertical integration, as it differentiates the company from rivals. Another argument in favour is that vertical integration can serve as a back-up quality control strategy. If the vertical integration was made backwards it would reinforce the quality with a better control and more efficient of the essential elements, consequently, the final quality of the products or services and in this way a better image of the company can be appreciated (ibíd, 2006: 37).

If the integration was done forward the value of service and customer care (final consumer) by employees is more in line with the quality image of the company. In these cases, managers could more efficiently control and supervise some circumstances that influence a quality control policy. Therefore, there are many factors and arguments in favour of vertical integration, which show that they develop strategic advantages for companies (ibíd, 2006: 37).

Figure 1. Vertical integration model



Source: own elaboration

6.2.1.2. DISADVANTAGES OF VERTICAL INTEGRATION

At this point, one has to ask, is vertical integration of companies as positive and profitable as it seems at first sight or does it have its disadvantages?

According to Cunill (2006: 38-42), vertical integration can have both a positive effect (by being vertically integrated they have a certain advantage over rivals) and a negative effect on profitability (without additional profitability and may even reduce it in the long term). Being vertically integrated today is not synonymous with profitability.

There are certain examples that prove it:

On the one hand, being vertically integrated backwards with an acquisition, the new activity may have difficulties, because the supplier could lose customers and these could become new rivals (ibíd: 38).

On the other hand, if vertical integration is an internal growth, different difficulties can occur, such as if a company is not fully independent in supplies of intermediate products, managers will entrust other suppliers to supply the lack of supplies, making these suppliers potentially rivals and thus worsening the relationships. But in the opposite case, if the company was efficient, it could happen that the production of the intermediate product was higher than the demand, then the managers would have to sell the surplus to the rivals, which would be a handicap for the company (ibíd: 38-39).

In relation to quality, if the desired level of quality is not achieved, it is easier to replace a supplier with a new one, than a whole division/department of the company, so it's a disadvantage. If there is a vertical integration and the managers do not adapt, achieve or are not competent with the new structure changes, new competences or changes in the management systems and business culture, the economic, financial and strategic advantages, can be annulled (all or some) (ibíd: 39).

The main threat from vertically integrated companies is the loss of flexibility and one of the main causes of disintegration. When a company is vertically integrated (the more specialized it is, the more inflexible it will be) there are alterations in the cost structure, especially in the fixed costs. But when the company does not work, it does not generate the expected profitability, the most optimal cost structure is the variable one. Therefore, if a vertically integrated and specialized company has problems in a section, it will impact the value chain and increase costs and even have losses (ibíd: 39-40).

Another negative argument for vertical integration is that technology has changed and is changing at an exponential rate, consumers also change their preferences and needs, and demand new things, such as exploring products or services that are different from others. Therefore, flexibility is essential for companies and as we have analysed previously, and vertically integrated companies, because they have a very rigid, inflexible structure, have an inability to make the changes that the market demands at an optimal speed, opposing innovations in products or services because it would lead them to changes in the production chain. In the past, vertical integration worked perfectly, but with today's changes it has become outdated and could lead to the company's bankruptcy (ibíd: 40-42).

The main objective of this section was to determine Thomas Cook's vertically integrated practices. As shown earlier in point 5.2, for the last decades Thomas Cook has merged with other peers. However, from the 1990s onwards there was a strong trend towards vertical integration by controlling the market and its prices. Furthermore, Thomas Cook's business model presented many advantages such as price control within the tourism package, market advantage within the competitors, economies of scale, quality control, among many others. On the other hand, there were also a number of disadvantages such as reduced and loss of flexibility with increased costs and therefore being more challenging for new technologies to enter.

Barquero Collado (2020: 43) states, that Thomas Cook's last years were having very low profitability leading the company to debt. Therefore, in 2007 when Thomas Cook merged with MyTravel this caused a bigger debt and decline as it was unprepared for the changes in the industry. One of the big mistakes was remaining inflexible within the new high-tech world that was emerging without mentioning the online and more flexible competitors and the ambitious low-cost airlines (Akbulayev et al.,2020: 5). As a result, due to the unwillingness to change this had negative economic results which impacted severally the company.

