UNIVERSITÀ DEGLI STUDI DI TORINO

DEPARTMENT OF MANAGEMENT

MASTER'S DEGREE IN

BUSINESS ADMINISTRATION

THESIS

AIRLINE EXPANSION:
A REAL PROJECT OF A STRATEGIC MODEL DEVELOPMENT

Supervisor: Chiara Civera

Co-supervisor: Luisa Tibiletti

Candidate: *Giorgia Balbo-Mossetto*

Academic year 2018-2019

To my Family.

TABLE OF CONTENTS

Chapter 4 – OBSERVATIONS OF THE CONDITIONS

Chapter 5 - STRATEGIC PLAN

ACKNOWLEDGMENTS

INTRODUCTION

This master's degree thesis describes a real project that I carried out during my internship abroad in a well-established airline. I was in charge of evaluating a possible market expansion creating a subsidiary in Italy for domestic flight by a Spanish air carrier, which herewith is called *"Balbo Airlines"* for confidentiality reasons.

After the analysis and evaluation phase, the project now has been approved ad I am still following with the airline its development, which is planned over the next three years.

The competitive scenario in which Italian airlines are operating is particularly dynamic and turbulent. The sector is strongly influenced by exogenous phenomena that affect the long-haul flights, common to the worldwide aviation sector (big world crisis such as September 11th, SARS, war in Iraq and international uncertainties), the medium-haul flights (entry into the European Union of 10 new states) and the domestic flights (development of the high-speed rail system, establishment of Public Service Obligations PSO). Moreover, endogenous factors contribute to change both the offer and the demand for air transport. These factors are essentially the rapid development of low-cost airlines that invaded the Italian domestic market, thanks to the introduction of the full "open sky", the change in consumers' perception of flight, the reorganization of full-service carriers implemented through alliances, mergers, acquisitions and company restructuring, as well as the distribution of flights in the Milan airport system (Rose & Borenstein, 2014).

Notwithstanding this context, the Italian traffic forecasts developed by the International *Air Transport Association* (IATA, 2017) indicate a positive average annual growth rate in line with the European average for the coming years, for both domestic, medium and long-haul flights. Moreover, the *Ente Nazionale dell'Aviazione Civile* (ENAC, 2019) states that air traffic accounts for 4% of the Italian GDP and is therefore very important for the economy and employment; furthermore, it is a sector with a large multiplier effect of investments. Our country has also a very strong tourist vocation and so it has to further enhance and improve tourism, developing an efficient air connectivity network.

Balbo Airlines, therefore, had to do an in-depth analysis to try finding its room in the Italian scenario. To do this, I developed a strategic model able to make both a horizontal and vertical analysis of the sector by combining the characteristics of the general Italian environment with those of the specific aeronautical sector, the airline expansion strategy, and its business model. I used specific databases and statistical programs to obtain all the useful data and to compare them.

What has been confirmed by this analysis is that the Italian air and rail network is still very little developed in the southern region and not well organized. For this reason, *Balbo Airlines* will focus on this geographical area to implement a market growth strategy and plans to establish its headquarters in the Bari airport.

Furthermore, as it will be explained in the next chapters of the thesis, *Balbo Airlines* has unique characteristics different from any other current competitor in the Italian market, which will allow the airline to implement a stealing share strategy based precisely on benefit differentiation.

The study is structured in three parts. The first one is based on theoretical background about strategic marketing, both general and specific to the aeronautical sector, including a focus on pure analysis of the data; it also examines the general Italian environment and that of air traffic, along with a detailed competition analysis, mainly using the Porter model as a starting point and then developing the various forces in detail (Chapter 1 to 4). In the second part, starting from the above analysis, I developed a strategy and a business model for the *Balbo Airlines* where I highlighted practical methods to put into practice the results of the evaluation in order to create a strategic plan (Chapter 5). The third and last part reports the financial analysis of the costs and revenues for the initial seven years of the business plan proposed in the previous chapters (Chapter 6).

WHY I CHOSE AN AIRLINE COMPANY

My dad is a pilot and he loves planes. He has been building models since he was a child and has been flying since he was 16. He became an aeronautical engineer and worked all his life in aviation. Today he is Sales Director in *Superjet International* and sells commercial jets.

I grew up in this world and I have been flying with him ever since I was little. Flying has always fascinated me, even if I am not passionate about planes as he is.

I chose this internship because I wanted to understand how an airline works and what brought my father to devote his whole life to this. It was unexpected, but certainly this has been the most interesting working experience I have ever done.

I was attracted and fascinated by this world and now I understand how much work there is behind a simple flight, we can now book within few minutes on Internet.

During my internship, I had the great chance of being fully integrated into the team by the very kind person responsible for me in the company, Mr. Borja. Then they assigned me a real project to follow on my own, which is what is described in this thesis. The person following me in this work, Mr. Raul, Director of the International Development Department, has always closely followed me with programmatic meetings and explaining to me many important things, even beyond what I strictly needed for my work. I can say that this airline is a big company in terms of size and turnover, but a family company for its way of dealing with employees. I will never forget this experience and the people I met.
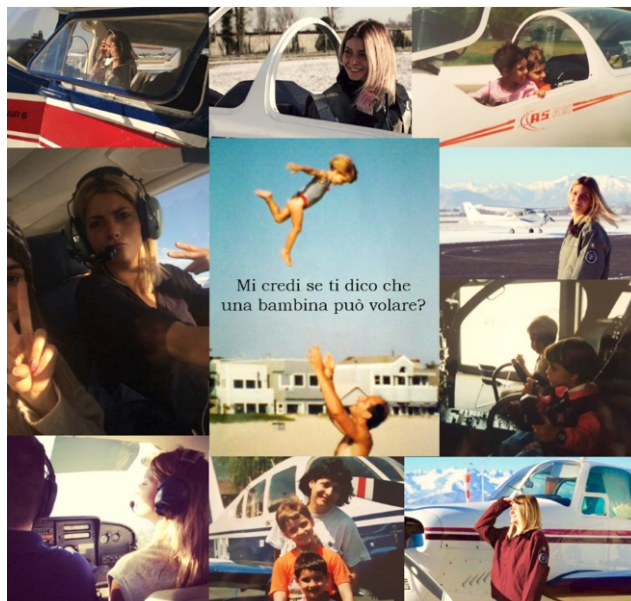
Chapter 1

THEORETICAL BACKGROUND

1.1 MARKETING LEVERS FOR INTERNATIONAL EXPANSION

1.1.1 Introduction

Marketing means the set of activities of a company performed from the conception of a product or service to its use by the buyer. Three main objectives are assigned to marketing: meeting the needs of the potential buyer, creating value for the company and making the best use of the resources the company has. When the target of potential buyers is distributed in more countries, it's called international marketing (Boario et al., 1999).

International marketing is the marketing of a company that: a) sells abroad but maintains the main focus of the production activity on the internal market; b) sells the same products/services of the domestic market abroad or with modest adaptations; c) adopts marketing policies designed from time to time according to a specific market without a "global strategy" (Pellicelli, 1983).

Some authors prefer to use the term global marketing to indicate that the company goal is to be present in a plurality of markets with the same strategies: the same product/service, the same prices, the same distribution channels, the same promotion. It is clear that if we accept this definition in its literal meaning, companies that use global marketing turn out to be few. Product and price may be the same, but it is difficult to use the same channels and the same forms of promotion. In addition, other variables change the framework in which marketing operates: structure of the economy and society, culture and traditions, legislation.

The examination of various economic literature texts shows how growth is a vital condition for companies; it stimulates people who work there to reach all the stakeholders; it increases initiatives and motivation. *"Just to retain its relative position, a business firm must go through continuous growth and change. To improve its position, it must grow and change at least twice as fast as that"* (Ansoff, 1957: p.113). Also *"there is no reason to believe that those company now at the top will stay*

there except as they keep abreast in the race of innovation and competition" (Kaplan, 1954: p.142).

The starting point of any marketing plan aimed at growth answers the classic questions of planning (Pellicelli, 2015). Where are we now? Where do we want to go? How do we want to go? To answer these questions, internal analysis and analysis of the external environment are required. This analysis is called marketing audit. The marketing audit takes advantage from SWOT analysis made at corporate level. The latter is a method attributed to Albert Humphrey, who carried out a research project at the Stanford University between the 1960s and 1970s using data provided by the Fortune 500, to assess the strategic position of a group of companies or a business by identifying strengths, weaknesses, opportunities, and threats (Humphrey, 2005). A distinction is made between external and internal audit marketing.

External marketing audit has three fields of observation: macro-environment, the market, and competition that are forces that the management is not able to control. The internal one examines the factors that are under the control of the management (Pellicelli, 2015).

After the analysis phase management proceed with the phase of identifying the possible strategies and choices among them and finally proceed with their implementation as shown in *Figure 1*.

Figure 1 – The model of strategic management
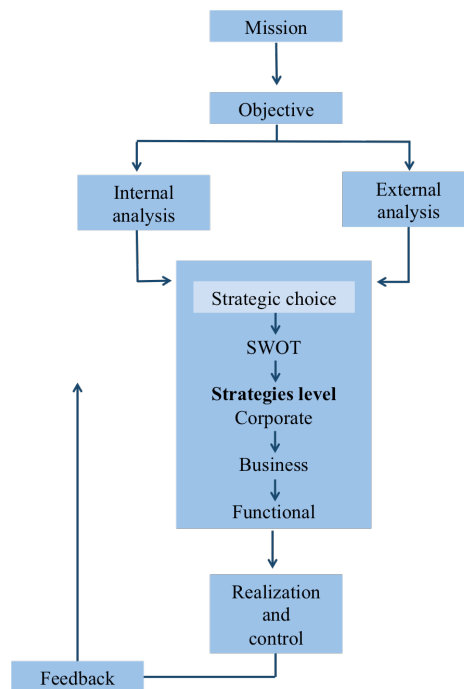
Source: author's elaboration based on Boario et al.,1999: p.8

1.1.2 Marketing and development strategies

The options presented to marketing strategies can be distinguished under different profiles (Pellicelli, 2015). Settled the goal is to increase profits, the most used options are built by answering the following question: "how to increase sales and/or increase profits per product unit?".

It's evident that keeping unit profits unchanged, increasing sales volumes, total profit increases. It's equally obvious that the same result, it's obtained by maintaining sales volumes unchanged and increasing unit profits. That said, therefore it's clear that an increase in profits can be achieved in various ways, but two have a sure-fire effect: increase in sales volumes, increase in profit margins, combined approach.

Increase in sales volume. The product/market opportunity matrix identifies four alternatives for marketing strategies that can be adopted to maintain or increase sales of a business unit or product: market penetration, market development, product development, and diversification (Ansoff, 1957). The choice between the four opportunities depends on the degree of market saturation and the ability of the company to introduce new products. Two or more combined opportunities can also be chosen.

In general, companies follow a predictable path between these four options as it's shown in *Figure 2*. If their strength is in the product, they will probably try to make the first move with a market penetration or product development. If instead, their strength is in the ability to control a large market share, they can move towards market development. The most difficult option is the one that involves diversification. Both the markets and the products are new to companies and the more the strategy is far from the experience made in the past, the more difficult it is to carry it out (Ansoff, 1957).

Figure 2 – The Ansoff Matrix

Source: Ansoff, 1957: p.114

Increase in profit margin. Besides increasing sales volumes, to increase total profit, companies can also increase profit margins for having a rise in total profit through cost reduction, giving greater efficiency to operational management, increasing prices.

Combined approach. There is also what is called a combined approach. In fact, the marketing strategies that have achieved the greatest success by focusing on development make use of multiple options at the same time, choosing and adapting them from time to time according to the needs. Depending on the sectors and depending on the structure of the competition, options based on sales volumes or those based on increased profit margins may prevail, but almost always both are present (obviously at different degrees).

1.1.3 How to select foreign markets

Only the expansion is relevant to our case study so we will focus just on that and therefore on market development. This strategy is used when the current market is saturated, so the company moves on to a subsequent step of industrialization and internationalization. The company tries to increase sales with the products it has, but in new markets. If it is a consumer good, it can offer it to different age groups of buyers (new segments), or it can offer it in geographically new markets. Instead of selling only in the country of origin, it also sells the same product in other countries. These results can be obtained by extending the degree of coverage of the market through a new distribution, or by advertising with new media that allow reaching new buyers (Pellicelli, 2015).

More specifically, for our case, we will focus on expanding market in the geographical sense. *"Capacity expansion is one of the most significant strategic decisions faced by firms, measured both in terms of the amount of capital involved and the complexity of decision-making problem"* (Porter, 1980: p. 324). Internationalization is no longer strategic for excellence, but for survival (Noto, 2004). Choosing in which markets (geographical area) to enter means choosing which competitive arena to face, with whom to compete and which resources to deploy.

The analysis of foreign markets is a research activity that can be started by companies that decide for the first time to approach them or that, already present

beyond the national borders, are evaluating the opportunity for further expansion (Pellicelli, 1983). In which markets to enter and with what sequence to do it is a choice that can be faced with a plurality of criteria: the dimensions (the largest markets?), the distance (the closest markets both geographically and by culture and traditions?), the potentials (the richest?).

It always starts, as it can be seen from *Figure 3* with an initial screening phase (Boario et al., 1999), rapid and inexpensive, allowing companies to choose a small group of markets, among the 200 (approximately) existing in the world, on which it is worthwhile to concentrate further research. There are numerous methods that can be used to make a first choice among 200 possible markets, but they can basically be traced back to the following: previous experiences, imitation of what other companies do, the method of development stages and the "key factors" method.

After identifying a certain number of markets in which there is likely to be a possibility of commercial penetration, it is necessary to carry out more in-depth research with the aim of further restricting this number, concentrating only on those with the greatest potential. While in the previous phase the selection had taken place on the basis of economic, social and political factors of general nature, in this second phase it is necessary to use more sophisticated analysis techniques that allow to highlighting specific characteristics of the markets in which the company intends to enter. Generally these analyzes can be conducted on the basis of information available in the country of origin of the company that intends to sell abroad. These are international sources (Onu, Oecd, World Bank, etc.), or documentation that can be obtained from institutions in the country whose market is intended to be studied (banks, ministries, government, organizations specialized in market studies, etc.) or even information made available by organizations that aim to develop a country's exports (chamber of commerce, ministry of development, etc.).

For the markets that have given positive results in the previous analyzes it is necessary to further investigate them in the third phase: a) to understand how potential buyers decide to buy; b) to examine the structure of competition; c) to determine whether the product/service should be adapted to the specific needs of the local market, how it should be adapted, how it should be distributed, what prices can be charged and which forms of promotion can be used. In summary, it is about verifying the actual convenience to launch a policy of commercial penetration on a certain market.

The distinction between the researches of the second phase and those of the third is not well defined. Generally, in practice, the difference lies in the way research is performed. Those of the second phase are made mainly "at desk", that means in the country of origin of the company that intends to sell abroad, and using documentation of various sources, but in any case prepared by other public and private organizations. The third phase, instead, has as its main characteristic the direct research on the identified market to study in depth, through the presence on site of company executives or through local or international consultants.

Figure 3 – Phases of the analysis of foreign markets

| SELECTION OF MARKETS WITH GRATER POTENTIAL |
| 200 markets |
| DESK ANALYSIS |
| 20-30 markets |
| IN-DEPTH ANALYSIS |
| 2-3 markets |
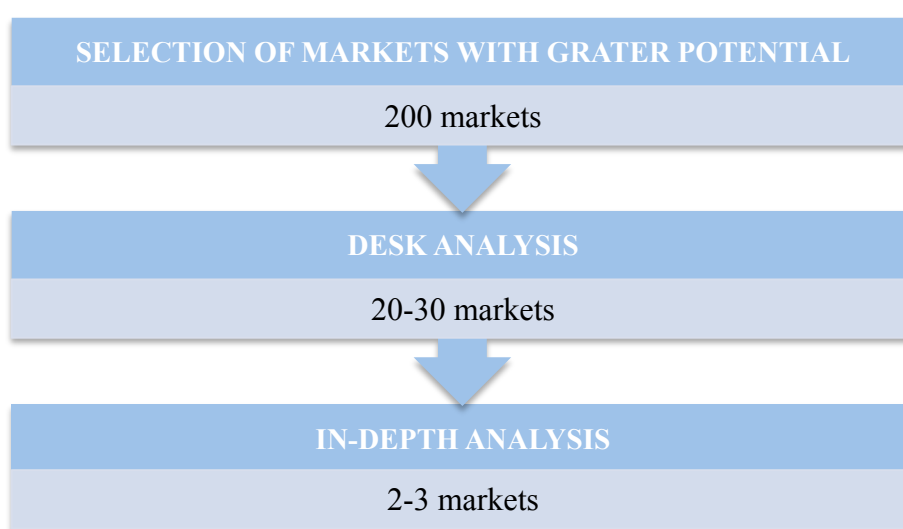
Source: author's elaboration based on Boario et al., 1999: p.76

Selection of markets with greater potential

The company that decides to sell abroad a product already established in the domestic market or that decides to expand its sales to a greater number of markets faces from a theoretical point of view, about 200 different possibilities. This is indeed the number of countries that make up the world economy. The methods used for this first phase are the following (Boario et al., 1999).

Previous experience. The choice can be based, first of all, on the experiences that the company has previously gained on international markets. Those who have already sold products on a certain market can quite easily establish whether this market has the characteristics to be considered for the same product in later times or

for a different product. The tastes of the consumer, the techniques of distribution, the forms of promotion do not change very quickly over the years and therefore what has been done in the past can be useful to make a meditate choice today.

Imitation of what other companies do. A second method can be to choose the markets following what companies that sell the same products have done. Indeed, it happens that the first successes in export attract new companies from the same country. Thus, a mass of knowledge is developed on a certain foreign market which concerns not only industrial activities but also those of banking, transport and customs. At the same time the same relationships between the state of origin of the company and the targeted state are improving. When these relationships are consolidated, the company that decides to export finds a favorable situation and therefore it is easier to imitate what other companies from the same country have done.

Method of development stages. A third method consists on grouping world markets according to certain characteristics and determining which products can be absorbed by each group of markets. An index that is often used to identify market absorption possibilities in these preliminary analyze is the per capita income. It has the advantage of being readily available for both industrially advanced countries and developing countries. When this datum is used, a field of variation is usually fixed that identifies certain characteristics of the demand and therefore the quantities and types of products that can be purchased. Another index frequently used is the gross national product and its composition, which is also readily available. Generally, data on per capita income and gross national product are used in a combined manner. The first allows the markets according to the average "purchasing power", and therefore to individuate a possible potential market depending on the characteristics of the product. The second allows estimating the size of the market and therefore allows graduating the markets according to their importance. .

Method of "key factors". Another method used to select markets is to define some factors that are considered as indispensable for a market to be further analyzed. Generally, these factors are the size of the gross national product, the level of per capita income, the number of potential buyers, the degree of development of agriculture, industry and services. Much depends on the product/service that the company intends to sell. If the factors considered fundamental by the company, in relation to the specific product that it intend to sell abroad, are all present at the same

time, it is considered appropriate to further analyze the market. Otherwise there is no other proceeding.

Market desk analysis

At the end of the first phase (Boario et al., 1999), the markets with the greatest potential and on which It is considered convenient to do further research are identified. It is difficult to say what is the optimal number of markets in which to start the second phase. Much depends on the type of product/service sold. In general, however, it is considered possible that without an excessive investment in human resources it is possible to better analyze no more than twenty markets. The second phase, beside making a further selection of the markets, also serves to prepare the ground for a subsequent analysis in the event that it is decided to continue beyond the research.

It is therefore necessary to collect data concerning:

a) The first type of research concerns the political, social and economic situation.

b) The next step is to examine the major variables of the economy that reveal the trend of the potential demand for the product/service company wants to sell. These variables are the gross national product, population, per capita income, industrial production and production of natural resources.

c) A further step forward can be made by examining data concerning private consumption and public consumption regarding the potential demand for consumer goods and data concerning private and public investments regarding the potential demand for capital goods and industrial goods.

d) Finally it is important to know the situation of the relations between the country of the company and the one where the company intends to sell.

In this phase it is necessary to distinguish between the case of an enterprise that relies on an indirect export strategy maintaining production in the national territory or selling abroad mainly through brokers from the case of a company that has

instead adopted a strategy of integration with the foreign markets by bringing production or distribution to that market. The difference between the two cases depends on the fact that in the first case the market analysis does not include all aspects regarding the constitution of a company and all the consequences that this entails: relation with workers, unions, banks, fiscal system etc. In the second case, all the before said aspects must be carefully investigated since decisions that often involve substantial investments depend on the results of these analysis.

When a company, as in our case intends to integrate into the foreign market with production plants and direct distribution networks, it must also consider:

e) The attention of the state, public opinion and local businesses towards foreign investments;

f) The legal forms that can be adopted to set up a business;

g) The economic regime and therefore the rules of competition;

h) The forms of protection of patents and trademarks and the provisions regarding the transfer of licenses;

i) The fiscal system with regard in particular with regard to the taxation of companies, royalties, interests and the taxation of people;

j) The credit system and in particular the possibility of raising funds on the local financial market;

k) Data on work concerning in particular the work legislation and levels of remuneration (working, time cost of dismissal, limitations of the employment of foreign workers);

l) The climate of relation between companies and trade unions.

In-depth analysis

To deepen the analysis it is necessary to make a real "qualitative leap" (Boario et al., 1999) in research. In fact, it is essential to send directly to the foreign market people who know both the product and the possibilities of their company and who are able to make a market analysis and assessment through direct observation of what buyers ask for. The main research fields of a deep market analysis are the following:

Product/Market/Segment analysis. The third phase begins with the definition of the market and the segment in which the company intends to enter. To define them

both it is therefore necessary to understand which the actual uses of the product are, which are the characteristics of the buyers, why they decide to buy it, where they buy it and when they buy it.

Competition analysis. The first questions to be answered are the following. Who are the main competitors on the market and which market shares do they control? Which costs do they have? Which are their strengths?

Particular attention must be given to competition from local companies. First of all, because often they sell what the market is able to absorb and therefore from the analysis of their strategies it is possible to obtain useful information. Secondly, it is necessary to foresee how they can respond to the entry of a new foreign competitor.

The entry of a new foreign competitor on a market always determines a reaction from those present on the market. The national industry generally manages to obtain forms of protection from the government, especially if the new entrant constitutes a considerable threat. External competitors operating in this market are in a different position from local companies, but they also develop strategies for responding when the threat of a new competitor looms.

The five forces framework (Porter, 1985), is a tool for analyzing the competition. It describes the competitive system in which companies operate, identifying the forces (and studying their intensity and importance) that operate in the economic environment and that, with their action, erode the long-term profitability of companies. These forces act, in fact, with continuity, and, if not properly monitored and faced, can lead to loss of competitiveness. The competitive structure of a sector depends on the simultaneous interaction of five competitive forces that are: The intensity of competition between companies in the same sector, the bargaining power of the buyers, the bargaining power of the suppliers, the threats deriving from the entry of new market competitors (potential entrants), and threats arising from the introduction of substitute products/services on the market.

Distribution of potential demand. The analysis of the demand requires a further study of what it was describe in terms of product/market/segment. In particular, it is necessary to examine the distribution of potential demand by geographical area and by different classes of buyers (Boario et al., 1999).

As far as the distribution of potential demand by geographical area is concerned, it is known that in each country the population is concentrated in certain areas and so are the industries and services. As a result, potential demand is never evenly distributed

throughout the country. Therefore it is necessary to identify in which areas of the country there is the greatest concentration.

For the distribution by classes, instead it is necessary to define which are the buyers of the product/service. With regard to consumer goods, it is relatively simple to order for a distribution of income by classes especially if the research concerns the industrialized countries. It is more difficult to obtain results regarding the possibility of selling capital goods. The classification may relate to the size of companies. In addition, in this case it is important to know if the number of potential clients is high or not. If it is high and have considerable potential, the company can be present with a sales branch or agent. If instead they are few and have a low potential of purchase the best way can be to sell using a local importer.

Buyer profile. It is necessary to establish which are the motivations that push the consumer to buy. Which are the criteria that guide the choice and so on.

Marketing mix and market access. When this general framework is available, companies examine the main factors of the marketing mix:

a) market entry channels and distribution channels for the product;

b) prices charged by the competition, distribution margins, final prices, estimate of profitability for the company that sells and for those that distribute;

c) forms of promotion: advertising, sales force, participation in fairs, etc.

Constraints concerning market access. Finally, it is necessary to define all the restrictions regarding market access: customs duty, import limits, currency restrictions, transport costs and insurance costs.

