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Thomas Cook UK and Ireland: Enabling High Performance with an Innovative Outsourcing Arrangement and a Long-term Strategic Partnership

Accenture and Thomas Cook UK and Ireland have over the past six years built a unique and highly effective relationship to support the travel company's remarkable transformation. The success of the relationship is reflected not only in Thomas Cook's return to profitability, but also in the way the two companies work together to position the business for long-term success.

Facing a new reality

Thomas Cook Group plc is a €12 billion (approximately US\$17.73 billion) international leisure travel group that was created in June 2007 by the merger of Thomas Cook AG and MyTravel Group plc. The merged company employs nearly 33,000 people, operates a fleet of 97 aircraft and serves more than

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Juergen Bueser, Thomas Cook Group chief financial officer



Thomas Cook UK and Ireland is a key division of the parent company. It serves 6.3 million passengers and employs more than half of Thomas Cook's worldwide workforce. Even before the merger between Thomas Cook AG and MyTravel, Thomas Cook UK and Ireland was one of the United Kingdom's largest travel companies. In 2006, the division reported sales revenues of €2.5 billion (approximately US\$3.69 billion), or approximately one-third of Thomas Cook AG's sales for the year.

The fortunes of Thomas Cook UK and Ireland have not always been so bright. Despite its long-held reputation for service and its highly recognized brand, the company operates in an industry known for its low margins and intense competition. Finding innovative ways to save money has, therefore, always been near the top of the management agenda. The need to streamline operations became particularly pronounced in 2001. That year, the terrorist attacks of September 11 wreaked havoc on the international travel sector and contributed to a worldwide economic downturn. Travel companies that had enjoyed a successful financial run were now facing considerable losses.

Complicating matters for Thomas Cook UK and Ireland was the fact that the division's three business units—sales, tour operations and the airline—were not integrated. Each business unit had its own management board and infrastructure, financial processes and information technology (IT) systems. Everything was decentralized. Each business had, in effect, its own back office. In a changing industry with discount airlines and new Internet-based travel service providers with much lower cost structures, these back-office inefficiencies threatened the company's very viability.

Launching a total transformation

In response to these challenges, Thomas Cook UK and Ireland launched a bold transformation program aimed at reducing operating costs, improving margins and bolstering its competitive advantage. A major component of the business transformation plan included integrating operations and creating a single center for back-office processes in the areas of human resources, finance and accounting, payroll and IT. Unlike many companies looking to optimize their back-office operations, Thomas Cook UK and Ireland was not interested in simply finding a lower-cost way of carrying out the same business processes. It was looking, instead, for a strategic relationship with a trusted associate willing to make investments and share risks and rewards in the pursuit of common goals.

That company turned out to be Accenture. Thomas Cook selected Accenture for a variety of reasons, including its breadth of experience and insights, its ability to lead a significant change management effort, its commitment to continuous improvement and its willingness to evolve the relationship over time to meet the changing needs of the Thomas Cook business. Perhaps most important was Accenture's proven record of delivering high-quality results quickly. According to Martin Alley, director of procurement and shared services at Thomas Cook UK and Ireland, "We needed confidence that our alliance would be able to drive benefits over the term of the agreement. We had that confidence in Accenture."

Enabling a phenomenal turnaround

The cornerstone of the initial 10-year arrangement between Accenture and Thomas Cook UK and Ireland was the creation of a single service center

designed to manage multiple processes—IT, finance, human resources (HR) administration and payroll—under one roof.

Under terms of the arrangement, Accenture assumed responsibility for the management of services and the overall performance of the planned service center. Bundling the provision of back-office services to Accenture brought a number of advantages. For Accenture, it meant that the Accenture team could assume greater accountability for the seamless delivery of services and better ensure that back-office functions were aligned with organizational objectives. For Thomas Cook, the bundled arrangement consolidated widely dispersed IT, finance and HR functions. It optimized service delivery costs, simplified communications and governance processes, and minimized the number of interactions with suppliers. And it allowed Thomas Cook's executives to focus on more strategic activities such as reorganizing the business. As Juergen Bueser, Thomas Cook Group chief financial officer, stated, "In our relationship with Accenture, we're not just outsourcing tasks. In reality, we are delegating responsibility. Doing so allows us to spend much more time focusing on what we want the business to be—namely a high-performance business that consistently beats its competitors."