6.2.2. DISTRIBUTION STRATEGIES IN TOUR OPERATORS

For Tour Operators, especially for Thomas Cook with more than 150 years of history, the distribution of the product and/or service is a fundamental pillar of the business strategy. The rapid change in technology and market demand had an impact when it comes to the life cycle of many companies, especially those in the tourism sector. Many of these companies had to amend their strategies with a special focus on technology.

There is a before and after for Tour Operators since the Internet arrived. This had an impact on how the companies were distributed and their strategies. Starting from this point, this will help to better understand Thomas Cook's bankruptcy.

6.2.2.1. TRADITIONAL DISTRIBUTION STRATEGIES (OFFLINE)

Vacation packages designed for a typical tourist who likes the sun and the beach and a good all-inclusive hotel, have traditionally been distributed through printed brochures where different information of the tourist package could be appreciated, such as the details of the trip, the characteristics of the hotel and the location (Clerides et al., 2008: 376).

Thomas Cook was implementing a very out-of-date strategy until the end of its days by selling their services using brochures and physical stores. Marc- David L.Seidel, professor at the University of British Columbia Sauder School of Business stated that due to the impact of the internet many travellers became more independent and therefore travel agencies such as Thomas Cook became unnecessary and inconsequential (G. Martínez & Bunyan, 2019).

6.2.2.2. NEW DISTRIBUTION STRATEGIES (ONLINE)

Due to the exponential growth of the Internet and the World Wide Web (www) in the late 1990s, e-commerce, which means the use of the Internet for business, became fundamental for any company, as consumers accumulate information, make their purchases and communicate in a different way. Therefore, this leads to the fact that operations managers have had to modify their coordination, production and distribution functions (Chase et al., 2009: 17).

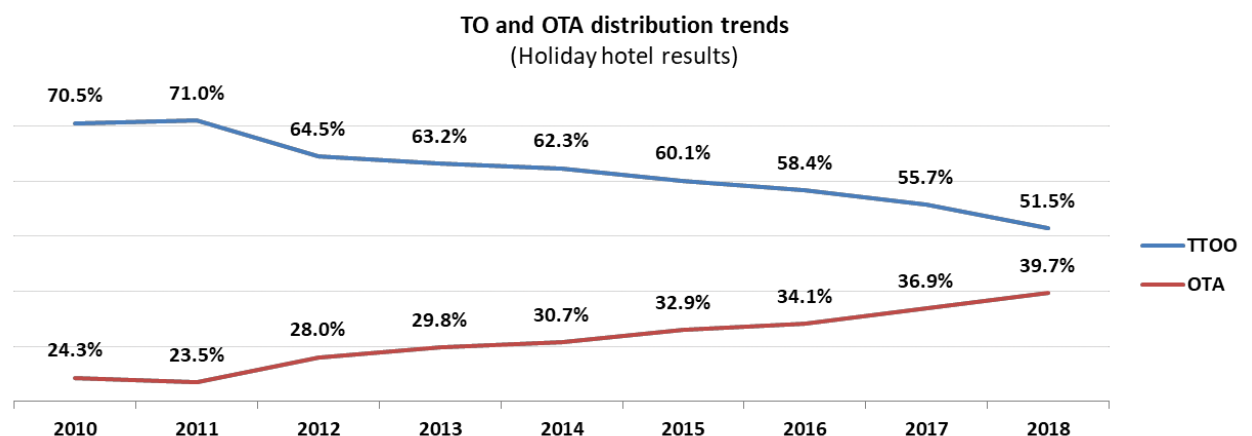
According to Law et al. (2004: 101), “the accessibility of online travel Web sites reduces the importance of travel agencies, and might ultimately result in travellers bypassing travel agencies altogether”. In order to manage the quality of tourist traffic and the progressive magnitude of it, the travel industry, which is growing exponentially, requires sophisticated information technologies (IT). The main intermediary for customers as well as suppliers is the Internet, due to new tourism products and services and the growing tourism demand. Therefore, the Internet is a new tool, a new distribution and communication channel, enabling companies in the tourism sector to enrich their competitiveness and performance.