1.1.4 Marketing and competitive strategies

Marketing strategies are oriented by the competitive strategies chosen by the business unit (Pellicelli, 2015). Just as the corporate strategy identifies in which business or sectors the company intends to compete, the business unit strategy defines how the company intends to compete in the business and in the sector. In each strategy, the company develops a source of competitive advantage that is particularly significant for the target of potential customers chosen and identifies the policies that must be implemented to sustain these competitive advantages for a long time.

Certainly, for managing growth a fundamental aspect is gaining market position (Chernev, 2018). According to the author, a company can gain market shares with three different strategies: steal-share strategy, market-growth strategy and market-creation strategy.

Steal-share strategy. The first aims to steal market shares from competitors; this is done either by targeting the customers of a specific competitor or by addressing the customers of competitors in general. For the steal-share strategy, two methods can be used: similarity strategy and differentiation strategy.

The similarity strategy, also called the me-too strategy, establishes equal points between the company that applies it and the other competitors. These are products or services launched by a company that imitates competitors; we are talking about products that do not have significant points of difference compared to what already exists on the market.

Regarding the differentiation strategy, companies can build a competitive advantage over rivals through: a) a significantly lower cost structure than that of competitors in order to offer lower prices and at the same time achieve desired profit targets; b) a significant differentiation of products and services with respect to that of competitors in order to give the customer a higher "value". These two strategies can be combined with other two: 1) to address a wide spectrum of market segments; 2) to concentrate the competition only on one or a few segments.

Porter (1985) before adopting one of the "generic" strategies (defined generic because they can be adopted by any type of company) of low costs and differentiation, proposes to choose the variety of products, the distribution channels to use, the types of buyers to serve, the geographic area to cover and the related sectors in which to compete. In essence, a business or a business unit must choose between a broad target (for example the mass market) or a limited target (for example the niche market). Combining these two types of targets with the two competitive strategies result in four variations of strategies. When low costs and differentiation are aimed at a broad market, they are indicated by him simply as cost leadership and differentiation. When the target is a limited market they are indicated with the expression focus on costs and focus on differentiation. In the next paragraphs, these four strategies are examined as described in one of the most famous and influential management book "Competitive Advantage" (Porter, 1985).

Cost leadership is the ability of a company or a business unit to design, produce and sell a product or service with the same characteristics as those of competitors, but more efficiently. The goal is to reduce costs on all fronts: reduction of fixed costs, reduction of costs in the areas of research and development, services, sales force, advertising and so on. If the prices obtained from the sale of products and services are around the industry average, this strategy can give advantageous positions. Due to the lower costs, the leader is able to apply lower prices than those of competitors and thus achieve higher profits.

Having a low-cost position, the company or business unit also has a defense against rivals. Thanks to lower costs, it can continue to make profits even when competition is intense. With low costs, the company can gain large market shares and this contributes to increasing the negotiation capacity towards suppliers as it can buy in large volumes. Furthermore, low prices are a barrier to entry, as few companies are able to challenge the leader's cost advantages. The lower cost must be a prerequisite for an expanded strategy.

Differentiation is the ability of a company to provide a "unique and superior" value to the buyer in terms of product quality, features or after-sales services. It is a strategy aimed at large mass markets and involves the creation of products or services for which the company can impose a higher price than the average ones (premium price). Differentiation can be based on technology, image, services and the network of distributors. It is a strategy that can give higher than average profit margins as differentiation creates customer loyalty and reduces its price sensitivity. In these situations, the cost increases can be totally or partially transferred to the prices. Customer loyalty also acts as a barrier to entry, as new companies must, in turn, develop characteristics in products and services that differentiate them from those of existing companies. Caves and Ghemavat (Caves & Ghemawat, 1992; Caves, 2007) have shown that differentiation-based strategies generate higher profits than low-cost strategies because differentiation creates a barrier. They also showed that low-cost strategies generate increases in market share. In essence, the sources of differentiation can emerge from every element of the marketing mix: from the product (brand, innovation, quality, design, image, patents); from prices, distribution (intensive or exclusive), promotion (creative ability, advertising investments), after-sales services (close customer relationships).

The focus on costs is a low-cost strategy that focuses on a group of potential buyers or a particular geographical area and aims to serve only this niche, giving up the others. With this strategy, the company looks for economies of scale that may have been overlooked or forgotten by larger competitors. It is based on the conviction that a company or a business unit concentrating resources on a limited target can create efficiency greater than that of its competitors.

The focus on differentiation, like the previous strategy, concentrates resources on a particular group of buyers, a segment or a limited geographical area. With this strategy, the company seeks differentiation within a segment or a small number of segments that represent its targets. The specific needs of the segment create opportunities to differentiate the product or service from competitors who may have chosen the strategy of serving a larger group of customers. This strategy is successful if the needs of the chosen target are significantly different from those of the broader market (otherwise the basis for differentiation would be lacking).

No competitive strategy guarantees success. Each strategy has its risks (Porter, 1985; Davemport & Harris, 2007). As regards the cost leadership, the risks mainly concern the following. a) The focus is purely on product costs and not on the total purchase costs for the customer which include after-sales service costs, operating costs (use of the product), maintenance and repairs. b) The focus is on costs as a competitive weapon and not on the whole set of factors that the customer can evaluate as important. For example, some customers are willing to pay more for a product with greater value or a higher image. c) Price is the marketing mix variable that can be changed in the short term, but the "price war" rarely has winners. d) After acquiring a leadership cost position, the company can lose contact with external change. Economies of scale can be weakened by new technologies, while the company remains "stuck" on the advantages obtained by existing technologies.

Differentiation-based strategies are also vulnerable. They lend themselves to the side mainly due to changes of the environment. For example, the experience accumulated through a purchase and repeated use can push the consumer to doubt the actual value offered (by the seller) and therefore decrease the propensity to pay a "premium price". Moreover, with the market saturation, companies that imitate force to lower the prices or to increase the value of the product with the consequence of acting on the profitability of the investments. Finally, new competitors can enter the market creating unexpected turbulence.

Focus-based strategies are no less vulnerable: they can be imitated and the target can lose attractiveness. To be successful, a competitive strategy must be compatible with the competitive framework, but above all, it must be pursued with a certain advantage over rivals. If performance is below the industry average, failure is usually unavoidable.

In some situations, cost leadership and differentiation may be incompatible, as differentiating often means higher costs. However, in some cases, these objectives can be achieved simultaneously. For example, a strategy based on differentiation can pave the way for the conquest of large market shares that lead to the reduction of costs through economies of scale and the effects of the experience curves.

When differentiation and cost leadership coincide, the competitive advantages are maximum as the company can apply high prices with low costs. According to Porter (1985), however, this advantageous position is usually temporary. For him, a business unit must pursue only one of the generic competitive strategies. Otherwise, it runs the risk of finding itself "stuck in the middle" without competitive advantages and with lower than average results. This thesis is widely disputed.

In fact, Day (Day, 1989; Day & Reibstein, 1997) has the opposite opinion. He cites the examples of Toyota, Nissan, and Honda who have adopted both low cost and high-quality strategies. He also mentions Kelloggs as an example of a company that has overcome its rivals by simultaneously adopting a low-cost strategy and a "premium price" offering customers a higher "value". Day defines this competitive position as "playing the spread". He's essentially in agreement with Deming (1986) who for almost half a century has argued that quality and productivity are compatible.

Market-growth strategy. Another strategy for gaining market position is the market-growth strategy that consists in attracting customers who are new to the category. For this reason, this strategy benefits all companies operating in a certain sector. In fact, it is often used in the early stage of a product life cycle. Otherwise, in the case of relatively mature products, it will benefit the market leader or the company that has a superior value proposition (Chernev, 2018).

Market-creation strategy. Finally, the last strategy used for gaining share is the market-creation strategy. This strategy defines an entirely new category in which direct competitors are absent. It's also called the blue ocean strategy (Chan Kim & Mauborgne, 2015), which stands out from what is called the red ocean, meaning those economic markets in which competition is very tight and profit margins are low.

Companies that create a blue ocean do not use competitors as benchmarks: they must not be a point of reference, the logic to follow is instead that which is defined as value innovation. Instead of concentrating on competition and how to overcome it, companies learn to neutralize it by offering customers or potential buyers a significant increase in value, and to do so they need to combine innovation, utility, price and cost items while differentiating themselves from others and at the same time containing others costs.

1.1.5 Marketing and competitive positions

To be successful, therefore, the company has to deploy strategies that can create and sustain a position of superiority over rivals for a long time. The methods of analysis have already been illustrated. Who are our competitors? What are their goals and strategies? What are their strengths and weaknesses? How likely will they react to the competitive strategies we put in place? To face competitors, the company can adopt various "generic" strategies that we have previously examined (Porter, 1985).

The next step for building a competitive strategy is to decide how to defend a position or attack the position of the rivals (Pellicelli, 2015). It is, therefore, necessary to establish which strategies to adopt in the context of what is happening in the sector and is expected to take place in the near future. In this type of analysis, two aspects are usually considered: a) the competitive position; b) the competitive attitude. The first concerns the relationships between the characteristics of the organization and the resources available on one hand and the competitive strategies adopted on the other. The second concerns the strategies adopted which are between two extremes: maintaining the current position on or modifying this position by attacking the competitors. The competitive position of a company can be traced back to four distinct types: market leader, market challenger, market follower, and market nicher.

Being a *market leader* is the strategy of a company that has a dominant position in the market or in a market segment. The leader could have 25-30% of the market, but could also have a stronger position. It tends to fix the pace of innovation and the forms of competition. It establishes price standards, the intensity of promotional campaigns and the amount of distribution. It represents a touchstone for other companies who tend to follow it.

Being a *market challenger* is a firm's strategy of attacking competitors who are in a dominant position in order to gain market share from them. The attack can also be directed against smaller competitors that create threats having recently entered or having changed their strategies. The market challengers have a small market share, but they are in a position to bring a serious threat to the leaders. The attack has greater chances of success when the attacker comes from another sector and can have strong resources and availability of advanced technologies.

Market follower is the business strategy that seeks to give stability to its market shares and profitability by imitating what other competitors do in terms of products, prices, distribution and other elements of the marketing mix. We distinguish two types of followers. The first lacks resources to carry out a serious attack and prefers to wait, to innovate products and production processes, trying not to disturb the existing competitive structure with an obvious attack. Often if the leader innovates, the follower follows with "me-too" strategies, always trying to avoid direct confrontation. The second type of follower does not have the ability to launch the challenge and it's content to survive in the market. It's unable to compete with quality and accepts lower prices. A recession can easily eliminate it from the market.

Being a *market nicher* is the strategy, in general, of a small company that chooses to specialize by offering products and services in niches that major competitors ignore and neglect. It's a strategy that essentially avoids direct confrontation with dominant companies and under certain conditions, it can give good profitability, sometimes even higher than that of larger competitors. Market nichers favor areas of the market that larger companies do not consider as being too small or too vulnerable.

The competitive position, therefore, concerns the characteristics of the organizations in relation to the strategies of defense, attack or strategies that aim to not upset the status quo.
How to attack and how to defend a position instead depends on the competitive attitude that can have various configurations: aggressive strategies, defensive strategies, cooperation.

So the first phase of a marketing plan is directly linked to strategic business planning. It concerns the examination of the strengths and weaknesses of the company, the analysis of the environment, the analysis of the competition and the definition of the objectives and marketing strategies. In the first phase, it is of

considerable importance to examine the market position of each product of the company. This analysis, which also takes the name of strategic positioning, aims to establish the long-term prospects of a product with respect to the relative market and the competitive position of a company concerning others operating in the market.
The marketing plan then deals specifically with the product or service. The various phases of the plan are summarized in the following paragraphs.

Analysis, evaluation, and selection of opportunities, in fact in every market situation there are threats but also opportunities. After identifying the opportunities it is necessary to establish which ones are compatible with the objectives of the company. Another selection is made comparing the opportunities with the available resources.

Target segmentation and selection ie the company must decide on which part of the market it intends to concentrate its resources on. These segments will be chosen taking into account first of all the forecasts regarding the pace of demand expansion.

Marketing mix, in fact, the next step is to define specific strategies about the main elements of the marketing mix: product/service, prices, distribution, promotion.

This analysis is addressed to better outline the company's competitive advantages and market positioning as well as formulate an accurate competitor's analysis which is key to develop *Balbo*'s strategic model.

1.2 INTERNATIONAL EXPANSION IN THE AERONAUTICAL SECTOR

1.2.1 Introduction

The development of air transport, both from the economic and technical points of view, is one of the success stories of modern era. Commercial aviation has grown about 60 times since the first jet aircraft flew in 1949, just 70 years ago; a pace of development that is unparalleled in all other major forms of transport (IATA, 1994).

Air transport has played a central role in the economic activity of industrialized societies. Transport and communications, in fact, link all economic sectors and production together and with the final consumer. The interest in the air transport sector by business scholars (Quintano, 2006) is mainly due to the possibility of observing in this field, better than in others, the influences of highly dynamic and interspersed environmental variability and, at the same time, of the shocks that reflect on the competitive mutability of the decision-making processes of companies involved in this field.

1.2.2 The main determinants of sectorial complexity

The air transport sector is characterized by a high level of complexity as it concentrates in itself a multiplicity of characteristics that are difficult to find in other areas. This complexity has translated, for traditional companies operating in the industry, in a certain difficulty to generate sustainable profits over time, while this has been attained by numerous low-cost airlines (Quintano, 2006).

A first aspect to be analyzed is the high level of regulatory and political control over the sector. The airlines are not only highly regulated and controlled for what concerns safety (certification of aircraft and crew as well control over their operations), but also for what concern all those areas that in some way, directly or indirectly, are connected to the economic system.

In particular, there is the intervention and control by the public power over the ownership structure of the companies, their mergers, acquisitions and alliances, the

passengers rights, the environment protection, the guarantee of competition (for example in case of unfair price reductions). Furthermore, for numerous international operations, the public hand can influence flight capacities and frequencies (Valdani & Jarach, 1997; Teneja, 2003).

The airline business is characterized by a network structure from which numerous effects arise that are a source of further complexity, as an example, due to the fact that revenues are generated as a whole for a served flight, while costs are to be referred to the individual segments composing that flight (Teneja, 2003).
The reticular configuration of the air business, therefore, poses a double problem of allocation of revenues on individual segments based on competition and pursuit of the maximum possible efficiency (Valdani & Jarach, 1997).

A further aspect that reflects the complexity of the sector is the human factor involved in providing the service. Personnel costs may represent a third of the total operating costs of airlines (O'Connor, 1995). In virtue of the licenses and competences, pilots and on-board personnel as well as ground technical and maintenance staff have historically negotiated, in addition to a complex and highly remunerative wage structure, working conditions such as social security, productivity premium, working hours, rest periods, and vacations clearly above the averages of other sectors.

Another determining factor of the aforementioned complexity is the capital-intensive nature of the sector under analysis, which is due to three elements: the cost of the assets necessary for carrying out the activity, in particular the aircraft, the size of the fleet and that of the network to achieve the critical mass for being able to compete in the sector (Quintano, 2006).

It is also necessary to mention the problem linked to the volatility of the fuel price, which can have very negative effects on profitability, particularly for companies operating with older generation aircraft with higher fuel consumption. To limit this risk as much as possible, many airlines use hedging strategies, which means to make contracts for the future purchase of fuel at an agreed price in order to protect themselves from price fluctuations. Because hedging has an intrinsic cost, each airline has its own fuel acquisition strategy, often by mixing hedging and spot acquisitions.

The cost structure, typical of transport companies and that characterizes the management of the company itself, constitutes a further element of complexity. In a

traditional airline fixed costs can reach 75% of the total cost, including the cost of aircraft, salaries, airport and maintenance activities (Teneja, 2003). The high level of fixed costs, combined with low marginal costs and the complete perishability of the product offered, exerts on the management a downward pressure to lower tariffs, which at the end do not reflect the costs incurred. The company renounces, especially in times of unfavorable economic conditions, to the full coverage of its indirect fixed costs, which cannot be transferred to the passenger, otherwise losing competitiveness.

The peculiarities of the service offered by the airlines tend to configure the product as undifferentiated according to the similarity of the aircraft used today which, consequently, make the characteristics of the flight itself homogeneous, such as speed, comfort and safety (O'Connor, 1995).

The difficulty in being able to make a differentiation has resulted in a leveling of tariffs not only in relation to direct competitors but also with respect to those operating on other routes (Quintano, 2006). Despite the evident homogeneity of delivered service, the companies differentiate price policies based on flexibility and restrictions (including the need to make reservations and pay for tickets in advance, limitations regarding the day of travel and further disbursements in case of booking changes). However, for the high fare / high flexibility tickets, offering higher profit, airlines have to maintain a reserve of capacity for last-minute bookings, which may be lost if the seats remain unsold.

Furthermore, the air transport sector is exposed to two types of constraints, outside the direct control of the companies, which refer to the operating environment and the natural environment.

The first are attributable to the inadequacy of the infrastructures that in many cases, fail to support a constantly growing traffic, so involving the creation of bottlenecks. Some example are: insufficient airports facilities, their accessibility and connection with the urban centers, air traffic control system that struggle to cope with the growing traffic needs. This entails negative effects, such as rising costs and entry barriers for new entrants, that are further amplified according to the reticular nature of the business.

The same limitations come from the natural environment. Programs for the construction of new airports and the expansion of existing ones, in addition to lack of financing, find strong restrictions in the growing sensitivity of society to environment

impact. Their land-intensive nature and emission of noise and atmospheric pollution lead to a harsh contrast by environmental movements.

Finally, the recent weather changes are bringing more numerous and intensive weather events affecting air operations. Flight delays and cancellations oblige airlines to take care of passengers, crew and aircraft and to find accommodations for all of them, and therefore to bear all related costs.

1.2.3 Air transport sector and sectorial interdependence

A sector is intended as: a) a group of companies that provide the same service or product and that are therefore in competition with each other; b) the needs of a specific group of customers.

The economic analysis of air transport cannot be limited to the demand (passengers and freight), the offer (various types of airline companies) and the factors that act on them, but must also cover other industrial sectors, such as manufacturing and services. Therefore, the economy of air transport (performance, prices, forms of competition) also depends on the economy of other sectors (Pellicelli, 1996; 2008).

- *Air transport*. The companies operating in the sector are distinguished according to various criteria. A first distinction is: airlines operating only in national markets; in national and international markets; in regional markets; companies operating for other airlines, charter companies; companies specialized in transport of goods (air cargo); companies that perform special transport (for example on behalf of the Armed Forces).

- *Industrial sectors*. These are manufacturers of aircraft, engines, mechanical and electronic components, software, computers and various materials. According to some estimates by IATA, air transport and related industrial sectors employ 21 million people worldwide; while air transport, in strict sense, employs around 3 million people.

- *Passenger services*. According to IATA, around 4.3 billion passengers will travel in 2019 by plane. The organizations offering services to passengers are numerous. These are mainly: travel agencies, tour

operators, hotel chains, amusement parks (such as the Disney's ones), financial services (to customers).

- *Services to airlines*. Air transport companies purchase various services: reservations (computer reservations system), insurance, leasing, loans, maintenance, fuel supplies, catering, other in-flight services (TV, films) and training (flying and ground personnel, flight simulators).

- *Airports*. The economy of air transport is also linked to the management of airports. The use of a specific airport means acquiring (or leaving to competition) competitive advantages. While in the United States airport management is done by organizations whose objective is profit, in other continents, and in particular in Europe, airports are mainly directly or indirectly financed and controlled by the state or the local area.

- *Air traffic control*. It is performed by governmental organizations such as Eurocontrol in Europe and other state controlled organization in other countries. It is undergoing worldwide an important evolution for flight management to increase safety and to cope with increased volumes, improving efficiency.

- *Airworthiness Authorities*. Flight regulation and certification of aircraft and air personnel is performed by major governmental organizations. The main are EASA in Europe and FAA in USA. All others airworthiness authorities refer essentially to one of these two.

1.2.4 Air transport trends

Due to the high rate of development, the sector has few rivals, but the profitability of companies is falling (Pellicelli, 1996; 2008). It contributes to it, the strong competition that lowers prices, a certain current excess of operational capacity accumulated in the sector and strong debt originated by the huge capital needed to buy and modernize competitive fleets and to fly them. It is difficult to summarize in few lines the trends of a very articulated sector with strong interdependencies with other sectors, but it is appropriate to draw an overall picture of it.

The tendencies of civil air transport that more than others act on the economy

of this sector are the following: a) strong development of the demand; b) close relationships with the cycles of the economy; c) emergence of a "global" market; d) fast obsolescence and technological innovation; e) decreasing profitability; f) intensification of competition; g) strong constraints imposed for the reduction of the environmental impact of this sector.

1.2.5 Nature of the service and implications for marketing

One of the fundamental principles of marketing is the need to move from a supply-oriented (product-oriented) management to a management that places consumer needs at the forefront (market-oriented).

Both in the history of Western economies, around the 1950s and 1960s, and in that of individual sectors, it is possible to identify the transition from a phase in which products and services are offered by few companies to another in which they are offered by many competitors. In this phase the "power" (the ability to negotiate) shifts from the producer (seller-market) to the buyer (buyer-market) (Levitt, 1960).

The main concern of every airline today is how to attract buyers with sustainable strategies for a long time in a market that is constantly changing.

Marketing has strong responsibilities in this orientation. It must: a) understand the demand that the company tries to satisfy; b) select the target suitable for the available resources and the long-term objectives; c) guide the basic choices regarding the operational capacity and the need for human and financial resources. Marketing must therefore contribute to choices regarding fleet selection (such as aircraft types), route network development, and flight scheduling. These long-term decisions go then along with those concerning the management of the marketing mix: product planning, prices, distribution and promotion. Furthermore, airline marketing must contribute to adjusting the offer (which the company controls) to the market (which the company does not control).

To complete this premise, it is highlighted that many marketing management problems in air transport derive from the nature of service and are therefore common to other sectors (Cowell, 1984; Heskett, 1986).

Intangibility. The air transport is a set of services of which, the transfer of a person or thing from place A to place B, is the main benefit for the buyer. As a whole the service does not fall under our senses. It cannot be owned. It is true that air transport is provided using ground and on-board equipment (therefore tangible), but when we purchase an air transport service we actually do an act of trust on many components that our senses perceive only in part. Shostack (1977) proposed an effective technique to visualize the tangible and intangible parts of the service: the molecular model. It is shown that the intangible nature of the services constitutes an obstacle for the consumer as it increases the difficulties in pre-purchase evaluations. From the marketing literature emerges the recommendation to "make the intangible tangible" (Murray & Schlacter, 1990).

Inseparability. Part of air transport, especially with regard to passenger services, cannot be separated from the people who provide it or from those who use it. The benefits depend on the professional skills, motivations and attitudes of the people who work to offer the service.

Lack of stock. If they are not used when they are available for consumption, the services are lost. An unoccupied aircraft seat is a loss of revenue; it cannot be stored or used for another flight that does not have seat availability. In an attempt to maximize profits on each flight, airlines often resort to overbooking: they accept reservations and sell more tickets than available seats to compensate for the number of those who do not show up for boarding. The difference between the management of the relationship between supply and demand in the marketing of services and in that of tangible products is evident (Berry, Zeithamal & Parasuraman, 1984).

Heterogeneity. A service is rarely produced with the same results at different times. A trip between London and New York repeated twice is perceived differently by a consumer, even if he flies with the same company, the same plane, the same crew. On the ground and on board the service is produced and consumed simultaneously. In the phases in which the service consists of "contact" between people it is difficult to maintain the performances according to certain standards. Different people produce a partly different service even if they operate in similar conditions.

Combining intangibility and heterogeneity, the difficulties of the consumer in assessing the quality of air transport emerge clearly. Some marketing authors, who

assume that the variability of services is a difficult problem to solve, recommend companies to intervene by standardizing the production process (Murray, 1991). Other authors recognize that variability adds risks to the purchasing process, but suggest reducing this risk by employing staff with high professional skills and sensitivity in contact with the customer. They believe that variability represents an opportunity to adapt services to the needs of individual clients. In any case, high level and well-structured training is key to solve this problem and offer high level of service, with high standards and capable to cope with the requirement of different customers and situations.

1.2.6 From strategy to control

Marketing of the air transport service means the set of activities of a company ranging from the conception of the service to its use by the consumer. We can distinguish two major phases in marketing. The first concerns the definition of the business, while the second concerns the construction of a marketing plan (Pellicelli, 1996).

Definition of business

Marketing manuals distinguish between "generic markets" and "relevant markets". The "generic markets" are defined from the point of view of the consumer. They can also embrace more businesses of a company. The "relevant markets" constitute that part of the "generic market" that the company considers as the reference point and for which it decides whether, and how, to allocate a specific marketing mix. First, this study starts with a quick review of "generic markets". Subsequently, dealing with segmentation, it examines how the airlines analyze the "relevant markets" by answering the following questions: who are the potential buyers? How do they decide to buy? By which variables should the company select the target?
Two "generic markets" are present in the portfolio of most of the airlines.

