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**Relations**

**Economic expansion of the Ukrainian SkyUp airline to the**  
**Italian air transportation market during the COVID-19 pandemic**

by


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Full-time student

of the second-year master's degree course in Business Administration &  
Consulting

The dissertation in partial fulfillment of the requirements for the degree of  
Master in Marketing (Curriculum Business Administration & Consulting)

I certify that in this thesis, there are no borrowings from the works of other authors without corresponding references

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**ЗАВДАННЯ**

на кваліфікаційну магістерську роботу  
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5. Предмет дослідження: стратегія економічної експансії компанії SkyUp на італійському ринку авіаперевезень.
6. Мета та завдання дослідження

Мета: узагальнення теоретичних підходів та розробка практичних рекомендацій щодо формування пропозицій щодо стратегії економічної експансії авіакомпанії SkyUp на ринку авіаперевезень Італії.

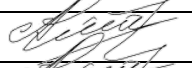
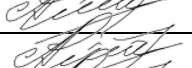
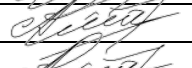
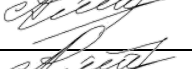


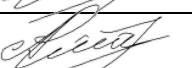
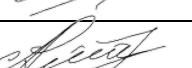


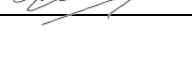

Завдання:

- 6.1. розкрити сутність та особливості стратегій виходу компаній на міжнародні ринки;
- 6.2. визначити особливості стратегії економічної експансії та уточнити визначення поняття «економічна експансія»;
- 6.3. розробити алгоритм виходу компаній на зовнішні ринки шляхом стратегії економічної експансії;
- 6.4. виявити особливості маркетингового середовища італійського ринку авіаперевезень;
- 6.5. оцінити конкурентне бізнес-середовище ринку авіаперевезень Італії;
- 6.6. визначити напрями управління ризиками діяльності компанії SkyUp в процесі економічної експансії на досліджуваному ринку;
- 6.7. розробити практичні рекомендації щодо реалізації та визначити ефективність стратегії економічної експансії досліджуваної компанії на італійському ринку авіаперевезень.




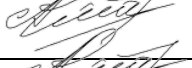






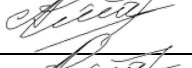
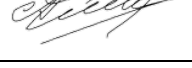

Науковий керівник: д.е.н., професор  Старостіна А.О.

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### Календарний план виконання завдання

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2	Затвердження плану	жовтень 2021 р.	
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4	Написання розділу 1	жовтень 2021 р.	
5	Врахування зауважень наукового керівника до розділу 1	грудень 2021 р.	
6	Подання розділу 2 науковому керівнику	лютий 2022 р.	
7	Врахування зауважень наукового керівника до розділу 2	березень 2022 р.	
8	Подання розділу 3 науковому керівнику	березень 2022 р.	
9	Врахування зауважень наукового керівника до розділу 3	квітень 2022 р.	
10	Написання загальних висновків, оформлення додатків та джерел	квітень 2022 р.	
11	Врахування зауважень наукового керівника до всієї роботи	квітень 2022 р.	
12	Подання готової роботи	квітень 2022 р.	

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20.09.2021 р.	Старостіна А.О.	Узгодження плану	
24.09.2021 р.	Старостіна А.О.	Визначення мети, завдань та концепції роботи	
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## **SUMMARY**

The thesis consists of 85 pages, 16 tables, 11 drawings, a list of 70 references, 11 appendices.

### **ECONOMIC EXPANSION OF THE UKRAINIAN SKYUP AIRLINE TO THE ITALIAN AIR TRANSPORTATION MARKET DURING THE COVID-19 PANDEMIC**

The subject of the study is the strategy of economic expansion of SkyUp in the Italian air transportation market.

The object of study is a foreign market economic activity of SkyUp.

Thesis is a generalization of theoretical approaches and development of practical recommendations for the formation of proposals for economic expansion of the Ukrainian airline SkyUp in the Italian air transportation market to ensure its international competitiveness.

Based on the study results, methodological recommendations have been formulated for SkyUp on implementing an economic expansion strategy and evaluating the effectiveness of the proposed measures.

The practical significance of the results obtained is to develop specific recommendations for the implementation of economic expansion strategy for Ukrainian airline in the Italian air transportation market. The results of the study can help Ukrainian airlines to develop an effective strategy for entering the Italian air transportation market.

2020-2022: undertaking the thesis research.

2022: defense of the thesis.

## РЕФЕРАТ

Дипломна робота містить 85 сторінок, 16 таблиць, 11 рисунків, список літератури з 70 найменувань, 11 додатків.

### **ЕКОНОМІЧНА ЕКСПАНСІЯ УКРАЇНСЬКОЇ АВІАКОМПАНІЇ SKYUP НА ІТАЛІЙСЬКИЙ РИНОК АВІАПЕРЕВЕЗЕНЬ В УМОВАХ ПАНДЕМІЇ COVID-19**

Предметом дослідження є стратегія економічної експансії SkyUp на італійському ринку авіаперевезень.

Об'єктом дослідження є зовнішньоринкова економічна діяльність компанії SkyUp.

Дипломна робота є узагальненням теоретичних підходів та розробкою практичних рекомендацій щодо формування пропозицій щодо економічної експансії української авіакомпанії SkyUp на італійський ринок авіаперевезень для забезпечення її міжнародної конкурентоспроможності.

За результатами дослідження для SkyUp сформульовано методичні рекомендації щодо реалізації стратегії економічної експансії та оцінки ефективності запропонованих заходів.

Практичне значення отриманих результатів полягає в розробці конкретних рекомендацій щодо реалізації стратегії економічної експансії української авіакомпанії на італійський ринок авіаперевезень. Результати дослідження можуть допомогти українським авіакомпаніям розробити ефективну стратегію виходу на ринок авіаперевезень Італії.

Рік виконання дипломної роботи: 2020-2022.

Рік захисту дипломної роботи: 2022.

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## INTRODUCTION

**Relevance of the research topic.** The current economic situation, associated with the active development of international relations, requires new approaches to planning the activities of enterprises that aim to expand their activities by entering foreign markets. In particular, one of the problems is the expansion of the scope of activities of companies engaged in the international transportation of passengers and goods, namely companies engaged in air transportation. The need to address the issues raised requires the development of scientific and practical recommendations for effective management of business processes of airlines entering new markets.

In the face of increasing international competition, the effectiveness of airline companies depends on a balanced strategy to enter global markets, which should take into account the time factor as a key parameter of competitiveness in today's environment. In the Italian market of air transportation the time limits of its development are especially relevant for domestic and foreign carriers.

A significant contribution to the development of scientific and methodological approaches to the effective conduct and development of foreign economic activity in conditions of increasing competition in international markets was made by domestic and foreign scientists, in particular: A. Starostina, V. Sereda, G. Drozdov, I. Ansoff, M. Porter, M. Tsaryuk, N. Kudenko, O. Kanishchenko, O. Kovalenko, O. Kuzioma, O. Levchenko, P. Yukhimenko, T. Ambler, T. Nagachevska, F. Stern, J. Stolyarchuk and others.

The work of such scientists as A. Kahn, E. Pels, K. Button, K. Winston, R. Doganis, S. Borenstein, and others is devoted to the study of the functioning of the world air transportation market and the prospects for expanding the activities of airlines.

It should be noted that the proposed approaches to the study of the international market environment allowed to analyze international air transport markets, identify and assess the level of airline competitiveness and external economic risks, but issues related to classification and development of modern

strategies for entering new markets, including economic expansion , need more detailed consideration, which is why our work is devoted.

**The purpose.** Thesis is a generalization of theoretical approaches and development of practical recommendations for the formation of proposals for economic expansion of the Ukrainian airline SkyUp in the Italian air transportation market to ensure its international competitiveness.

To achieve the goal of the study the following tasks were set and solved:

- to discover the essence and of strategies for companies to enter international markets;
- identify the content features of economic expansion and clarify the definition of "economic expansion";
- to develop an algorithm for choosing the strategy of companies entering the foreign markets;
- identify trends and features of the marketing environment of the Italian air transportation market;
- assess the competitive business environment of the Italian air transportation market;
- to develop practical recommendations for the implementation of the strategy of economic expansion of the studied company in the Italian air transportation market;
- to determine the areas of risk management of the researched company in the process of economic expansion in the Italian air transportation market.

**The object of study** is a foreign market economic activity of SkyUp company.

**The subject of research** is the strategy of economic expansion of SkyUp in the Italian air transportation market.

**Research methods.** Thesis was conducted using a number of general scientific methods of cognition, including: comparison, analysis and synthesis in the process of determining the nature and identification of strategies for companies

to enter international markets, structure and dynamics of the Italian air transportation market and competition; methods of system and structural analysis in the development of economic expansion, risk management programs for Ukrainian companies in the process of economic expansion in the Italian air transportation market; method of logical generalization to formulate conclusions.

**Information base** of a study were: analytical reporting of the State Statistics Service of Ukraine, international organizations and airlines operating within Ukraine and the EU; primary data collected through the consumers' questionnaire; regulatory documents of Ukraine and the EU; advertising and information materials of SkyUp, competing companies; materials from the websites of these companies and other Internet resources.

**The practical significance of the results obtained** is to develop specific recommendations for the implementation of economic expansion strategy for Ukrainian airline in the Italian air transportation market. The results of the study can help Ukrainian airlines to develop an effective strategy for entering the Italian air transportation market.

# **CHAPTER 1. THEORETICAL FUNDAMENTALS OF ANALYSIS OF ECONOMIC EXPANSION STRATEGY PROCESSES**

## **1.1. Strategies for entering the international markets**

In the process of developing modern strategies for companies to enter international markets, it is necessary to take into account the impact of globalization on the world market environment, manifested in the erosion of national economic borders as a result of finding the most profitable areas of capital reproduction in all its forms: interdependence, the formation of the global market and the world economic system. The fluidity of the globalization process and its consequences are difficult to model or predict. The objective basis of the process of globalization is the internationalization of economic life - the objective process of interconnection and interdependence of national economies, which is manifested in enhanced industrial interdependence; growth of international trade; international capital movements; labor migration and the creation of supranational structures and organizations. The processes of internationalization lead to the formation of international markets and integration formations (Starostina, 2012).

The objective basis for the internationalization of production is the international specialization of production and, as a result, international cooperation, which establishes stable production ties between economic entities of different countries (Starostina, Kanishenko and Kuzyoma, 2017).

Factors that enhance the internationalization of production include the development of innovations and new technologies, the development of international transport, the development of telecommunications, the internationalization of scientific and technical research. (Kochkina, 2019).

To date, researchers are in need of modifying existing strategies in international markets and identifying new ways to conquer markets in an increasingly competitive environment.

In recent years, the problem of finding new strategies for the development of the international market has become increasingly important, which will solve a number of problems. A number of researchers, such as V. Shcherbak and A. Lozenko (1999), A. Baldynyuk and N. Varshavska (2012), O. Garkusha (2003) claim that after choosing a foreign market there is a question about the forms of presence in this particular market, and therefore, the strategies for accessing the market.

It should be borne in mind that in modern economic theory and practice there is no universal strategy for entering the foreign market, which could take into account the most characteristic trends and requirements of the modern market environment, for example:

- fierce competition in most markets;
- constant scientific and technological progress;
- constant changes in market shares of companies;
- intensification of changes in the market environment;
- progressive nature of companies' behavior in the market, etc.

In the modern theory and practice of international economic relations, there are different approaches to the study of strategies and forms of entry of companies into international markets. There are 2 ways to achieve your company's presence in international markets:

- use of traditional forms of market entry;
- use of economic expansion.

A clear distinction should be made between traditional forms of exit and economic expansion. The key differences between these forms are presented by the author in table. 1.1.

In the table. 1.1 we have considered the criteria by which the traditional strategy of entering new markets and economic expansion differ. In total, 7 criteria were identified.

Table 1.1

**Comparative characteristics of the types of strategies of entering the international markets**

Classification	Types	
	Traditional	Economic expansion
1. By the criteria of time	Medium-term Long-term	Fast
2. In terms of geographical coverage	Local market coverage strategies International coverage Global presence	International coverage Global presence
3. In terms of approaches to building a business	Traditional approach	Innovative approach
4. In terms of industry type	In traditional industries	In new industries
5. Depending on the stage of market development	Stage of market growth Stage of market maturity Stage of market decline	The stage of the emergence of the market Stage of market formation Stage of market growth
6. Depending on the intensity of competition in the market	Constant (existing) competition Medium-intensity competition	Intense competition High level of competition intensity
7. The degree and causes of risk	Medium risk	High risk

*Source: constructed by author based on: Starostina, 2012*

According to the criteria of time, distinguish the following (Starostina, 2012):

- rapid - characteristic of the choice of economic expansion. This strategy assumes that the company enters new markets for up to 1 year (usually

up to six months), and the rapid development of new markets aims to gain about 30-35% market share, which requires significant investment and experience in markets for goods or services. Accordingly, such a strategy is usually implemented by TNCs, which are characterized by a well-established system of intra-firm relations;

- medium-term - aimed at the gradual conquest of 20-30% of the foreign market in 1-2 years. Currently, companies use it to adapt and analyze the existing level of competition in the market;
- long-term - market share coverage of up to 20% for a period of 2-3 years. The relatively long exit period is due to the complex system of internal bureaucracy in the company, the decision-making process is long, so entering new markets takes more time.

In terms of geographical coverage:

- local market coverage - the company focuses on national market coverage, researches micro- and macromarketing environment;
- international coverage - oversaturation of the national market, fierce competitive environment or the likelihood of business expansion motivate the company to seek new markets, so the company aims to enter foreign markets;
- global presence - in the context of globalization, a feature of the company is the continuous development of new markets.

In terms of approaches to building a business:

- traditional approach - gaining significant market share and, as a result, achieving profitability;
- innovative approach - determining the needs of consumers who can make a profit; identifying how to obtain market share in a given market, finding ways to protect this share in new markets for the company.

In terms of industry type:

- traditional industries - these industries operate under difficult conditions, taking into account the already established rules of

competition. These include most of the existing industries, and demand already exists - companies are trying to outperform their competitors to capture more;

- new industries - these industries operate in conditions where the number of players is minimal, and demand far exceeds supply, or it has not yet been formed. New industries cover markets where demand is created, not won.

Depending on the stage of market development:

- for the traditional - the life cycle has 4 main stages: the stage of market formation, the stage of market growth, the stage of distribution among producers of homogeneous products and the stage of market stagnation. Most markets operate in stages 3 or 4 of the life cycle;
- For economic expansion, it is necessary to provide forecasting not only of the company's efficiency in the market, but also the prospects for the development of the market itself, which is fundamentally new within the world economy. Most often - the stage of origin or formation of the market.

Depending on the intensity of competition in the market:

- constant competition is typical for already formed markets with certain players and certain market shares;
- intense competition (competition with a high level of intensity) is typical of new industries, where there is no system of stable relationships between sellers and buyers operating in the market.

By degree and causes of risk:

- medium-risk - is relevant in the medium and long term for the development of a new market, for example in the development of markets in countries with stable economic situations, where there is a minimum probability of risk;
- high-risk - is relevant in the short and medium term and requires a rapid decision-making process to enter international markets and quickly

integrate the company into foreign markets.

The traditional strategy of entering the international market is chosen when the market is at the stage of a life cycle of growth, maturity or decline, characterized by a medium level of intensity of competition or constant competition. This strategy of entering a new market is used in most emerging markets, where market shares are distributed and there are barriers to entry of new players into the market (Starostina and Kravchenko, 2004).

Economic expansion is chosen when the market is at the stage of the life cycle of origin and formation, for example for those markets that are new to the world economy (IT market, electric car market, etc.). Italian air transportation market (especially if direction Ukraine-Italy is analyzed) is also in the process of formation, which contributes to the choice of economic expansion.