In building the multi-function model, Accenture transferred more than 250 Thomas Cook employees to Accenture and developed a single, integrated platform based on SAP R/3 (version 4.6c) for the entire business. From the start, Thomas Cook UK and Ireland executives knew that SAP was the right choice, since so many other Thomas Cook AG country operations were already successfully using SAP. With its deep SAP and systems

integration expertise, Accenture helped design, build and run an integrated solution that provided a common financial "language," technology base and financial reporting structure. According to Carl Dawson, Thomas Cook UK and Ireland's chief information officer, the single SAP platform produced huge benefits in terms of visibility and transparency across the organization. "For the first time, we were able to monitor and measure the business and gain a single view of all transactions processed around the UK and Ireland group. We had gained one version of the truth. We knew whether we were making or losing money, and we were not hindered by [a legacy environment made up of] 13 different financial systems." In addition to customizing the SAP system to optimally support the HR, IT and finance areas, the team built industrial-strength interfaces between the back-office functions and critical front-office applications such as tour operations, sales and reservations. The team also engaged Accenture's change management professionals to build an SAP-enabled communications portal, which assisted Thomas Cook UK and Ireland with channeling their communications to the entire organization.

Within 16 months, the co-sourcing arrangement reduced costs by more than 30 percent and helped take nearly US\$290 million of overhead expenses out of the business. The consistency of Accenture's service delivery also allowed Thomas Cook UK and Ireland to accurately predict its ongoing back-office expenses and gain cost certainty for the first time.

When Accenture and Thomas Cook UK and Ireland entered into the co-sourcing arrangement, both parties recognized the need to be flexible to accommodate any changes in service that might be required. That flexibility

came into play during the third year of the co-sourcing deal. At that time, Thomas Cook UK and Ireland wanted to build on the success of the existing arrangement, transition to a fixed-fee model and create additional value by tapping the skills and know-how of resources from the Accenture Global Delivery Network.

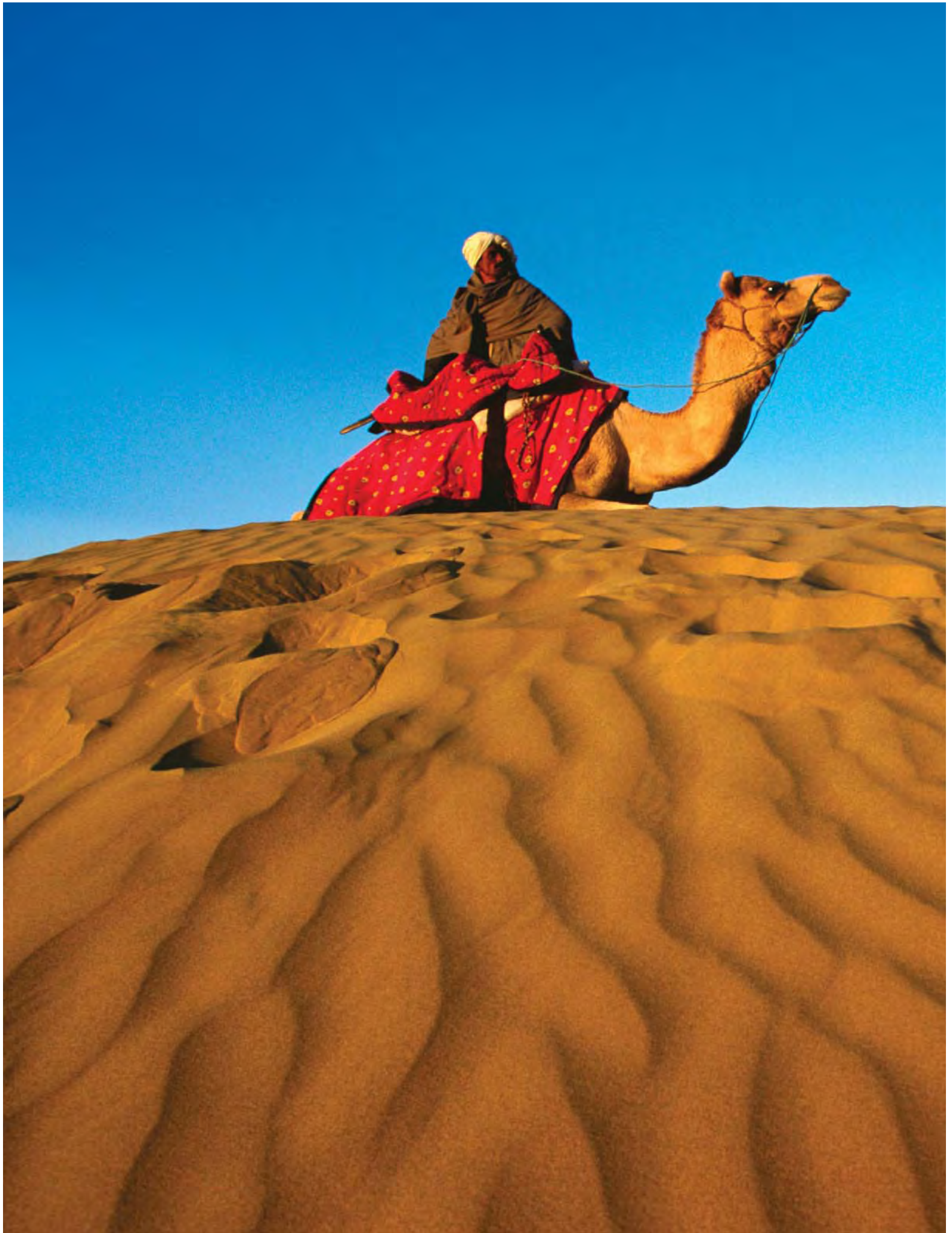
Working closely with Thomas Cook UK and Ireland, Accenture identified a number of activities carried out by the onshore delivery center that could be migrated to the Accenture Delivery Center in Bangalore, India. As with the original co-sourcing agreement, the goal for this move was based on more than cost savings. Thomas Cook UK and Ireland wanted to raise the quality of its back-office services, as well as its productivity levels, to new heights. Maintaining the bundled provision of service in the offshore model was critical. As Juergen Bueser explains, "I personally believe that there are strong benefits of outsourcing both the finance side, as well as the HR side, and—to go with that—the IT side, to one sole provider. Some of the benefits are easily tangible like being able to optimize costs through those functions, being able to have one governance model, and being able to better manage risk across the whole organization. But ultimately I think it also creates value by leveraging the scale and the scope of two organizations working together in a true partnership."