Business travel. The business market includes potential passengers who fly for work. They use the airplane because they consider it the best way to carry out their activity. There are also other services that compete with air transport: fax, telephone, videoconference, high-speed train. In the early years of air travel most travelers were businessmen; while the others were wealthy people anyway. The increase in average per capita income and the fall in air transport costs have widened the demand. Businessmen now represent a declining share; it is around 20% in Europe and other reach markets, around 30% in other markets.

Leisure travel. It refers to passenger who flies for vacation or to visit friends and relatives (VFR). The demand has close links with the performance of the economy. The higher the per capita income of the population in the market where the flight generates, the higher the share of leisure trips. The geographical position also affects traffic volumes. Over the past thirty years, this market has experienced the fastest growth.

<u>*Marketing plan*</u>

After defining in which business the airline intends to operate, marketing is divided into several main phases: opportunity analysis (analysis of the environment and consumer behavior), segmentation and positioning in the market, marketing mix, organization, implementation of plans and control (Chernev, 2018).

Analysis of opportunities. It is necessary to understand which are the needs of potential buyers, both people and organizations. The research must identify which are the needs already met by the offer and which are not. The analysis must also identify the opportunities that can be exploited profitably. The starting point is the analysis of the external environment and the trends that influence the demand for air transport. As for any company, management must therefore focus its attention on the trends of a limited number of factors that are generally traced back to the following: legislation, society, economy, technology and competition.

The next step is to examine the consumer decision process in the purchase. It is essential to understand what gives rise to the demand for air transport. To answer to these questions, airlines use a wide variety of research methods: from analyzing data

regarding the past to surveys on the opinions of potential users. Analyzes and forecasts are useful not only for the marketing mix management, but also (and above all) for long-term plans: air fleet structure, route systems, scheduled flights, charter flights, cargo. The factors are varied. They act differently on the various types of air services. Doganis (1992) distinguishes between factors that act on all markets/services and factors that act only on certain routes in particular. The traffic structure between two points must be examined both in relation to the economic, social and demographic variables present in the markets at both extremes, and in relation to the supply of air transport (capacity in terms of places, routes, frequencies, prices). The work will briefly examine the various factors that generally act on all markets (Pellicelli,1996).

Economy. Rhythm of economic growth (GDP), increase in per capita income, development of international exchange and decline in air transport prices are certainly the most important economic factors to act on demand. For example, in the second post-war period the development of air transport between Europe and Saudi Arabia and later the one between Europe and China was fueled by the extraordinary economic development of the two nations. Another important factor is the decline in tariffs in real terms. The most effective measure is "fare per passenger per km" (yield).

Society. The number of inhabitants affects potential demand. Furthermore, in the development of air transport, the customs and traditions of societies are important: duration and periods of vacation or periods of student holidays. Equally important is religious tourism: Rome, Lourdes, Mecca are almost obligatory destinations for those with a certain faith. Another important factor that affects the demand is the aptitude to travel. The preference of those traveling for vacation changes with evident trends in the medium-long term. For example, holidays in the Mediterranean have seen a partial loss of interest due to excessive overcrowding during traditional holiday periods. On the contrary, holidays in uncontaminated and less crowded areas are becoming more and more attractive.

Technology. Aircraft speed, safety and improved comfort have increased demand especially over long distances, for which aircraft has considerable advantages over other means of transport. On certain routes competition is practically absent. Technology has also improved users' access to air transport: computer reservation

systems, online check-in, flight entertainment systems with various forms of connectivity on board.

Segmentation and positioning. The next step consists in defining the market segment and therefore the target market, which is the group of people or organizations for which the airline creates and manages a marketing mix that aims to meet specifically the needs and preferences of that group. Segmentation strategies in turn can be of two types. With a first strategy the airline concentrates its resources on only one segment of the market, putting in place only one marketing mix. With a second strategy, it can also distribute resources across multiple segments, developing different marketing mixes for each of them. Larger airlines have chosen this second route.

The choice of the target market involves the evaluation of the effects that the entry into a possible market will have on sales, costs and profits. It is also necessary to establish whether the airline has the necessary resources to deploy a marketing mix that is able to meet the needs of the specific target. In this phase it is also needful to evaluate the size and capabilities of the competitors that already operate in the various considered target markets.

It is not enough to identify the segment, it is also necessary to define how the airline intends to position its offer compared to that of its competitors.

The strategies in this regard are varied. a) Some companies choose the path of "head to head" positioning. In other words, they take the field against the competition. They can do this when they have services that have features at least equivalent to those of competing brands. The rule is that to be successful a company needs at least a competitive advantage over other companies. In addition, in this case a lot depends on the segment. In the business market sector price is less important. Often, in this segment, a higher price than the competitors can communicate better quality. b) If the company has a service with unique features, the best placement is to create a "niche" with a specific image. c) A positioning aimed at avoiding competition is not always suggested by an air transport service that is clearly inferior to that of competitors. Avoiding competition is a necessary step when the airline introduces a new brand alongside other brands on certain routes or segments. In these situations avoiding competition is required at least until the new brand has reached high volumes, also to avoid that market shares are taken away from existing brands. It is what is generally

indicated by the expression "cannibalization".

Marketing mix. Having established to which market segment or segments the company intends to direct its own marketing mix, it is necessary to develop the four main variables that affect it: service, prices, distribution and promotion. These variables are considered "controllable" as the company can modify them. The goal is to develop a marketing mix that exactly meets the needs of potential buyers who are part of the target market. To achieve this goal, services must be accessible at the right time, in the places and volumes desired (distribution); prices must, on one hand bring a profit to the company, and on the other make the service accessible to the potential customer; the promotion must inform the target audience about the characteristics of the products and the company that offers them.

Marketing mix management. Starting from strategic planning, after choosing the positioning segmentation criteria, marketing management mainly concerns: a) implementation of the plans; b) marketing organization; c) control of marketing activities. Planning determines when, how and who should develop marketing activity. The implementation of the plans involves the coordination of marketing activities, the motivation of the staff involved and the flow of internal communications. The organization for its part draws the internal structures that can be defined by functions, types of services or classes of customers, geographical areas or types of customers. In order to control marketing activities, the airline sets performance standards, evaluates these services in relation to the standards at regular intervals and eliminates the differences between the two.

1.2.7 From theory to investigation

The objective of the thesis is to evaluate the opportunity to expand *Balbo Airlines* in Italy by creating a subsidiary in Bari airport, aimed at offering routes connecting secondary airports not served by other airlines in the Bari airport.

Chapter 2

METHODOLOGY

To evaluate the opportunity for expansion of *Balbo Airlines*, the study was divided into three parts (*Figure 4*) and then one of financial projection.

Figure 4 – How to evaluate company expansion
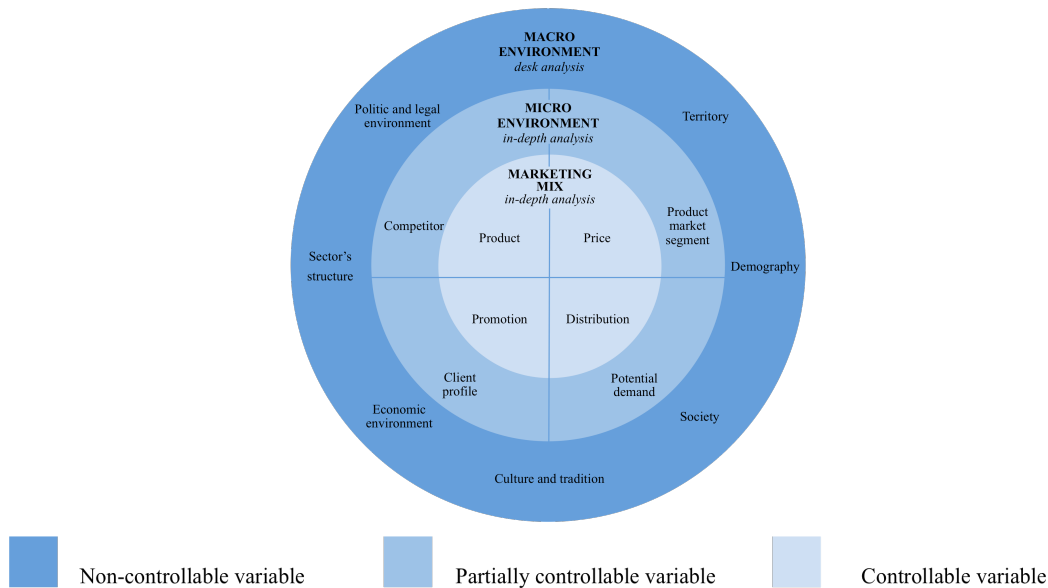
Source: author's elaboration based on Pellicelli, 2015

This research is a case study based (Dooley, 2002; Pettigrew, 1990) because it employs an exemplificative case to explain how to evaluate the expansion of an airline company. The case study was developed in *Balbo Airlines* in a period of 6 months from April, 2019. It is qualitative in its nature and conducted by using data triangulation (Yin, 2003): literature reviews, primary data (interviews) and, secondary data (documents, database and, direct observation) (Civera et al., 2018).

The first part consists in the market analysis "at desk" in which, I analyzed the macro-environment and all its variables: the territory, the demography, the society, the culture and traditions, the economic environment, the structure of the sector, the political and legal environment. To collect data and information, I mainly used the database of the Italian statistical institute *istat*.

The second part is an in-depth analysis of the micro-environment. The area taken into consideration for the analysis has as its center in the Bari airport and has a radius of 600 km from this point (*Figure 5*). The choice of radius extension is due to the operational optimization area of the ATR turboprop aircraft family which is used by the company.

Figure 5 – The area to take under consideration

Source: autor's elaboration based on Google Maps website

In this part I analyzed the product, the market and the segment, the potential demand, the customer profile and the competition. For this phase I used a more specific database called *PaxIS,* that is the most comprehensive airline passenger market intelligence database available today, developed by the International Air Transport Association (IATA). I also used data made public by the various airports, as well as a lot of data offered by the company in which I did my internship. The numbers offered by the various databases do not always coincide, as they are often based on mere statistics, so I often made an average. Flight schedules were taken directly from the airline websites.

In the third part, I developed a strategic and action plan for the company with the marketing mix in which I defined the air service as tangible and intangible elements. This part was made by collecting data and verifying its feasibility with all the departments concerned of the company.

In the last part, I made a financial projection of all the costs and revenues for the first 7 years. Three situations were evaluated: basic, worst and best scenario. To evaluate whether it is appropriate or not to proceed with the investment by creating a branch in Italy, I used the discounted cash flow method to determine the net present value using both the free-risk rate and the risk-adjusted discount rate.

Chapter 3

CASE STUDY - *BALBO AIRLINES*

For confidential reasons regarding the business expansion project that I followed in the airline where I made my internship, the company requested not to be mentioned. Therefore, the data reported in this thesis are authentic, but I will call the company as "*Balbo Airlines*", instead of its real name. Furthermore, I cannot specify the geographical areas in which they operate, because otherwise the company identity would become evident, so I will call "*Spanish Archipelago*" the archipelago where they have their main operations and "*African Archipelago*" the one where they already have a subsidiary.

3.1 The company

Balbo Airlines is a Spanish regional airline based in the *Spanish Archipelago*.

State	Spain
Headquarter	Spanish Archipelago
Fleet size	25
Destination	22
Subsidiary	Balbo African Archipelago
Employees	1.600 (June 2019)

Source: Wikipedia; company internal data

Balbo Airlines was crated with the aim of connecting the islands in the *Spanish Archipelag*o, where it is today the leading operator. The airline has managed to get one of the largest, youngest and most ecological fleet in Europe composed by ATR aircraft (*Figure 6*), constantly renewed in order to offer the best service to its customers with the greenest available and less polluting technology. In fact, the ATR aircraft are perfect for regional short-haul flights, having low consumption and the possibility to take-off and land even from short runways.

The year 2002 marked the history of *Balbo Airlines*, when the company was acquired by a group of *Spanish Archipelago*'s investors. Three years later,

international expansion began. The start was not easy, but the airline put all its effort in improving the connectivity inter islands and with the continent, specifically Africa, and Europe. *Balbo Airlines* believes in the archipelago's potential as infra continent connecting platform and for this, air connectivity is essential. Starting from this premise, *Balbo Airlines* is making a great effort to contribute to a good positioning of the islands from the logistic point of view. Nowadays the *Spanish Archipelago*'s inhabitants can get directly to 12 international destinations. In addition, *Balbo Airlines* has signed codeshare agreements with other companies that facilitate access via the *Archipelago* to other destinations in the Iberian Peninsula and the Atlantic.

Balbo Airlines created also a subsidiary in 2015 in another archipelago in Africa.

Figure 6 – ATR Aircraft

Source: company annual report

3.2 The business model

Balbo Airlines, from being a simple regional airline grew and became a group of 14 companies aimed to offer a high-level service to customers and to provide the highest possible quality in each specific branch of the air transport sector.

The *Balbo Group*'s companies are the following:

Balbo Airlines	It was born in 1989 and operates all routes since the beginning.
Balbo Air	In September 2011, *Balbo Air* was founded with the mission of being an efficient and flexible operator, with high productivity and adjusted costs, in order to offer competitive prices with the same quality of service. It develops its fundamental activity under a franchise regime for *BG*.
Balbo African Archipelago	It is the last operator to join the *Balbo Group*. It was born with the intention of connecting the islands of an *African Archipelago* following the model of inter-island transport that *Balbo Airlines* developed in the *Spanish Archipelago*, offering the same quality standards. The new airline starts operating the African islands in the last quarter of 2015 with a staff formed mostly by professionals from the country.
Balbo Italia	To be developed.
Balbo Sales	Company created in 2004, becomes the direct sales channel of *Balbo Group* and one of the pillars of its rapid expansion.
Balbo Cargo	Company created in June 2009, as General Sales Agent of cargo in the holds of *BG* aircraft. It currently transports approximately 2,000,000 kg in inter-island freight traffic and it has established itself as the main air cargo operator in the *Archipelago*. The objective of *Balbo Cargo* is to unite the islands between themselves and with the national and international air transport networks, contributing to

	their consolidation as an intercontinental hub for air cargo and logistics platform with the Near Africa.
Balbo Handling	It began its activity on October 1, 2005, and was created with the objective of improving the ground service that *Balbo Airlines* provides to its clients in all the airports. *Balbo Handling* until now is the company of the System that has the largest number of employees, reaching 400 units.
Balbo Technic	It is the aircraft maintenance company for *BG* since 2008. It is also the repair shop of other airlines: Spanish (Iberia or Air Nostrum); European (TUI, Danube Wings or Swiftair); South American countries (BQB in Uruguay or DAE in the Netherlands Antilles); African (TACV in Cape Verde) or Asian (KBZ Myanmar). *BT* is considered a world leader in the excellence of aircraft maintenance of the ATR aircraft, which has led it to be pre-selected as MRO (Maintenance Repair and Overhaul) to be an official "concessionaire" of the ATR house.
Balbo Aeronautic	These companies are responsible for providing global services to the rest of the companies that make up the System. They perform functions of general coordination and income management. They also deal with billing, different controls and audits.
Balbo Management	
Balbo System	It is a service company of Information Technology and Communications (ICT) and Information Systems (IS), which was born to provide services to all companies related to *Balbo Group*.
Balbo Atlantis Technology	It is a young company, created in 2013 under the umbrella of *Balbo System*,

	with a vocation to be a reference company within the sector of information technology and communications nationally and internationally. *BAT* offers the client consulting services, design plans for new technological projects or correct deficiencies, computer and communications training, installation and maintenance of technological solutions and software development, among others.
Balbo Aerotechnical	It starts its activity in 2009. It is an Authorized Maintenance Center for Aeronautical Components (EASA-ES - 145-216) since 2010, and has a young staff of more than 40 technicians, focusing its activity on the maintenance of aircraft interiors, and electrical and hydraulic components both in the airport environment and in its facilities.
Balbo Aviation Services	*Balbo Aviation Services* is a young company that began its activity in 2013 dedicated to aeronautical logistics services. Currently, it has more than 40 employees, mostly professionals with extensive experience in the sector. *BAS* activities include the purchase, sale, storage and distribution of aviation products, parts and equipment, as well as offering different aeronautical material management services, such as rental, exchange and management of rotables repairs.
Balbo Training	Training Center created to respond to the needs of training adjusted to the demand of the aeronautical sector, for which it develops training programs to obtain an adequate curriculum for each

	student and company. Certified as an EASA Training Center (European Aviation Safety Agency) (OFM ES.147.0022) by AESA (State Aviation Safety Agency - ESP), as a Private Vocational Training Center for Advanced Cycling in Aeromechanics and Avionics (35014718) for the Ministry of Education of the Government of the *Archipelago* for the training of Turbine Aircraft Maintenance Technicians, as well as for the Transport of Dangerous Goods by Air (CAT 1 to 12) (9284 / AN905) by ICAO (International Civil Aviation Organization).
Balbo ADM Tech	*Balbo System* company dedicated to the design and manufacture of aeronautical parts, for own use and for sale to third parties, specialized in the production of small components, with a unique offer in Spain. It has the EASA.21J.457 certifications, design for aeronautical components and minor aircraft modifications, and ES.21G.003, for the manufacture of aeronautical components.

Source: author's elaboration based on company website

3.3 The fleet

The number of aircraft has continuously grown with the latest technology equipment. The investments destined to the renewal of the fleet since 2002, year in which the airline was bought by the *Spanish Archipelago* shareholders, exceed 456 million euros. ATR 72 aircraft are considered an ideal model for regional aviation for its ability to take off and land on shorter tracks, when using turboprops. Its main

feature is its low environmental impact, thanks to fuel savings and reduction of CO_2 emissions. They are part of a new generation aircraft family that incorporates the state-of-the-art aeronautical technology and offers the lowest operating cost in class. The expansion and improvement of *Balbo Airlines'* fleet responds to the continuous concern of improving services for customers and providing the Spanish Islands with the best air transport. The expansion of the youngest fleet of the *Archipelago*, and one of the most modern available today, has been based since the beginning on responsibility and environmental care.

Fleet in April 2019:

Airplane	In fleet	Orders	Passengers
ATR 72-500	7	-	68
ATR 72-600	12	6	72
Bombardier CRJ1000	3	-	100
Embraer E-190 E-2	3	-	146
Total	**25**	**6**	-

Source: Wikipedia; company internal data

3.4 The passengers

Balbo Airlines transports 3.6 million passengers a year (*Figure 7*), by 180 daily flights with 8 inter-island destinations, 2 domestic destinations and 12 international destinations.

Thanks to the trust of its customers, *Balbo Airlines* represents a key element in the transport system in the *Spanish Archipelago*. From dawn to dusk, an average of 10 planes take-off every hour.

Figure 7 – Number of passengers

2010	2.600.000
2011	2.600.000
2012	2.500.000
2013	2.500.000
2014	2.600.000
2015	2.650.000
2016	2.700.000
2017	3.400.000
2018	3.600.000

Source: company website

3.5 Free advantages for national and international flights

Figure 8 – Free advantages

| Courtesy snack on board | Seats selection | Hold and hand luggage included | More space between seats |
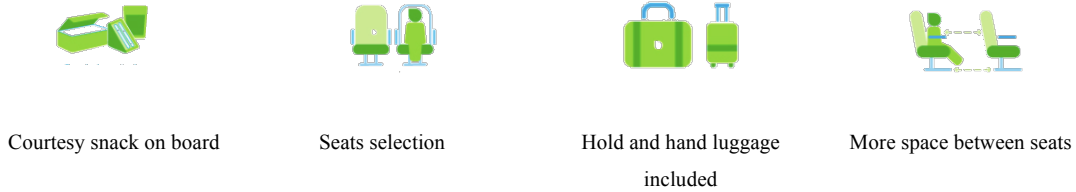
Source: company website

3.6 The awards and rewards

- The data from the FlightStats consultancy rated *Balbo Airlines* as the most punctual airline in Europe and North America in 2009.

- In 2013 *Balbo Airlines* occupies the 5th position in the ranking of the best airlines in the world, according to the table prepared by eDreams from the assessment of its users.

- *Balbo Airlines* has achieved five times the gold award granted by the European Regions Airline Association (ERA), and was nominated as Airline of the Year in 2016.

- In April and May 2015, *Balbo Airlines* was the most punctual airline in the world according to data offered by Flightview, with a percentage of flights arriving on time higher than 96%.

- The Ministry of Economy, Industry, Trade and Knowledge of the Government of the *Spanish Archipelago* gives *Balbo Group* the 2016 FICA Award for the Best International Company of the archipelago.

- *Balbo Airlines* has been selected by the users of TripAdvisor in 2019 as the best Spanish airline in two categories: best airline and European airline favorite of the travelers by countries.

Chapter 4

OBSERVATIONS OF THE CONDITIONS

4.1 MACRO-ENVIRONMENT

4.1.1 Population and demographic data

Territory

Capital	Roma
Territory organization	Italy is divided in regions, provinces and communes
European Union (UE)	Italy is a founding member of European Union
Regions	20
Provinces	107
Communes	7915
Total area (Kmq)	302.070,8
Inhabitants density (Inhabitants/Kmq)	199,9

Source: Wikipedia

Italy is divided into 20 administrative regions:

- Northwest (Liguria, Lombardy, Piedmont and Valle d'Aosta).

- Northeast (Emilia-Romagna, Friuli-Venezia Giulia, Trentino-Alto Adige and Veneto).

- Central (Lazio, Marche, Tuscany and Umbria).

- Southern (Abruzzo, Basilicata, Calabria, Campania, Molise and Apulia).

- Insular (Sicily and Sardinia).

The regions are divided into provinces and these into communes. Five of them (Valle d'Aosta, Friuli-Venezia Giulia, Sicily, Sardinia and Trentino-Alto Adige) have a special statute because of its geographical, cultural or social nature.

Demography and society

According to the Italian database *Istat* on the 1st January 2019 it was estimated that in Italy there was 60 million 391 thousand individuals over 90 thousand less than the previous year (-1.5 per thousand). The reduction is due to the significant negative balance of natural dynamics (births-deaths) in 2018, equal to -187 thousand units, however compensated by a largely positive migration balance (+ 189 thousand). The ordinary operations of alignment and revision of the registers (internal migration balance and other reasons) also entail a negative balance of 96 thousand units. Overall, therefore, the population decreases by 94 thousand units.

The population of Italian citizenship drops to 55 million 157 thousand units (-3.3 per thousand). The resident foreign citizens are 5 million 234 thousand (+17.4 per thousand) and represent 8.7% of the total population.

In 2018, 449 thousand births were counted, 9 thousand less than the previous minimum recorded in 2017. There were 636 thousand deaths, 13 thousand less than in 2017. In relation to the number of residents, 10.5 individuals per thousand inhabitants died in 2018, compared to 10.7 in 2017.

The natural balance in 2018 is negative (-187 thousand), making it the second lowest level in history after that of 2017 (-191 thousand).
The migratory balance with foreign countries, is positive for 190 thousand units, recorded a slight increase over the previous year, when it was equal to + 188 thousand. Both immigration, equal to 349 thousand (+ 1.7%) and emigration, 160 thousand (+ 3.1%) increased.

The inflows, mostly due to foreign citizens (302 thousand), have reached the highest level of the last six years. Only 40 thousand emigrations for foreign countries, out of a total of 160 thousand, involve foreign citizens.

Among Italian citizens, there are more departures than arrivals. In 2018, in fact, 47,000 repatriations and 120,000 expatriates were reported.

Population 1st January 2018	60.485.000
Born	449.000
Dead	636.000
Natural balance	-187.000
Registered	349.000
Cancelled	160.000

Migration balance	**189.000**
Internal balance (for other reasons)	**-96.000**
Total balance	**-94.000**
Population 1st January 2019	**60.295.000**
Reduction of population (‰)	**1.5**

Source: Istat

The average number of children per woman (1.32) is unchanged compared to the previous year. The fertility measured along the various female generations has never stopped falling. Among women born in 1940 and those of 1968 fertility decreases with regularity from 2.16 to 1.53 children.

Inter-municipal residence transfers are estimated at 1 million and 359 thousand (+ 1.8%). Among these, interregional movements are (between different regions) 330 thousand, corresponding to 24.3% of total transfers.

A very positive internal migratory balances are detected in the North-East regions (+2.2 per thousand inhabitants) and, in the North-west (+1.2). In the South the balances are everywhere negative and the net loss of population of the area is equal to 65 thousand individuals, 58% of them from Campania and Sicily alone.