In today's market conditions, the most effective strategy for entering new markets is the strategy, which (Kochkina, 2019; Starostina, 2012):

- has the ability to adapt depending on changes in market conditions;
- takes into account the importance of the time range in conquering new markets;
- able to implement parallel access to several markets simultaneously;
- takes into account the stage of market development and the company's adaptation to competitors.

This list of requirements is met by economic expansion. In this regard, there is a need to define the concept of economic expansion.

## **1.2. The essence of economic expansion as a strategy to enter international markets**

Analysis of the approaches of domestic and foreign scientists, such as R. Pylypchuk, G. Kazakevich, M. Kamenetsky (2004), E. Zakharenko, L. Komarova, I. Nechaeva (2003), D. Ushakov (2000), N. Komlev (2000), L. Krisina (2008), S. V. Mocherny (2010), A. I. Arkhipov (2013), N. V. Danilova

(2015) before interpreting the category of "economic expansion" allows us to conclude that the generally accepted definition of "expansion" and "economic expansion" does not exist. As a result of the analysis the approaches to definition of essence of the given concept, mechanisms of its realization and features are grouped (Appendix A).

The most common approach, which is followed by most domestic scientists, in particular M. Kamenetsky, defines the concept of "expansion" as "expansion spheres of domination, influence, spread of something beyond the initial limits" (Kamenetsky, 2004). Researchers such as M. Komlev (2000) and L. Krygina (2008) believe that "expansion is an aggressive policy of spreading political and economic influence from one country to another, given the seizure of foreign territories."

Analysis of the works of domestic scientists, in particular the research of S. Mocherny (2010), allows us to conclude on the clarity of the formulation of the mechanism of implementation by market players' sales. At the same time, the electronic resource "Slovopediya" defines the purpose of economic expansion, noting that it is "aimed at expanding the sphere of economic influence by capturing new markets, spheres of influence, sources of raw materials" (Slovopediya, 2014). But the most complete definition of this category is given by A. Arkhipov (2013), noting that "economic expansion - is the expansion of economic entities in the economic space, the expansion of economic ties, which takes place in fierce competition for markets, for profit".

At the same time, most foreign sources define this category as "marketing expansion" or "market expansion". For example, the electronic resource "Phrase.com" (2020) defines that marketing expansion is "the process of offering a product on a larger scale in an existing market or making it available in a new market", while the electronic resource "MBA Skool" (2018) sees the essence of this phenomenon in "expanding the size of the market by focusing on different segments of consumers", bypassing the need to enter new markets for the company under study.

The most complete definition of economic expansion was proposed by Danilova N. V. (2015): "Economic expansion strategy is a strategy of the company's entry into the international market, which involves rapid aggressive or less aggressive coverage of significant market share through the choice of certain forms of exit (exports, joint ventures, direct investment), tools (marketing, finance, internal) and principles (competitive behavior)".

A consolidated table of definitions of "expansion" and "economic expansion" is given by the author in Appendix A.

Given the above, let's make a point assessment of existing approaches to defining the category of "economic expansion" (Table 1.2).

A generalized approach to the definition of "expansion" is its interpretation as the expansion of the sphere of domination, influence, the spread of something beyond the original boundaries. The concept of "economic expansion" is seen as an expansion of the sphere of economic influence, economic action of the company under study.

The disadvantages of these definitions of these concepts are:

- the time limits of the phenomenon are not taken into account;
- the planning of the expansionist company is not taken into account;
- the definitions are generalized, so they do not take into account the requirements of economics.

Given the above, we propose a refined definition (Starostina, A. O., Kravchenko, V. A., Nagachevska, T.V., 2019) of the concept, which takes into account previous mistakes: *economic expansion is a company's entry strategy into foreign markets, which provides rapid (up to 1-1.5 years) coverage of a significant market share through marketing and financial instruments, takes into account competitive behavior and expands spheres of economic influence.*

The subject of economic expansion is a company-expansionist of the market, for example a company that seeks to conquer a new market. The object of economic expansion as a strategy is a significant share of the foreign market, consolidating its leading position in this market.

Table 1.2

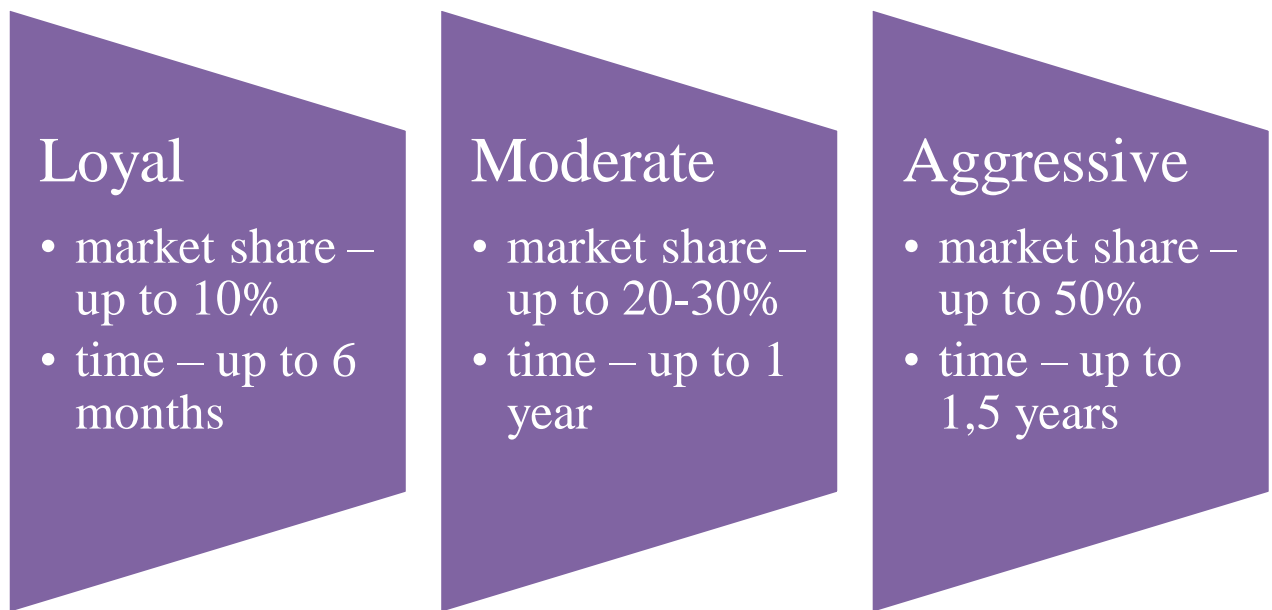
**Assessment of existing approaches to the definition of "economic expansion"**

№	Author	Score (points)				
		Availability of components	Prevalence of the definition	Theoretical validity	Practical accessibility	Total score
1	S.V. Mocherny	3	3	2	2	10
2	A.I. Arkhipov	5	3	4	3	15
3	Electronic resource: "Slovopediya"	2	2	2	3	9
4	Electronic resource: "Phrase.com"	4	2	2	2	10
5	Electronic resource: "MBA School"	4	2	3	3	12

*Source: constructed by author based on: Mocherny, 2010; Arkhipov, 2013; Slovopediya, 2014; The Phrase, 2020; MBA Skool, 2018*

For a comprehensive understanding of the phenomenon of economic expansion, we will schematically depict the types of economic expansion (Pic. 1.3).

When deciding to enter a new market through a strategy of economic expansion, companies should choose the type of economic expansion to optimize the market entry process. Loyal economic expansion involves gaining up to 10% of the market within 6 months (the market is in its infancy), moderate economic expansion - up to 30% of the market during the year (the market is in its infancy, there are few competitors), aggressive economic expansion - up to 50% market share for 1,5 years (more competitors, which encourages the company to regain market share).



Pic. 1.3. Types of economic expansion

*Source: built by author based on: Starostina, 2012*

The type of economic expansion, which might be the best solution, is chosen during the process of entering a new market through the economic expansion strategy.

### **1.3. The mechanism for implementing the strategy of economic expansion**

Over the last decade, the criterion of time has become one of the key factors in the success of companies in foreign markets. If a company is able to quickly enter a new market, it is able to quickly generate demand, capture more market share and take the lead. The speed of market development, other things being equal, provides companies with the opportunity to generate market demand, capture more market share and take a leading position in the selected market.

Intensive and rapid growth, rapid approval of the position of leader is possible when the company chooses to enter the market through economic expansion.

The advantages of the strategy of entering the foreign market through economic expansion is the ability to balance the company's capabilities and market requirements by choosing the most effective type of economic expansion (aggressive, moderate or loyal) by taking into account the most important factors

influencing foreign economic activity, market development, level of risk, desired market share, etc.

The implementation of economic expansion implies that the company plans in detail the conquest of foreign markets in accordance with the established stages. The development of economic expansion has features related to the specifics of the environment, type of activity and stage of the life cycle of the market that the company plans to cover. The stages of realization of economic expansion are presented by the author in pic. 1.4.

At the first stage, a comprehensive analysis of the company's external environment is carried out. To do this, macro- and microfactors are consistently analyzed.

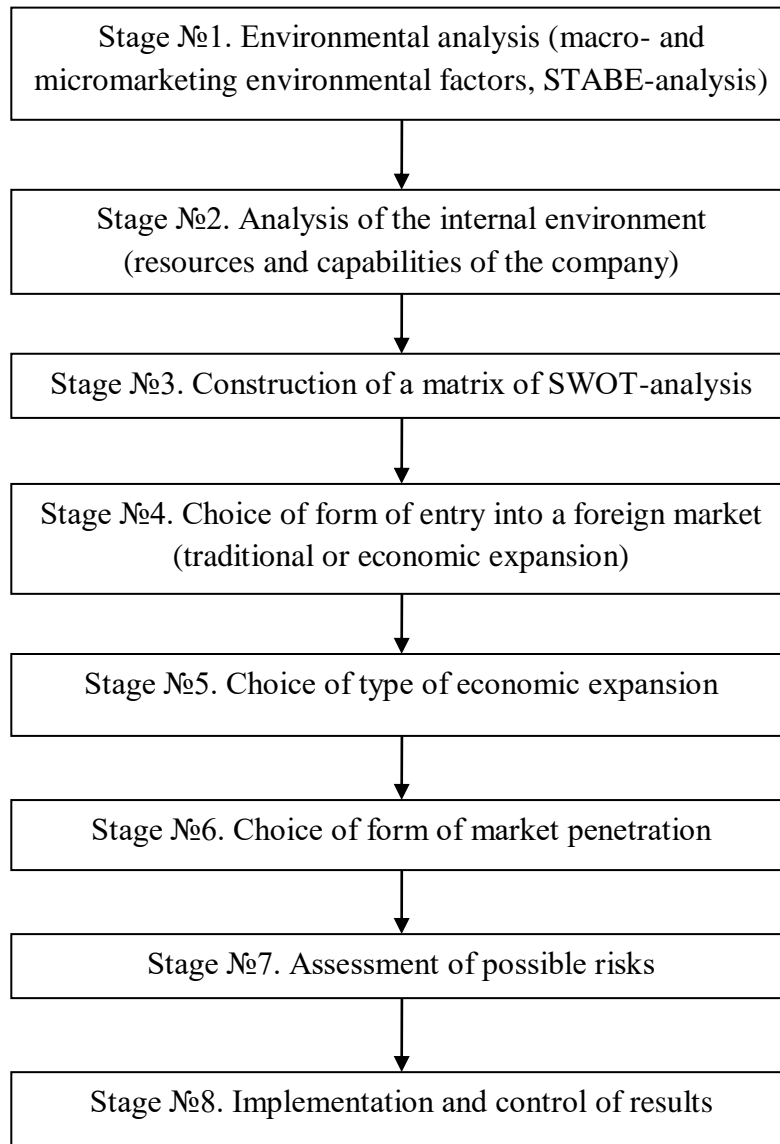
Analysis of the macromarketing environment (STABE) involves the analysis of the following factors: political and legal, economic, natural, scientific and technical, demographic, cultural. At the beginning of the analysis, the selected factors are entered into the preliminary table of environmental factors, which indicates the factor, reveals how it affects the company's activities (as a problem or as an opportunity). The purpose of this table is a preliminary assessment of the significance of a group of factors with the help of expert scores and their ranking to solve the problem of the environment or realize the possibilities of the external environment. The following is a summary of threats or opportunities. The table lists all the factors of problems from all groups in order of reducing their impact on the problem under study. Factors' impact assessment is expert; it should be based on that the combined effect of different factors may not be the same. Therefore, a weighting factor is introduced, which helps to rank and assess the impact of various environmental factors.

The analysis of the micromarketing environment aims to:

- research of competitors in the market;
- consumer segmentation;
- evaluation of suppliers;
- identification of promising partners;

- analysis of the company's interaction with contact audiences.

When analyzing competitors, it is necessary to select the criteria for selecting the main competitors in the market and select up to 5 competitors for further analysis. The following are tables of analysis of the company's strengths and weaknesses in comparison with major competitors with the help of expert scores.



Pic. 1.4. Stages of realization of economic expansion

*Source: constructed by author based on: Starostina, 2012*

When analyzing consumers in the market under study, it is necessary to select criteria for consumer segmentation, describe segments and their capacity.

The assessment of suppliers and contact audiences is especially relevant in B2B markets, where the main link in the relationship between producer and consumer is the intermediary, and the impact on decision-making to purchase products depends on the influence of contact audiences.

At the second stage the analysis of the internal environment of the company is carried out: the financial possibilities of the company, resource possibilities, production possibilities, technical possibilities are analyzed. The main potential of the company is determined, the data of financial and accounting of the company are given, the capacity of production possibilities of the company is analyzed. As a rule, the difficulty of analyzing the internal situation of the company is the lack of clear financial and accounting reporting. Therefore, for the analysis of the internal environment it is necessary to use staff surveys as experts, to form a document on internal audit, to assess the development and potential of the company with the help of expert scores.

In the third stage, a matrix of SWOT-analysis is built. The main purpose of the SWOT-analysis is to obtain reliable data on the company's capabilities and threats to its promotion in the selected market. The matrix also clearly demonstrates the company's strengths and weaknesses.

In the fourth stage, the company chooses the form of entry into a foreign market (the company chooses between the traditional form of exit or economic expansion). If the life cycle of the selected market is at the stage of growth or maturity with a medium level of competition or constant competition, where all market segments are distributed among themselves, the company chooses the traditional form of market entry. If the life cycle of the market is in its infancy or formation, the level of competition is high or intense, the company chooses economic expansion. Only in this case it is necessary to pass to a stage №5.

At the fifth stage, the company chooses the type of economic expansion according to the established scheme (see Fig. 1.3).

In the sixth stage, the company chooses the form of market penetration. The form of exit depends on the purpose of the enterprise, scale of activity,

competitiveness of the company, its product, also takes into account the potential sales, financial condition of the company, the availability of trained staff and other conditions that were analyzed in previous stages. The management of the company may choose to export, joint venture or direct investment abroad in accordance with the existing forms of entry of companies into foreign markets.

At the seventh stage, the risk assessment of the external and internal environment is carried out. First, groups of risks are formed that are most influential on the company's activities in the selected market and that have an impact on consumers of these products, the data are entered in the table. Then a detailed idea of the possibility of the impact of risks on the company's activities in foreign markets is formed, external and internal measures are formed that will reduce the impact of risks on the manufacturer (Starostina and Kravchenko, 2004; Knight, 2003).

Expert scoring assessments of the significance of risks are used to rank risks and identify the most influential risks in the process of economic expansion.

It should be noted that the sequence of stages 3-7 may vary depending on the needs of the company under study and the market in which it plans to enter.

The eighth stage envisages control over the implementation of economic expansion by the company's management and decision-making on adjustments during its implementation. The company analyzes the effectiveness of economic expansion and draws conclusions about its further application.