According to Bonilla (2013: 33), the tourism industry has developed considerably until nowadays. Different aspects had an impact on tourism and caused those changes. Foremost, mentality and social behaviour have changed and people think more outside the box and its current atmosphere. This is due to the sociological and environmental factors. Furthermore, the development of transport has also revolutionised the way we normally live. Thirdly, the arrival of technology and media to our lives has transformed in every single aspect our society.

Rodriguez-Zulaica et al. (2017: 94) states that, the tourism sector is complicated by certain characteristics, such as intangible services, heterogeneity, high costs and sensitivity to external changes. An example of these latter changes has been the emergence of information and communication technologies, which have been reflected in all processes and in the tourist travel cycle.

Several of the advantages of tourism companies that are connected to the Internet are that they have lower distribution costs, have higher revenues since they operate remotely and have a larger market share. On the traveller's side, the advantages are that the traveller can communicate at any time and place with the tourism companies to request information and obtain products or services. The future of travel agencies (traditional intermediaries) is uncertain because travellers organise their trips thanks to the Internet. Travel agencies could innovate by offering advice through the web instead of having the negative image of a simple booking agency (íbid, 2004: 101).

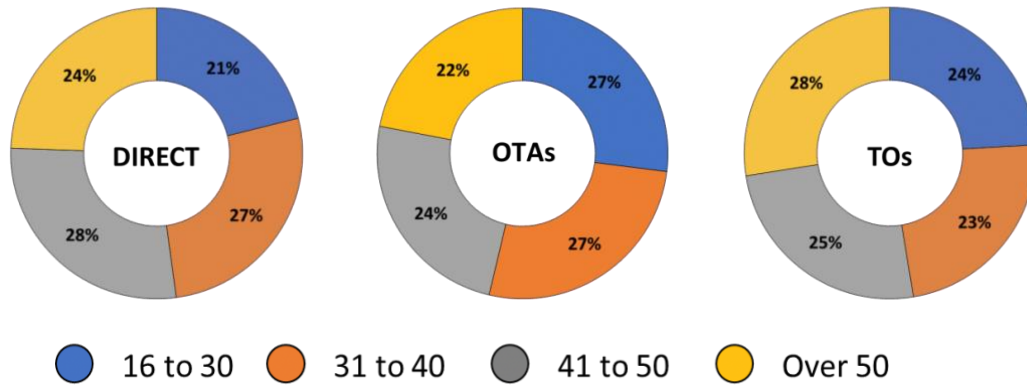
Figure 2. Distribution trends for Tour Operators and Online Travel Agencies since 2010.



Source: ('Informe Tendencias GesHotels', 2019)

The graph below clearly shows how consumer's patterns of making reservations via an online travel agency (OTA) have increased up to 15% over the last eight years. However, it's also appreciated a great fall of reservations through Tour Operators by almost 22% decrease.

Figure 3. Reservations trends by booking channels (Direct, OTAs & TOs) classified by age.



Source: ('Informe Tendencias GesHotels', 2019)

These graphs can help to understand the reservations trends booked directly, by online agencies or tour operators and classify this data by age when it comes to booking hotels, flights, or other tourist services. It is highlighted that customers over-50s still prefer to book through tour operators, while the segment between 16-30 prefers to book online. Therefore, it can be appreciated how tour operators are losing a competitive advantage over the years.

During the Internet age, travel agencies such as Thomas Cook which only focus on high-street stores are becoming less relevant and necessary for travellers until the point that will all disappear. Thomas Cook is a clear example of the impact that can have the technology on Tour Operators that won't update their business strategies and react to the market needs.

7. FINDINGS AND DISCUSSION

7.1. OPERATIONS, PROCESSES AND MANAGEMENT IN THOMAS COOK

To have a better understanding of the causes of Thomas Cook's bankruptcy, the following section will analyse the company's operations and strategies there were in place. These are general policies and plans used as resources which will lead to a long-term competitive strategy (Chase et al., 2009: 31).

As we have analysed previously, Thomas Cook had a vertical integration which brought plenty of profitability for many years. However, as the Internet era appears and the unwillingness, inflexibility of Thomas Cook to change the company's mentality and its strategy led to deeper debts.