Under a new 10-year arrangement, Accenture transitioned approximately 70 percent of the centers workload—including activities related to application management, finance and accounting operations, payroll help desk and training administration—to its Accenture Delivery Center in Bangalore. The remaining onshore resources focused on more strategic activities, including IT operations, reporting and payroll processing. Under the new agreement, Accenture was managing approximately 400 back-office processes and 300 applications for Thomas Cook UK and Ireland.

Accenture migrated the majority of the work in just six months, and completed the transition in 11 months—meeting all transition goals on time and on budget. This is a notable achievement, considering the migration represented one of the industry's first large-scale, bundled transitions to an offshore delivery center environment. The results of the service transition speak for themselves. Since migrating the bundled back-office service delivery to the Accenture Delivery Center in Bangalore, Thomas Cook UK and Ireland has been able to reduce its costs by an additional 30 percent, giving it one of the lowest cost models in the industry.

According to Martin Alley, "At the outset of our relationship with Accenture, we were losing money. Now we've moved to significant

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Manny Fontenla-Novoa, Thomas Cook Group joint chief executive



profit. The UK and Ireland business made £87 million (approximately US\$180 million) profit in 2006. We had a five percent margin, which is exceptional for our industry. Outsourcing was clearly a contributor to this." Not surprisingly, industry experts have taken notice of the strength of the outsourcing relationship between Accenture and Thomas Cook UK and Ireland—and the benefits achieved. In 2006 and 2007, the Accenture and Thomas Cook team received high honors at awards programs sponsored by Outsourcing Journal, FAO Research, Inc. and the UK Management Consultancies Association.

Facilitating Thomas Cook's continued growth

By 2007, the bundled outsourcing program had consistently and repeatedly demonstrated its value in helping Thomas Cook UK and Ireland reduce costs, streamline operations

and raise the quality and consistency of back-office service delivery. When Thomas Cook merged with MyTravel in June 2007, the back-office outsourcing deal once again proved its worth—this time by contributing significantly to the integration of the newly formed Thomas Cook Group plc.

Thomas Cook's decision to merge with UK-based MyTravel Group plc was founded on the belief that the combined company could create a more flexible and cost-competitive travel company with improved travel services for millions of European passengers. To take greatest advantage of the synergies of the two companies—estimated to be worth several millions of pounds per month—Thomas Cook needed to integrate the two companies' UK operations quickly. The integration focused on the Thomas Cook and MyTravel operations in the United Kingdom because that is where both companies had a similar footprint,

business model and organizational structure and, according to Juergen Bueser, "where the greatest integration challenges resided."