## **CONCLUSIONS TO CHAPTER 1**

Based on the characteristics of the methods of ensuring the company's presence in foreign markets, the classification of forms of entry of companies into international markets for traditional and economic expansion is highlighted.

Based on the analysis of approaches and research of foreign and domestic scientists, we proposed a refined definition of the category "economic

expansion": as the company's entry into foreign markets, which provides rapid (up to 1-1.5 years) significant market share through marketing and financial instruments, takes into account the principles of competitive behavior and aims to expand the sphere of economic influence. Its goal is to cover a significant share of the market, its largest segment or all segments at once, and to strengthen the position of market leader. Economic expansion is chosen when the market is at the stage of the life cycle of origin and formation, ie for those markets that are new to the world economy.

It is determined that the subject of economic expansion is a company-expansionist of the market, ie a company that seeks to conquer a new market, and the object - a significant share of foreign markets, consolidating its leading position in this market.

It is proved that economic expansion takes into account the modern requirements of the world economy, which allows the company to effectively master the new market taking into account the time limits of entering it, adjust the competitive behavior of the company depending on the life cycle of the selected market. activities.

The mechanism of realization of strategy of economic expansion and stages of its realization are considered. The importance of the analysis of the external and internal environment of the company's operation, risk assessment when entering new markets is substantiated.

The introduction of economic expansion implies that the company plans in detail the conquest of foreign markets in accordance with the established stages.

The development of economic expansion has features related to the specifics of the environment, type of activity and stage of the life cycle of the market that the company plans to cover. An important difference between economic expansion is its integrated approach and strict adherence to the stages of its implementation.

## **CHAPTER 2. STRATEGIC ANALYSIS OF THE ATTRACTIVENESS OF THE ITALIAN AIRLINE MARKET FOR UKRAINIAN COMPANIES**

### **2.1.Reasons to choose the Italian market of air transportation. The impact of the macromarketing environment of the Italian air transportation market on the activities of Ukrainian airlines**

SkyUp Airlines (SkyUp) was founded in 2016. It was this year that a new carrier, SkyUp Airlines LLC, was officially registered. The company was founded and owned by ACS-Ukraine LLC, which also owns a controlling stake in the JoinUp travel agency (SkyUp, official website).

The first commercial flight of SkyUp airline was made on May 21, 2018. It was a charter to Egypt on the route Kyiv - Sharm el-Sheikh (round trip). Departure took place from Zhulyany airport. In December 2018, the carrier launched its regular flight from Kyiv to Tbilisi. Since March 31, 2019, the Kyiv Boryspil International Airport has become the SkyUp base airport.

The company signed a contract with Boeing Corporation not only for the leasing of airliners, but also for the purchase of new aircraft directly from the plant. The airline's fleet has been constantly increasing since its inception.

It was stated that the company's fleet in 2018 will have 3 aircraft (Boeing 737), later their number is planned to increase to 20 (2024 year). The company received 8 boards.

In March 2018, SkyUp Airlines and Boeing signed a contract to purchase five Boeing 737 MAX worth a total of \$ 624 million. According to the terms of the contract, the aircraft must be delivered by 2023. The contract also provides for the option of five more aircraft (Avianews.com, 2020).

Business model of SkyUp is “low-cost”. A low-cost carrier or low-cost airline (is usually referred to as no-frills, budget or cheap carrier or airline, and abbreviated as LCC) is an airline that operates with a reliably high emphasis on minimizing operating costs and without some of the regular services and amenities

provided in the fare, resulting in cheaper fares and less comforts. To receive the revenue lost in lower ticket prices, the airline may ask to pay extra fees – such as for carry-on luggage. As of April 2022, the world’s largest low-cost carrier is Ryanair, which operates primarily in Europe, as well as in some surrounding areas.

The term is common within the airline industry and is related to airlines with a decreased operating cost structure than their rivals. While the term is often connected with any airline with low ticket prices and lower services amount, regardless of their operating models, low-cost airlines should not be confused with regional airlines that operate short-term flights without service, or with full-service airlines offering some reduced fares.

As it was previously mentioned, SkyUp is the “lowcoster”, so possible new destinations should not be located far away – company aims to save fuel. Moreover, the researched company is subsidiary company of JoinUp, so one of the main goals of the company is to transfer passengers to some popular resorts. That is why possible destinations may look like on the pic. 2.1.



Picture 2.1. Possible destinations for SkyUp

*Source: constructed by author*

The selected countries are: Spain, Italy, Portugal and Israel. All of them are popular among Ukrainian tourists, especially because of resorts and hotels they have.

After selecting the possible destinations, we should pick one of them. A good approach may be O. Kanishchenko's filter model (Kanishchenko, 2015), where some indicators are used to understand the main advantages and disadvantages of each variant. In general, the more filters used – the better knowledge gained, but in our case we may use just two most important filters.

The first one is presented in the table 2.2:

Table 2.2.

### First filter of possible markets

Indicators (as of 2021)	Italy	Spain	Portugal	Israel
Safety index (place)	43	34	29	28
Corruption Perceptions Index (place)	53	41	29	33
Inflation rate, %	0,6	0,7	0,3	0,8
GDP, \$ bln	2084	1419	240,7	350,9
GDP per capita, \$	34483	30370	21136	40270
Population	60 360 000	46 940 000	10 310 000	8 712 000
Global Competitiveness (place)	31	26	34	19
Human Development (place)	29	25	28	19
Approx. distance, km	1 680	2 390	2 710	2 070
Conclusion (1 to 5)	4	2	3	4

*Source: constructed by author, based on: Kanishchenko, 2015*

In first filter, the general economic indicators are analyzed. Despite the fact that selected countries are close in such comparison, Italy is a better choice in case we look at the GDP per capita and overall number of population. Moreover, the distance to Italy from Ukraine is the shortest among selected.

Israel is a second option here. This country has the best safety index and GDP per capita. Israel is also the best in Human Development and Global Competitiveness indexes, and the overall distance is also not so long. So, after the first filter we may select two countries: Italy and Israel.

In the second filter we may concentrate on the indicators, which are closely related to our business:

Table 2.3.

### Second filter of possible markets

Indicators (as of 2020)	Italy	Israel
Doing business (place)	58	35
Amount of lowcosters	8 lowcosters	3 lowcosters
Market size (low-cost market share among all airlines in the country)	39,90%	17%
Market development (especially lowcost market)	It is one of the TOP-20 European markets with lowcost activities - 10th place	Low development of lowcost activities
Airport fees	No fees	No fees
Conclusion (1 to 5)	4	3

*Source: constructed by author, based on World Bank data*

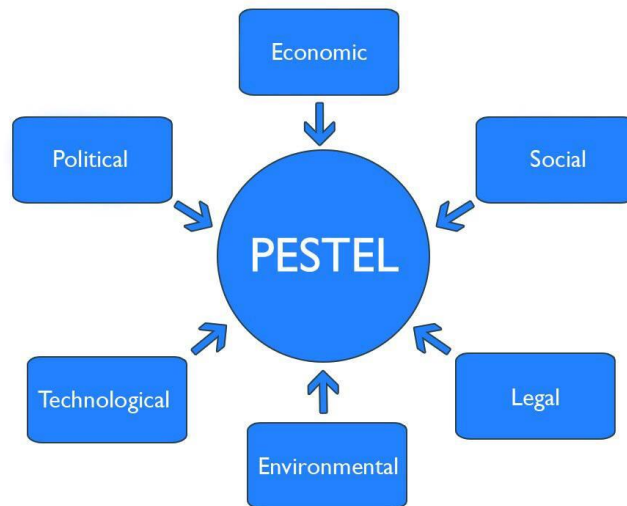
Second filter gives us an idea that Italian market is more concentrated, more our direct competitors are presented. It is both an opportunity and a threat. Of course, in the market of Israel we may discover the company in the “blue ocean” (Bluoceanstrategy.com, 2019), but, on the other hand, this market is not developed enough, and customers are not so familiar with “lowcosters”. It will definitely take time and other sources before we will get loyal passengers in Israel. Thus, our choice is Italian market, and in this research we will concentrate on it.

### Macro environment opportunities and threats

According to the method of analysis of international markets, proposed by A.O. Starostina (Starostina, 2012), it is necessary to collect and systematize information about the state and possible options for the development of the studied market, identify factors influencing the external environment on the company's

activities (Ansoff, 1965), which will allow to make economically sound conclusions about the prospects of the company on the Italian market.

In general, the PESTEL analysis (Professional Academy, 2015) is used to evaluate the macro environment.



Picture 2.4. PESTEL analysis

*Source: Professional Academy, 2015*

However, in our case it is better to use Starostina’s approach, STABE-analysis (Starostina, Kanishenko and Kuzyoma, 2017), with following groups of macro factors:

- political & legal;
- economic;
- demographic;
- sociocultural;
- technological;
- natural (environmental).

To evaluate such groups of factors, the weighted coefficients may be used (Table 2.5).

It was decided that the most important group of factors in our business is economic. Political and legal are a little bit less important, while natural are almost not important.

Table 2.5.

### Weighted coefficients for the groups of macro factors

Factors, groups	Weighted coefficient
Political & legal	20
Economic	35
Demographic	20
Sociocultural	10
Technological	10
Natural	5
<i>Total</i>	100

*Source: constructed by author*

Before evaluating the groups of factors and understanding opportunities and threats, we have to understand which components we may compare. After filter model we decided to choose Italian market of air transportation. However, to build the DPM matrix, we have to compare two components. That's why our components will be:

1. Italian resorts – “summer destinations”. For example: Rimini, Catania etc.;
2. Italian economic centers – Rome, Milan etc.

So, we have to evaluate opportunities and threats. Starting from opportunities (see Appendix B).

1. Growth of labor migration (demographic). Before the COVID-19 pandemic, the growth of migration between Ukraine and EU was growing each year. In recent years (2020-2021) it slowed, but still Ukrainians are tend to migrate and to work in the developed countries (Radio Svoboda, 2019). Hopefully, the conditions of the key Ukrainian airports will remain good enough to operate after the Russian-Ukrainian war;

2. Modernization of Ukrainian and Italian airports (technological). The tendency is to recover small airports to give a “green light” to lowcosters. Small airports usually have less airport fees, that is why companies like Ryanair or

Wizzair prefer to choose them. We believe that such modernization will continue in Ukraine even after the war;

3. Low airport fees (economic). It logically continues the second point. The tendency is to lower the airport fees, and it continues even during the global COVID-19 pandemic;

4. The general growth of the number of passengers choosing air transportation (sociocultural). In the society, it is more prestigious to pick an airplane instead of the bus or train. It is faster and more convenient. After the COVID-19 pandemic and after the war, we hope this number will grow rapidly;

5. Non-existing legal restrictions on foreign air carriers entering the Italian market. In case of law, there are not any restrictions for foreign companies to enter the Italian market of air transportation. However, it is a common thing that Italians are lobbying local airlines, so that is not so bright opportunity as previous ones (Livejournal.com, 2015).

For detailed evaluation of each opportunity see Appendix B.

Moving on to threats, we have to understand, that most of them are caused due to pandemic (see Appendix C). First 3 of them are strongly connected with the war and COVID-19 pandemic:

1. Decrease in the real level of income of the population. It is stated both for Italians and Ukrainians;

2. General restrictions on travelling, imposed during the COVID-19 pandemic and continued to have a negative impact during the war. In the future, we predict that they will be completely removed;

3. Decrease in domestic and foreign tourism. The same situation as with the second point;

4. Flight quotas. It is connected with 5<sup>th</sup> point of opportunities. While legal restrictions are not existing, there are still quotas for local airlines. For example, they may have a permission to complete more flights per week on Ukrainian-Italian connection than SkyUp or UIA:

5. Rising fuel prices. It is a threat for all airlines that the price for fuel is gradually rising, up to 5-10% each year.

All the macro factors were generalized in Appendix D.

After the evaluation of opportunities and threats, we may calculate the overall points for them (see Appendix B, Appendix C). So, as for 2021 year, sum of threats is bigger (8,35>6 for resorts and 8,15>6,2 for economic centers). However, in the future we may have an opposite situation (7,25>4,35 and 7,45>4,35 accordingly). Thus, the Italian air transportation market in the future may be attractive for SkyUp, and the market conditions of Italy in general will promote the development of the business of providing air transportation services.

## **2.2. Competitive business environment and competitive strategies in the Italian air transportation market**

To analyze the micro environment of the company, we may use combined approach. Firstly, we may look at M. Porter's theory, which is known as "Porter's 5 Forces" (Investopedia.com, 2020). Secondly, per A. Starostina (2012), the main factors of the microenvironment are the features of the company's internationalized economic interaction with *competitors, consumers, intermediaries, suppliers and other contact audiences*.

So, let's start with the analysis of competitors (Table 2.6). The following criteria were selected for comparison:

- the average age of aircraft can be estimated: Ryanair – 7,4 years, WizzAir – 5,4 years, SkyUp – 11,4 years, UIA - about 11 years (Tripmymydream.ua, 2019);
- brand awareness. According to expert estimates, UIA received the highest score - at the same price, consumers are more likely to choose a "regular carrier". Other airlines received approximately the same ratings, which

were determined depending on the period of their representation in the Italian market and entrenched in the minds of consumers;

- variety of additional services. According to this indicator, the highest scores have European "low-cost carriers": Ryanair and WizzAir, which offer to choose a hotel and car rental, and additional comfortable places, etc. However, we have to understand, that sometimes *for the customer is more important how many additional services he/she needs to buy, than the overall variety of them*;
- price of additional services. According to this indicator, Ryanair and WizzAir have the lowest rating, however, Ryanair has a slight advantage - the Irish airline receives the highest rating;
- market experience. Ryanair and UIA are represented on the Italian market from the 1990s, WizzAir – from the 2000s. SkyUp tried to enter the market in 2019, but after the COVID-19 pandemic decided to temporarily close such destination.

Table 2.6

**Comparison of SkyUp with potential competitors in the Italian market, expert evaluation in points**

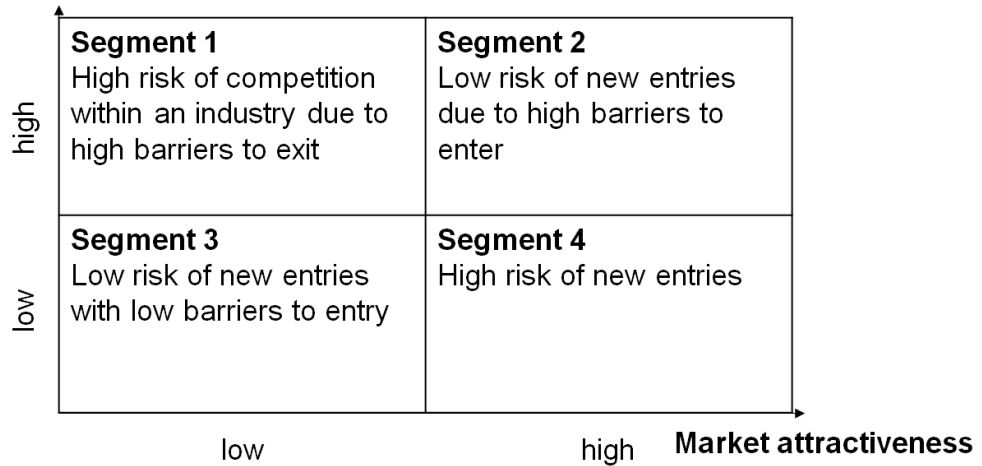
Indicators	Ryanair	WizzAir	SkyUp	UIA
1. The average age of aircraft	8	9	3	5
2. Brand awareness	8	8	3	5
3. Variety of additional services	8	7	5	2
4. Tickets' promotion	6	5	4	5
5. Market experience	8	6	4	8
<b>Total</b>	<b>38</b>	<b>35</b>	<b>19</b>	<b>25</b>

*Source: constructed by author*

So, in case of comparing with competitors, SkyUp has the lowest evaluation – 19 points, which is a big threat for the company.