The growth of the elderly population continues in absolute and relative terms. As of 1 January 2019, over 65s are 13.8 million (representing 22.8% of the total population), young people up to the age of 14 are around 8 million (13.2%) and, the active individual are 38,6 million (64%).

In 2018 there was a new increase in life expectancy at birth. For men the estimate is 80.8 years (+0.2 on 2017) while for women it is 85.2 years (+0.3). Life expectancy is longer in the North of Italy. The average age is 45,4.

Social index

Density of population	2018	199,9 habitants/Kmq
Population growth	2018	-1.5
Life expectancy	2018	Men 80.8 Women 85.2
Adult literacy rate	2015	99.2%
Human development index	2017	0,88
Birth rate	2017	8.6

Fertility rate	2018		1.32
Death rate	2017		10.4
Population below poverty line	2017	5.7% in poverty, 2014; ▼ 28.9% at risk of poverty or social exclusion, 2017	
Gini coefficient	2017	▼ 32.7 medium (Eurostat)	

Source: Istat and Wikipedia

Regions details

Figure 9 – Italian residents divided by area

Year	Residents			Variations %			Tot. residents	Var %
	North	Center	South	North	Center	South		
2012	27.382.585	11.681.498	20.621.144	0,69%	0,77%	0,07%	59.685.227	0,49%
2013	27.785.211	12.070.842	20.926.615	1,47%	3,33%	1,48%	60.782.668	1,84%
2014	27.799.803	12.090.637	20.905.172	0,05%	0,16%	-0,10%	60.795.612	0,02%
2015	27.754.578	12.067.803	20.843.170	-0,16%	-0,19%	-0,30%	60.665.551	-0,21%
2016	27.740.984	12.067.524	20.780.937	-0,05%	0,00%	-0,30%	60.589.445	-0,13%
2017	27.736.158	12.050.054	20.697.761	-0,02%	-0,14%	-0,40%	60.483.973	-0,17%

Source: Istat

Population 1st January 2018				
	Sex	male	female	total
Territoy				
Italy		29427607	31056366	60483973
Northwest		7836745	8258561	16095306
Piemonte		2123610	2252255	4375865
Torino		1096998	1172122	2269120
Vercelli		83449	88858	172307
Novara		179715	189880	369595
Cuneo		290059	298500	588559
Asti		105529	110355	215884
Alessandria		205726	218448	424174
Biella		84921	92146	177067
Verbano-Cusio-Ossola		77213	81946	159159
Valle d'Aosta / Vallée d'Aoste		61695	64507	126202
Valle d'Aosta / Vallée d'Aoste		61695	64507	126202
Liguria		743755	813226	1556981
Imperia		103102	111203	214305
Savona		133157	144653	277810
Genova		401640	443317	844957
La Spezia		105856	114053	219909

Lombardia		4907685	5128573	10036258
Varese		433568	456960	890528
Como		293591	305710	599301
Sondrio		88946	92457	181403
Milano		1567068	1667590	3234658
Bergamo		550934	560101	1111035
Brescia		621747	640655	1262402
Pavia		266303	279507	545810
Cremona		176214	182298	358512
Mantova		202062	209700	411762
Lecco		167213	172171	339384
Lodi		113261	116504	229765
Monza e della Brianza		426778	444920	871698
Northeast		5673793	5967059	11640852
Trentino Alto Adige / Südtirol		525523	542125	1067648
Provincia Autonoma Bolzano / Bozen		260823	266927	527750
Bolzano / Bozen		260823	266927	527750
Provincia Autonoma Trento		264700	275198	539898
Trento		264700	275198	539898
Veneto		2395801	2509236	4905037
Verona		451519	471302	922821
Vicenza		424704	438500	863204
Belluno		99377	105523	204900
Treviso		435964	451456	887420
Venezia		413596	439956	853552
Padova		455977	480763	936740
Rovigo		114664	121736	236400
Friuli-Venezia Giulia		589785	625753	1215538
Udine		256134	273247	529381
Gorizia		68333	71106	139439
Trieste		112341	122297	234638
Pordenone		152977	159103	312080
Emilia-Romagna		2162684	2289945	4452629
Piacenza		140010	146771	286781
Parma		219570	230686	450256
Reggio nell'Emilia		261751	270824	532575
Modena		342937	358959	701896
Bologna		487207	524084	1011291
Ferrara		166605	180370	346975
Ravenna		190405	200940	391345
Forlì-Cesena		191531	202654	394185
Rimini		162668	174657	337325
Central		5821122	6228932	12050054

Toscana		1803203	1933765	3736968
Massa-Carrara		94490	101359	195849
Lucca		187826	201469	389295
Pistoia		140557	151335	291892
Firenze		486094	527166	1013260
Livorno		161893	174322	336215
Pisa		204628	216124	420752
Arezzo		167099	176350	343449
Siena		128835	139175	268010
Grosseto		107131	115044	222175
Prato		124650	131421	256071
Umbria		425547	459093	884640
Perugia		317183	340603	657786
Terni		108364	118490	226854
Marche		743645	788108	1531753
Pesaro e Urbino		175799	184326	360125
Ancona		228337	244266	472603
Macerata		153655	162655	316310
Ascoli Piceno		100937	107440	208377
Fermo		84917	89421	174338
Lazio		2848727	3047966	5896693
Viterbo		155633	162572	318205
Rieti		77370	79184	156554
Roma		2090279	2265446	4355725
Latina		284613	290964	575577
Frosinone		240832	249800	490632
South		6840532	7182064	14022596
Abruzzo		641185	674011	1315196
L'Aquila		148394	152010	300404
Teramo		150694	157590	308284
Pescara		153635	165753	319388
Chieti		188462	198658	387120
Molise		152228	156265	308493
Campobasso		109907	113349	223256
Isernia		42321	42916	85237
Campania		2841049	2985811	5826860
Caserta		451954	471491	923445
Benevento		136973	142154	279127
Napoli		1505974	1595028	3101002
Avellino		207186	214337	421523
Salerno		538962	562801	1101763
Puglia		1967751	2080491	4048242
Foggia		306374	318937	625311

Bari		613606	643914	1257520
Taranto		281478	298841	580319
Brindisi		190392	204585	394977
Lecce		382596	416295	798891
Barletta-Andria-Trani		193305	197919	391224
Basilicata		278882	288236	567118
Potenza		180959	187292	368251
Matera		97923	100944	198867
Calabria		959437	997250	1956687
Cosenza		346951	361751	708702
Catanzaro		176028	184795	360823
Reggio di Calabria		268826	282386	551212
Crotone		88014	87047	175061
Vibo Valentia		79618	81271	160889
Islands		3255415	3419750	6675165
Sicilia		2445343	2581646	5026989
Trapani		212023	220375	432398
Palermo		609705	650488	1260193
Messina		304443	326854	631297
Agrigento		213270	225006	438276
Caltanissetta		129388	137039	266427
Enna		80517	85742	166259
Catania		539157	570731	1109888
Ragusa		159282	162088	321370
Siracusa		197558	203323	400881
Sardegna		810072	838104	1648176
Sassari		242660	249982	492642
Nuoro		103756	106775	210531
Cagliari		209358	222597	431955
Oristano		78593	80625	159218
Sud Sardegna		175705	178125	353830

Source: Istat

Internal migration

In 2017 according *Istat*, the overall volume of internal mobility is one million 335 thousand transfers, substantially unchanged compared to 2016 (+ 0.2%). Of these, 323 thousand are transfers between different regions (-0.6%); 1 million and 12

thousand, on the other hand, are movements that took place within the regions (+ 0.5%).

If we consider the last two decades, the trend of internal mobility is on the whole stable. In 2017, the number of interregional transfers amounted to 322,867 (24.2% of total transfers), slightly down compared to the previous year (325,000); the interregional migration rate, on the other hand, remained unchanged at 5.3 per thousand; the latest demographic forecasts in the median scenario point to a slightly decreasing trend and a rate estimated at 5 per thousand for 2037.

The most interesting interregional movements concerned people that moves from the South to the Center-North. In 2017, there were around 110,000 movements from the South and Islands that target the central and northern regions; of some importance are also transfers on the 'inverse' route (56 thousand), from the Center-North to the South: the net loss calculated for the southern distribution is therefore of about 54 thousand residents.

The flow out of the South towards the Center-North grew decisively in the late 1990s and then decreased in the following years. This trend was accentuated with the start of the economic crisis which on the one hand stimulated travel from the southern regions, on the other caused a reduction in opportunities for integration in the Center-North, thus allowing to contain the population loss of the South. The opposite migratory current, from central-northern to southern Italy, has instead remained substantially stable over the period considered.

In 2017 the eleven regions with positive balance all belong to the Center-North: Lombardy (+18 thousand) and Emilia-Romagna (+13 thousand) are those with the largest net income of the population. The nine regions with a negative balance, on the other hand, all belong to the South: Campania (-16 thousand) and Sicily (-15 thousand) together represent over 56% of the population loss, about 54 thousand units, in the southern distribution.

In the last five years the most attractive region is Emilia-Romagna (+2.9 per thousand), followed by Trentino-Alto Adige (+2.7 per thousand), Lombardy and Friuli-Venezia Giulia (both +1, 8 per thousand). On the contrary, Calabria (-4.2 per thousand), Basilicata (-4.0 per thousand), Molise (-3.5 per thousand), Sicily and Campania are the regions that have the highest negative balances per thousand residents (-2.9 and -2.7 per thousand respectively).

A further territorial disaggregation makes it possible to define internal residence transfers in movements within the province (embarked) and between different (interprovincial) provinces. In 2017, about 807 thousand are the start-up transfers: 606 thousand took place within the provinces of the Center-North (75%), 201 thousand within the provinces belonging to the South (25%).

The most intense mobility over short distances in central-northern Italy is largely due to a greater dynamism of the productive structures which does not seem to have touched the areas of Southern Italy.

Inter-provincial transfers are around 528 thousand. Compared to 2016, the volume of inter-provincial mobility is stable (-0.3%), as has its share of total mobility for 40 years (40%). The most attractive provinces in 2017 are Bologna (+4.9 per thousand), Monza and Brianza (+3.4 per thousand), Bolzano (+ 3.2 per thousand) and Trieste (+3.1 per thousand). With the negative sign, the provinces of Caltanissetta (-7.1 per thousand), Crotone (-6.1 per thousand), Enna (-5.5 per thousand) and Reggio Calabria (-5.3 per thousand) stand out.).

The profiles by gender and age of interprovincial migrants are similar. The percentage of men on the total of migrants is 50.6%: men and women therefore move more or less with the same frequency. Even the average age at transfer is very close and slightly postponed for women (35.2 men and 36.7 women).

Age is one of the factors that most influences migratory behavior: residence transfers in working age are, in general, more numerous than in other age groups. 49% of those who, during 2017, moved their residence to a new province are between 15 and 39 years old. A significant proportion of inter-provincial transfers (28%) is also observed in the age group between 40 and 64 years. The percentage of the youngest (0-14 years) is just under 14%, the over sixty, on the other hand, move only in 9% of cases. From this analysis it clearly emerges that young adults, often with young children, constitute the largest share among those who move. Transfers in these age groups can be motivated by the continuation of studies, work or family needs.

4.1.2 Economic data

Structure of Gross Domestic Product (GDP)

GDP	2018 est.	$2.072 trillion (nominal) $2.397 trillion (PPP)
GDP growth	2016-2018	1.1% (2016) 1.6% (2017) 0.9% (2018) 0.0% (2019e)
GDP per capita	2018 est.	▲ $34,260 (nominal) ▲ $39,636 (PPP)
GDP by sector	2017est.	Agriculture: 2.1% Industry: 23,9% Services: 73,9 %
Inflation (CPI)	2019 est.	0.758% 1.243% (2018) 1.326% (2017)
Public debt	2018	2.742.231
Public debt (% GDP)	2018	132.2% of GDP
Debt per capita	2018	45.338 $
Deficit (M.D)	2018	-44,293
Deficit (% GDP)	2018	-2,10%
Population below poverty line	2017	5.7% in poverty, 2014; ▼ 28.9% at risk of poverty or social exclusion, 2017

Source: Wikipedia

In 2018 Italian GDP grew by 0.9%, with a strong deceleration compared to the previous year (+ 1.7%). The CSC estimates a steady Italian GDP in 2019 and a slight increase in 2020 (+0.4 percent) (*Figure 10*). This dynamic is much lower than that to the performance recorded in the years following the second recession. This is explained mainly by the sharp reduction in domestic demand especially for investments in machinery and means of transport. In the two-year period 2019-2020, foreign demand would almost exclusively be avoided to Italy a new recession. Italy is the only Eurozone country, along with Greece, to still has a level of GDP lower than pre-crisis.

At the end of 2020, GDP is estimated at still levels 4.6 percent lower than the peak reached in early 2008, though the contraction between 2011 and 2013 was fully recovered.

Figure 10 – Italian GDP

ITALIAN PIL

2019   2020

0,0%   **+0,4%**

Source: wikipedia

Structure of the commercial balance

TRADE		
Exports	2017	▲506,310.0 M.$
Exports % GDP	2018	26.39%
Imports	2017	452,204.0 M.$
Imports % GDP	2018	24.17 %
Trade balance	2017	54,106.0 M.$
Trade balance % GDP	2018	2.22%
Retail Sales YoY	February 2019	0.3%
Foreign reserves	31/12/2017	▲$151.2 billion

Source: Wikipedia

Economic structure

Italy has a varied economy: the primary sector excels in agriculture and livestock, the secondary in manufacturing and construction industries and the tertiary sector, currently the fastest growing area, bases its revenues on services, finance and tourism. The peninsula recorded the peak in its GDP growth in 2017 for *Istat*, reaching the highest figure in recent years, with + 1.5%: in 2019 it is preparing to face the changes underway with the new government and to consolidate its productivity.

Business structure

In 2016, for *Istat*, the number of companies in Italy increased (72.4 per thousand inhabitants). Due to the density of production activities, our country ranks among the top five in Europe. Among the main partners, Germany and France show lower values than the EU28 average (47.8) while Spain exceeds it by about 10 points.

The average size of Italian companies remains substantially stable under 4 employees compared to 5.8 in the European average. Only Greece, Slovakia, the Czech Republic and Portugal are smaller than the Italian one. At the territorial level, the Center-North is characterized by a very high ratio of businesses (79.4 per thousand inhabitants) and a number of employees (4.2) higher than the national average. Southern Italy, on the other hand, has a lower average company size (2.8).

The incidence of independent workers on the total number of workers in companies (29.2%) continues to fall, although it remains more than double with respect to the European Union average (13.2%) and second only to Greece. Among the major economies in the area, Germany and France have much lower quotas and less than 9%. The propensity to entrepreneurship is higher in the South (36.0%).

Non-profit institutions represent the most dynamic cross-section of the Italian production system. In 2016 the ratio of the resident population is almost 57 institutions per 10,000 inhabitants (50.7 in 2011). The North-East has the highest incidence, 68.2 institutions for every 10,000 inhabitants, while the South is the opposite (44.1).

Spanish Archipelago vs Italy

Figure 11 – Spanish Archipelago vs Italy
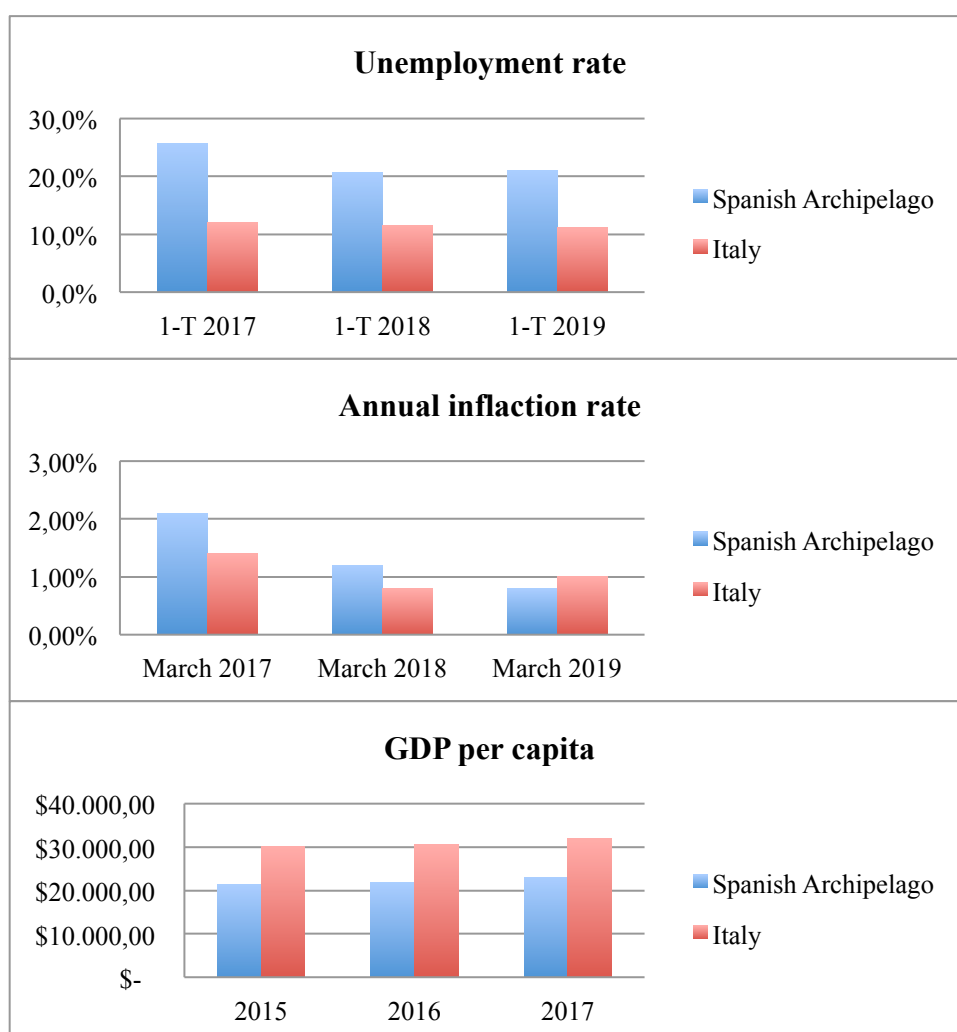
Source: author's elaboration base don the data of wordbank.org

4.1.3 Tourism data

Introduction

According to *Istat* data, 2017 was a year of significant growth in the tourist movement in Italy: hospitality establishments register a new all-time high, after 2016, with over 420 million presences (+ 4.4% compared to 2016) and 123 million of arrivals (+ 5.3%). The growth was higher than the European average.

In the hotels, admissions touched 275.1 million and arrivals 93.8 million (+ 2.8% and + 3.9% respectively on the previous year); on average the stay in the hotels is confirmed as 2.9 nights per customer.

In non-hotel businesses there are 145.5 million presences (+ 7.5% on 2016) and 29.4 million arrivals (+ 10.2%), with an average stay of 4.9 nights.

The presences of customers residing in Italy are close to 210 million, those of non-residents rise to 210.7 million and for the first time exceed the presences of residents (respectively + 3.2% and + 5.6% on 2016).

In 2017 it is estimated that holiday trips represent 88% of those made by Italian residents in national hospitality establishments (+ 5.6% on 2016). Only the remaining 12% is for business trips (-13.0%).

With almost 27 million presences, Rome is the main tourist destination (with 6.4% of the total national); followed by Milan, Venice (both at 2.8%), Florence (2.4%) and Rimini (1.8%).

The most consistent increases in terms of presences are recorded in Sicily (+ 7.3% compared to 2016), Basilicata (+ 6.5%), Piedmont (+ 6.3%) and Emilia-Romagna (+6.0 %). In general, growth was stronger in the South.

Germany confirms itself as the first country of origin of foreign tourists in Italy with 14.1% of registered presences; followed by France, the United Kingdom and the United States with shares of around 3%.

In 2017, Italy is the fourth country in Europe for accommodation in hospitality facilities, with a 13.4% share of the total of the EU countries.

It is estimated that residents book directly accommodation in about 71% of trips to Italian hospitality establishments, up compared to 2016 for holidays (+ 6%), down for business trips (-5.2%). Trips without reservations fall by 8.6% and represent

around 14% of departures. In 65% of trips, accommodation is booked through the internet (+ 8% compared to 2016).

In 2017 residents who stay overnight in hospitality facilities in Italy spent on average 404 euros per trip (+ 9.8% on 2016) and 87 euros per night (+ 6%).

Tourists number evolution and accommodation capacity

The 2017, was a new record year for tourism in Italy for *Istat.* Compared to the previous year, tourist flows increased by 5.3% in terms of arrivals (over 6 million more) and by 4.4% in terms of presences (over 17 million nights more), consolidating the recovery that it had manifested itself in previous years. Overnights are up in hotel businesses (+ 2.8%), but above all in non-hotel ones (+ 7.5%). In this last type of exercise, the number of arrivals grew by 10.2%, compared to a 3.9% increase in hotel businesses.

The positive trend in domestic demand for tourism continues, with an increase in both arrivals (+ 4.1%) and presences (+ 3.2%) of customers residing in Italy. The increase in resident customers involved both hotels (+ 2.5% admissions compared to 2016) and non-hotel structures (+ 4.6%) (*Figure 12*).
This trend is confirmed by the data from the *Travel and holiday* survey: it is estimated that in 2017 the number of journeys made by residents increased by 3.0% in Italian hospitality establishments.

A particularly positive trend concerns the non-resident component: arrivals grow by 6.6% and occupancy by 5.6% compared to 2016. In particular, the presence of non-resident customers increases especially in the non-hotel sector (+10, 5% compared to + 3.1% in hotels). For the first time, foreign customers exceeded Italian customers in terms of attendance (210.7 million non-residents and 210.0 those of residents).

The average stay, ie the average number of nights spent in hospitality establishments for each arrival, is 3.41 nights per customer, a slight decrease for both the domestic customer component (from 3.38 nights in 2016 to 3.35 of 2017) and for foreign ones (3.51 in 2016 and 3.48 in 2017). The stay is on average much longer in non-hotel establishments than in hotels (4.95 against 2.93 nights per customer) (*Figure 12*).

Figure 12 - The average stay

MOVEMENT	2016			2017			Var % 2017/2016		
	Hotels	Non-hotels	Tot.	Hotels	Non-hotels	Tot.	Hotels	Non-hotels	Tot.
Italian Resident									
Arrivals	46.850.959	13.329.045	60.180.004	48.425.025	14.247.341	62.672.366	3,4	6,9	4,1
Permanences	135.686.506	67.853.793	203.540.299	139.019.451	70.950.918	209.970.369	2,5	4,6	3,2
P.M.	2,90	5,09	3,38	2,87	4,98	3,35	-0,03	-0,11	-0,03
Non-Resident									
Arrivals	43.405.265	13.358.974	56.764.239	45.365.143	15.158.047	60.523.190	4,5	13,5	6,6
Permanences	131.988.707	67.433.107	199.421.814	136.114.096	74.544.690	210.658.786	3,1	10,5	5,6
P.M.	3,04	5,05	3,51	3,00	4,29	3,48	-0,04	-0,13	-0,03
Total									
Arrivals	90.256.224	26.688.019	116.944.243	93.790.168	29.405.388	123.195.556	3,9	10,2	5,3
Permanences	267.675.213	135.286.900	402.962.113	275.133.547	145.495.608	420.629.155	2,8	7,5	4,4
P.M.	2.97	5,07	3,45	2,93	4,95	3,41	-0,03	-0,12	-0,03

Source: Istat

In 2017 it is estimated that holidays represent around 88% of trips made by Italian residents (93.3% of nights), up 5.6% compared to 2016 (+ 7.3% in terms of nights). Business trips (12.0% of trips and 6.7% of nights in hospitality establishments) continue to decline (-13.0%, -4.8% in terms of nights).

More than 90% of holidays spent in hospitality facilities in Italy are for reasons of rest, pleasure or leisure (+ 5.3% compared to 2016). In the case of business trips, the accommodation facilities are mainly used to attend congresses, conferences or other events (21.3%), work missions (17.3%), to host business meetings (12.1%), representation, sales, installation or similar activities (12.0%). About 11% of business trips are linked to other reasons: from mobility for professional reasons (hauliers, drivers, etc.) to job search trips (competitions, interviews, examinations for professional qualifications, etc.).

In 2017, about 71% of overnight stays in Italian hospitality establishments take place by booking accommodation directly; the incidence is greater in the case of holiday trips (72.4%). Estimates of travel with direct booking is increasing for holidays (+ 6.0% compared to 2016), but is reduced for business trips (-5.2%). On the other hand, departures made without booking (13.9%) decreased by 8.6%, due to the sharp decline for business trips (-52%). Approximately 13% of trips are booked through the agency (-3.5% compared to 2016). The trips with accommodation booked on the Internet are constantly growing (+ 8% compared to 2016), in particular those made for work reasons (+ 13%). In 2017 the Internet is used to book accommodation (directly or through online agencies) in about two thirds of trips (64.8%) (*Figure 13*).