Chase et al. (2009: 24) stated that one of the main factors for a long term strategy is the capability of managing successfully the market demand in constant progress. Therefore, Thomas Cook managed to get its operations running successfully for several years, nevertheless, these strategies weren't appropriate in the last decades.

In the 1990s, Tour Operators' competitive strategies were mainly concerned with mass tourism. The main goal was to gain market share with techniques such as aggressive pricing policies and vertical integration as in further to market segmentation and branding. Due to the emerging of low-cost airlines, tour operators based on targeted destinations, direct bookings, and independent travellers led to a decrease in package tours. Therefore, companies that were at a maturity stage were losing profit margins. As a consequence, Tour Operators had to rethink their aggressive pricing strategies for them to increase their profit and reduce the risk of losing (Klemm & Parkinson, 2001: 368-369).

From the results obtained, we can see how Thomas Cook had a very strong vertical integration strategy. As mentioned earlier in point 5.2, in 1999 Carlson Wagon Lit Travel merged with Thomas Cook. Furthermore, in 2007 also acquired

MyTravel which led to a deeper debt just before the 2008 world economic crisis started. As we can see, this was one of the company's worst strategic decisions. In 2010, Thomas Cook merged with CGL, Midlands companies, obtaining hundreds of street-level stores. This was another mistake in their strategy as there was already data available to know that many competitors and customers had as a first option online alternatives. In 2015, Thomas Cook is bought by the Chinese International group Fosun with the main purpose of creating a global holiday and entertainment company. Only two years after, they had plans to expand further by increasing its 100% share in Russian "ntourist" and local markets.

Therefore, we can see how Thomas Cook's strategy and operations were based on merging with other companies within the tourism sector, to achieve a greater market share and price control.

7.2. WHY DID THOMAS COOK BANKRUPCTY?

Due to external factors such as climate, currency, oil price, etc. Tour Operators and their packages have suffered drastically. Therefore, strategies such as touristic packages were created in order to build holiday capacity and gain a broader market share against their competitors. However, this led to a price war, with last-minute discounts, overcapacity, and tour operator bankruptcies (Klemm & Parkinson, 2001: 368).

Thomas Cook's obsession with merging and acquisitions led the company to its bankruptcy. Since they merged with MyTravel in 2007, just before the global economic crisis, Thomas Cook's financial issues just began. This was an expensive move to make at that time when the business model was already being affected by the new online market trends (Herrero Gómez, 2020: 49).

Due to Thomas Cook's acquisition or mergers, the company ended up having huge debts. Thomas Cook accumulated a debt of £890 million and an annual

loss of £518 million. At the start of 2019 (first half), pre-tax losses were £1456 million and its debt was £1.2 billion. One of its largest shareholders, the Fosun group, agreed to borrow £900 million, however, this was not enough as the bank creditor requested £200 million on top to secure the bailout (Ibíd, 2020: 50).

The acquisition of a group of travel agencies in the United Kingdom and the increase in 100% participation with “ntourist” of Russia, led Thomas Cook Group with hundreds of millions of pounds debt on top of the one already had from 2011. The company was already struggling to survive financially and this made it even more difficult to manage (Ibíd: 5-6).

The company outsourced most of its products and services such as hotels, transport companies, and guides. However, their fleet had more than 100 aircraft which Thomas Cook was significantly affected by low-cost airlines such as inter alia, EasyJet, and Ryanair. These companies offered prices that were very difficult to compete with and therefore this market became really tough for Thomas Cook (Ibíd: 6).

We have seen how Thomas Cook has based its business strategy on a traditional model with holiday packages, physical travel agencies, raising fixed costs, and constantly merging with other partners. However, due to its strongly vertically integrated model with its stores, airlines, hotels, and mostly lack of flexibility within the value chain (mostly technological) led the company to operate with traditional methods that were high in costs and less competitive. Companies such as Ryanair or EasyJet acquired a wider advantage and market share due to its presence online and their pricing strategies (Herrero Gómez, 2020: 49).

8. CONCLUSIONS AND RECOMMENDATIONS

8.1. CONCLUSIONS

The main purpose of this paper has been to analyse the business strategies adopted by Thomas Cook Tour Operator in the last decades and identify what causes let the company bankrupt.