**Threat of new entrants** (M. Porter approach). Per pic. 2.7, the company is situated in the segment 4, which means a threat of the new competitors. It is highly probable that other air transportation companies might start to operate flights on destination Ukraine-Italy, especially after a successful termination of the Ukrainian-Russian war.

**Reaction of market actors**



Picture 2.7. Matrix to analyze the threat of new entrants

Source: CFO Institute, 2017

Moving on to the customers (or, per Porter, to the buyer power and influence), we may discover the general influence of buyers on the company's activities:

- direct dependence on the number of consumers (high degree of dependence);
- availability of information for the consumer - an average degree of accessibility;
- price sensitivity of consumers - above average / high (the company positions itself as a "low-cost", respectively, the price of the ticket and additional services plays a key role in making a purchase decision);
- optimal combination of service quality and its price; the uniqueness lies in the low cost of the ticket.

Let's move on to consider **suppliers**. The suppliers for SkyUp are the following:

- The Boeing Company - Boeing 737-800 NG aircraft with 189 seats (Kyiv Independent, 2019);

- UkrTATnafta - aviation fuel (Verkhovna Rada of Ukraine, 2018).

The aircraft is designed and manufactured by The Boeing Company, an American corporation, one of the largest manufacturers of aerospace equipment.

The supplier of fuel for the studied company is UkrTATnafta, which is the largest producer of jet fuel in Ukraine. Carries out activity on the terms of prepayment, the cost of delivery includes unloading and refueling. The company has problems with regularity and timeliness of deliveries, as a result of which there are problems with flight delays (including in 2019, UIA was forced to delay 22 flights due to lack of fuel). This is a threat to the investigated airline, as this supplier is a monopoly company.

**Intermediaries.** Since low-cost carriers usually sell their tickets online, the main intermediaries are the so-called "web aggregators" - sites where you can compare ticket prices (Unit Citizen, 2020).

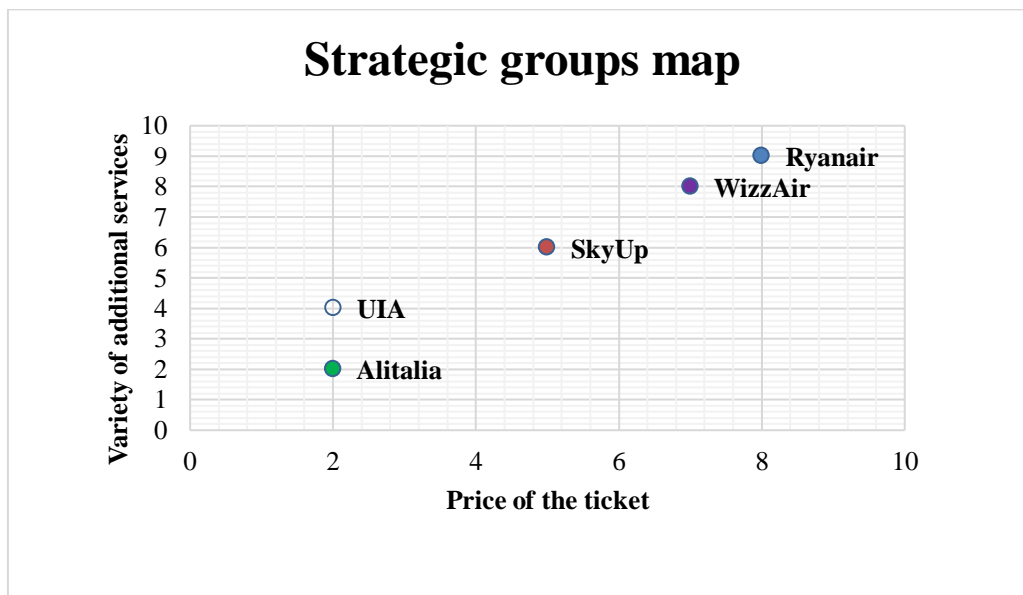
The oldest ticket price comparison service in the world — Skyscanner — entered the world market in 2002. Today there are a large number of aggregators on the market, and each region has its leaders. Aviasales, Anywayanyday, OneTwoTrip, the already mentioned Skyscanner and many other services are popular in Ukraine and Italy. In addition to the ability to compare all available offers, intermediary sites have another advantage - most passengers do not know the brands of airlines (except the largest and most famous), as well as their routes, and these sites are looking for the right direction and airlines.

However, there is currently a growing trend towards direct ticket sales. For example, WizzAir regularly holds promotions, making discounts of up to 20% of the ticket price - but this information is not displayed on the sites of aggregators. In addition, information about "low-cost carriers" is often published in specialized media, and their brand becomes recognizable. According to SimilarWeb (Unit Citizen, 2020), the site of Europe's largest low-cost carrier, Ryanair, already has more visitors than Skyscanner.

**Contact audiences** on the Italian market are not so important in our analysis, because they are still not so familiar with SkyUp. However, if we are talking about all cases, it should be mentioned about the case in 2019, when court suspended the license of the SkyUp (Unian, 2020). Hopefully, the story ended up good for the company, but the reputation was damaged. Moreover, SkyUp has some problems with flight delays, which sometimes leads to scandals (for example, Tanzanian case) (Hromadske.ua, 2020).

Overall, the micro environment of the Italian air transportation market is not so favorable for doing business for the researched company. SkyUp still has low chances to compete with bigger lowcosters, while it still has some other threats: for example, monopoly position of the only supplier of aviation fuel in Ukraine - UkrTATnafta, which has problems with regularity and timeliness of deliveries.

**Company competitive positions.** To understand the current position among competitors for SkyUp, we may construct a strategic groups map (pic. 2.8.).



Pic. 2.8. Strategic groups map

*Source: constructed by author*

Due to the map, SkyUp stuck somewhere between “classic lowcosters” (WizzAir and Ryanair) and regular airlines (Alitalia, UIA). Interesting fact, that

even despite of having the “lowcost tariff”, UIA still much closer to the regular airlines, than to lowcosters. As for SkyUp – company should definitely move closer to lowcosters.

We have already started the research about competitors in the micro factors (see competitors). Before moving to the summary table, let’s have a look on the tickets of the main competitors (table 2.9.).

In case of price of the ticket, we may consider that SkyUp is still between Ryanair and Wizzair on one hand, and UIA on the other. Prices of additional services are still lower in Irish and Hungarian airlines, but the difference here is not so big.

However, we may see a huge difference in the preferences for additional services, which is an important part of the lowcost airlines business. Ryanair and WizzAir are the clear leaders here.

Table 2.9.

#### Tickets’ comparison

<b>№</b>	<b>Indicator</b>	<b>Lowcost ticket of Ryanair</b>	<b>Lowcost ticket of WizzAir</b>	<b>Lowcost ticket of SkyUp</b>	<b>Lowcost ticket of UIA</b>
1	Price of the ticket	9	8	6	3
2	Price of additional services (luggage, seats etc.)	8	8	7	4
3	Preferences for additional services (for example, hotel discounts, car rental, etc.)	10	10	7	2
<b>Total</b>		<b>27</b>	<b>26</b>	<b>20</b>	<b>10</b>

*Source: constructed by author*

So, after the mentioned comparisons we may build the map of competitive positions (Appendix E). Evaluation of all points is clear and understandable here

(from low to high). Visually it is also understandable that SkyUp has average positions in comparison with competitors. But, in the future, the situation is predicted to be better (Appendix F).

### Choosing the target segment by means of portfolio analysis

The main aim of this part of the work is to choose the target segment for the company by constructing and analyzing the DPM matrix. The first step here is to build tables for constructing the matrix, to understand market attractiveness and market competitiveness. We may take the information from the previous parts of the second chapter.

So, in evaluation of the market attractiveness (Appendix F), we may understand, that the future evaluation is better for our company, and the opportunities will have higher point than the threats. The same situation we may discover with our competitiveness (Appendix G). Situation may improve for both of our segments (Italian resorts and Italian economic centers).

In general, we have such sectors of the matrix:

Segment attractiveness

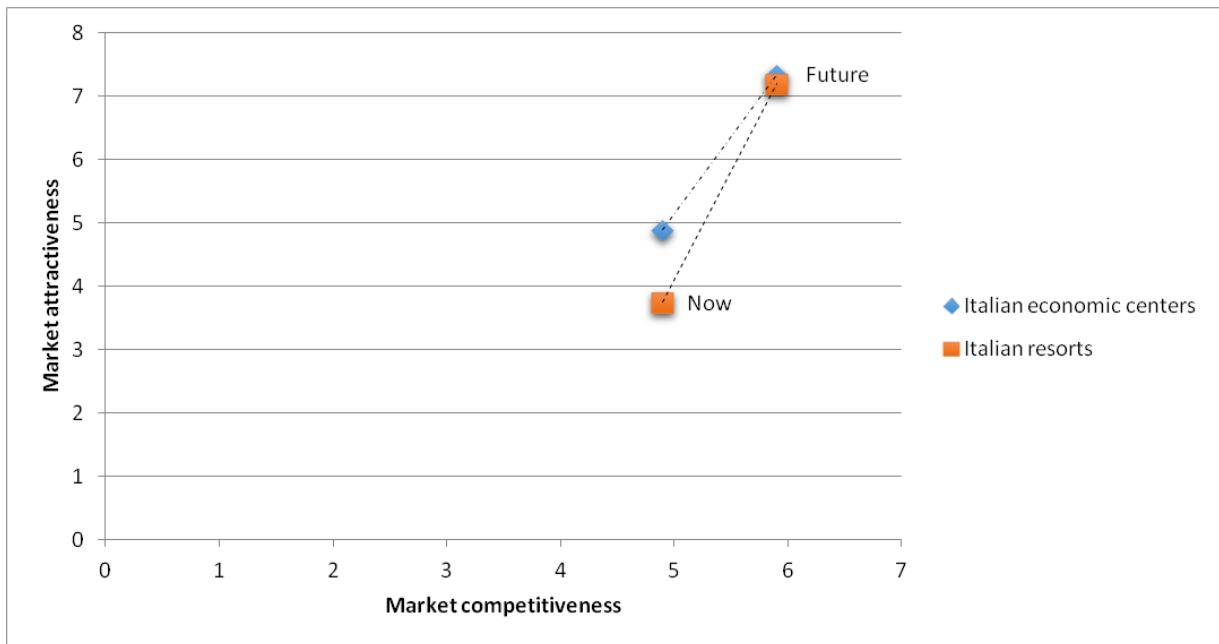
Capability	Strong	Cash generation	Growth leader	Leader
	Average	Try harder	Custodial growth	Phased withdrawal
	Weak	Disinvest	Phased withdrawal	Double or quit
		Unattractive	Average	Attractive

Picture 2.7. General view of the DPM

Source: Kochkina, 2019; Change Factory, 2019

Using our figures and tables, we may construct our DPM (pic. 2.8.).

So, per our directional policy matrix, now both our segments located in the “custodial growth” part.



Picture 2.8. DPM matrix for SkyUp

Source: constructed by author

We should not commit any more resources to segments in these sectors. On the other hand, in the future we may predict that we may find ourselves in the “leader” sector (both Italian resorts and Italian economic centers), so we will have an opportunity to focus on segments in this sector.

### 2.3. Risks in the process of implementing the strategy of economic expansion in the Italian air transportation market

Preliminary analysis of the EU air transportation market and assessment of the competitiveness of Ukraine’s company’s within the EU allows us to conclude that there are threats from the environment, weaknesses of Ukrainian airlines compared to competitors in the EU market and lack of systematic market analysis by Ukrainian companies, which makes Ukrainian air transportation companies vulnerable to external economic risks. Therefore, in

order to avoid risk management in the process of operating in the EU market, Ukrainian airlines need to create a risk management system (Starostina, Kravchenko and Pryhara, 2007).

In the current theory and practice of strategic management and marketing, much attention is paid to the study of identifying and assessing foreign economic risks faced by the company when planning international activities, but there is a big discrepancy between theoretical and practical ideas about risks in companies entering the international market (Tepman, 2002). There is a question of the effectiveness of risk management, which includes the process of taking into account the risk factors of the international market environment through the use of specific methods of identification, grouping, assessment and risk impact tools to reduce / avoid the impact of risks in achieving goals (TNTU, 2015).

Foreign economic risk is a combination of events related to the foreign economic activity of the enterprise and affects it, the probability of this event and its consequences, which make it impossible to achieve the planned goals and ultimately affect the company's income. Risk is a combination of three elements: a certain event, its probability and its consequences (Chernova, 2000).

Thus, in the case of a risky event, three economic results are possible:

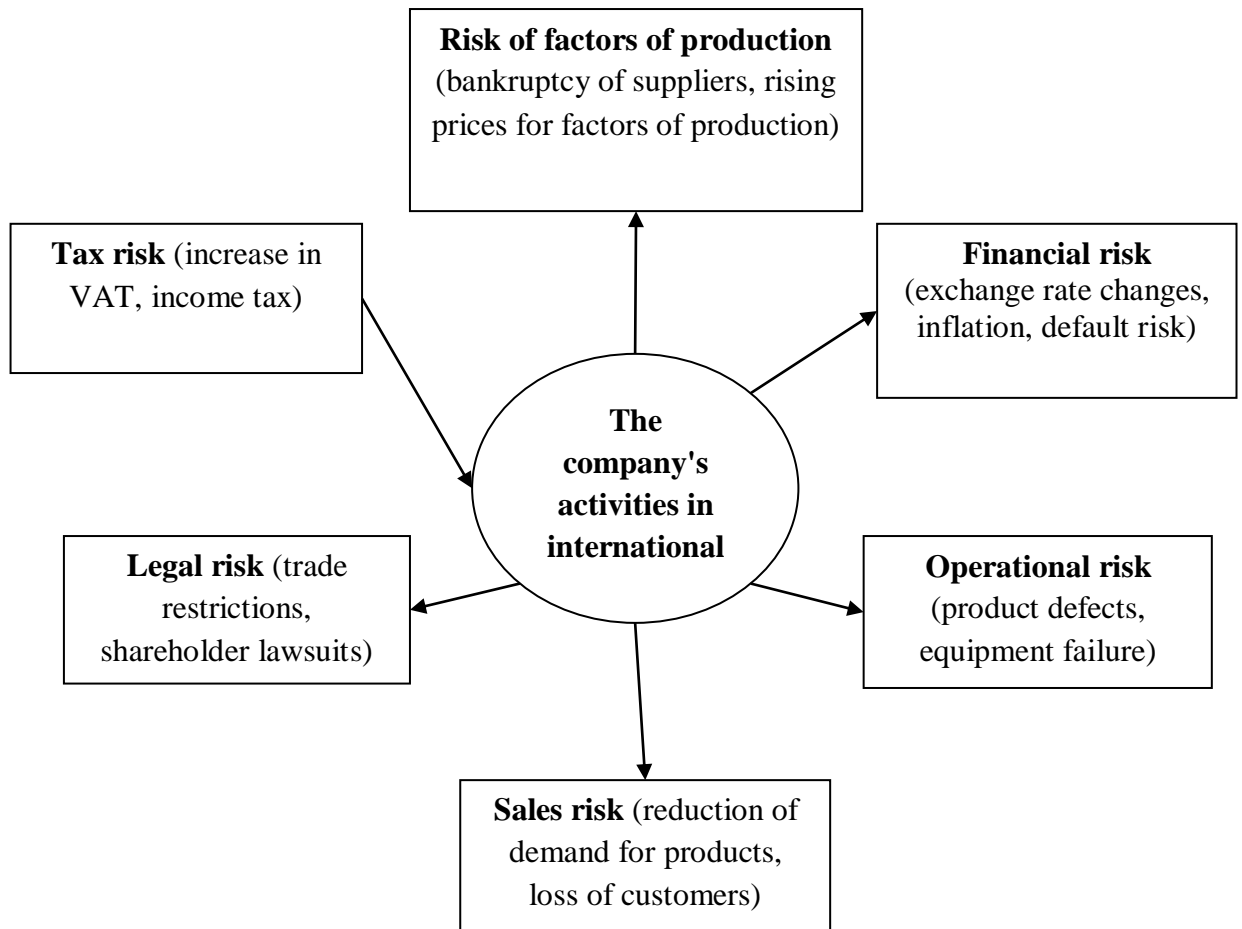
- negative (loss, loss);
- null;
- positive (win, benefit, profit).