Thomas Cook UK and Ireland set an aggressive timeframe to have the integration completed in just four months to coincide not only with the start of Thomas Cook's fiscal new year, but also the beginning of the winter travel season. This was an ambitious goal, considering that the merger practically doubled the organization's size, customers, employees, systems and processes over night. While Thomas Cook focused on managing the integration of front-office systems and processes, the travel giant asked Accenture to manage the integration of MyTravel's back-office functions to Thomas Cook's outsourcing operations. The decision to assign the integration project (as well as a new 10-year bundled outsourcing arrangement) to Accenture was based on



Accenture's deep understanding of the service areas being transitioned, the trust that Thomas Cook had developed over the years in Accenture's capabilities, and Accenture's proven commitment to doing all it could to help Thomas Cook achieve high performance.

Accenture quickly mobilized a team dedicated to transitioning knowledge and service provision to Accenture. First on the integration agenda was MyTravel's IT and finance services and applications. In record time, Accenture recruited and trained 230 additional personnel to manage the expanded scope of back-office services the merger would bring about. At the same time, Accenture applied proprietary methodologies contained in the Accenture Delivery Methods and the Accenture Rapid Transition Suite to upgrade hardware and convert MyTravel's finance

applications, which ran on an Oracle platform, to the Thomas Cook SAP enterprise system. This effort involved migrating huge quantities of MyTravel's back-office data—ranging from payroll to travel booking to financial information—to the SAP solution. In less than five months, all back-office finance and IT systems of the Thomas Cook and MyTravel organizations were fully integrated. The integration of the remaining HR and payroll systems and services are next in line.

Just as important as the transfer of data and back-office services to the new operating model was the transfer of all relevant knowledge of the MyTravel business. Prior to the merger, MyTravel had outsourced its back-office activities to a third-party provider that, like Accenture with Thomas Cook, had grown quite knowledgeable of its client's

business, financial accounts, suppliers, customers and employee contracts. Accenture tapped its change management expertise to craft a detailed knowledge transfer approach and assign team members to carry out the knowledge transfer activities with their MyTravel counterparts and with vendors and customers. Accenture's change management experts also orchestrated the communications with vendors and instructed them on new ways to interact with the company.

For Juergen Bueser, the transfer of knowledge represented one of the greatest integration challenges. "Whenever you bring two businesses together, you run the risk of losing the knowledge of the people who decide not to join the new organization. Accenture helped us phenomenally by making sure that the transfer of finance and HR



knowledge worked perfectly. It was great to see Accenture ensuring that we didn't lose the corporate memory in these vital parts of our business."

The successful merger marks a new chapter in Thomas Cook's history. Manny Fontenla-Novoa, chief executive of the Thomas Cook Group described it this way: "Through the merger of Thomas Cook and MyTravel, we have transformed both our business and the industry in general. We expect to achieve not less than €200 million (nearly US\$300 million) merger synergies." Combining the back-office functions of Thomas Cook UK and Ireland and MyTravel is expected to contribute to this figure by cutting the cost of administering those bundled services by 30 to 40 percent. The success of the merger is already evident. Six months after the merger, the Thomas Cook Group

broke into the Financial Times Stock Exchange (FTSE) 100 for the first time, meaning that the company was among the 100 companies registered on the UK stock exchange with the highest market capitalization.

The speed with which Accenture completed the integration was unprecedented in the outsourcing industry for a project of this scale and complexity. Carl Dawson noted the strength of the relationship between Accenture and Thomas Cook as an enabler of the integration's success. "The relationship with Accenture has allowed us to complete our merger with MyTravel in almost unbelievable time." Juergen Bueser agrees. "The speed and pace by which we managed this transformation is for me still pretty unbelievable. If I had to do it all over again, one thing I wouldn't change is doing it with Accenture."

Creating a culture of high performance

Accenture's research shows that high-performance businesses establish decision-making structures and workforce cultures that can accelerate insight into action, unleash an organization's energies and capabilities, and manage the balance between meeting today's needs and tomorrow's opportunities. The success of the Accenture and Thomas Cook outsourcing program has been due, in large part, to the careful consideration of just such objectives, as well as the prudent delegation of responsibility and the design of a true business relationship that benefits both parties.

From the very beginning, Accenture and Thomas Cook knew that success was more likely if their arrangement focused not just on desired outcomes,

but on the way those outcomes would be realized. To that end, they established an outsourcing arrangement built on a new cultural paradigm marked by strong governance, partnership, flexibility, innovation and continuous improvement.