Figure 13 – Type of reservations for holiday or work

ACCOMODATION RESERVATION	HOLIDAY	WORK	TOTAL TRIP
2016			
Direct reservation	72,1	52,9	69,4
Reservation with agency	13,2	19,4	14,1
Reservtion in internet *(direct or with agentcy online)*	63,6	51,2	62,1
No reservation	14,3	23,4	15,6
No answer	0,4	4,3	0,9
TOTAL	**100,00**	**100,00**	**100,00**
2017			
Direct reservation	72,4	57,8	70,7
Reservation with agency	13,1	13,9	13,2
Reservtion in internet *(direct or with agentcy online)*	64,5	67,3	64,8
No reservation	14,3	13	13,9
No answer	0,5	15,3	2,3
TOTAL	**100,00**	**100,00**	**100,00**

Source: Istat

In Italy, overnight stays in hospitality establishments are mostly carried out by car (the estimate is 70.2%, stable compared to 2016), which is the most prevalent choice in the case of holidays (73.5%), less for business trips (45.8%).

The train and the plane are more used for business trips (27.3% and 14.7% respectively) than for holidays (9.1% and 6.2%). The use of both means of transport is increasing in 2016 (respectively + 19.8%, + 29.6%) (*Figure 14*).

Figure 14 – Different means of transport

MEANS OF TRANSPORT	HOLIDAY	WORK	TOTAL TRIP
2016			
Airplane	5,1	9,4	5,7
Train	6,6	28,6	9,7
Boat	2,9	0,5	2,5
Car	76,7	41,3	71,7
Bus	4,6	4,4	4,6
Camper, autocaravan	2,4	0,6	2,2
Others	1,7	15,2	3,6
TOTAL	**100,00**	**100,00**	**100,00**
2017			
Airplane	6,2	14,7	7,2
Train	9,1	27,3	11,3
Boat	1,6	..	1,5
Car	73,5	45,8	70,2
Bus	6,4	2,2	5,9
Camper, autocaravan	2,1	..	2,0
Others	1,1	7,9	1,9
TOTAL	**100,00**	**100,00**	**100,00**

Source: Istat

Tourist activity per region and development of new areas

In the Islands the greatest growth of presences.

Considering the dynamics of flows by destination region, in 2017 the most consistent relative increases in terms of presences are recorded in Sicily (+ 7.3% compared to 2016), Basilicata (+ 6.5%), Piedmont (+6, 3%) and Emilia-Romagna (+ 6.0%). Conversely, the regions that suffered the most significant decline are Umbria (-8.4%), Marche (-8.0%) and Molise (-5.3%) (_Figure 15_).

Figure 15 – Region of destination

Region of destination	% of presences on national total (Italy=100)			% of presences on regional total (Italy=100)			Var % presences 2017/2016		
	Italian Resident	Non resident	Tot.	Italian Resident	Non resident	Tot.	Italian Resident	Non resident	Tot.
North-West	**16,8**	**18,1**	**17,5**	**48,2**	**51,8**	**100,0**	**3,5**	**7,0**	**5,3**
Piemonte	4,1	3,0	3,5	57,4	42,6	100,0	5,0	8,3	6,3
Valle d'Aosta/Vallée d'Aoste	1,0	0,7	0,9	60,1	39,9	100,0	3,1	4,9	3,8
Liguria	4,4	3,0	3,7	59,4	40,6	100,0	2,4	4,4	3,2
Lombardia	7,3	11,4	9,4	39,1	60,9	100,0	3,4	7,6	5,9
North-East	**36,1**	**43,9**	**40,0**	**45,1**	**54,9**	**100,0**	**4,6**	**5,8**	**5,3**
Trentino-Alto Adige	9,8	14,0	11,9	41,1	58,9	100,0	4,8	3,5	4,0
- Bolzano/Bozen	4,9	10,5	7,7	31,7	68,3	100,0	4,6	2,9	3,5
- Trento	4,9	3,5	4,2	58,3	41,7	100,0	5,0	5,0	5,0
Veneto	10,5	22,4	16,5	31,9	68,1	100,0	3,0	7,1	5,8
Friuli-Venezia Giulia	1,8	2,4	2,1	43,1	56,9	100,0	2,9	6,9	5,1
Emilia-Romagna	14,0	5,1	9,5	73,3	26,7	100,0	5,9	6,1	6,0
Centre	**22,1**	**23,7**	**22,8**	**48,2**	**51,8**	**100,0**	**-0,3**	**4,2**	**1,9**
Toscana	10,0	11,8	10,9	45,7	54,3	100,0	3,5	3,9	3,7
Umbria	1,7	0,9	1,3	64,0	36,0	100,0	-8,1	-8,9	-8,4
Marche	4,3	1,0	2,6	82,0	18,0	100,0	-8,1	-7,3	-8,0
Lazio	6,1	10,0	8,0	37,8	62,2	100,0	2,0	7,2	5,2
South	**18,0**	**7,5**	**12,8**	**70,2**	**29,8**	**100,0**	**3,7**	**4,2**	**3,9**
Abruzzo	2,5	0,4	1,5	86,0	14,0	100,0	1,6	-1,0	1,2
Molise	0,2	0,0	0,1	90,3	9,7	100,0	-5,3	-6,1	-5,3
Campania	5,2	4,5	4,9	53,3	46,7	100,0	3,6	2,1	2,9
Puglia	5,7	1,5	3,6	78,5	21,5	100,0	4,2	9,3	5,2
Basilicata	1,1	0,1	0,6	89,5	10,5	100,0	6,8	3,8	6,5
Calabria	3,3	1,0	2,1	77,5	22,5	100,0	4,3	9,3	5,4
Islands	**7,0**	**6,8**	**6,9**	**50,4**	**49,6**	**100,0**	**5,1**	**7,7**	**6,4**
Sicilia	3,6	3,4	3,5	50,7	49,3	100,0	9,5	5,3	7,3
Sardegna	3,4	3,4	3,4	50,1	49,9	100,0	1,0	10,4	5,5
ITALY	**100,0**	**100,0**	**100,0**	**49,9**	**50,1**	**100,0**	**3,2**	**5,6**	**4,4**

Source: Istat

For 2017, both presences of resident and non-resident customers increase in most regions, but the tourist attraction capacity of the territories is different in relation to the origin of tourists. The largest increases in the presence of resident customers are in Sicily (+ 9.5%) and in Basilicata (+ 6.8%), while in the foreign component there are in Sardinia (+ 10.4%), Puglia and Calabria (both + 9.3%) Umbria Marche and Molise instead show the most significant decreases for both types of customers.

In 2017, the regions with the highest number of presences are confirmed as Veneto (16.5% of total presences in Italian hospitality establishments), Trentino-Alto Adige (11.9%, with the Autonomous Province of Bolzano at 7.7% and the Autonomous Province of Trento at 4.2%), Tuscany (10.9%), Emilia-Romagna (9.5%) and Lombardy (9.4%). In these five regions, 58.2% of tourist presences in Italy are concentrated, equal to over half (51.6%) of resident customers and almost two-thirds (64.7%) of non-residents (Schedule 8).

Some Italian territories are the destination of a predominantly foreign clientele, including the Autonomous Province of Bolzano (68.3%), Veneto (68.1%), Lazio (62.2%) and Lombardy (60.9 %). Some regions of Central and South, on the other hand, have an almost exclusively national basin of attraction: this is the case of Molise (90.3% of presences of customers residing on the regional total), Basilicata (89.5%), Abruzzo (86 , 0%), Marche (82.0%), Puglia (78.5%) and Calabria (77.5%) (*Figure 15-16*).

Figure 16 – Residents/Non residents in the different Italian regions
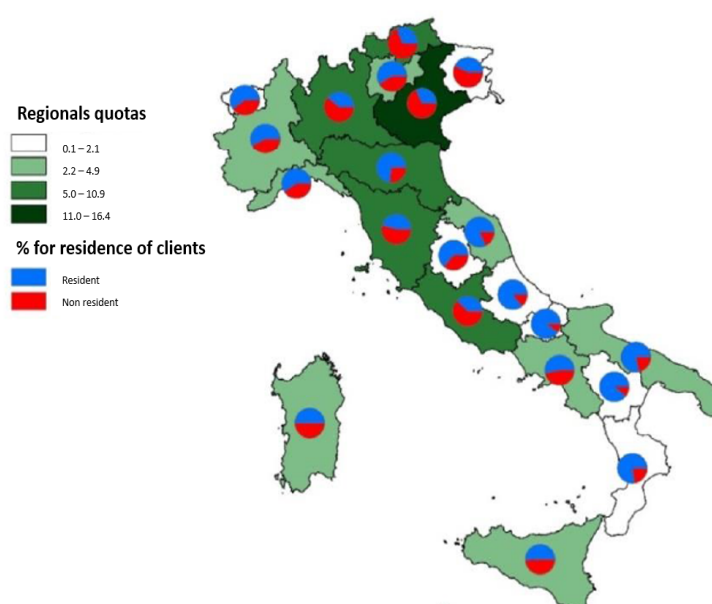
Source: Istat

In the coastal municipalities over half of the presences.

On the basis of data on tourism disaggregated at municipal leve1, it is noted that in 2017 the municipalities with less than 5 thousand inhabitants (representing about 70% of the Italian municipalities) offer a total of 27.4% of available beds and absorb 21, 8% of total presences.

On the other hand, in the 144 municipalities of large demographic size (over 50 thousand inhabitants, which make up less than 2% of the total), one fifth of the accommodation offer is concentrated in terms of beds and almost 30% of the presences registered in hospitality establishments.

With reference to the impact of tourist flows on the territories and the resident population, it emerges that the "tourist pressure" indicator, calculated as the number of presences per inhabitant, increases as the demographic class decreases, passing from 6 presences for each inhabitant of the large city to over 9 small towns.

The proximity to the sea is a very important feature for the development of tourism and its contribution to the local economy and coastal areas. Although the coastal municipalities are less than 15% of the total and host 34.2% of the Italian population, they offer 56.4% of the beds and contribute 53.1% to the total tourist presences registered in 2017. In these territories the seasonality of the flows is particularly evident: in the coastal municipalities 70.8% of the presences are concentrated in the summer period (June-September), compared to 49.4% of the presences detected in the same period in the other Italian municipalities (*Figure 17*).

Figure 17 – How proximity to the sea impacts on tourism

Type of commune	% summer presences	% presences rest of the year	Total presences
	2016		
Coastal	70,8	29,2	100,0
Non-Coastal	49,4	50,6	100,0
TOTAL ITALY	**60,8**	**39,2**	**100,0**

Source: Istat

Rome maintains the primacy of foreign tourists.

Almost 171 million presences, 40.6% of the total, are concentrated in hospitality establishments in the top 50 Italian municipalities. These destinations, as a whole, absorb one third of the presences of the resident component of customers (32.7%) and almost half (48.5%) of that of non-residents and are mainly located in northern Italy.

Rome is confirmed as the main destination with almost 27 million presences (6.4% of the national total), followed by Milan and Venice (both at 2.8%). Looking at foreign customers alone, the share of foreign tourists hosted in the capital reaches around 9% of the total. Venice ranks second in the ranking if one considers only non-resident customers (4.8% of foreign presences).

Alongside the major tourist destinations, there are also municipalities that, although of limited demographic size, register a significant number of presences in proportion as they gravitate around poles of strong attraction, such as Cavallino-Treporti, Jesolo, Caorle and Rosolina, all located near Venice.

The first municipality in Southern Italy present in the ranking is Naples, in sixteenth place with more than 3 million presences, equal to 0.8% of presences in the national total.

In Europe, tourism is concentrated in a few countries.

In 2017, in the accommodation establishments of the 28 countries of the European Union, there are more than 3 billion client presences, an increase of 2.8% compared to 2016.

Spain, which registered a growth in presences compared to the previous year equal to 3.6%, is the first country in terms of number of tourists, followed by France, a sharp increase over the previous year (+ 7.0%). Italy ranks fourth, up 4.4% compared to 2016, higher than the European average (+ 2.8%). The top four countries together (Italy, Spain, France and the United Kingdom) cover more than half of the total European Union presence (55.9%).

Compared to 2016, presences in Croatia (+ 10.6%), Greece (+ 9.2%) and Portugal (+ 9.1%) increased significantly.

Foreign investments

The Italian tourism sector increasingly likes investors, especially international ones, who in 2017 have invested in hotel facilities for 1.6 billion euros, a historical record. The growth compared to 2016 was 7.2%, and the past one is the third consecutive year of significant increases. To provide this data is the report drawn up

by the multinational consulting firm EY - Ernst Young, which also underlines an equally rosy future: in fact, it seems that the most voted structures in the holiday sector and in the seaside resort exercise a constant increase of interest on investors, in particularly because the destinations are moving from Africa and the Middle East to Mediterranean Europe.

The city with the largest volume of investment operations is Rome with 470 million, followed by Venice and Milan. The lagoon city, however, stands out as the most expensive destination: € 450,000 per room, followed by Rome with € 220,000 and Milan with € 180,000.

Regarding the origin of investors, the leading role according to EY is of North Americans (43%), alongside European investors (24%). Italian investors represent around 30% of the total.

Airports (civil)

Overall, in Italy there are 112 airport areas of activity between civil, military, or mixed-use structures. Of these, the National Airport Plan - the subject of a Presidential Decree of 17 September 2015 which came into force on 2 January 2016 - identified 39 Airports of national interest, and was therefore subject to measures aimed at rationalizing the system.

	AIRPORT	CODE	CITY	REGION
1	Alghero-Fertilia	AHO	Alghero, (SS)	Sardegna
2	Ancona-Falconara	AOI	Falconara Marittima (AN)	Marche
3	Bari-Palese	BRI	Bari (BA)	Puglia
4	Bergamo-Orio al Serio	BGY	Bergamo (BG)	Lombardia
5	Bologna-Borgo Panigale	BLQ	Bologna (BO)	Emilia-Romagna
6	Bolzano	BZO	Bolzano (BZ)	Trentino-Alto-Adige
7	Brescia-Montichiari	VBS	Brescia (BS)	Lombardia
8	Brindisi-Papola Casale	BDS	Brindisi (BR)	Puglia
9	Cagliari-Elmas	CAG	Elmas (CA)	Sardegna
10	Catania-Fontanarossa	CTA	Catania (CT)	Sicilia
11	Comiso	CIY	Comiso (RG)	Sicilia
12	Crotone-Sant'Anna	CRV	Crotone (CR)	Calabria
13	Cuneo-Levaldigi	CUF	Cuneo (CN)	Piemonte

14	Firenze-Perentola	FLR	Firenze (FI)	Toscana
15	Foggia	FOG	Foggia (FG)	Puglia
16	Genova-Sestri	GOA	Genova (GE)	Liguria
17	Grosseto	GRS	Grosseto (GR)	Toscana
18	Lamezia Terme	SUF	Lamezia Terme (CZ)	Calabria
19	Lampedusa	LMP	Lampedusa e Linosa (AG)	Sicilia
20	Milano Linate	LIN	Milano (MI)	Lombardia
21	Milano Malpensa	MXP	Ferno (VA)	Lombardia
22	Napoli-Capodichino	NAP	Napoli (NA)	Campania
23	Olbia Costa Smeralda	OLB	Olbia (SS)	Sardegna
24	Palermo-Punta Raisi	PMO	Palermo (PA)	Sicilia
25	Parma	PMF	Parma (PR)	Emilia-Romagna
26	Perugia	PEG	Perugia (PG)	Umbria
27	Pescara	PSR	Pescara (PE)	Abruzzo
28	Pisa-San Giusto	PSA	Pisa (PI)	Toscana
29	Reggio Calabria	REG	Reggio Calabria (RC)	Calabria
30	Rimini-Miramare	RMI	Rimini (RI)	Emilia-Romagna
31	Roma-Ciampino	CIA	Roma (RO)	Lazio
32	Roma-Fiumicino	FCO	Roma (RO)	Lazio
33	Taranto-Grottaglia	TAR	Monteiasi (TA)	Puglia
34	Torino-Caselle	TRN	Caselle (TO)	Piemonte
35	Trapani-Brigi	TPS	Trapani (TP)	Sicilia
36	Treviso-Sant'Angelo	TSF	Treviso (TV)	Veneto
37	Trieste	TRS	Trieste (TS)	Friuli-Venezia Giulia
38	Venezia-Marco Polo	VCE	Venezia(VE)	Veneto
39	Verona-Villafranca	VRN	Villafranca di Verona (VR)	Veneto

Source: ENAC

The scaffolding of the system is of military origin; the inauguration of many national airports dates back to the years between the two wars. Nevertheless, the economic importance of the sector began in the post-war period to then consolidate itself starting from the 60s with the great season of well-being and infrastructure investments. From that moment on then, in fact, the Italian civil aviation sector knows a period of constant growth well evidenced by the historical series of Istat data 1960-2015 (*Figure 18*).

Figure 18 - Italian passengers (departures-arrivals) 1960-2015
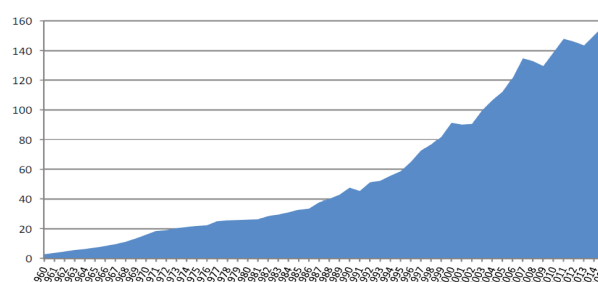
Source: Istat

Air transport has grown even during the crisis years.

Between 2007 and 2017, in the decade of the global economic crisis, air transport in Italy increased by 21.8%. In 2016, traffic in Italian airports exceeded 164 million passengers. Growth in the last five years was 11.1% and only in the last year by 4.6%. The most recent economic situation is also very positive: + 6.6% in the first four months of 2017.

In the next twenty years the traffic will double.

According to an estimate based on the forecasted growth rates for world traffic (IATA) in 2035 the number of passengers in Italy will reach 311 million. Even if we project the trend recorded at national level over the last decade, we will still have 289 million passengers. Massive flows that the airport sector, the Italian cities, the whole country system will have to equip themselves to accommodate and manage.

The impact on the economic cycle of the airport industry is strong.

The world airport industry is worth 260 billion dollars and employs 2.6 million direct employees.

At national level, the airport sector, considering the direct, indirect and induced impact, is worth 3.6% of GDP. The growth of air transport on international routes drives foreign direct investments. World tourism shows remarkable growth rates (+ 75% in the last fifteen years, + 110% for emerging countries).

Italy has the capital base to intercept important shares, but to seize this opportunity, quantitative and qualitative improvement of airport connectivity is needed.

An important investment cycle.

The new program contracts resulting from the collaboration between *Assaeroporti* and the competent institutions provide for investments of around 4.2 billion euros (*Figure 19*) over a five-year period. Of these, 93% comes from the own resources of the management companies and only 7% is financed with public resources (EU, State, Regions). Most of the expenditure (47.9%) concerns Central

Italy, due to the importance of Fiumicino. The North-West and North-East airports generate 18.8% and 18.3% respectively of investments. At the South ports it corresponds to 15% of the total resources. The planned interventions are aimed at both increasing airport capacity (hard infrastructuring) and improving services (airport experience).

Figure 19 – Investments for the Italian aeronautical sector
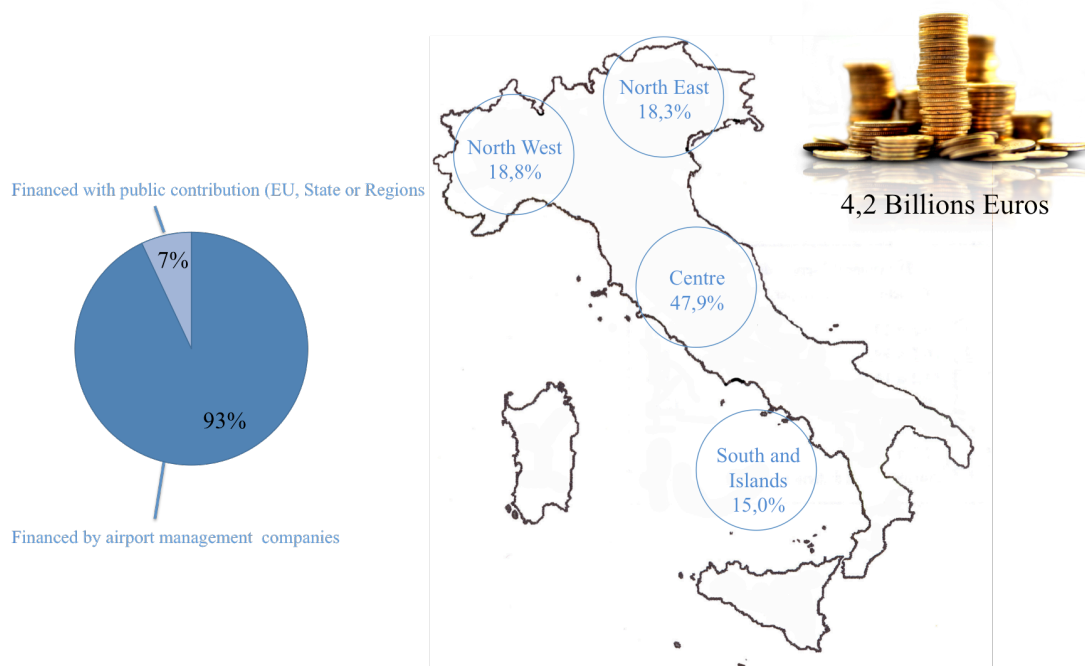
Source: author's elaboration based on Istat

4.1.4 Legal conditions

Introduction

The political system in Italy is based on a representative democracy in the form of a parliamentary Republic. The State is organized in a centralized manner and based on a significant regional decentralization. Italy has been a democratic republic since June 2, 1946, when the monarchy was abolished by referendum and the Constituent Assembly was elected to draft the Constitution, which was promulgated on January 1, 1948.

In 2016 the Economist Intelligence Unit, the journal controlled by the Agnelli family, classified Italy as an "imperfect democracy".

The Italian political system is organized according to the principle of separation of powers: the legislative power is attributed to the Parliament, the government has the executive power, while the judiciary, independent from the executive and from the legislative power, exercises instead the judiciary power; the president of the Republic is the highest office of the state and represents its unity.

The fundamental law of the Republic is the Constitution that is the code that indicates the fundamental principles, the rights and the duties of the citizens and fixes their order. The state legislative power lies with the Parliament pursuant to art. 70 of the Constitution, divided into two chambers: the Senate of the Republic and the Chamber of Deputies.

All laws, in the final instance, must be promulgated by the President of the Republic who can refer a law to Parliament if he believes that this is contrary to the Constitution (the so-called suspensive veto), but exclusively for the first time. The Council of Ministers is based on a parliamentary majority, typically constituted starting from an electoral consultation among all those entitled to vote.

Fiscal system

The Italian tax system is made up of all the taxes and their distribution provided for by the law, the application provisions and the bodies that manage them.

It is inspired by criteria of progressiveness: the average applied taxation increases as the income of the tax payer increases.

The taxes are divided into:

Taxes (in Italian *tasse*): revenue through which the state finances the expenses it incurs for the construction of public works and services which benefit the entire community and which cannot be divided between the individual subjects. The cost of these works and services is divided among all citizens based on their ability to pay (art. 53 of the constitution). Taxes are divided into:

- Direct taxes: they directly affect the income of the tax payer, in a proportional way (as in the case of personal income tax, IRPEF or corporate income tax, IRES 24%) or with progressive rates (as in the case of personal income tax);

- Indirect taxes: they affect taxpayers' income indirectly, in relation to consumption and the transfer of wealth. The main indirect tax is value added tax (VAT) that in Italy is 22%;

Fees (in Italian *imposte*): they represent the consideration for a service rendered by the Public Administration, but which in particular benefits a person or a group of subjects. In other words, it is a service that is divisible and provided at the request of the interested party. The measure of the tax is normally lower than the value of the service provided, since it is still something useful for the community. Among the main ones are car taxes, municipal taxes and others that do not directly affect businesses, such as school fees or fees for admission to galleries or museums;

Contributions (in Italian *contributi*): they are compulsory wealth withdrawals made by the State when a part of the community benefits from a specific service. This is the case for example of the connection of a building to the water supply or sewerage system.

Custom barriers

Nowadays customs, among the various tasks, have the predominant role of controlling the traffic of goods imported and exported outside the single commercial area, not only for taxation purposes, but also in defense of the industry and the consumer of the community European.