In order to achieve a positive result, it is necessary to manage risk and take certain measures to predict the occurrence of a risk event and take measures to reduce the degree of risk (Starostina and Kravchenko, 2004). The problem of risk management is especially relevant for Ukrainian airlines when entering European air transport markets.

To strengthen its position in the Italian market, Ukrainian airlines, in particular SkyUp, need to manage risk to prevent the impact of foreign economic risks on their own operations in new markets.

The effectiveness of the risk management process is possible with a clear classification of risks. Risk classification should be understood as the distribution of risks into groups according to certain characteristics (Buduysvoe.com, 2016). A reasonable classification of risks allows you to clearly identify the place of each risk in their overall system.

For companies that aim to develop economic expansion into international markets, there may be risk groups that shown by us in Pic. 2.9.



Picture 2.9. Types of risks of the company's activities in international markets

*Source: built by author, based on: Starostina and Kravchenko, 2004*

We will consider these groups in more detail, paying attention to the risks that may be faced by airlines whose foreign economic activity is the subject of our study.

The risks of factors of production include (Tkach, 2015):

- rising prices for factors of production. For airlines, this may be: rising prices for aircraft and related components, rising prices for aviation fuel, higher salaries of employees in the industry, etc .;
- loss of key employees;
- bankruptcy of suppliers. For airlines, they are suppliers of aircraft and aviation fuel.

Financial risks include the following (Granaturov, 2002):

- inflation;
- exchange rate change;
- increase in capital expenditures.

Operational risks include possible equipment breakdowns and product defects (for airlines - aircraft breakdowns).

The risk of sales is a decrease in demand for products (for airlines - the demand for air tickets and additional services), which will lead to a loss of customers.

Legal risks are associated with trade restrictions and shareholder lawsuits. Airlines can be threatened by a significant number of lawsuits in the event of delays or delays in flights without prior notice to passengers.

Tax risks include risks related to changes in income tax, value added tax, etc.

Different risk groups have different effects on the company's activities in international markets. The weight of each risk group strongly depends on the type of activity of the company and the industry in which it operates (Reisberg, Kostetsky and Yankovsky, 2000).

In the Italian air transport market, the company under study may face the following risk groups (Starostina, Kravchenko and Pryhara, 2007):

- macroeconomic risks (related to the standard of living and level of business activity of Ukrainian consumers). Demand for air transport services depends primarily on the mobility of the population, which is

determined by a wide range of factors such as living standards, solvency, business activity, intensity of labor migration, etc .;

- market positioning risks associated with increased competition in the market, consolidation and consolidation of domestic airlines, development of land transport and related infrastructure;
- risks associated with fluctuations in aviation fuel prices. This will potentially lead to an increase in the share of the fuel component in the tariffs of airlines, which is unacceptable for the studied "low-cost model";
- risks associated with seasonality of demand. As a rule, airlines' production capacity, which allows them to fully meet demand during peak seasonal loads, is surplus during periods of declining consumption of their services, which negatively affects the commercial load ratio and destabilizes the cash flow of the company under study.

In addition to the above risks, the risks faced by low-cost airlines in operating in international markets should also be identified. These include the following (Cyberlinnik, 2015):

- risk of overestimation of market potential. It should be understood that when entering the Italian market, the company is interested in increasing demand for routes between different Ukrainian and Italian cities, but there is a high probability that demand will be sufficient only on flights from / to big cities, like Rome and Kyiv;
- the risk of miscalculations in flight schedules. It is important for a low-cost carrier to have aircraft flying constantly, for which the flight schedule must be intensive. It should also be borne in mind that consumers can choose traditional airlines if the departure time is inconvenient for them;
- risk associated with insufficient demand for additional services. Significant profits "low-cost" also receive from everything around them: insurance programs for travelers, paid luggage, advertising on

board, lotteries, hotel reservations, revenue from the site, sales on board, etc.

Once the risks have been identified, an algorithm or program to manage them should be developed. This will be described in more detail in Chapter 3.

## **CONCLUSIONS TO CHAPTER 2**

SkyUp is a new and ambitious Ukrainian company, which has a specific, “low-cost” business model. The company operates as a subsidiary company of the biggest Ukrainian travel agency JoinUp, so it has enough sources to expand the fleet and to conquer new markets.

It should be understandable that SkyUp is a “lowcoster”, and low-cost carriers should not be confused with regional airlines that operate short flights without service, or with full-service airlines offering some reduced fares.

To choose among new possible destinations for SkyUp, it was decided to use O. Kanishchenko’s filter model. The choice of the new market was between selected countries: Spain, Italy, Portugal and Israel. All of them are popular among Ukrainian tourists, especially because of resorts and hotels they have.

After the first filter, two most attractive destinations were chosen: Italy and Israel. The second filter (analysis of the closely related to the lowcost business indicators) showed that starting such business is better in Italy, because customers there are more familiar with lowcost airlines.

Overall, both micro and macro environment are not favorable for SkyUp as for current evaluation.

SkyUp still has low chances to compete with bigger lowcosters, while it still has some other threats: for example, monopoly position of the only supplier of aviation fuel in Ukraine - UkrTATnafta, which has problems with regularity and timeliness of deliveries. There is also possible problem with brand image

due to regular delays of the flights and scandals. Moreover, it will be hard for the company to rival with direct competitors.

In macro factors, current evaluation of threats overestimates current opportunities. But possible growth of the opportunities, and possible vanishing of some threats (especially those connected with COVID-19 pandemic and Ukrainian-Russian war) gives us possibility that in the future may be attractive for SkyUp, and the market conditions of Italy in general will promote the development of the business of providing air transportation services.

After analyzing the strategic group map, it may be concluded that SkyUp should definitely move closer to lowcosters. It is understandable that the company has average positions in comparison with competitors. But, in the future, the situation is predicted to be better.

The DPM showed that both our segments located in the “custodial growth” part. However, in the future we may predict that we may find ourselves in the “leader” sector (both Italian resorts and Italian economic centers).

## **CHAPTER 3. DEVELOPMENT OF THE ECONOMIC EXPANSION STRATEGY WHEN UKRAINIAN AIRLINE SKYUP ENTERS THE ITALIAN AIR TRANSPORTATION MARKET**

### **3.1. Stages of implementation SkyUp's economic expansion strategy in the Italian air transportation market**

It should be taken into account that modern strategies for companies to enter foreign markets must take into account the characteristics of the global economic environment to minimize the period of development of a new market. The researched company may lose the opportunity to generate additional income from its activities in the case of long-term research and selection of promising markets and adherence to the progressive strategy of international markets. The most influential factor in the decision-making process to develop a new market is the time factor. The speed of strategic decisions and the formation of a clear strategy for entering a new market play a crucial role in the overall development of the enterprise, ensuring its market viability, gaining competitive advantage and achieving goals of market share.

That is why we propose to the researched company to enter new markets through economic expansion, as such a strategy is promising, its advantages are listed in Chapter 1. We believe that economic expansion requires an integrated approach and is implemented through a series of 8 stages of development (see Fig. 1.4).

We will describe these stages no longer from a theoretical point of view, but in accordance with the company under study.

The first stage: analysis of macro- and micro-environmental factors is performed in Chapter 2.

The second stage includes an analysis of the company's available resources and capabilities.

Thus, SkyUp is the largest budget airline in Ukraine, with its main airport based in Kyiv. SkyUp operates a fleet of 11 Boeing 737-800 aircraft, with orders for up to 10 new Boeing 737 aircraft, which will allow the company to increase its fleet to 20 aircraft by 2024, further reduce fares and increase the number of customers. The company's financial indicators for 2020 were as follows (Opendatabot, 2021):

- revenue: UAH 4.1 Bn (EUR 132.2 Mn);
- total assets: UAH 1.3 Bn (EUR 41.9 Mn);
- net loss: UAH -60.8 Mn (EUR -2.0 Mn).

Despite the net loss in 2020, which was the first and most crisis year of the COVID-19 pandemic, the company predicted a way out of the crisis in 2021 by restoring the number and frequency of flights. The main reason for the losses was the constant lease payments for Boeing 737-800 aircrafts, which significantly increased the company's costs, while revenues fell by 56% compared to 2019.

When assessing the company's capabilities, one should also understand the needs of existing and potential customers in a new market for the company to assess the company's capabilities and identify opportunities to improve the services offered. To do this, we conducted a survey of customers.

We have developed a questionnaire to survey Ukrainian consumers who may be interested in air travel between Ukraine and Italy (Appendix H). The majority of respondents are students and members of their families who are prone to air travel and have used low-cost services. The survey (~ 30 respondents interviewed before the Ukrainian-Russian war) revealed the following:

- the majority of respondents (91.7%) did not use the services of Ukrainian airlines when visiting Italy. At the same time, 2/3 of them used the services of low-cost airlines;
- the most important for consumers are the cost of the ticket and the quality of the flight, while the availability of additional services is not a priority;

- the greatest risk of using the services of low-cost airline consumers called inconvenient time of departure and arrival;
- the most popular potential destinations for consumers are Rome and Venice;
- almost all respondents plan to visit Italy for tourism purposes, only 16.7% plan a business trip to Italy.

In general, it can be stated that the studied company has sufficient financial, technical, resource opportunities for economic expansion of the Italian air transportation market, and potential customers are inclined to use the services of low-cost airlines.

In the third stage of economic expansion we should characterize the conditions of operation of the studied company in the market, identify features of its internal and external environment, to synthesize the factors that affect it. To do this, it is advisable to build a table of SWOT-analysis (table 3.1). It helps to understand the current position of the company and identify key strengths and weaknesses, threats and opportunities, to structure the external and internal factors (Investopedia, 2021; CFI, 2020).

The most significant strengths are the relatively low prices for airline services and the presence of a large number of potential destinations between Ukraine and Italy. Significant weaknesses are high price sensitivity of consumers and direct dependence on the number of consumers.

Among the opportunities are the growth of domestic and foreign tourism, as well as increasing the level of migration between Ukraine and Italy. Significant threats are high airport charges and rising energy prices, including for aviation fuel.

As SkyUp has been found to have more strengths than weaknesses, and threats outweigh the opportunities, we can conclude that Italy's air transport market is attractive to SkyUp.

These arguments indicate the expediency of choosing economic expansion and the transition to the next stage.

**SWOT-analysis of the conditions of SkyUp's activity in the Italian air transportation market**

<p><b>Strengths:</b></p> <ul style="list-style-type: none"> <li>- SkyUp prices are lower than most major competitors;</li> <li>- availability of a large number of destinations, potential coverage of Italian resort towns, which will be exclusive destinations;</li> <li>- convenient schedule of departures;</li> <li>- availability of online booking, easy to use site, pages on social networks (Facebook, Instagram) and various ways to pay for the ticket;</li> <li>- availability of a large number of special offers and discounts;</li> <li>- the possibility of providing additional (paid) services;</li> <li>- availability of a TCO (third country operator license) certificate from the European Aviation Safety Agency (EASA)</li> </ul>	<p><b>Weak sides:</b></p> <ul style="list-style-type: none"> <li>- direct dependence on the number of consumers;</li> <li>- high price sensitivity of consumers (the company can not increase the ticket price by more than 10-15%);</li> <li>- relatively high price of additional services offered by the company;</li> <li>- high availability of substitute products;</li> <li>- high competition among airlines already operating in the market;</li> <li>- Lack of aircraft that would be technically equipped for small airports in Ukraine and Italy</li> </ul>
<p><b>Opportunities:</b></p> <ul style="list-style-type: none"> <li>- potential growth of domestic and foreign tourism after the COVID-19 pandemic and the Ukrainian-Russian war;</li> <li>- overall growth in the prestige of air travel;</li> <li>- growth of academic mobility between Ukraine and Italy;</li> <li>- growth of labor migration between Ukraine and Italy;</li> <li>- strict antitrust regulation of the air transportation market</li> </ul>	<p><b>Threats:</b></p> <ul style="list-style-type: none"> <li>- high airport fees;</li> <li>- increase in aviation fuel prices;</li> <li>- unreliability of the main fuel supplier (UkrTATnafta) due to precedents of supply disruptions;</li> <li>- quotas of flights from Ukraine;</li> <li>- Insufficient number of small, budget airports in Ukraine</li> </ul>

*Source: constructed by author*

Further, the type of economic expansion should be chosen. Among the species listed in Fig. 1.3, we offer the company under study a loyal economic expansion of the Italian air transport market (up to 10% of the market within 6 months), as SkyUp aims to occupy a niche in the Italian market (more on this in Chapter 2).

After this, the company chooses the form of market penetration. To do this, we considered a number of alternative solutions to the company's management problem to develop a new market, namely the following possible options for SkyUp's entry into the Italian air transport market:

- by opening a representative office of the company;
- by creating a branch of SkyUp Italy;
- by investing in the creation of an airline hub (a hub is a large international airport that acts as a transport hub for changing passengers).

To determine the most effective solution to the management problem, we will assess the strengths and weaknesses of alternatives (Table 3.2).

Table 3.2

**Assess the strengths and weaknesses of alternative management solutions**

<b>№</b>	<b>Alternative</b>	<b>Weak sides</b>	<b>Strengths</b>
1	SkyUp's entry into the Italian air transport market by opening a representative office	<ul style="list-style-type: none"> <li>- the company's inability to respond quickly to changes in the domestic market, change the number of flights, aircraft, etc .;</li> <li>- lack of full-fledged localization of the air carrier.</li> </ul>	<ul style="list-style-type: none"> <li>- requires little involvement of human resources;</li> <li>- the possibility of gradual entry into the market in Italy, which will reduce the risks of further expansion.</li> </ul>
2	SkyUp's entry into the Italian air transport market by establishing a SkyUp Italy subsidiary	<ul style="list-style-type: none"> <li>- requires significant involvement of financial and human resources, constant involvement of the fleet;</li> <li>- is a riskier option compared to opening a representative office.</li> </ul>	<ul style="list-style-type: none"> <li>- the ability to control the pace of market expansion;</li> <li>- the possibility of localizing the carrier, which will gain the affection of Italian consumers;</li> <li>- creation of a full-fledged own infrastructure on the Italian market, the possibility of reducing costs in the future.</li> </ul>
3	The form of SkyUp's entry into the Italian air transportation market by investing in the creation of an airline hub	<ul style="list-style-type: none"> <li>- this option requires the greatest involvement of financial and labor resources;</li> <li>- is the most risky option;</li> <li>- the payback period among the proposed AMS is the longest.</li> </ul>	<ul style="list-style-type: none"> <li>- the opportunity in the short term to gain significant market share and become the largest airline between Ukraine and Italy;</li> <li>- the opportunity to continue to expand into the markets of North Africa by connecting flights in a large hub in Italy.</li> </ul>

*Source: compiled by author*

Among the listed alternatives to the management solutions (AMS), the most acceptable is that SkyUp enters the Italian air transportation market by opening a representative office of the company, after all, it contributes most to the implementation of loyal economic expansion. The creation of a representative office gives the company the opportunity to gradually enter the market in Italy, which will reduce the risks of further expansion; while the company has sufficient financial resources to implement this option. In turn, opening a full-fledged hub (such as at London Airport) or establishing a SkyUp Italy branch requires significant financial resources, high risks and needs to be considered in the long run.