Governance. The cornerstone of Thomas Cook UK and Ireland's and Accenture's combined effort to generate value is a strong joint governance model that encourages problem-solving at all levels of both organizations. Governance has played a key role in maintaining the consistency of back-office services despite changes to the Thomas Cook business or leadership team, and has helped to build confidence and trust in the outsourcing model. Through regular interactions, Thomas Cook and Accenture not only review progress within the contract's 300 service level agreements, but also constantly explore opportunities to strengthen the relationship and drive greater value from the arrangement. According to Juergen Bueser, the governance model is a reflection of the values that underpin the trusted relationship between Thomas Cook UK and Ireland and Accenture. "That our governance model works so well is a result of the commitment of all the people who make the arrangement work every day."

Partnership. Accenture and Thomas Cook UK and Ireland have forged a trusting and dynamic relationship that encourages each organization to do more than they thought possible. Naturally, the spirit of the partnership is evident among executives in both companies. More telling, however, is the way in which the notion of partnership has permeated the entire Thomas Cook and Accenture team. Those involved in managing the bundled back-office services are considered a single and unified unit. Establishing a "cultural fit" among employees—which is critical

to maintaining employee loyalty during times of extraordinary change, especially when great distances separate the employees in the United Kingdom and their counterparts in India—is now a key metric upon which Accenture's performance is measured. One way that Accenture encourages such intra-team understanding is by enabling key employees from the United Kingdom and India to meet, share ideas and work collaboratively to drive service improvements. This visit program was critical to successfully transitioning service delivery to the offshore model.

Flexibility. Flexibility has always been a critical element of the arrangements between Thomas Cook UK and Ireland and Accenture. As Martin Alley has noted, "Through its off shoring capabilities and its global delivery network, Accenture provides us the opportunity to flex up and down quite readily." The value of tapping global expertise and ramping up service delivery when needed was evident when Thomas Cook asked Accenture to transition the majority of its co-sourced onshore responsibilities to an offshore outsourcing model and, more recently, when Accenture was called upon to manage the integration at speed of MyTravel's back-office services. Accenture's flexibility contributed greatly to the success of both initiatives.

Innovation. The continuous contribution of ideas and technologies is important to finding new opportunities, staying ahead of the competition and helping Thomas Cook UK and Ireland become a high-performance business. Innovation is so important, in fact, that a clause in the outsourcing contract spelled out the travel company's desire to have Accenture introduce innovative ideas to all aspects of the business. Accenture has continually applied innovative solutions—either adopted from other industries or developed

specifically by Accenture for the travel sector—to bolster Thomas Cook's back-office performance. Examples of these innovative solutions include a solution that accelerates invoice approvals, an invoice management system that improves data-entry efficiencies by up to 80 percent, and an automated HR solution that allows personnel to manage recruiting and reporting activities more effectively. In addition, by applying Accenture's Profit Recovery and Analytics capabilities to analyze Thomas Cook's procure-to-pay processes and data, the team is recovering significant funds that directly impact the bottom line.

Continuous Improvement. A keen focus on continuous improvement is yet one more factor that distinguishes the relationship between Accenture and Thomas Cook UK and Ireland. In the latest contract, a clause has been introduced that formalizes the two companies' commitment to operational excellence and to identifying opportunities to reduce costs, improve consistency of service, enhance efficiencies and share benefits. Team members from Accenture and Thomas Cook UK and Ireland meet regularly to discuss and prioritize these opportunities and dedicate resources accordingly. According to Martin Alley, the shared responsibility for continuous improvement allows the team to constantly "review our end-to-end processes, strip them back down to their bare essentials, and make sure that we have a fit-for-purpose solution that delivers consistent service and a competitive advantage."

Each of these factors has played an important part in building a trusting, strategic relationship and a culture of business performance enablement. The most important element, however, is the commitment of the people who bring the promise of the relationship to life. Martin Alley summed this up when he said, "I am delighted

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Martin Alley, Thomas Cook UK and Ireland director of procurement and shared services

and amazed by the relationship with Accenture. This is really underpinned by the people who make this relationship the success that it is. Both the Thomas Cook and Accenture personnel work extremely well together. We share a common culture, which is evident in our day-to-day interactions. And we have a common aim in making this relationship a success."

High performance ahead

With Accenture's help, Thomas Cook has successfully carried out a series of business transformations aimed at streamlining operations, achieving consistency in back-office service delivery, reducing costs and expanding the business to enhance profitability.

The relationship between the two companies has evolved and expanded over time to maintain

Thomas Cook's momentum in becoming a high-performance business. The current arrangement continues to combine the strengths of both companies, with Accenture playing a key role as a strategic partner enabling the travel company's business performance and outcomes.

The benefits of the agreement extend beyond a new level of financial improvement and clarity. In conducting its day-to-day operations, Thomas Cook UK and Ireland has greater customer focus, more flexibility to adjust to business changes, and improved operational efficiencies.

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