Each commodity must first be classified, that is combined with a specific number. To do this, internationally the Customs Tariff of the Harmonized System (HS) is used, a handbook divided into Sections and Chapters sorted by type of goods. This number consists of 6 digits. Obviously the HS tariff cannot foresee a number for every existing object and cannot anticipate the numbers of new objects that are born thanks mainly in the sectors of electronics, telecommunications, television, etc., in fact often the items concern a category and not a specific object.

The Italian Customs Agency maintains a site called AIDA, an Integrated Customs Tariff, which provides the official, historical and current data for TARIC codes. Defined the exact "tariff item" of a certain commodity, the site provides all the data necessary for importing and exporting it. Among these we can mention the duties, the VAT and all the other taxes that weigh on the importation of the goods. There are also lists of all economic requirements ("bans"), health, CITES, dual-use goods, cultural assets and more. The restrictions on arms, armaments, refusals and other formalities that every importer / exporter will do well to investigate both through customs and with the help of an expert in the field (a customs expert) are not yet linked to the Taric entries.

To avoid incurring penalties, each taxpayer can request the administration offices to establish which code the merchandise to be imported or exported belongs to. This information is called Binding Price Information (ITV) and, as it is clear from the name, will be binding the customs offices of the member countries of the European Union for the next six years. There are various cases in which this binding information is no longer valid, please refer to Regulation (EEC) n. 2913/92 and to the regulation (CEE) n. 2454/93.

Mercantile legislation

There are two large category in which lucrative societies are grouped: partnerships and corporations. There are two elements that distinguish them: the degree of patrimonial autonomy and the recognition or not of the juridical personality by the legislator More specifically, with regard to financial autonomy:

- The corporations are characterized by a perfect patrimonial autonomy and so:

- o Members are liable for social obligations within the limits of the quota assigned, unless:
    - the general partner of a company limited by shares, for the obligations that arose during the period in which he was an administrator;
    - the sole shareholder of S.r.l. and S.p.A., where it has not fulfilled the advertising obligations relating to cash contributions connected to this condition;
  - o The particular creditors of the shareholders cannot claim that the share of the respective debtor is liquidated by the company (but they can attach the quota or the profits deriving from it).
- Partnerships, on the other hand, see imperfect patrimonial autonomy. It follows that:
  - o The partners are, in subsidiary way (the benefit of enforcement operates differently, depending on the social type), unlimitedly and jointly responsible for the obligations of the company, except for some established exceptions
    - by law: limited partner of a limited partnership;
    - by the shareholders themselves (possibility provided only in the regulation of simple companies), by means of a pact brought to the attention of third parties by suitable means, pursuant to Article 2267 of the Civil Code;
  - o The particular creditors of the partners of simple companies can obtain from the company the liquidation of the quota of the debtor partner. This possibility is also recognized to creditors of the general partnership members, where the duration of the latter has been extended, in different ways if the extension was expressed or tacit.

Furthermore, the legal system recognizes the legal personality only to corporations (Article 2331 of the Civil Code). Companies of persons are in any case characterized by legal subjectivity, ie they constitute a subject distinct from the shareholders, owner of their own legal relationships and their own assets.

They are partnerships:

- the simple society (S.s.)
- the general partnership (S.n.c.)
- the limited partnership (S.a.s.).

They are corporations:

- the joint-stock company (S.p.A.)
- the limited liability company (S.r.l.)
- the simplified limited liability company (S.s.r.l. or S.r.l.s.)
- the company limited by shares (S.a.p.a.).

They are cooperative societies: companies characterized by mutualistic purposes. All cooperative societies have legal personality and must follow the accounting and budgetary rules of legal persons, with the addition of supervision by the Ministry of Labor.

A consortium company, on the other hand, is defined as the organization set up between entrepreneurs of the same branch or related activities for the discipline or for carrying out certain phases of the respective companies.

Simple society – S.s.

A simple company a basic corporate form which can therefore be used to carry out an economic activity, but not a commercial one. Despite this, and for the purpose of legal advertising, this partnership must be registered in the business register. The simple society S.s. it is not subject to bankruptcy, while its constitution requires at least the written form.

General partnership – S.n.c.

Regulated by articles 2291-2312 of the civil code, by definition it refers to the basic model for starting the exercise of a commercial activity. Depending on whether this partnership is registered in the business register, it can be of two types: regular or irregular - and the registration is a legal obligation.

The company name in the collective name must necessarily contain the name of at least one of the shareholders and also the indication of the relationship S.n.c. The bankruptcy of the S.n.c. leads to the failure of all members. It also does not deliberate through an official assembly, but with the consent of each of the members.

Limited partnership – S.a.s.

By definition it is the kind of partnership that has the faculty to carry out both commercial and non-commercial activities. His discipline is traceable in the articles 2313-2324 of the civil code and inside it counts two different categories of partners: the limited partners and the general partners.

- Limited: they are responsible for the obligations contracted only within the limits of the quota they have assigned. The administration is not responsible for them;

- General: they are liable for the debts contracted by the partnership of people jointly and unlimitedly. They are also responsible for the administrative part of the company.

The company name must contain the name of at least one general partner and the indication S.a.s.

Joint-stock company – S.p.A.

The joint-stock company is made up of several people, who join forces by forming a common capital. Each shareholder, in exchange for the paid-up capital, receives a certain number of shares. In the event of loss or bankruptcy, the shareholder risks only the money paid into the company, but not his own personal assets

Limited liability company – S.r.l.

The company, except for limited cases, is liable for debts incurred and commitments made only with its assets. Shareholders generally enjoy the benefit of limited liability for their contribution: for social obligations, they are liable for the amount of shares held or capital shares transferred. In the event that the company does not pay its debts, the creditors cannot claim on the personal assets of the individual shareholders.

Its main features are the following:

- the minimum capital required for the constitution is 10,000 euros (with the exception of the simplified law);

- the company must be established by public deed;

- the company can be established for an indefinite period;

- if the contribution is in cash, a payment of at least 25% is mandatory;
- the transfer of the participations can take place with a notarial deed or with an electronic document drawn up by the accountant if the contractors have a digital signature.

Simplified limited liability company – S.s.r.l. or S.r.l.s.

Variant of the S.r.l. is the new simplified limited liability company (srls) which can be established on the basis of a predetermined "standard statute"; for its constitution it is foreseen, unlike the s.r.l. a minimum capital of at least 1 euro, while there is no payment of any fees to the notary or the payment of administrative fees and stamp duty for registration in the register of companies.

Company limited by shares – S.a.p.a.

The limited partnership by shares (Sapa, S.a.p.a.) is a particular company form in which two different groups of shareholders coexist.

The first is that of limited partners, members excluded by the administration, who are responsible for corporate obligations with their own contribution only.

The second is that of general partners, who administer the company by law, and are personally and unlimitedly responsible.

Legislation on collective bargaining

To admit Collective Bargaining is Article 40 paragraph 3 of Legislative Decree No. 165/2001 which must be consistent with the Privatistic System.
There are three levels of collective bargaining:
- Framework Contract: It is the Established Contract between ARAN and Trade Union Confederations and serves to prepare the Contracting Rules and the Rules of the Business Relationship concerning all the Funds.
- Sub-Fund National Collective Agreements: These are the Contracts established between ARAN and Sub-Fund Syndicates (with the presence also of Confederations that are not present in Private Scope except as technical assistance) and which concern the Individual Sub-Funds of Public Work (the

Brunetta Reform) provided that there are four Funds, first there were Twelve: Health, Knowledge, Local Functions and Central Functions).

- Supplementary Contracts: These are the Contracts Established between Individual Public Administrations and Sub-Fund Syndicates (or rather the MSW - Unitary Union Representatives which in the Public Area are provided for by the Law itself while in the Private Sector are established by an Interconfederal Agreement) and which supplement the Collective Agreements of the Sub-Fund.

Legislation on working market

The legislation is regulated by Legislative Decree no. 66 / 08.04.2003 "Reform of the regulation on working hours in implementation of directives 93/104 / Ce and 2000/34 / Ce".

The new discipline is applied in all sectors of activity, both public and private.

The exceptions concern:

- seafarers, civil aviation flight personnel and mobile workers of transport companies (with reference to the profiles referred to in Directive 2002/15/ EC)
- the school staff referred to in Legislative Decree n. 297/94
- minor apprentices

According to the art. 1, paragraph 2 letter a) of Legislative Decree n. 66/2003, it is working time any period in which the worker is at work, available to the employer and in the exercise of his activity or his functions.

It is set at 40 hours per week, which can be modified in a reductive sense by collective agreements, but with the obligation to report the normal time to the average duration of work performance in a period not exceeding one year.

It is the one fixed from time to time by collective bargaining and which in any case cannot exceed 48 hours per week on average, including overtime hours.

There is no daily limit on the duration of working hours and, according to the circular letter n. 5/27373/70 of 09.11.03 of the Ministry of Labor and Social Policies, there cannot be even a rigid definition of the working week; in fact each seven-day

period can be considered a "working week", with the consequence that employers can start the reference week starting from any day.

The average duration of working hours must be calculated with reference to a period not exceeding four months, which can be extended (always with collective bargaining) up to six or twelve months, but only for objective, technical or inherent reasons work organization, which are specified in the collective agreements themselves.

In the "average" calculation, annual leave periods and periods of sick leave are not taken into consideration.

Extraordinary work (Article 1 paragraph 2 letter c)

Extraordinary work is that performed beyond normal working hours, that is that provided over the 40th hour or beyond the shorter duration established by collective agreements.

The use of overtime must be limited. In the absence of an applicable collective discipline, recourse to "overtime" is allowed only after agreement between the employer and the employee for a period not exceeding two hundred and fifty hours per year.

The collective agreements themselves may allow that, as an alternative or in addition to the salary increase set forth in Article 5, workers enjoy compensatory rest; in this case the overtime hours worked are not calculated for the purposes of the "weekly average".

For the additional contribution on overtime, INPS has suspended its application following application problems that require further investigation with the Ministry of Labor and Social Policies (msg. 147 of 11.12.2003)

The daily rest (art. 7)

The D.Lsg. it does not establish a daily limit on the duration of working hours, but only the right to a daily rest for the worker, which cannot be less than eleven hours of consecutive rest every 24 hours.

The daily pauses (art. 8)

Collective bargaining will have to establish modalities and duration of daily breaks if the daily time is more than 6 hours.

In the absence of contractual provision, the worker must be granted a break between the beginning and the end of each daily period of work lasting no less than 10 minutes.

Weekly rest (art. 9)

The rest period is any period that does not fall within working hours.
At least 24 consecutive hours of rest are foreseen, usually coinciding with Sunday, every 7 days; the 24-hour period also includes the hours of daily rest. Weekly rest can also be set on a different day than Sunday and can also be implemented by shifts in special cases.

Annual holidays (art. 10)

The worker has the right to an annual paid holiday period of not less than 4 weeks. It is clear from the law in an unequivocal manner that this minimum holiday period cannot be replaced by the relative "indemnity for vacation not taken" except in the case of termination of the employment relationship.

The night work (articles from 11 to 15)

The law defines:

- the night period: period of at least 7 consecutive hours including the interval between midnight and five in the morning
- night worker: who performs during the night period at least
- 3 hours of his daily working time used in the normal way
- 80 working days per year of night work, re-proportioned in the case of part-time work
- Night work is provided only by suitable personnel; collective labor agreements will establish the requirements of night workers and cases of exclusion.
- It is in any case forbidden to use women for work, from 24.00 to 6.00, in the period between the ascertainment of the state of pregnancy and the child's one year old age.
- They are not obliged to perform night work:

- the mother worker with a child under the age of 3 or alternatively the father worker who lives with her;

- the worker or worker who represents the only parent with custody of a child cohabiting less than 12 years;

- the worker with a dependent disabled subject.

The derogations

The collective bargaining and any ministerial decrees that will be issued subsequently, may provide for specific exceptions for particular sectors, having regard to the particular methods of carrying out work services.

Sanctions

Exceeding the normal effective working time of 40 hours per week or when established by the national collective agreement, the normal one referred to the average duration of work performance in a period not exceeding one year (sanctioning source: art.1, paragraph 1 letter f) Legislative Decree n. 213 of 07.19.2004).

Exceeding the maximum weekly working time limit (which cannot be greater, for a period of seven days, at 48 hours, including overtime. (Sanctioning source: art.1, paragraph 1 letter f) Legislative Decree No. 213 of 07.19.2004).

4.2 MICRO-ENVIRONMENT

4.2.1 Evaluation of the potential market – Bari Airport

Market segment

The passenger air transport market is divided into two main segments:

- Commercial flight (88,3 % of passengers in Italy)
- Charter + Airtaxi (11,7 % of passengers in Italy)

Each of them is subdivided into the following three segments:

- National (48,7 % of passengers in Italy)
- International EU (30,7 % of passengers in Italy)
- International extra-EU (8,9 % of passengers in Italy)

I will take into account, from Bari airport, only national commercial flights (within a radius of 600 km from Bari) and international EU flights (within a radius of 600 km from Bari: Croatia, Bosnia and Herzegovina and Albania).

The potential market is made up of all the Apulian inhabitants (as Bari is about 1:30h max from every town in Puglia) which in 2018 were 4.048.242.

In Apulia there are other airports, Brindisi, Foggia and Taranto, so we can consider only the inhabitants of Bari more closely, that are 1.257.520.

However, because the Bari airport is the main one, with the biggest number of flights and destinations while the other airports in Apulia are secondary ones, the difference of 2.790.722 inhabitants will be considered as well as potential for all those routes that are not covered by the nearest airports (all the information and data are from *PaxIS*).

Market size

Bari airport is constantly growing both in terms of domestic flights and total flights bringing Bari to be the twelfth Italian airport for passenger traffic.

Data of the year 2018:

	Reported + Est. Pax	Revenue
Bari	2.551.141	215.834.792 €
Italy	87.453.769	11.046.265.707 €

Domestic flight

Figure 20 - Reported + Est. Pax from BRI to Italy from Jan 2017 to Dec 2018
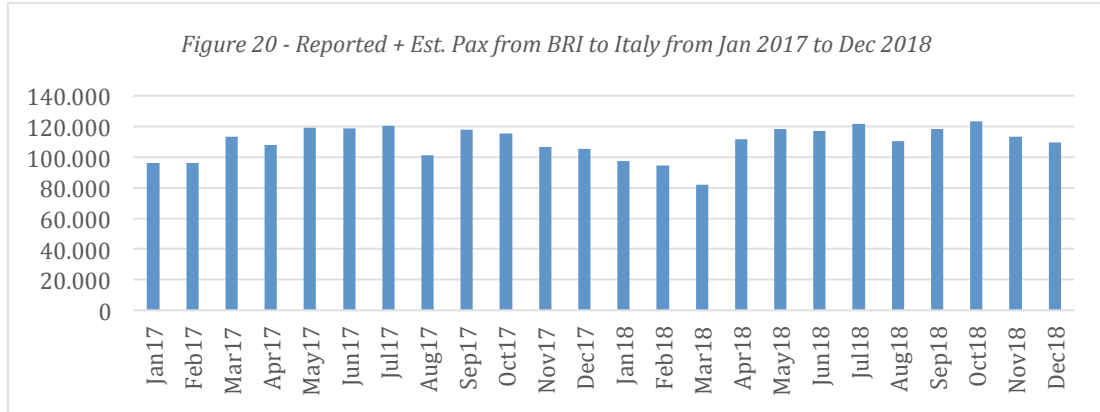
Source: PaxIS

For domestic flight, as it can be seen in *Figure 18* from January 2017 to December 2018 Bari Airport has totalized 2.635.233 passengers, therefore an average of 110.000 pax per month.

Regarding the passenger traffic from Bari divided by destinations in Italy the numbers are considerably higher for the airports of Rome Fiumicino (FCO), Milan Malpensa (MXP), Milan Linate (LIN) and Bergamo-Orio al Serio (BGY). This is due to the fact that Bari does not have a high number of direct flights to Italian cities, so passengers have often to change plane at one of the primary airports mentioned above.

Total flight

Figure 21 - Reported + Est. Pax from BRI to ALL from Jan 2017 to Dec 2018
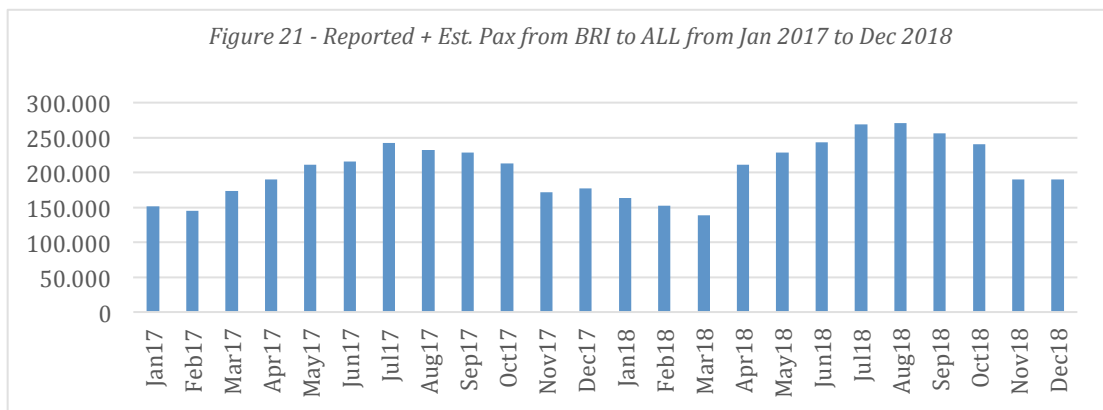
Source: PaxIS

For total flight, as it can be seen in *Figure 19* from January 2017 to December 2018 Bari Airport has totalized 4.900.653 passengers, therefore an average of 204.000 pax per month.

These data show that half of the Bari airport traffic is domestic and half is international.

4.2.2 Estimating future market size

Market size is the part of total population that shows interest in a certain offer: this quantity represents the potential market of the Network. It can be estimate as it is shown in *Figure 22*:

Figure 22 – Market size
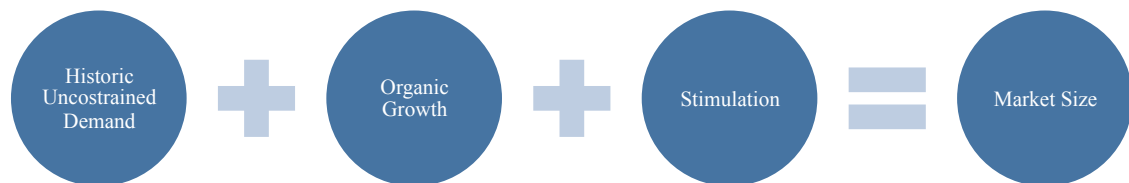
Source: IATA course

Historic Unconstrained Demand

Figure 23 – Historic unconstrained demand

Source: IATA course

Historic Constrain Demand

Historic demand can be determined with:

- Gravity model
- Survey and market intelligence
- Other modes of transport

Gravity Model

The Gravity Model (*Figure 24*) is based on Isaac Newton's law of gravitational attraction.

It's based on two assumption:

- The bigger the cities, the bigger the demand for travel;
- The larger the distance, the smaller the demand for travel.

$$\text{Demand} = \frac{C \times (Population\ 1) \times (Population\ 2)}{Distance^2}$$ With C = Similar cities

Figure 24 – Gravity model

$$F_1 = F_2 = G \frac{m_1 \times m_2}{r^2}$$
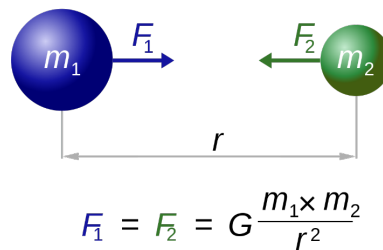
Source: Google

The "true destination" of a passenger can be the home, the family or friends, hotel, office etc. The true destination can be served by multiple airports:

- Multiple airport cities (eg. MXP / LIN for Milan)
- Close-by airports (eg. BGY / VBS / TRN for Milan)

An important concept is the "Airport Catchment Area" that is the zone around the airport where it is able to attract passengers. The catchment area may be different per route:

- No flight to all airports
- Total travel time / cost of travel to airport
- Available facilities / transport links

The longer the trip and the bigger the plane, the bigger the catchment area will be.

Market intelligence

- Pax IS / DDS
- MIDT
- Governments

- Airports

- Tourism boards

Each of them has his limitation so it would be necessary to combine and extrapolate from different data sources.

In our case we use historic data from PaxIS (*Figure 25*), developed directly by IATA.

Figure 25 – PaxIS database

Source: PaxIS

PaxIS datas are:

- Historical data based on BPS (Billing and Settlement Plan) sales that is an electronic billing system designed to facilitate the flow of data and funds between travel agencies and airlines.

  o Cover most GDS's (Global Distribution System)

  o Still over 50% of tickets

- Enhanced to offer total market size estimates

- Available per O&D (origin-destination) and class of service

- Includes fare information

	Traffic from/to BRI to/from ALL Italy Jan 2018 – Dec 2018		
	Only airport within 600 km radius		
	Reported + Est. Pax	**Fare**	**Revenue**
BLQ	93.027	62,78 €	5.840.310,16 €
CTA	26.729	110,20 €	2.945.657,25 €
FCO	204.354	63,72 €	13.021.161,09 €
FLR	6.142	92,38 €	567.398,29 €
NAP	2.427	124,84 €	302.975,66 €
OLB	5.191	94,38 €	489.949,37 €
PMO	26.729	110,20 €	2.945.657,25 €
PEG	15	102,00 €	1.535,00 €
PSR	26	114,00 €	2.956,00 €

PSA	74.715	52,07 €	3.890.749,46 €
REG	257	100,52 €	25.832,41 €
RMI	46	98,00 €	4.526,00 €
SUF	388	112,30 €	43.626,92 €
TPS	204	94,37 €	19.251,87 €
TRS	25.951	55,83 €	1.448.754,97 €
VCE	54.596	63,09 €	3.444.697,21 €
TOT.	520.797	-	34.995.038,91 €

Traffic from/to BRI to/from ALL East Europe Jan 2018 – Dec 2018 Only airport within 600 km radius			
	Reported + Est. Pax	**Fare**	**Revenue**
CFU	3.931	95,30 €	374.570,01 €
DBV	1.318	113,00 €	148.938,54 €
PUY	2	151,00 €	227,00 €
SJJ	57	114,38 €	6.519,59 €
SPU	298	185,30 €	55.219,38 €
TIA	35.068	71,67 €	2.513.459,37 €
ZAD	2	118,00 €	178,00 €
ZAG	301	172,00 €	51.684,83 €
TOT.	40.977	-	3.150.796,72 €

Source: PaxIS

Historic Constrain Demand = 520.797 + 40.977 = **561.774**

With a Total Revenue = 34.995.038,91 € + 3.150.796,72 € = **38.145.835,63**

Spill

In the airline industry, spill is the portion of passenger demand that cannot be accommodated because of the limited capacity of the aircraft operating a given fight.

Spill costs are the revenue losses attributed to the spilled passenger demand (*Figure 26*).

Figure 26 - Spill

Source: Google

In our case it's no necessary to consider it because *Balbo Airlines* will have enough flight to cover all the demand.

Organic Growth

The *organic growth* is the change in demand; it does not depends on supply but on other reasons such as:

- GDP growth
- Change in disposable income
- Tourism, unemployment and migration

It can also be negative.

For calculating it, it is used mathematical analysis that could be:

- Detailed:
    - Identify factors resulting in organic growth
    - De-stimulate the market growth
    - Calculate influence of all factors on organic growth
    - Estimate value of factors in future
    - Calculate the organic growth
- General
    - Establish a trend over time

Organic Growth: "Quick & Dirty"

- For mature markets

Organic growth = GDP growth

$$\Delta\text{GDP }\% = \frac{GDP_2 - GDP_1}{GDP_1} \times 100$$

	2014	2015	2016	2017	2018
ΔGDP (%)	0,10%	0,90%	1,10%	1,70%	0,90%

Stimulation

Market stimulation factor is the relative difference between the market size *n* months prior to the introduction of the new direct air service and the market size *n* months following the market entry.

What change in supply can trigger a change in demand?