The next step in the development of economic expansion strategy is to identify and assess risks, identify measures for risk management in the implementation of economic expansion, which will be discussed later in the thesis.

### **3.2. Risk management in the process of entering the Italian air transportation market**

In order to strengthen its position in the Italian air transport market, SkyUp needs to manage risks to prevent or minimize their impact on the company's operations (Starostina, Kravchenko and Pryhara, 2007).

It should be noted that foreign economic risk is a combination of events related to the foreign economic activity of the enterprise and affects it, the probability of this event and its consequences, which make it impossible to achieve planned goals and ultimately affect the company's income (Starostina and Kravchenko, 2004).

The effectiveness of the risk management process is determined by the clarity of risk classification. Risk classification should be understood as the division of risks into groups according to certain characteristics. Reasonable classification of risks allows to clearly define the place of each risk in their

overall system, which contributes to the effective introduction of economic expansion in the Italian air transport market (ISO, 2018; Cyberlinnik, 2016).

After identifying the risks, you should make an algorithm or program for their management (Fig. 3.3).

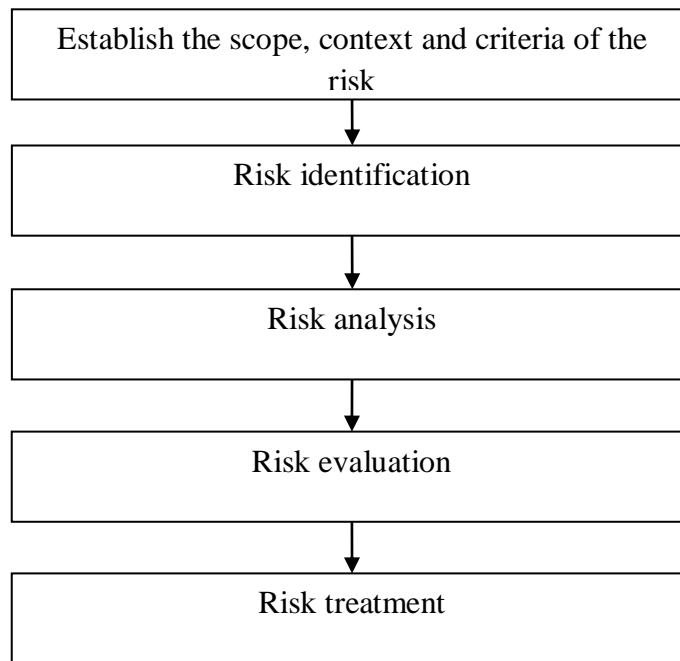


Figure 3.3. Risk management process

*Source: built by author, based on: ISO, 2018*

The risk management program consists of such stages as:

- 1) establishing the context of risk;
- 2) identification and analysis of risk factors;
- 3) assessment of the probability and consequences of the impact of risk factors;
- 4) formation of measures to influence risks;
- 5) monitoring the risk management process.

Based on a preliminary study, the main risks in the Italian air transport market were identified and assessed (Table 3.4).

The analysis of risk factors involves determining the consequences that may pose a risk to the company under study.

### Formulation of risk factors

Risk factors	
Source of risks	Factors
<b>Macroenvironment</b>	
Economic	Possible fluctuations in aviation fuel prices Possible intersectoral competition (development of land transport)
<b>Microenvironment</b>	
Consumers	Possibility of insufficient demand from Ukrainian consumers for flights and additional services Possible seasonal demand for flights
Competitors	Possibility of underestimated competition in the industry
Suppliers	Possibility of untimely or poor quality aviation fuel supply
<b>Intra-industry environment</b>	Possible overestimation of market potential Possible insufficient flight intensity

*Source: compiled by author*

In order to minimize the negative consequences for SkyUp in the process of economic expansion of the studied market, it is necessary to clearly identify the most influential risks (Appendix I).

Risk assessment has helped to identify all groups of risks that are equally influential: macro-, micro- and intra-industry environments. However, the risk of unwillingness of Ukrainian consumers to fly and buy additional services, due to the traditional reluctance of Ukrainian consumers to air transport, as well as their unwillingness to spend money on additional services, which significantly increases the overall price of the flight.

The analysis of the consequences of risk factors is given in table 3.5.

According to the risk assessment and analysis (Appendix I), the risks should be ranked and the most influential ones identified, including:

- risk of insufficient demand from Ukrainian consumers;
- risk of intensifying intersectoral competition;
- the risk of increased competition in the industry;
- risk of untimely or poor quality aviation fuel supply;
- risk of fluctuations in aviation fuel prices.

Table 3.5

### Analysis of the consequences of risk factors

Environment	Factors	Effects
<b>Macroenvironment</b>		
Economic	Risk of fluctuations in aviation fuel prices in the first quarter in case of probable prices growth	Increasing the share of the fuel component in tariffs, reducing profits
	Risk of increased intersectoral competition in case of fast land transport development	Impossibility to reach 10% of the market
<b>Microenvironment</b>		
Consumers	Risk of insufficient demand from Ukrainian consumers for flights and additional services in the first quarter Risk of seasonal demand for flights, which might affect the possible revenue and net income	Decrease in profit, impossibility to reach 10% of the market
Competitors	Risk of increased competition in the industry, which might affect tickets' sale	Decrease in profit, preventing the achievement of 10% share market
Suppliers	Risk of untimely or poor quality aviation fuel supply, which might make the tickets more expensive	Increase in the cost of tickets, loss of profit
<b>Intra-industry environment</b>	Risk of overestimation of market potential, which might make impossible to reach 10% of the market	Impossibility to reach 10% of the market
	Risk of insufficient flight intensity, which which might affect the possible revenue in the first quarter	Decrease in profit

*Source: compiled by author*

The ranking of the most influential risks is presented in table 3.6.

In developing the economic expansion of the researched company in the Italian air transport market, the risk management program should take into account the results of the analysis of macro- and micromarketing environment of the studied market (Starostina, Kravchenko and Pryhara, 2007; Cyberlinnik, 2016), and, accordingly, the most influential risks identified as a result of their quantification (Table 3.7).

Table 3.6

### Risk ranking

№	Risk factor	Rating
1	Risk of insufficient demand from Ukrainian consumers	7
2	Risk of increased intersectoral competition	5.95
3	Risk of increased competition in the industry	5.95
4	Risk of untimely or poor quality aviation fuel supply	5.6
5	Risk of fluctuations in aviation fuel prices	5.25

*Source: compiled by the author on the basis of Appendix I*

It should be mentioned that risk of insufficient demand from Ukrainian consumers is considered as the highest, while risk of fluctuations in aviation fuel prices – the lowest.

Table 3.7

### Development of measures to reduce the impact of risks

Risk	Risk response
Risk of insufficient demand from Ukrainian consumers	Promoting the idea of convenience and prestige of flights, flexible pricing policy
Risk of increased intersectoral competition	Promotion of air travel, gain in terms of "price-quality" for land carriers
Risk of increased competition in the industry	Introduction of a flexible pricing system for the low-cost model
Risk of untimely or poor quality aviation fuel supply	Concluding long-term contracts with suppliers with an agreed system of fines and penalties
Risk of fluctuations in aviation fuel prices	Renewal of the air fleet and conclusion of direct contracts with Ukrainian fuel suppliers

*Source: compiled by the author*

Recommendations for reducing the negative impact of these risks are as follows:

- pursue a flexible and loyal pricing policy that is in line with the "low-cost airline ticket" policy, which will help encourage Ukrainian consumers to fly and strengthen their competitive position; will also encourage consumers to travel by plane instead of land transport;

- concluding long-term contracts with fuel suppliers and agreeing penalties for late or poor delivery, which will reduce the share of fuel costs in the cost and reduce the risk of flight delays;
- use of a modern air fleet, which will help save fuel and speed up refueling; the use of new aircraft will also enhance the airline's reputation for consumers.

The occurrence of events related to these risks may have a negative impact on the activities of the company under study in the Italian air transport market, namely the inability to achieve the ultimate goal of economic expansion - rapid coverage of significant market share through marketing and financial instruments.

### **3.3 Economic efficiency of SkyUp's economic expansion in the Italian air transportation market**

The economic efficiency of the economic expansion was calculated on the basis of data obtained, as well as data from SkyUp, their previous experience in entering new markets.

We calculate the financial performance of SkyUp based on the following data assumptions: the year of the project - 2023, and the potential fleet for air transport in the direction of Ukraine-Italy consists of two Boeing 737-800 aircraft, leased financially.

Financial leasing, also known as capital leasing, is a long-term agreement in which the operator is approaching the effective "ownership" of the aircraft. It is a more complex operation in which the lessor, usually a special purpose vehicle (SPV) or company, buys the aircraft through a combination of collateral and financing through the issuance of new shares, and then leases it to the operator. The operator may have the option to purchase aircraft after the lease, or automatically obtain the aircraft after the lease.

Financial leasing can be attractive to the company under study, as it can claim depreciation deductions during the life of the aircraft, which compensate for the taxation of rental income, and reduce the interest paid to those creditors who financed the purchase. This makes the aircraft a publicly available form of tax protection for investors.

For the researched project:

- total lease term - 120 months;
- total value of the leased object - 162.8 Mn USD;
- leasing interest - 7%;
- first installment - 10%;
- monthly depreciation - 1%.

Miscellaneous:

- each aircraft performs 4 flights a day;
- the term of the project is 4 years;
- the flight load factor during the first year is 50% -70%, during the second - 80-85%, in the future - 95%;
- all calculations and values of indicators are provided in USD;
- the discount rate is 5% (interbank dollar rate + risk reward);
- SkyUp is a tax resident of Ukraine, income tax is 18%, the average cost of a seat booked by a passenger - 49.26 USD at the beginning of the project, the average cost of additional services is 22.39 USD.

Based on the approximate financial indicators of the project, we determine indicators for calculating the economic efficiency of the project (Table 3.8).

The initial investment (initial costs) for the project under study is the initial lease payment of 27.33 Mn USD. This is the required amount of money to obtain aircraft and form a fleet (initial maintenance and personnel costs are taken into account).

Expenses consist of operating expenses, tax expenses (Appendix J) and monthly lease payments amounting to 20.93 Mn USD.

Table 3.8

**Indicators for calculating the economic efficiency of the project, Mn USD**

<b>Period (year)</b>	<b>0</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
<b>Primary costs</b>	27.33				
<b>Income</b>	0	54.43	74.79	140.11	138.90
<b>Costs</b>	0	56.99	70.08	119.72	119.16
<b>Net cash flow (CF)</b>	-27.33	-2.56	4.71	20.39	19.74
<b>Cumulative CF</b>		29.89	25.17	-4.78	14.96
<b>Discounted CF</b>		-2.44	4.28	17.61	16.24
<b>Discounted cumulative PPP</b>		-2.44	1.84	19.45	35.69

*Source: compiled by the author on the basis of Appendix J*

Indicators of economic efficiency of the project are given in table. 3.9.

Table 3.9

**Economic efficiency of the project (as of the fourth year)**

<b>Investment efficiency indicators</b>	<b>Value</b>
<b>NPV, USD Mn</b>	8.36
<b>PI, units</b>	1.31
<b>IRR, %</b>	13%
<b>PP, years</b>	3 years 281 days

*Source: compiled by the author on the basis of Appendix J*

The first of them — NPV — net present value (Investopedia, 2022). This figure for this project is about 8.36 million dollars, and increases to 23.83 and 38.56 million dollars. in subsequent periods, respectively. Since NPV is greater than 0, this project is cost-effective and feasible to implement. However, this indicator should be considered in conjunction with others.

Thus, the index of return on investment for this project is 1.31. Its value is greater than 1.0 and indicates the economic feasibility of the project (CFI, 2019).

No less important is the IRR — internal rate of return. This is the interest rate at which the present value of all cash flows of the investment project (NPV) is 0.

For this project, the internal rate of return was 13%. Since  $IRR > r$ , the project is economically feasible (Forbes, 2021).

Regarding the payback period of the project, it is relatively long and is 3.77 years (3 years 281 days). This is the amount of time it takes to return the money invested by the company under study in this project. It is worth noting that such projects always have a long payback period.

Since it was determined that SkyUp should choose a loyal economic expansion (up to 6 months, up to 10% of the market) when developing the stages of economic expansion, it is necessary to consider the indicators during the first year of the project (Table 3.10).

Table 3.10

**Projected sales and revenue of SkyUp in 2023 in the selected market**

	<b>1Q</b>	<b>2Q</b>	<b>3Q</b>	<b>4Q</b>
<b>Sales volume, quarterly</b>				
<b>Number of passengers, thousand people</b>	68.0	81.6	88.5	95.3
<b>Number of aircraft, pcs.</b>	2	2	2	2
<b>Number of flights, 1 aircraft, pcs.</b>	360	360	360	360
<b>Number of flights, total, pcs.</b>	720	720	720	720
<b>Load factor, %</b>	50%	60%	65%	70%
<b>Seats in the plane, pcs.</b>	189	189	189	189
<b>Occupied seats, pcs.</b>	95	113	123	132
<b>Average ticket price, USD</b>	49.26	49.26	49.26	49.26
<b>Average cost of additional services, USD</b>	22.39	23.06	23.39	24.09
<b>Total cost, USD</b>	71.65	72.32	72.65	73.35
<b>Quarterly sales revenue, Mn USD</b>	<b>4.88</b>	<b>5.90</b>	<b>6.43</b>	<b>6.99</b>

*Source: compiled by the author on the basis of Appendix K*

Assume that the company enters the Italian air transport market with 2 aircraft. The average flight intensity of each aircraft is 4 flights per day; this is enough to operate flights between the main airports of Italy and Ukraine. Quarter -

3 months - 90 days, respectively, each aircraft will perform 540 flights, and together they will perform 1080 flights per quarter. We assume that the flight congestion rate will rise rapidly from 50% to 70% by the end of the year, and in the next study period this figure will reach the world average of 82%. The number of seats in each SkyUp aircraft is the same and is 189.

The average ticket price is calculated by the author in 2020 on the basis of average costs per passenger in the market under study and the addition of a profit margin of 18%.

Taking into account costs and tax deductions (Appendix K), we have the following indicators for 2023 (Table 3.11).

Table 3.11

**Projected performance of SkyUp in 2023 in the studied market, Mn  
USD**

<b>Indicator</b>	<b>2023</b>
<b>Revenue</b>	24.2
<b>Costs</b>	22.3
<b>Profit</b>	9.3
<b>Taxes</b>	1.7
<b>Net profit</b>	7.6

*Source: compiled by the author on the basis of Appendix K*

SkyUp's projected market share should also be assessed. To do this, we need to assess the available passenger traffic and the number of flights.

The number of flights between Ukraine and Italy is quite difficult to predict due to the current military situation in Ukraine. However, we estimate that the number of flights may approach the figure for 2021, which is about 350 flights per week (round trip), or 1,200 flights per month. The flights were operated by UIA, Ryanair, Wizzair and AllItalia, which also use Boeing 737-800 aircraft. Given that the load factor of their aircraft is about 80%, they carry about 150 passengers for each flight.

Then for a quarter they transport:

$$\text{Head number of passes.} = 150 \cdot 1400 \cdot 3 = 630000 \text{ (3.12)}$$

Assuming that with the entry of SkyUp, passenger traffic will increase to 700 thousand people, the market share of the studied airline after the first quarter will be as follows (Fig. 3.12).