The results obtained show how vertical integration has various advantages as a strategy such as market share, price control, or economies of scale. However, there are also certain disadvantages when using vertical integration such as large fixed costs or inflexibility within any changes in the value chain.

As it has been mentioned earlier, Thomas Cook's strategy was mainly focused on vertical integration. As it has been analysed, during the '90s was very common in Tour Operators integrating physical stores, airlines, and hotels within the value chain. Back then, this type of strategy brought plenty of profitability with mass tourism, there were all advantages. However, many companies bankrupted as they didn't react on time to the new digital trends.

Thomas Cook was one of those companies, as being strongly vertically integrated did not have the flexibility to adapt and make the changes necessary to the company's structure. Therefore, the lack of innovation and willingness to change toward a more technological era led the company bankrupt.

Despite the situation, Thomas Cook continued to merge with other companies within the sector, and due to this bad decision-making, the company ended up even in more debt. As can be seen from the results obtained, it is extremely important that companies keep innovating and maintain an open mind as the external circumstances will always be in constant change. Therefore, in order for companies to survive throughout time, it's essential to adapt their strategies based on the actual trends and customer needs. Based on this statement,

Thomas Cook remained to its own strategy and never adapted to the circumstances back then.

In most business management studies, the company's life-cycle is a frequent topic. This cycle includes different stages generally divided into five stages such as launch, growth, shake-out, maturity and decline. When the business hit the decline stage normally ends up vanishing (Noor et al., 2020: 248).

The quotation above defines perfectly the life cycle of Thomas Cook. This company grew and developed as one of the largest Tour Operators worldwide. In the '90s reached its maturity with an outstanding market share and branding. However, as mentioned earlier, the digital era began, and due to the impact of the internet, the company started to decline. The unwillingness and inflexibility to change mentality and strategies led the company to its decline being then too late to adapt to the market situation.

Some of the key points to be addressed in the future are for instance, how traditional tour operators have evolved with the time; have they adapted to the new and current circumstances? have they amended their strategies? would Thomas Cook have survived without merging during the last decades? How a pandemic like Covid-19 has impacted companies with a vertically integrated strategy having many staff or facilities? Are those companies willing to change their strategies and adapt to a new normal?

8.2. LIMITATIONS

Even though the author made great efforts to achieve the most reliable and valid results, there was a certain limitation when conducting this research. One of the main limitations was that this research was developed during the Covid-19 pandemic which caused considerable limitations. Due to the situation and being in quarantine, access to the library on our campus was limited having only access

to online material which made it more difficult to decide which theories could be confirmed or refused.

Another limitation was that some of the articles found from relevant authors with outstanding information had limited access and this could have added significant value to this research. Furthermore, due to the situation and the distance factor, the interviews scheduled for employees from Thomas Cook Mallorca had to be cancelled. These contacts were either on furlough or busy working from home and therefore were no longer a suitable option.

When conducting this research, the language used was English and therefore the comprehension of articles with specific vocabulary was quite challenging. Some of the articles were translated from Spanish into English and during this process the meaning of comprehension and translation may have varied due to the author's interpretation.

8.3. RECOMMENDATIONS

This study can be useful for companies that have a vertical integration strategy and are based on fixed costs. It would be highly recommended, to integrate and outsource different departments or sections as well as innovate and implement technology such as big data and/or artificial intelligence.

In future studies, it would be worth it to conduct questionnaires and interviews to find different patterns; however, the main focus should be on interviews, trying to get a higher number and not just targeting people who worked directly with Thomas Cook but also that secondary industry that was directly and indirectly linked to the company. That said, the interviews will bring deeper opinions and suggestions regarding the reasons for bankruptcy, which will help provide a better understanding and better conclusions.

Finally, this model has paid special attention to the vertical integration and the factors of the company's bankruptcy. This offered a point of view from the company's perspective, however, it would be worth it to study from an external perspective with factors such as the digital era. For future research, the main focus could be given to the static mentality of the company and how its main competitors as TUI Group have survived and evolved to different times. This would provide more inside opinions and possible solutions/recommendations to improve the transition models or provide a future guide for companies in similar situations.

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