- Price / promotions
- New / different services
- Alliances

Figure 27 – IATA stimulation curve on indirect markets
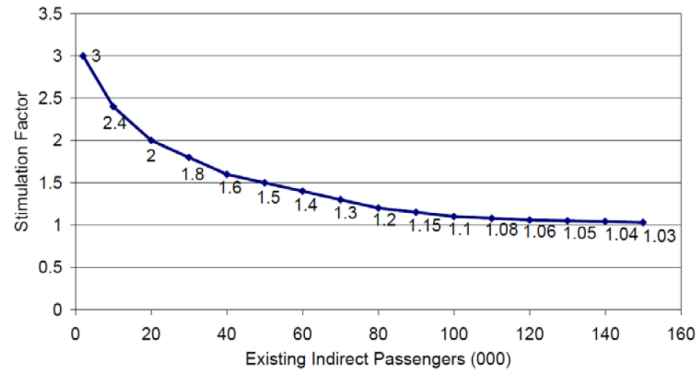
Source: IATA

Market stimulation factor increases exponentially for small markets. This provides interesting results for airlines and airports preparing business cases for new potential air routes. Routes with small existing demand as in our case do not have to be ignored from the beginning, as the air travel market may increase substantially due to new travelers as well as a shift from other routings or travel modes.

Price elasticity of demand

The elasticity of demand is the ratio between the percentage change in the quantity demanded and the percentage change in the price of the asset. The elasticity therefore measures the sensitivity of the demand for the good/service to the change in its price.

$$elasticity = \frac{\Delta\ demand}{\Delta\ price}$$

Price inelastic demand

- Less change in demand than in the price

- Market is difficult to stimulate using price

Price elastic market

- Larger change in demand than in price

- Market is easy to stimulate using price

Figure 28 – Price elasticity
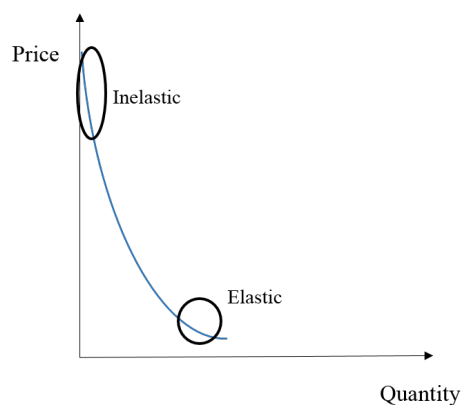
Source: author's personal elaboration

As can be seen from *Figure 28*, the demand is predominantly elastic when the price is very low and therefore in the case of low-cost companies. In our case, since *Balbo Airlines* is not a low-cost I will not take into account the stimulation.

4.2.3 Future market size

The future market size forecast for 2019 without considering stimulation will be:

561.774 + 0,9 % + - = 566.830

From the 2019 forecast it can also be estimate demand in 2020 and 2021 based on the estimation of the variation of GDP, provided by the Italian Governmental office.

For 2020 without considering stimulation will be:

566.830 **+** 0,4 % **+** - **=** 569.097
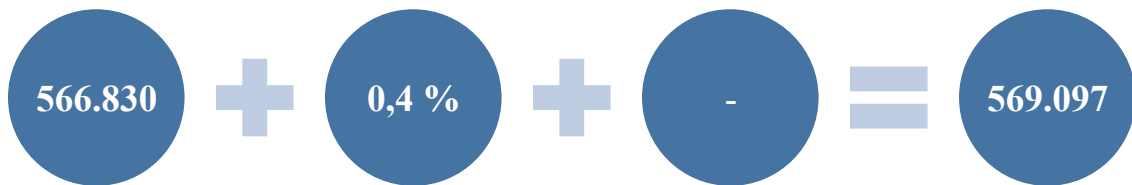
For 2021 without considering stimulation will be:

569.097 **+** 0,8 % **+** - **=** 573.650
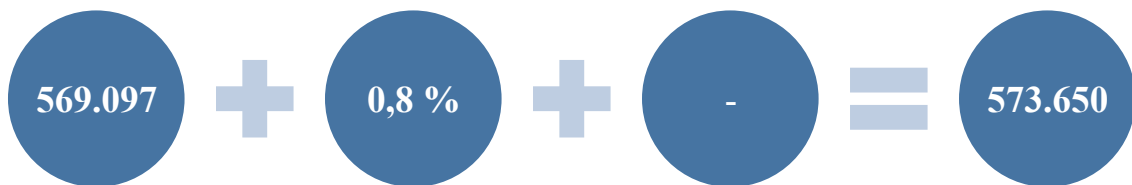
4.2.4 Seasonality

The demand fluctuates over time and different market segments have different seasonality. The reasons for fluctuation can be holidays, events or immigration. In aviation seasonality matters because supply always has to match demand optimizing frequency or capacity and schedules and varying offering during the year. For doing this we will analyze it in the next page (*Figure 29*) two years from January 2017 to December 2018, using data from PaxIS.

Then there are two other types of traffic fluctuations common to all airline companies: those during the day and those during the week.

Figure 29 - PaxIS Plus Dynamic Table for flights from BRI to ALL for All Classes for travel in Jan17 through Dec18
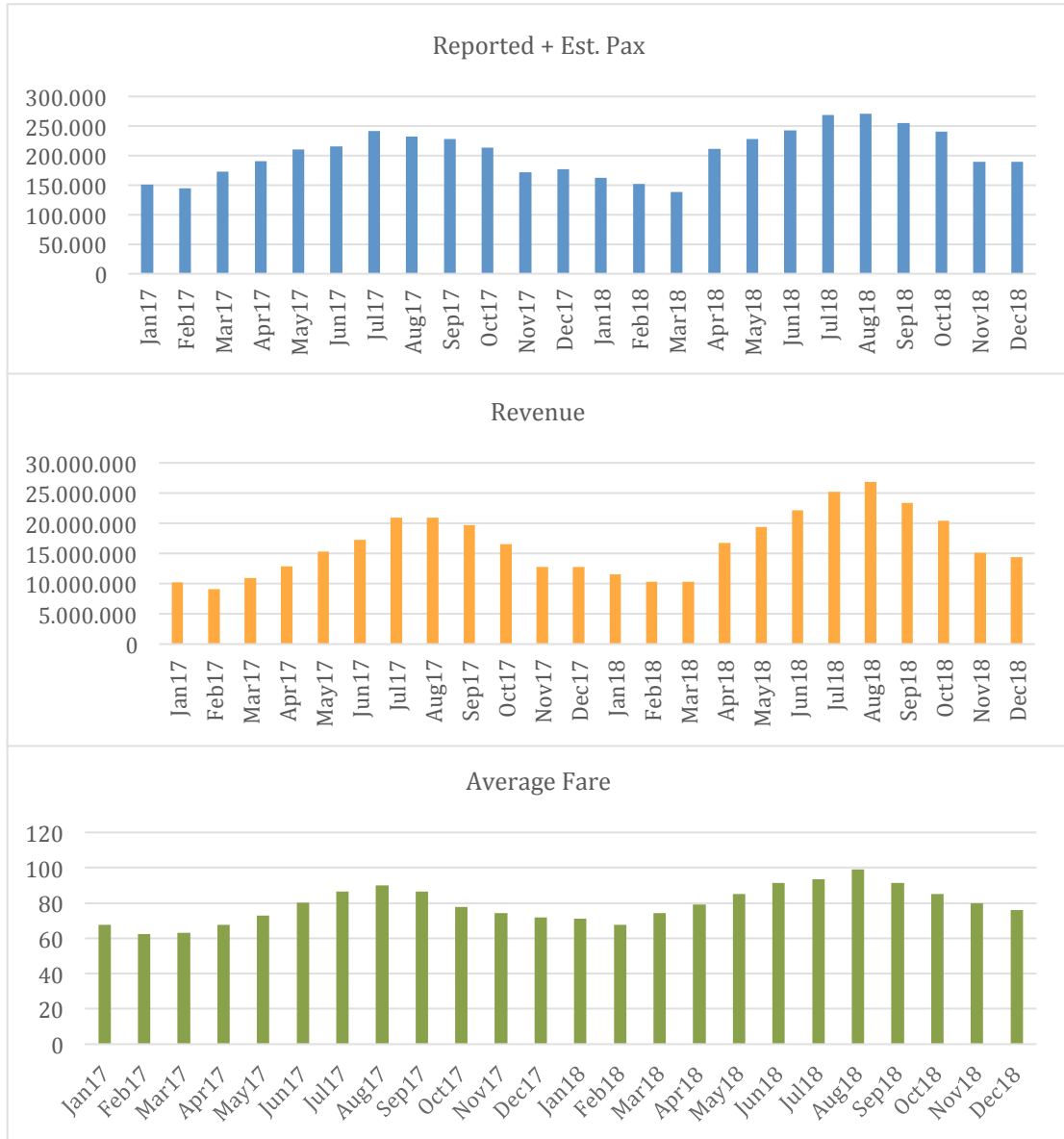
Source: PaxIS

As is evident from the charts the months in which people travel the most is during summer with the peak both in 2017 and in 2018 in August, while the months when people travel less are February and March.

4.2.5 Client profile

Passenger transport can be articulated basically in two market segments: business and leisure.

The business segment is composed by those who use the aircraft for work-related reasons such as, for example, visits to subsidiaries and branches, meetings with the interlocutor of other companies or clients, participation in conferences, fairs and so on. The service attributes considered relevant by business travelers are punctuality, high frequency of flights and comfort. In this segment companies generally associate a relative rigidity of demand with respect to price. The motivation is that business passengers, not being paying customers, are willing to cope even at high fares.

Unlike the business segment, the leisure segment, formed by passengers using the air service for leisure reasons, is characterized by a substantial elasticity of demand with respect to both price and income. In this case, the passengers, having to pay the tickets in person, are willing to forget the comforts and frequencies of flights in exchange for a relatively low price, which generally, under the same conditions, represents the main choice factor.

In recent years, however, there has been a trend inversion that is forcing companies to review their traditional sensitivity to the price of the business segment. More and more, in fact, companies require their managers to use discounted tickets and many of them have set up their own offices to take advantage of greater bargaining power over airlines.

4.2.6 Study of competitors

The competitors to be evaluated are those operating in the airport within the blue area (*Figure 30*) that corresponds to a radius of 600 km from Bari.
All departures and arrivals will be evaluated from/to Bari and from/to the other airports marked by a red dot.

Figure 30 – Study of the competitors
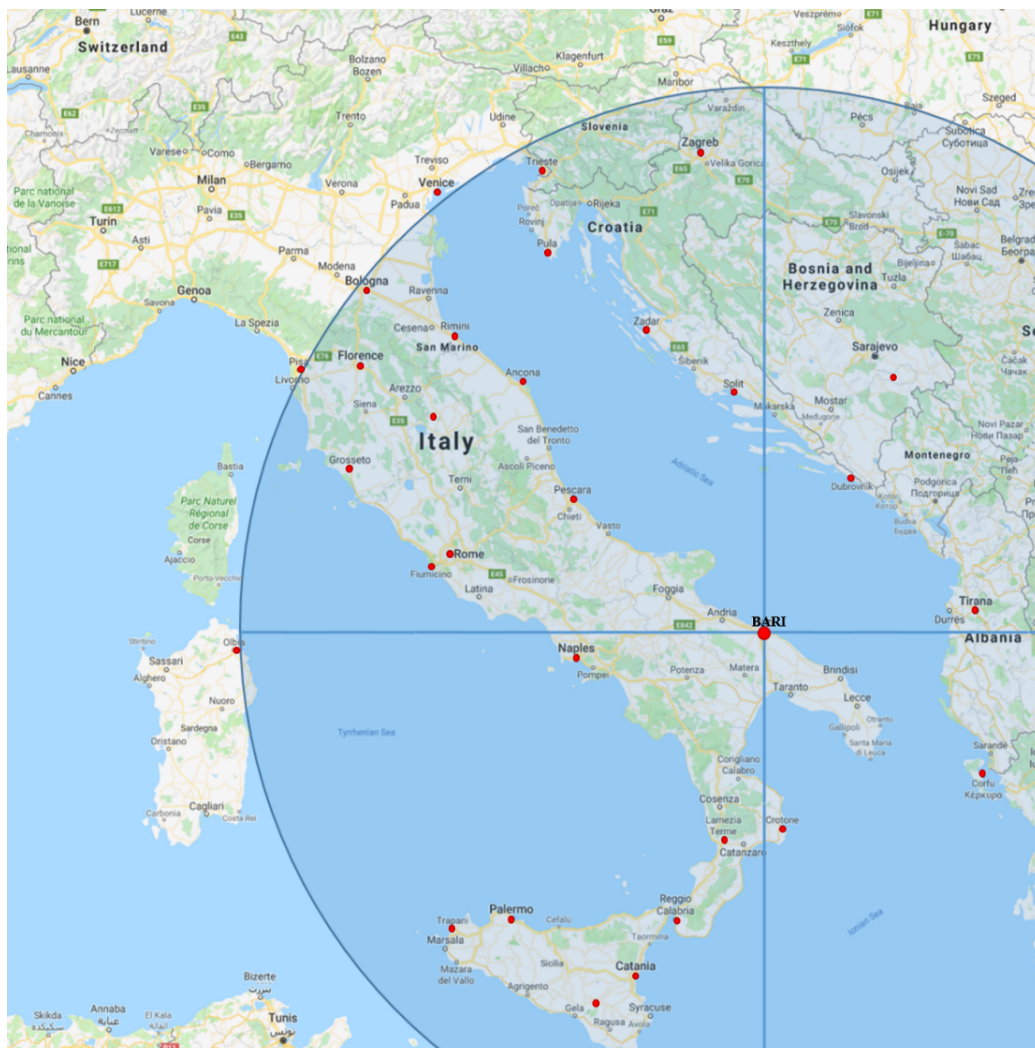
Source: author's elaboration based on Google Maps

Alitalia is a full services airline and the Italy's flagship airline currently under extraordinary administration.

State	Italy	
IATA code	AZ	
Founded by	Italian government	
Headquarters	Fiumicino, Rome, Italy	
Revenue	▲ € 2,915 million (2017)	
Operated income	▼ € 526 million (2017)	
Profit	▼ € 496 million (2017)	
Fleet size	97	
Destination	95	26 Italian
		69 World
Employees	12.013 (2018)	

Source: Wikipedia

Alitalia is the largest Italian airline, in terms of fleet, international flights, destinations and passengers carried. The company transported about 21.7 million passengers in 2017.

Advantages	Disadvantages
• Italy's flagship airline • Most punctual airline in the world • Best airline cuisine (9 consecutive years) • Best business class seat design (2018)	• Bankruptcy • Lots of strikes • Lots of deleted and delayed flight • Medium security (0,113/0)

Comments: Alitalia is a company that targets a medium-high customer base, a group that can always afford to travel. For this reason, the service and price it offers is aimed for people with business travel purpose or tourist with medium-advanced age that have the possibility to spend more money for travel more comfortable.

RYANAIR

Ryanair is a low cost airline from Ireland.

State	Ireland	
IATA code	FR	
Founded by	Tony Ryan	
Headquarters	Dublin, Ireland	
Revenue	▲ €7.151 billion (2018)	
Operated income	▲ €1.667 billion (2018)	
Profit	▲ €1.145 billion (2018)	
Fleet size	457	
Destination	250	26 Italian
		69 World
Employees	13.000 (2018)	

Source: Wikipedia

It is the largest low-cost airline in Europe, operating more than 2,000 routes. In 2017 it carried over 118 million passengers, thus reaching the first place among the continental carriers. Today it is believed to be the most chosen airline by European travelers, followed by its rival easyJet.

Advantages	Disadvantages
- Biggest and most famous low-cost company - Accessible to any target person - Many offers	- Low-cost brand image, bad customer treatment - It's necessary to pay all additional service including hand luggage - Restricted seats - Slots in small airports

Comments: Ryanair, being a low-cost company, targets customers who do not want to spend too much money to travel but are also content to travel a little more uncomfortable. For this reason their target are mainly tourists, especially young people, and students. Moreover Ryanair not working with agencies excludes itself from the possibility of collaborating with all the organized trips like sporting groups, business or trips for the elderly.

easyJet

easyJet is a low cost airline from England.

State	England
IATA code	U2
Founded by	Stelios Haji-Ioannou
Headquarters	Luton, England
Revenue	▲ £5,898 million (2018)
Operated income	▲ £592 million (2018)
Profit	▲ £358 million (2018)
Fleet size	328
Destination	156
Employees	14.000 (2018)

Source: Wikipedia

easyJet operates 830 routes throughout Europe, and 104 between Europe and airports in North Africa, selling directly to the user online or by phone without having to go through travel agencies. Recently several online travel websites allow easyjet flights reservations on their own pages using scrapping technology.

Advantages	Disadvantages
• Accessible to any target person • Many offers • Passengers can arrive at the airport with less advance thanks to the speed with which they embark on flights.	• It's necessary to pay all additional service • Slots in small airports

Comments: easyJet, being a low-cost company, targets customers who do not want to spend too much money to travel but are also content to travel a little more uncomfortable. For this reason their target are mainly tourists, especially young people, and students.

Volotea is a low cost Spanish airline. It was founded in 2011 by the ex-founders of Vueling.

State	Spain
IATA code	V7
Founded by	Carlos Muñoz and Lázaro Ros
Headquarters	Asturias Airport, Castrillón, Spain
Revenue	▲ €307.5 million (2017)
Operated income	▲ €8.3 million (2017)
Profit	▲ €11.2 million (2017)
Fleet size	32
Destination	79
Employees	880 (2018)

Source: Wikipedia

Since its first flight, Volotea has reached the milestone of 14 million passengers transported. In 2017 Volotea recorded a significant increase both in the number of flights operated and in the volume of passengers carried, settling for the second year in a row among the fastest growing low cost in the European Union. It's among the ten airlines in the world that have launched the largest number of routes in 2017.

Advantages	Disadvantages
• Comfort with seat 5% more spacious than the average • Accessible to any target person • Fifth company most punctual in Europe • It was the best *Europe regional and low cost* airline for *TripAdvisor Traveler in 2017.*	• It's necessary to pay all additional service including hand luggage • Many inconvenient as delated flight

Comments: Volotea, being a low-cost company, targets customers who do not want to spend too much money to travel but are also content to travel a little more uncomfortable. For this reason their target are mainly tourists, especially young people, and students.

CROATIA AIRLINES

Croatia Airlines is the national full service airline of Croatia. It became a member of *Star Alliance* in 2004.

State	Croatia
IATA code	OU
Founded by	Croatia government
Headquarters	Buzin, Zagreb, Croatia
Revenue	▲ HRK 1.834 million = €246.9 million (2017)
Operated income	▲ HRK 39.8 million = €5.3 million (2017)
Profit	▲ HRK 24. million = € 3.3 million (2017)
Fleet size	12
Destination	38
Employees	962 (31 Dec 2017)

Source: Wikipedia

The main hub of the company is Zagreb Airport. It operates national and international flights, and has other important ruts for Dubrovnik and Split.

Advantages	Disadvantages
• Best rated in the world in term of fulfilling passengers rights • Punctuality • Customer satisfaction • One of the safest airlines • Free food and drink service	• Medium price • Slots in small airports

Comments: Croatia Airlines is a company that targets a medium-high customer base. For this reason, the service and price it offers is aimed for people with business travel purpose or tourist with medium-advanced age that have the possibility to spend more money for travel more comfortable.

Albawings is an Albanian low cost airline founded in February 2015.

State	Albania
IATA code	2B
Founded by	Gentian Kole and Dhimitër Tola
Headquarters	Tirana, Albania
Fleet size	3
Destination	14

Source: Wikipedia

It's currently the only Albanian airline operating scheduled flights. The airline operates services from its hub, Tirana, to several Italian destinations.

Advantages	Disadvantages
• Best rated in the world in term of fulfilling passengers rights • Punctuality • Customer satisfaction • One of the safest airlines • Free food and drink service	• It's a new company

Comments: Albawings is a company that targets a medium-high customer base. For this reason, the service and price it offers is aimed for people with business travel purpose or tourist with medium-advanced age that have the possibility to spend more money for travel more comfortable.

Blue Panorama Airlines S.p.A. is a private Italian scheduled and charter airline. With the *Blu-express* brand it also operates low cost and medium range flights.

State	Italy
IATA code	BV
Founded by	Franco Pecci
Headquarters	Fiumicino, Rome, Italy
Fleet size	14
Destination	34

Source: Wikipedia

In 2014 was in extraordinary administration. After a couple of failed sales attempts, the airline was acquired by the Uvet group at the end of 2017.

Advantages	Disadvantages
• Offers both full service and low cost flights	• Not well-known

Comments: Blue Panorama Airlines targets both business people but thanks to its low cost line, also young people, students and tourists.

Lufthansa is the full service largest German airline company, when combined with its subsidiaries, the largest airline in Europe in terms of passengers carried. It's part and founding member of *Star Alliance.*

State	Germany
IATA code	AZ
Founded by	By the merger between *Uberwald Aero Lloyd* and *Junkers Luftverkehr*
Headquarters	Colonia, Germany
Revenue	▲ €35.84 billion (2018)
Operated income	▼ €2.80 billion (2018)
Profit	▼ €2.16 billion (2018)
Fleet size	290
Destination	220
Employees	129.424 (2017)

Source: Wikipedia

It has Frankfurt Main Airport as its main hub and Munich Airport as its secondary hub. On November 27, 2008, an Italian branch was created, Lufthansa Italia, thus entering the Italian market, taking advantage of the vacuum left on Malpensa by Alitalia which had chosen Rome as its hub.

Advantages	Disadvantages
• Client service (FlyNet, Cappuccetto Rosso service, Miles&Miles) • Free foods and drinks	• Lots of pilots' strikes • Lots of deleted and delayed flight • *Germanwings* (a subsidiary) *Flight 9525* accident in 2015, "the darkest day for Lufthansa in its 60-year history".

Comments: Lufthansa targets people who travel for business as it offers companies very affordable offers, tailored to the individual needs of the company.

Swiss is the main Swiss airline company.

State	Switzerland
IATA code	LX
Founded by	By a merger between *Swissair* and *Crossair*
Headquarters	EuroAirport, Basel-Mulhouse-Freiburg, Switzerland
Revenue	▲ CHF 4,95 million (2017)
Operated income	▲ CHF 561 million (2017)
Fleet size	457
Destination	157
Employees	9.101 (dec 2016)

Source: Wikipedia

Since 2005, Swiss has been integrated into the Lufthansa group. It provides transport services for passengers and goods to national, international and intercontinental destinations. Its main hubs are Zurich airport, Geneva-Cointrin and Lugano-Agno.

Advantages	Disadvantages
• Reputation • One of the most quoted in the world for its comfort, punctuality and precision. • Luxury internal design • Free snacks and drinks • Traditional foods • Strong focus on first and business classes	No available data

Comments: Swiss is a company that targets a medium-high customer base, a group that can always afford to travel. For this reason, the service and price it offers is aimed for people with business travel purpose or tourist with medium-advanced age that have the possibility to spend more money for travel more comfortable.

Turkish Airlines is the national full service airline of Turkey. It became a member of *Star Alliance* in April 2008.

State	Turkey	
IATA code	TK	
Founded by	Ministry of Defense	
Headquarters	Istanbul Atatürk Airport, Yeşilköy, Istanbul, Turkey	
Revenue	▲ US$ 10.958 billion (2017)	
Operated income	▲ US$ 2.056 billion (2017)	
Profit	▲ US$ 223 million (2017)	
Fleet size	336	313 airline feet
		23 airline cargo feets
Destination	304	
Employees	31.543 (2017)	

Source:Wikipedia

It manages a total of 308 airports in Europe, Asia, Africa and the Americas and is the first global airline for the number of airports served. In 2023 they expect an increase of an additional 20 million passengers per year, thanks to the increase in the fleet.

Advantages	Disadvantages
• Reputation (6 times best Europe company for *Skytrax*) • First world company for number of airport served • It has received several awards for its innovation and quality • association with sports teams and events, sponsors, which increase the value of the brand	• High prices • They have not achieved a total positioning in the minds of consumers

AirSERBIA succeed to *Jat Airways* and it's the national airline of Serbia.

State	Serbia
IATA code	JU
Headquarters	Belgrade, Serbia
Revenue	▼ €289.69 million (2017)
Net income	▲ €16.46 million (2017)
Fleet size	20
Destination	42
Employees	2.316 (2017)

Source: Wikipedia

The company, which started flight operations in 2013 has its hub in the Belgrade-Nikola Tesla Airport. It's a company composed of the Government of Serbia as the majority shareholder and Etihad Airways, the flag carrier of the United Arab Emirates based in Abu Dhabi, in a minority share.

Advantages	Disadvantages
Not available data	Not available data

Ellinair is a Greek airline operating scheduled and charter flights.

State	Greece
IATA code	EL
Headquarters	Thessaloniki, Greece
Fleet size	7
Destination	27

Source: Wikipedia

Ellinair mainly operates direct flights from its main base at Thessaloniki International Airport and from Athens International Airport with additional direct flights to international destinations from Corfu and Heraklion during summer season.

Advantages	Disadvantages
Not available data	Not available data

Competitors for the national movements

Airlines

       The airlines competitors for national movements are to be considered as those offering direct flights from Bari to the rest of Italy (always considering within a radius of 600 km from Bari).