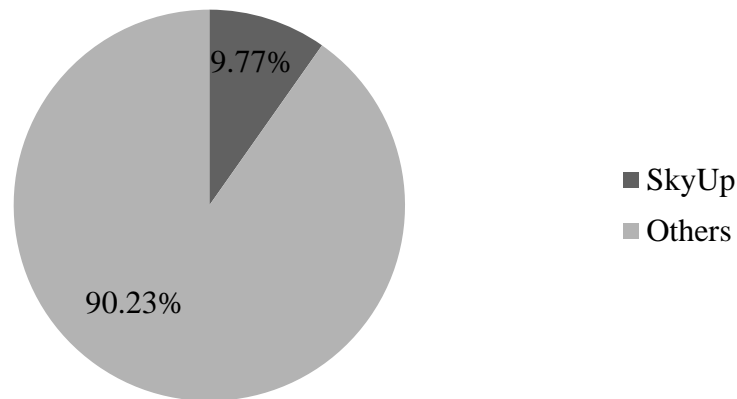


Figure 3.12. SkyUp's projected share of the Italian air transportation market in the 1st quarter of 2023

*Source: built by the author*

As can be seen from the chart, with a given number of flights per day, the company almost reaches the desired share in the first 3 months of operation in the market. Moreover, by the end of the 2nd quarter of 2023, SkyUp may receive up to 15% of the air transport market between Ukraine and Italy, which even exceeds the planned expansion.

Assessing the economic efficiency of economic expansion in the Italian air transport market allows you to calculate the benefits of entering the market of the studied company. The calculation of cost-effectiveness indicators (NPV, PI, IRR, payback period) of the introduction of economic expansion of the studied market allows us to say that this project is effective and profitable for SkyUp. The potential market share that the company will receive exceeds the planned loyal economic expansion and will help strengthen SkyUp's competitive position in this market.

### CONCLUSIONS TO CHAPTER 3

It was determined that the implementation of economic expansion requires strict adherence to the stages, and describes the actions of SkyUp in each of them. Arguments in favor of choosing the form of exit through economic expansion were also identified:

- the company plans a rapid entry into the market under study;
- the number of players in this market is relatively small, and demand exceeds supply;
- in terms of approach to building a business: the "low-cost model" is an innovative approach;
- the chosen exit strategy is high-risk, requires a fast decision-making process to enter the market under study and rapid integration of the company into the market.

From the characteristics of the stages of economic expansion it was found that:

- the researched company has a sufficient number of financial, technical, resource opportunities for economic expansion of the selected market;
- the SWOT analysis of the Italian air transportation market showed that SkyUp has more strengths than weaknesses, and threats outweigh opportunities. That is, this market is attractive to SkyUp, and market conditions generally promote the development of the air transportation business;
- among the types of economic expansion, the company is satisfied with the loyal economic expansion of the selected market;
- among the potential solutions to the management problem, , the most acceptable is that SkyUp enters the Italian air transportation market by opening a representative office of the company.

During the risk assessment, the most influential for the company were identified: the risk of insufficient demand from Ukrainian consumers; risk of intensifying intersectoral competition; the risk of increased competition in the

industry; risk of untimely or poor quality aviation fuel supply; risk of fluctuations in aviation fuel prices.

Recommendations for reducing the negative impact of these risks are as follows:

- pursue a flexible and loyal pricing policy that is consistent with the policy of “low-cost airline tickets”, which will encourage consumers to use SkyUp’s services and strengthen the competitive positions of the company;
- concluding long-term contracts with fuel suppliers and agreeing penalties for late or poor delivery, which will reduce the share of fuel costs in the cost and reduce the risk of flight delays;
- use of modern air fleet, which will save fuel and speed up refueling; the use of new aircraft will also enhance the airline's reputation for consumers.

The calculation of cost-effectiveness indicators (NPV, PI, IRR, payback period) of the introduction of economic expansion of the studied market allows us to say that this project is efficient and profitable for SkyUp. The potential market share that the company will receive exceeds the planned loyal economic expansion and will help strengthen SkyUp’s competitive position in this market.

## CONCLUSIONS

Based on the characteristics of the methods of ensuring the company's presence in foreign markets, the classification of forms of entry of companies into international markets for traditional and economic expansion is highlighted.

Based on the analysis of approaches and research of foreign and domestic scientists, we proposed a refined definition of the category "economic expansion": as the company's entry into foreign markets, which provides rapid (up to 1-1.5 years) significant market share through marketing and financial instruments, takes into account the principles of competitive behavior and aims to expand the sphere of economic influence. Its goal is to cover a significant share of the market, its largest segment or all segments at once, and to strengthen the position of market leader. Economic expansion is chosen when the market is at the stage of the life cycle of origin and formation, ie for those markets that are new to the world economy.

It is determined that the subject of economic expansion is a company-expansionist of the market, ie a company that seeks to conquer a new market, and the object - a significant share of foreign markets, consolidating its leading position in this market.

It is proved that economic expansion takes into account the modern requirements of the world economy, which allows the company to effectively master the new market taking into account the time limits of entering it, adjust the competitive behavior of the company depending on the life cycle of the selected market. activities.

The mechanism of realization of strategy of economic expansion and stages of its realization are considered. The importance of the analysis of the external and internal environment of the company's operation, risk assessment when entering new markets is substantiated.

The introduction of economic expansion implies that the company plans in detail the conquest of foreign markets in accordance with the established stages.

The development of economic expansion has features related to the specifics of the environment, type of activity and stage of the life cycle of the market that the company plans to cover. An important difference between economic expansion is its integrated approach and strict adherence to the stages of its implementation.

It should be understandable that SkyUp is a “lowcoster”, and low-cost carriers should not be confused with regional airlines that operate short flights without service, or with full-service airlines offering some reduced fares.

To choose among new possible destinations for SkyUp, it was decided to use O. Kanishchenko’s filter model. The choice of the new market was between selected countries: Spain, Italy, Portugal and Israel. All of them are popular among Ukrainian tourists, especially because of resorts and hotels they have.

After the first filter, two most attractive destinations were chosen: Italy and Israel. The second filter (analysis of the closely related to the lowcost business indicators) showed that starting such business is better in Italy, because customers there are more familiar with lowcost airlines.

Overall, both micro and macro environment are not favorable for SkyUp as for current evaluation.

SkyUp still has low chances to compete with bigger lowcosters, while it still has some other threats: for example, monopoly position of the only supplier of aviation fuel in Ukraine - UkrTATnafta, which has problems with regularity and timeliness of deliveries. There is also possible problem with brand image due to regular delays of the flights and scandals. Moreover, it will be hard for the company to rival with direct competitors.

In macro factors, current evaluation of threats overestimates current opportunities. But possible growth of the opportunities, and possible vanishing of some threats (especially those connected with COVID-19 pandemic and Ukrainian-Russian war) gives us possibility that in the future may be attractive for SkyUp, and the market conditions of Italy in general will promote the development of the business of providing air transportation services.

After analyzing the strategic group map, it may be concluded that SkyUp should definitely move closer to lowcosters. It is understandable that the company has average positions in comparison with competitors. But, in the future, the situation is predicted to be better.

The DPM showed that both our segments located in the “custodial growth” part. However, in the future we may predict that we may find ourselves in the “leader” sector (both Italian resorts and Italian economic centers).

It was determined that the implementation of economic expansion requires strict adherence to the stages, and describes the actions of SkyUp in each of them. Arguments in favor of choosing the form of exit through economic expansion were also identified:

- the company plans a rapid entry into the market under study;
- the number of players in this market is relatively small, and demand exceeds supply;
- in terms of approach to building a business: the "low-cost model" is an innovative approach;
- the chosen exit strategy is high-risk, requires a fast decision-making process to enter the market under study and rapid integration of the company into the market.

From the characteristics of the stages of economic expansion it was found that:

- the researched company has a sufficient number of financial, technical, resource opportunities for economic expansion of the selected market;
- the SWOT analysis of the Italian air transportation market showed that SkyUp has more strengths than weaknesses, and threats outweigh opportunities. That is, this market is attractive to SkyUp, and market conditions generally promote the development of the air transportation business;
- among the types of economic expansion, the company is satisfied with the loyal economic expansion of the selected market;

- among the potential solutions to the management problem, , the most acceptable is that SkyUp enters the Italian air transportation market by opening a representative office of the company.

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- pursue a flexible and loyal pricing policy that is consistent with the policy of “low-cost airline tickets”, which will encourage consumers to use SkyUp’s services and strengthen the competitive positions of the company;
- concluding long-term contracts with fuel suppliers and agreeing penalties for late or poor delivery, which will reduce the share of fuel costs in the cost and reduce the risk of flight delays;
- use of modern air fleet, which will save fuel and speed up refueling; the use of new aircraft will also enhance the airline's reputation for consumers.

The calculation of cost-effectiveness indicators (NPV, PI, IRR, payback period) of the introduction of economic expansion of the studied market allows us to say that this project is efficient and profitable for SkyUp. The potential market share that the company will receive exceeds the planned loyal economic expansion and will help strengthen SkyUp’s competitive position in this market.

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## APPENDICES

### Appendix A. Scientific approaches to defining the category "Economic expansion"

Author	The essence of the concept	Implementation mechanism	Appointment
<b>Expansion</b>			
1. R. V. Pilipchuk, G. M. Kazakevich	the spread of the influence of one country on one or more spheres of life of another country, why do we need such definitions? The population has a company		
2. M. S. Kamenetsky	expansion spheres domination, influence, spreading something beyond the initial boundaries	—	—
3. E. N. Zakharenko, L. N. Komarova, I. V. Nechaeva	expansion spheres impact monopolistic associations and groups, imperialist states source of the middle of the last century	carried out both by economic methods (for example, the export of capital) and non-economic (armed seizures, diplomatic pressure, etc.)	—
4. D. N. Ushakov	expansion, spreading something beyond the initial boundaries	—	—
5. L. P. Krysina	policy	—	aimed at economic and political subordination of other countries, to expand the scope impact, to capture others territories
6. N. G. Komlev	aggressive policy of extending the political and economic influence of some countries to others up to capture of foreign territories	—	—
<b>Economic expansion</b>			
7. S. V. Mocherny	expanding the sphere of influence of individual countries, monopolies, transnational corporations	due to the displacement of other countries, corporate companies, the capture of markets	—

8. A. I. Arkhipov	Expansion of economic entities in the economic space, expansion of economic ties	which takes place in fierce competition	for markets, sources of raw materials, profitable areas of capital and incentive to which to serve pursuit of profit
9. N. V. Danilova	a strategy of the company's entry into the international market	through the choice of certain forms of exit (exports, joint ventures, direct investment), tools (marketing, finance, internal) and principles (competitive behavior)	involves rapid aggressive or less aggressive coverage of significant market share
10. Electronic resource: "Slovopedia"	one of the forms of foreign policy of states		aimed at expanding the sphere of economic influence by capturing new markets, spheres of influence, sources of raw materials
11. Electronic resource: Phrase.com	the process of offering a product on a larger scale in an existing market or making it available in a new market	begins with an analysis of existing and future distribution channels and ends with a series of marketing activities	increase coverage and sales in markets of interest to the company
12. Electronic resource: MBA School	market expansion strategy (for the company)	by focusing on different consumer segments	to enter new potential markets

Source: constructed by author, based on: Mocherny, 2010; Danilova, 2015; Komlev, 2000; Krysinina, 2008; Ushakov, 2000; Kamenetsky, 2004; The Phrase, 2020; MBA Skool, 2018

## Appendix B. Opportunities of macro environment

№	Factors	W	Evaluation criteria			Italy (resorts)				Italy (economic centers)			
			Low (0-3)	Medium (4-7)	High (8-10)	Now		Future		Now		Future	
						CE	WE	CE	WE	CE	WE	CE	WE
1	Growth of labor migration	0,2	no growth	at least 2-3% each year	more than 3% each year	4	0,8	7	1,4	5	1	8	1,6
2	Modernization of Ukrainian and Italian airports	0,1	no modernisation	at least 1-2 airports each decade	constant modernisation of airports	8	0,8	9	0,9	8	0,8	9	0,9
3	Low airport fees	0,35	more than 15\$ per passenger	10-15\$ per passenger	less than 10\$ per passenger	8	2,8	9	3,15	8	2,8	9	3,15
4	The general growth of the number of passengers choosing air transportation	0,1	no growth	up to 5% each year	more than 5% each year	2	0,2	4	0,4	2	0,2	4	0,4
5	Non-existing legal restrictions on foreign air carriers entering the Italian market	0,2	high barriers of entering the market	entering is possible, but bureaucracy and corruption rather high	no barriers	7	1,4	7	1,4	7	1,4	7	1,4
<b>Total</b>		-	-	-	-	-	<b>6</b>	-	<b>7,25</b>	-	<b>6,2</b>	-	<b>7,45</b>

Source: constructed by author

## Appendix C. Threats of macro environment

№	Factors	W	Evaluation criteria			Italy (resorts)				Italy (economic centers)			
			Low (0-3)	Medium (4-7)	High (8-10)	Now		Future		Now		Future	
						CE	WE	CE	WE	CE	WE	CE	WE
1	Decrease in the real level of income of the population	0,35	increasing each year	remains almost the same	decreasing each year	6	2,1	3	1,05	6	2,1	3	1,05
2	General restrictions on travelling	0,2	free travelling	some restrictions (visas, covid passports, PCR test etc)	travelling is completely forbidden	8	1,6	1	0,2	7	1,4	1	0,2
3	Decrease in domestic and foreign tourism	0,2	tourism is increasing each year	number of tourists remains the same	tourism is decreasing each year	8	1,6	3	0,6	8	1,6	3	0,6
4	Flight quotas	0,35	no quotas	possible to enter, but still domestic companies have better opportunities	lobbying only domestic air companies	7	2,45	6	2,1	7	2,45	6	2,1
5	Rising fuel prices	0,1	no rise	rising 0-10%	rising more than 10% each year	6	0,6	4	0,4	6	0,6	4	0,4
<b>Total</b>		-	-	-	-	-	<b>8,35</b>	-	<b>4,35</b>	-	<b>8,15</b>	-	<b>4,35</b>

Source: constructed by author

Appendix D. Final table of macroeconomic factors

<b>№</b>	<b>Factors</b>	<b>Expert scoring of the significance of the factor</b>	<b>The factor affects supply/ demand</b>	<b>Options for solving the problem or realizing the opportunity</b>
	<b>Part I. Opportunities</b>			
1	Growth of labor migration	4	Demand	Development of routes in the main areas in Italy, where the largest number of Ukrainians live
2	Modernization of Ukrainian and Italian airports	8	Demand	Expanding the flight network, reducing the cost of airport fees at small regional airports
3	Low airport fees	8	Supply	Opportunity to diversify the flight map and destinations
4	The general growth of the number of passengers choosing air transportation	2	Demand	Strengthening competitive positions in the selected market, encouraging tourism
5	Non-existing legal restrictions on foreign air carriers entering the Italian market	7	Supply	Non-difficult market expansion, ample opportunities to establish a subsidiary / branch
	<b>Part II. Threats</b>			
1	Decrease in the real level of income of the population	6	Demand	Promoting the lowcost airline's idea of affordability
2	General restrictions on travelling	8	Demand	Monitoring the market to find the best possibilities to start air flights
3	Decrease in domestic and foreign tourism	8	Demand	Strengthening competitive positions in the domestic air transport market, encouraging tourism
4	Flight quotas	7	Supply	Development of flights in new directions
5	Rising fuel prices	6	Supply	Compensation for the cost of additional services

Source: constructed by author

## Appendix E. Map of competitive positions

Parameter	W	Evaluation criteria			Current evaluation									
		Low (0-3)	Medium (4-7)	High (8-10)	1	2	3	4	5	6	7	8	9	10
The average age of aircraft	0,15	more than 12 years	8-12 years	less than 8 years			S		M			R	W	
Brand image	0,1	low	medium	high			S		M			R	W	
Variety of additional services	0,1	almost 0	a few (1-3)	a lot of		M			S			W	R	
Tickets' promotion	0,1	weak promotion	only through some channels	through a lot of channels				S	M	W	R			
Market experience	0,1	no experience	familiar with Italian air transportation	operated at least few years on the market				S				M	R	W
Price of the ticket	0,3	more than 100 EUR	50-100 EUR	less than 50 EUR			M				S		W	R
Price of additional services	0,15	higher than average/regular price	average	lowcost price				M				S	R	W

Source: constructed by author

Appendix F. Market attractiveness for DPM

№	Factors	W	Evaluation criteria			Italy (resorts)				Italy (economic centers)			
			Low (0-3)	Medium (4-7)	High (8-10)	Now		Future		Now		Future	
						CE	WE	CE	WE	CE	WE	CE	WE
1	Growth of labor migration	0,15	no growth	at least 2-3% each year	more than 3% each year	4	0,6	7	1,05	5	0,75	8	1,2
2	Modernization of Ukrainian and Italian airports	0,1	no modernisation	at least 1-2 airports each decade	constant modernisation of airports	8	0,8	9	0,9	8	0,8	9	0,9
3	Low airport fees	0,05	more than 15\$ per passenger	10-15\$ per passenger	less than 10\$ per passenger	8	0,4	9	0,45	8	0,4	9	0,45
4	The general growth of the number of passengers choosing air transportation	0,05	no growth	up to 5% each year	more than 5% each year	2	0,1	4	0,2	2	0,1	4	0,2
5	Existing legal restrictions on foreign air carriers entering the Italian market	0,05	high barriers of entering the market	entering is possible, but bureaucracy and corruption rather high	no barriers	7	0,35	7	0,35	7	0,35	7	0,35

6	Decrease in the real level of income of the population	0,05	decreasing each year	remains almost the same	increasing each year	4	0,2	6	0,3	4	0,2	6	0,3
7	General restrictions on travelling	0,2	travelling is completely forbidden	some restrictions (visas, covid passports, PCR test etc)	free travelling	1	0,2	8	1,6	4	0,8	8	1,6
8	Decrease in domestic and foreign tourism	0,2	tourism is decreasing each year	number of tourists remains the same	tourism is increasing each year	1	0,2	8	1,6	3	0,6	8	1,6
9	Flight quotas	0,05	lobbying only domestic air companies	possible to enter, but still domestic companies have better opportunities	no quotas	6	0,3	7	0,35	6	0,3	7	0,35
10	Rising fuel prices	0,1	rising more than 10% each year	rising 0-10%	no rise	6	0,6	4	0,4	6	0,6	4	0,4
<b>Total</b>		<b>1</b>	-	-	-	-	<b>3,75</b>	-	<b>7,2</b>	-	<b>4,9</b>	-	<b>7,35</b>

Source: constructed by author

## Appendix G. Company competitiveness for DPM

№	Factors	W	Evaluation criteria			Italy (resorts)				Italy (economic centers)			
			Low (0-3)	Medium (4-7)	High (8-10)	Now		Future		Now		Future	
						CE	WE	CE	WE	CE	WE	CE	WE
1	The average age of aircraft	0,15	more than 12 years	8-12 years	less than 8 years	3	0,45	5	0,75	3	0,45	5	0,75
2	Brand awareness	0,1	noname brand for customers	customers familiar wuth such company	customers prefer to choose such airlines	3	0,3	6	0,6	3	0,3	6	0,6
3	Additional services customer needs to buy	0,1	a lot of, even hand luggage	a few (1-3)	almost 0	5	0,5	5	0,5	5	0,5	5	0,5
4	Tickets' promotion	0,1	weak promotion	only through some channels	through a lot of channels	4	0,4	6	0,6	4	0,4	6	0,6
5	Market experience	0,1	no experience	familiar with Italian air transportation market	operated at least few years on the market	4	0,4	6	0,6	4	0,4	6	0,6
6	Price of the ticket	0,3	more than 100 EUR	50-100 EUR	less than 50 EUR	6	1,8	6	1,8	6	1,8	6	1,8
7	Price of additional services	0,15	higher than average/regular price	average	lowcost price	7	1,05	7	1,05	7	1,05	7	1,05
<b>Total</b>		<b>1</b>	-	-	-	-	<b>4,9</b>	-	<b>5,9</b>	-	<b>4,9</b>	-	<b>5,9</b>

Source: constructed by author

## Appendix H. Consumer Questionnaire (translated from Ukrainian to English)

Welcome on board! Students of the Department of International Economics and Marketing are conducting a study of passenger air transport in the direction of Ukraine-Italy for SkyUp. Please help us in this. Thank you in advance for your cooperation!

Mark "X" the answer you think is correct.

1. Do you use the services of Ukrainian airlines when visiting Italy?

- So
- No

2. Complete the sentence: "When flying an airplane, the most important thing for me is \_\_\_\_\_" (one characteristic)

\_\_\_\_\_

3. Please indicate which of the following characteristics is most important to you when choosing an airline? (Evaluate the importance of parameters on a scale from 1 to 7 where 1 is the least important, 7 is extremely important)

- Ticket price \_\_\_\_\_
- Flight quality \_\_\_\_\_
- Availability of additional services \_\_\_\_\_

4. Please rate the importance of the following flight quality parameters on a scale from 1 to 10 (where 1 is the least important, 10 is the most important)

- modernity of the aircraft \_\_\_\_\_
- seat comfort \_\_\_\_\_
- punctuality of the airline \_\_\_\_\_
- availability of quality food \_\_\_\_\_
- fast reception and delivery of luggage \_\_\_\_\_
- flight safety \_\_\_\_\_
- staff qualifications \_\_\_\_\_
- other \_\_\_\_\_

5. Please rate the importance of additional services for you during the flight on a scale from 1 to 10 (where 1 is the least important, 10 is the most important)

- Internet on board \_\_\_\_\_
- additional pieces of luggage \_\_\_\_\_
- choosing a comfortable place \_\_\_\_\_
- entertainment \_\_\_\_\_
- discounts on accommodation \_\_\_\_\_
- car rental \_\_\_\_\_
- other \_\_\_\_\_

6. What is the maximum ticket price you are willing to pay for airline services that fully meet your needs?

---

7. Have you used the services of low-cost airlines (companies with low prices)?

- So
- No

If not, why not? \_\_\_\_\_

8. Do you agree with the statement: "Low-cost companies can not provide a high level of quality flight services."

- Strongly disagree
- disagree
- agree to some extent
- agree
- completely agree

9. Which quality parameters of airlines with a full range of services are you ready to give up given the significant savings on airfare?

\_\_\_\_\_

10. What are the most significant risks of using low-cost airline services for you? (rate on a scale of 1 to 10, where 1 is the least significant, 10 is the least significant.)

- safety of non-compliance with sanitary and hygienic norms during the pandemic period \_\_\_\_\_
- difficulties of transfer to the destination \_\_\_\_\_
- inconvenient time of departure or arrival \_\_\_\_\_
- inability to pay for additional services \_\_\_\_\_
- other \_\_\_\_\_

11. If so, which of these additional services are the most important for you when using low-cost companies? (rate significance on a scale from 1 to 7, where 1 least significant, 7 most significant)

- Extra luggage
- Choosing a place in the cabin
- Meals on board
- Servicestransfer to the destination
- other

12. Please indicate the cities of Italy where you would like to travel? (choose all the options that suit you)

- Rome
- Turin
- Milan
- Pisa
- Bari
- Venice
- Florence
- Genoa
- Lamezia Terme (southern coast of Italy)
- Catania (Sicily)
- Other

10. Please indicate the most frequently used method of payment for air transportation from the following?

- Payment by bank card online
- Payment through online payment systems (for example, Privat24)
- Payment at the box office by bank card / cash

11. Please indicate where you usually buy tickets:

- Directly at the air carrier (through the site)
- Intermediaries (Kiwi, Aviasales, Skyscanner, etc.)
- At the box office at airports

12. Please indicate your age:

- 16-30 years
- 30-45 years
- 45-60 years
- 60 years and older

13. Please indicate the probable purpose of your trip to Italy (choose all the options that suit you):

- Business trip
- Tourism / recreation
- Education / training
- Visiting relatives
- Another (specify which one)\_\_\_\_\_

14. If you have already used SkyUp services, please rate the overall quality of the services provided by the airline:

- Novelty aircraft and flight safety

Completely dissatisfied	1										10	Very pleased

- Comfort in the cabin

Completely dissatisfied	1										10	Very pleased

- The range of additional services and their quality

Completely dissatisfied	1										10	Very pleased

Thanks for your answers! See U on board☺

Appendix I. Risk assessment for SkyUp during economic expansion of the Italian market

<b>№</b>	<b>Risk</b>	<b>Assess the probability of risk</b>	<b>Risk assessment</b>	<b>Score assessment of the impact of quality management risks</b>	<b>Generalized assessment (1+ 2 +3)</b>	<b>Odds significance groups of factors</b>	<b>Final score (4*5)</b>
		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>
<b>Macroenvironment</b>							
1	Risk of fluctuations in aviation fuel prices	10	4	1	15	0.35	5.25
2	Risk of increased competition by other transports	9	6	2	17	0.35	5.95
<b>Microenvironment</b>							
3	Risk of insufficient demand from Ukrainian consumers for flights and additional services	7	8	5	20	0.35	7
4	Risk of seasonal demand for flights	5	4	5	14	0.35	4.9
5	Risk of increased competition in the industry	9	5	3	17	0.35	5.95
6	Risk of untimely or poor quality aviation fuel supply	6	7	3	16	0.35	5.6
<b>Intra-industry environment</b>							
7	Risk of overestimation of market potential	3	9	5	17	0.3	5.1
8	Risk of insufficient flight intensity	5	5	3	13	0.3	3.9

*Source: compiled by author*

## Appendix J. Calculation of economic efficiency of the project, Mn USD

Period (year)	0	1	2	3	4
Primary costs	27.33				
Income	0	54.43	74.79	140.11	138.90
Costs	0	56.99	70.08	119.72	119.16
Net cash flow	-27.33	-2.56	4.71	20.39	19.74
Cumulative PPP		-29.89	-25.17	-4.78	14.96
Discounted PPP		-2.44	4.28	17.61	16.24
Discounted cumulative PPP		-2.44	1.84	19.45	35.69
NPV					8.36
PI					1.31
IRR					13%
PP					3.77

*Source: compiled by author*

## Appendix K. Calculation of SkyUp's sales on the Italian market

Sales volumes, quarterly	1Q	2Q	3Q	4Q	5Q	6Q	7Q	8Q	9Q	10Q	11Q	12Q	13Q	14Q	15Q	16Q
Number of passengers, thousand people	68.0	81.6	88.5	95.3	108.9	115.7	115.7	115.7	193.9	193.9	193.9	193.9	193.9	193.9	193.9	193.9
Number of aircraft, pcs.	2	2	2	2	2	2	2	2	3	3	3	3	3	3	3	3
Number of flights, 1 aircraft, pcs.	360	360	360	360	360	360	360	360	360	360	360	360	360	360	360	360
Number of flights, total, pcs.	720	720	720	720	720	720	720	720	1,080	1,080	1,080	1,080	1,080	1,080	1,080	1,080
Load factor, %	50%	60%	65%	70%	80%	85%	85%	85%	95%	95%	95%	95%	95%	95%	95%	95%
Seats in the plane, pcs.	189	189	189	189	189	189	189	189	189	189	189	189	189	189	189	189
Occupied seats, pcs.	95	113	123	132	151	161	161	161	180	180	180	180	180	180	180	180
Average ticket price, USD	49.26	49.26	49.26	49.26	48.8	48.43	48.0	47.59	47.2	46.76	46.3	45.93	45.5	45.09	44.7	44.26
Average cost of additional services, USD	22.39	23.06	23.39	24.09	24.33	24.58	24.82	25.07	25.32	25.57	25.83	26.09	26.35	26.61	26.88	27.15
Amount, USD	71.65	72.32	72.65	73.35	73.18	73.00	72.83	72.66	72.50	72.33	72.17	72.01	71.86	71.71	71.56	71.41
Quarterly sales revenue, USD Mn	<b>4.88</b>	<b>5.90</b>	<b>6.43</b>	<b>6.99</b>	<b>7.97</b>	<b>8.44</b>	<b>8.42</b>	<b>8.40</b>	<b>14.06</b>	<b>14.03</b>	<b>14.00</b>	<b>13.96</b>	<b>13.93</b>	<b>13.90</b>	<b>13.88</b>	<b>13.85</b>
	2021	2022	2023	2024												
<b>Total for the year, USD Mn</b>	<b>24.19</b>	<b>33.24</b>	<b>56.04</b>	<b>55.56</b>												

Sales costs per person, USD																
Fuel	14.60	14.54	14.48	14.42	14.36	14.30	14.24	14.18	14.12	14.06	14.00	13.94	13.88	13.82	13.76	13.70
Airport fees	8.05	8.05	8.05	8.05	8.05	8.05	8.05	8.05	8.05	8.05	8.05	8.05	8.05	8.05	8.05	8.05

Staff costs	6.35	6.35	6.35	6.35	6.35	6.35	6.35	6.35	6.35	7.15	7.15	7.15	7.15	7.15	7.15	7.15
Logistics costs	6.04	6.04	6.04	6.04	6.04	6.04	6.04	6.04	6.04	9.04	9.04	9.04	9.04	9.04	9.04	9.04
Depreciation deductions	4.83	4.83	4.83	4.83	4.83	4.83	4.83	4.83	4.83	4.83	4.83	4.83	4.83	4.83	4.83	4.83
Selling expenses	3.53	3.53	3.53	3.53	3.53	3.53	3.53	3.53	3.53	3.53	3.53	3.53	3.53	3.53	3.53	3.53
Repair costs	1.28	1.28	1.28	1.28	1.28	1.28	1.28	1.28	1.28	1.28	1.28	1.28	1.28	1.28	1.28	1.28
<b>Total</b>	<b>44.67</b>	<b>44.61</b>	<b>44.55</b>	<b>44.49</b>	<b>44.43</b>	<b>44.37</b>	<b>44.31</b>	<b>44.25</b>	<b>47.99</b>	<b>47.93</b>	<b>47.87</b>	<b>47.81</b>	<b>47.75</b>	<b>47.69</b>	<b>47.63</b>	<b>47.57</b>

	1Q	2Q	3Q	4Q	5Q	6Q	7Q	8Q	9Q	10Q	11Q	12Q	13Q	14Q	15Q	16Q
for the quarter, USD Mn	<b>3.04</b>	<b>3.64</b>	<b>3.94</b>	<b>4.24</b>	<b>4.84</b>	<b>5.13</b>	<b>5.13</b>	<b>5.12</b>	<b>9.31</b>	<b>9.29</b>	<b>9.28</b>	<b>9.27</b>	<b>9.26</b>	<b>9.25</b>	<b>9.24</b>	<b>9.22</b>
	2020	2021	2022	2023												
<b>Total for the year, USD Mn</b>	<b>14.86</b>	<b>20.21</b>	<b>37.16</b>	<b>36.97</b>												

Profit	2021	2022	2023	2024
<b>Total for the year, USD Mn</b>	<b>9.33</b>	<b>13.03</b>	<b>18.89</b>	<b>18.59</b>

Taxes	2021	2022	2023	2024
<b>Total for the year, USD Mn</b>	<b>1.68</b>	<b>2.34</b>	<b>3.40</b>	<b>3.35</b>

Net profit	2021	2022	2023	2024
<b>Total for the year, USD Mn</b>	<b>7.65</b>	<b>10.68</b>	<b>15.49</b>	<b>15.25</b>

*Source: compiled by author*