       It's necessary to analyze how many daily or weekly flights they make for a given destination, the time schedule and the average price of a ticket.
Furthermore, it is necessary to analyze the passenger traffic of each route to see whether or not is an interesting route to take into account for *Balbo Airlines*.

       It can be seen that from Bari there are only eight (the one for Olbia only in summer) direct flights to the destinations included in the area that interests us and they are almost all towards the north. There are only two flights that connect Bari to the south, more precisely only with Sicily with a frequency of only 4 weekly flights, there are no flights for Calabria.

Bologna – BLQ

Distance: 586 km

Airline	Stop #1	Reported + Est. Pax	Pax Share	Fare	Revenue
Ryainir	-	88.698	95	61,35 €	5.441.566,63 €
Alitalia	FCO	4.074	4	91,47 €	372.691,86 €
OTHER	-	256	1	101,96 €	26.051,68 €
TOTAL	-	93.027	100.0	62,78 €	5.840.310,16 €

Note: Also from BDS Airport there's a direct flight with *Ryanair*.

Ryanair schedule:

	BRI-BLQ 1:20h	BLQ-BRI
Mon	12:05 – 22:30	10:25 – 20:50
Tue	22:15	20:35
Wed	18:20	16:40
Thu	12:05 – 21:35	10:25 – 19:55
Fry	21:05 – 21:40	20:00
Sat	21:05	10:25
Sun	22:00	20:20

      Compete with *Ryanair*: For BRI-BLQ and vice versa Ryanair has an average of 243 pax per day and 84 pax per flight. Furthermore *Balbo Airlines* cannot compete

with Ryanair with the price and probably tourist will continuing to take Ryanair for going to Bologna. *Balbo Airlines* instead can compete with the timetables and the quality of the service becoming interesting for the students and business traveler that have not to change in FCO for having a higher quality of the trip.

Compete with *Alitalia*: Alitalia records an average of 11 pax per day. *Balbo Airlines* can compete with Alitalia since it does not offer direct flights from Bari to Bologna and vice versa and it can also compete with the price.

Result: route to be taken into consideration.

Venice – VCE

Distance: 604 km

Airline	Stop #1	Reported + Est. Pax	Pax Share	Fare	Revenue
EasyJet	-	27.661	51	54,38 €	1.504.247,94 €
Volotea	-	20.513	37	65,83 €	1.350.415,26 €
Alitalia	FCO	6.348	12	91,92 €	583.487,39 €
OTHER	-	74	1	88,47 €	6.546,62 €
TOTAL	-	54.596	100.0	63,09 €	3.444.697,21 €

Volotea and *easyJet* schedules:

	BRI-VCE 1:25h		VCE-BRI 1:20h	
	Volotea	*EasyJet*	*Volotea*	*EasyJet*
Mon	08:35	-	06:45	-
Tue	19:05	-	12:50	-
Wed	21:55	17:00	20:05	14:55
Thu	16:00	17:30	14:10	15:30
Fry	20:55	-	12:30	-
Sat	-	21:55	-	19:55
Sun	17:40	-	15:50	-

Compete with *Volotea*: Volotea has an average of 75 pax per day and 88 pax average per flight for BRI-VCE and vice versa. *Balbo Airlines* cannot compete with their price but can compete with the timetables and the quality of the service.

Compete with *easyJet*: Volotea has an average of 56 pax per day and 32 pax average per flight. *Balbo Airlines* can compete with the timetables and the quality of the service.

Competing with *Alitalia*: Alitalia records an average of 17 pax per day. *Balbo Airlines* can compete with Alitalia since it does not offer direct flights from Bari to Venice and vice versa and it can also compete with the price.

Result: Considering the low density of average passengers per flight in the two companies that offer direct flights, it would not be convenient to take this route into consideration but *Balbo Airlines* could work on it with agencies to try to foster group travel for companies and elderly people who are looking for comfort and quality in the flight (no low-cost airlines and no stopover) being such a touristic city.

Trieste – TRS ✈

Distance: 586 km

Airline	Stop #1	Reported + Est. Pax	Pax Share	Fare	Revenue
Ryanair	-	24.048	93	53,00 €	1.274.570,65 €
Alitalia	FCO	1.902	7	91,56 €	174.098,26 €
OTHER	-	2	1	57,37 €	86,06 €
TOTAL	-	25.951	100.0	55,83 €	1.448.754,97 €

Ryanair schedule:

	BRI-TRS 1:20h	CTA-TRS 1:20h
Mon	-	-
Tue	19:25	21:10
Wed	-	-
Thu	19:25	21:10
Fry	-	-
Sat	19:25	21:10
Sun	-	-

Compete with *Ryanair*: Ryanair on the BRI-TRS route and vice versa has an average of 65 pax per day and 77 pax per flight. It is difficult to compete with its price, *Balbo Airlines* could only compete with the timetibles and the quality of the service.

Compete with *Alitalia*: Alitalia records an average of 5 pax per day. *Balbo Airlines* can compete with Alitalia since it does not offer direct flights from Bari to Trieste and vice versa and it can also compete with the price.

Result: Considering the low density of passengers per flight on the Ryanair airline and considering the comments given above for *Balbo Airlines* it is not worth launching this new route.

Pisa - PSA ✈

Distance: 597 km

Airline	Stop #1	Reported + Est. Pax	Pax Share	Fare	Revenue
Ryanair	-	71.558	96	50,22 €	3.593.903,36 €
Alitalia	FCO	3.157	4	94,03 €	296.846,10 €
TOTAL	-	74.715	100.0	52,07 €	3.890.749,46 €

Note: Also from BDS Airport there's a direct flight with *Ryanair*.

Ryanair schedule:

	BRI-PSA 1:30h	PSA-BRI 1:25h
Mon	21:50	20:00
Tue	21:50	20:00
Wed	21:50	20:00
Thu	21:50	20:00
Fri	21:50	20:00
Sat	21:50	20:00
Sun	22:20	20:30

Compete with *Ryanair*: Ryanair on the BRI-PSA route and vice versa has an average of 196 pax per day and 98 pax per flight. A rather high average but it can be deduced that being the only flight to Tuscany, many of these passengers are then directed to other Tuscan cities such as Florence, one of the most touristic cities in Italy 82 km away or Livorno for the port 22 km away. *Balbo Airlines* can compete with Ryanair by setting a new route for another city in Tuscany.

Compete with *Alitalia*: Alitalia records an average of 9 pax per day. *Balbo Airlines* can compete with Alitalia since it does not offer direct flights from Bari to Pisa and vice versa and it can also compete with the price.

Result: Considering the comments given above for *Balbo Airlines* it is not worth launching this new route but it is better to consider a route to another Tuscan city.

Roma Fiumicino – FCO ✈

Distance: 386 km

Airline	Stop #1	Reported + Est. Pax	Pax Share	Fare	Revenue
Ryanair	-	116.379	57	37,08 €	4.315.847,35 €
Alitalia	-	87.930	43	98,95 €	8.700.497,55 €
OTHER	-	46	0	105,85 €	4.816,19 €
TOTAL	-	204.354	100.0	63,72 €	13.021.161,09 €

Note: Also from BDS Airport there's a direct flight with *Ryanair* and *Alitalia*.

Ryanair and *Alitalia* schedules:

	BRI-FCO 1:25h		FCO-BRI 1:20h	
	Ryanair	*Alitalia*	*Ryanair*	*Alitalia*
Mon	06:15 – 22:35		07:55 – 21:05	
Tue	06:15 – 22:35		07:55 – 21:05	
Wed	06:15 – 22:55		07:55 – 21:25	
Thu	06:15 – 23:40	06:20 – 07:20 – 11:10 – 15:00 – 16:10 – 19:15	07:55 – 21:10	09:15 – 13:05 – 14:15 – 17:25 – 20:50 – 21:40
Fri	06:15 – 22:35		07:55 – 21:05	
Sat	06:15 – 23:20		07:55 – 21:50	
Sun	06:30 – 23:05		08:10 – 21:35	

Compete with *Ryanair*: Ryanair on the BRI-FCO route has an average of 318 pax per day and 80 pax per flight. Competing in this case is very difficult both for the price and for the number of daily flights and timetables.

Compete with *Alitalia*: Alitalia on the BRI-FCO route has an average of 240 pax per day and 20 pax per flight. Competing with Alitalia in this case is very difficult given the high quality of the service and the high frequency of its flights to Rome. The only way *Balbo Airlines* could compete is with the price.

Result: Considered the comments above for *Balbo Airlines* is not convenient to set the route for Rome FCO even if a route to the capital of Italy should not be missing. It may be convenient in a later time when other *Balbo Airlines* flights will be developed from Rome to other cities further north out of our 600 km radius. Or it could be convenient to insert a new route for Rome but for Rome Ciampino Airport (CIA) as there are no direct flights from Bari.

Catania – CTA

Distance: 446 km

Airline	Stop #1	Reported + Est. Pax	Pax Share	Fare	Revenue
Volotea	-	17.356	65	117,23 €	2.034.532,94 €
Alitalia	FCO	6.993	26	113,21 €	791.646,24 €
Ryanair	FCO	2.345	9	49,66 €	116.452,94 €
OTHER	-	36	0	85,22 €	3.025,13 €
TOTAL	-	26.729	100.0	110,20 €	2.945.657,25 €

Volotea schedule:

	BRI-CTA 1:15h	CTA-BRI 1:15h
Mon	08:15	10:00
Tue	-	-
Wed	08:15	10:00
Thu	08:15	10:00
Fri	-	-
Sat	19:15	17:35
Sun	-	-

Compete with *Volotea*: Volotea on the BRI-CTA route records an average of 47 pax per day and 41 pax per flight. The flights with Volotea are not very dense but certainly its density clearly changes in the summer. *Balbo Airlines* can compete with Volotea both with the price, with the flight quality and with the days and timetables.

Compete with *Alitalia*: Alitalia records an average of 19 pax per day. *Balbo Airlines* can compete with Alitalia since it does not offer direct flights from Bari and can also compete with the price.

Compete with *Ryanair*: Ryanair registers an average of 6 pax a day. *Balbo Airlines* can compete with Ryanair since it does not offers direct flights from Bari but cannot compete with the price.

Result: Route to be taken into consideration.

Palermo – PMO

Distance: 455 km

Airline	Stop #1	Reported + Est. Pax	Pax Share	Fare	Revenue
Volotea	-	17.356	66	117,23 €	2.034.532,94 €
Alitalia	FCO	6.993	26	113,21 €	791.646,24 €
Ryanair	FCO	2.345	7	49,66 €	116.452,94 €
OTHER	-	36	0	85,22 €	3.025,13 €
TOTAL	-	26.729	100.0	110,20 €	2.945.657,25 €

Volotea schedule:

	BRI-PMO 1:15h	PMO-BRI 1:15h
Mon	11:40	06:45
Tue	-	-
Wed	11:40	06:45
Thu	11:40	06:45
Fri	-	-
Sat	07:50	06:15
Sun	-	-

Compete with *Volotea*: Volotea on the BRI-CTA route records an average of 47 pax per day and 42 pax per flight. The flights with Volotea are not very dense but certainly its density clearly changes in the summer. *Balbo Airlines* can compete with Volotea both with the price, with the flight quality and with the days and timetables.

Compete with *Alitalia*: Alitalia records an average of 19 pax per day. *Balbo Airlines* can compete with Alitalia since it does not offer direct flights from Bari and can also compete with the price.

Compete with *Ryanair*: Ryanair registers an average of 6 pax a day. *Balbo Airlines* can compete with Ryanair since it does not offers direct flights from Bari but cannot compete with the price.

Result: Route to be taken into consideration.

Olbia – OLB ✈

Distance: 612 km

Airline	Stop #1	Reported + Est. Pax	Pax Share	Fare	Revenue
Volotea	-	5.184	99	94,36 €	489.163,15 €
OTHER	-	8	1	104,83 €	786,21 €
TOTAL	-	5.191	100.0	94,38 €	489.949,37 €

Volotea schedule (only from June to September):

	BRI-OLB 1:20h	OLB-BRI 1:20h
Mon	-	-
Tue	19:50	17:00
Wed	-	-
Thu	21:10	19:20
Fri	09:45	16:05
Sat	-	-
Sun	09:30	07:30

Compete with *Volotea*: Volotea on the BRI-OLB route records an average of 42 pax per day and 41 pax per flight considering only 4 months (from June to September) where this route is present. *Balbo Airlines* can compete with Volotea by placing a non-seasonal but all year flight and can also compete with the price and quality of the service.

Compete with the ferry: Another competitor of this route is the ferry that leaves from Rome or Livorno, which lasts an average of 7 hours and in addition from Bari passengers must take a plane or a train to get to the port of departure.

Result: Route to be taken into consideration throughout the year with fewer flights during the winter months and more in the summer months.

Substitute service for national movements – Train

The rail system is the direct competitor of *Balbo Airlines* having the latter very similar features to a train as the high frequency.

In Italy there are two large high-speed railway companies *Trenitalia Spa* with *Frecciarossa*, *Frecciargento*, *Frecciabianca* and regional and *.Italo* trains.

The high-speed service is a continued succees in Italy. The number of people taking high-speed service every day has indeed grown year after year. For *Trenitalia* it has gone from 10 million passengers per year in 2010 to 24 million in 2017. For *.Italo* even a + 150% from 2013 with increases of about 2 million passengers per year to reach 13 million in 2017. The reason lies in the extraordinary growth of the service offer, with a total of 314 trains in circulation every day (187 *Frecciarossa*, 48 *Frecciargento*, 42 *Frecciabianca* and 37 *.Italo*) while they were 108 in 2010.

The advantage of traveling by train for passengers is that they don't have to arrive an hour early for doing the check in and pass the checks, but they need to arrive only 10-15 minutes before the train departs. There are no baggage limits, no number or weight, and passengers can carry liquids. In addition, the railway stations are always in the city center, while the airports are always outside, for the most part forcing passengers to take a taxi or a bus with rates far higher than normal city buses. In general, traveling by train is certainly less expensive.

On the other hand, traveling by train has a definitely higher duration than the plane that allows instead of traveling from one side to the other of Italy in maximum one and a half hour.

We will consider the following as competing routes:

- Bari – Naples
- Bari – Rome
- Bari – Florencia

As we can see in the next pages Apulia is also poorly supplied at the railway level and for almost all the routes you need to take more than one train with average journey times of over 4:00 h and therefore not convenient for our target of clients that needs speed and comfort.

Figure 31 - Trenitalia

FRECCIAROSSA

Milano - Roma	2h 55'	NO STOP
Bologna - Milano	1h 01'	
Bologna - Firenze	34'	
Roma - Napoli	1h 07'	
Torino - Milano	45'	
Napoli - Venezia	4h 53'	
Milano - Venezia	2h 00'	
Torino - Venezia	3h 00'	
Trieste - Milano	3h 42'	
Milano - Bari	6h 45'	
Milano - Salerno	4h 38'	

FRECCIARGENTO

Roma - Verona	2h 52'
Roma - Venezia S.L.	3h 45'
Roma - Bolzano	4h 29'
Roma - Reggio Cal.	4h 52'
Roma - Mantova	3h 31'
Genova B. - Roma Tib.	3h 36'
Roma T.ni - Bari C.le	3h 30'

FRECCIABIANCA

Milano C.le - Pescara	5h 09'
Milano C.le - Bari C.le	7h 50'
Milano C.le - Taranto	9h 06'
Milano C.le - Lecce	9h 17'
Venezia S.L. - Lecce	8h 55'
Firenze C.M. - Genova Br.	2h 37'
Roma T.ni - Genova Br.	4h 00'
Roma T.ni - Reggio Calabria	6h 22'
Roma T.ni - Ravenna	4h 20'

Source: Trenitalia website

Bari – Naples 🚆

Frequency: ≈ every 2 hours

Duration: ≈ 04:00 h

Change: min. 1

Average price: 45 euros

Compete with *Trenitalia Spa*: The Bari - Naples direct route, is still non-existent. Commuters are forced to make at least one change in Caserta or more. The frequency of trains is around two hours but it's really easy to miss the connections if there're delays. In addition, the journey has an average duration of 4:00h and a price of around 45.00 euros, therefore *Balbo Airlines* can easily compete with Trenitalia since there are no train that connects the two cities directly and the only solutions people have now is uncomfortable.

Line under construction: as reported by the *Rete Ferroviaria Italiana*, the Bari-Naples-Rome line would be under construction with an estimated cost of € 6.2 billion for a two-hour train journey for Naples that would directly connect the two cities starting in 2026.

Result: Route to be taken into consideration until the direct railway line is in operation in 2026 because from that moment on, rail competition will be very high.

Bari – Rome 🚆

Frequency: 4 per day

Duration: ≈ 04:00 h

Direct line *Frecciaragento*

Average price: 56,00 euros

Compete with *Trenitalia Spa - Frecciargento*: It's is a direct line with an average journey time of 04:00 hours and an average cost of 56 euro, and it's one of the busiest lines from Bari. Competing with Trenitalia is not easy for the train advantages mentioned above and for the price. *Balbo Airlines* can compete on the duration of the journey which, considering the displacement from the city to the airports and considering the average flight duration, would not exceed 3:00 h.

Line under construction: as reported by the *Rete ferroviaria Italiana*, the Bari - Naples - Rome line would be under construction for a three-hour train journey.

Result: For *Balbo Airlines* is not convenient to set the route for Rome.

Bari – Florencia

Frequency: every hour

Duration: ≈ 07:00 h

Change: min. 1

Average price: 80,00 euros

Comments: Florence is one of the most visited cities by Italians with an increase in tourism from 2017 to 2018 of + 4.6%. In addition, Florence hosts many non-resident students from the south.

Compete with *Trenitalia Spa*: The Bari - Florence direct line does not exist but passengers can still reach Florence from Bari with at least one change or in Roma Termini or Bologna Centrale or Faenza (RA) with an average duration of about 7:00 hours, an average price of 80.00 euros and a frequency of about one train per hour. Competing with Trenitalia Spa is easy both for the duration of the trip and for the price as well as for the easiness of the journey that does not require a change with the risk of losing the connections.

Result: Route to be taken into consideration.

Figure 32 – italo
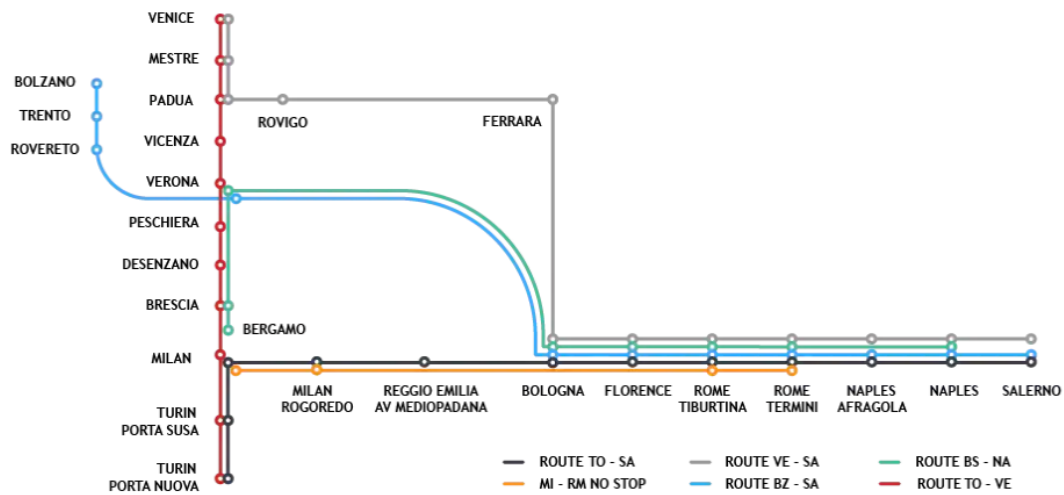
Source: .italo website

As it's visible from the train map of *.Italo* its railway network stops in Salerno (240 km from Bari) not offering any route for the inhabitants of Puglia. Therefore, it is not even worth considering it as a *Balbo Airlines* competitor until it develops a plan to expand its network in the south of Italy in the future.

Substitute service for national movements – Car

        Also the car is a direct competitor of *Balbo Airlines* especially for the cities closest to Bari, 300-400 km away that can be done in less time than taking the plane considering also all the waiting times for the checks and move to / from airports.

        The advantages of having the car are many indeed. First of all there are no timetables to be respected, tickets to be made and trips to the stations or airports. Secondly, the passengers are then free and comfortable to get around the destination city without taking a bus, metro or taxi.

        On the other hand, the cost of the car very often exceeds the cost of a plane or train ticket if we consider gasoline and highway tolls (in Italy they are higher than rest of Europe) and not to forget the costs of wear of a car. In addition, another negative side of the car is that traffic could be found on the roads, especially those in the south that are old streets full of work in progress, thus leading to an unknown journey time.

        Finally, it's not to be forgotten the driver's fatigue and tiredness, which he has to drive for many hours in a row, unlike train and plane where he can rest or do his staffs.

We will consider the following as *Balbo*'s competitor routes:

- Bari - Naples
- Bari – Rome
- Bari - Reggio Calabria

Tolls, gasoline costs and average travel time will be taken from the official *Guida Michelin* website.

Bari – Naples

Distance: 263 km

Average travel time: 03:08 h

Highway tolls: 19,80 euros

Gasoline: 31,57 euros

Tot. average price: 51,37 euros

Bari – Rome

Distance: 423 km

Average travel time: 05:06 h

Highway tolls: 24,10 euros

Gasoline: 48,19 euros

Tot. average price: 72,29 euros

Bari – Reggio Calabria

Distance: 443 km

Average travel time: 05:32 h

Highway tolls: 4,90 euros

Gasoline: 50,79 euros

Tot. average price: 55,69 euros

Compete with the car: As it can be seen from the above data, a part of the travel time for Naples, which is almost the same of the plane (considering the movements and waiting times) are definitely longer than those of the plane for which *Balbo Airlines* can compete with this and with the comfort and the quality of the travel but cannot compete with the price.

Competitors for the international movements

Airlines

The airlines competitors for national movements are to be considered as those offering direct flights from Bari to Croatia, Albania, Bosnia-Herzegovina and Greece (always considering within a radius of 600 km from Bari).

It's necessary to analyze how many daily or weekly flights they make for a given destination, the time schedule, the average price of a ticket, and the passenger traffic of each route to see whether or not is an interesting route to take into account for *Balbo Airlines*.

Furthermore, a study was carried out on how many immigrants of the destinations states live in Puglia.

It can be seen that from Bari there are only two direct flights to the destinations included in the area that interests us.

Doubrovnik, Croatia – DBV ✈

Distance: 200 km

Comments: Dubrovnik is one of the most touristic Croatian cities. Statistics show that in Apulia the Croatian inhabitants in 2017 were 165 (0.13% of the population). Furthermore, there is also an ethno-linguistic minority in Molise (approximately 2:00 hours away from Bari) but with a total of only 1.604 inhabitants.

Airline	Stop #1	Reported + Est. Pax	Pax Share	Fare	Revenue
Volotea	-	1.221	93	105,67 €	128.971,07 €
Alitalia	FCO	46	3	223,47 €	10.279,46 €
Croatia Airlines	FCO	23	2	170,21 €	3.914,89 €
OTHER	-	29	2	202,57 €	5.773,12 €
TOTAL	-	1.318	100.0	113,00 €	148.938,54 €

Volotea schedule (only from June to September):

	BRI-DBV 0:50h	DBV-BRI 0:50h
Mon	-	-
Tue	-	-
Wed	19:50	19:45
Thu	-	-
Fri	-	-
Sat	-	-
Sun	-	-

Compete with *Volotea*: Volotea on the BRI-DBV route has an average of 10 pax per day and 38 pax per flight (considering that this route is only working from June to September). Competing with Volotea is possible both with the price and with the quality of the service offered.

Compete with *Alitalia* and *Croatia Airlines*: Both of them record an average of less than 1 pax per day. *Balbo Airlines* can compete with them since it does not offer direct flights from Bari and can also compete with the price.

Result: Considering the low density of passengers per flight on the Volotea Airlines for *Balbo Airlines* may be not worth launching this route. *Balbo Airlines* could work with agencies to try to foster group travel or summer packs (flight + hotel) being such a touristic city.

<u>Tirana, Albania – TIA</u>   ✈

Distance: 248 km

Comments: Tirana is the capital of Albania and is the most economically developed city offering the greatest number of jobs. Nowadays it's the country of opportunities, there are over 20.000 Italians who invest their savings there. Moreover in Puglia in 2017 it was estimated that 17.69% of the population is Albanian, equal to 22.639 inhabitants. In fact, 3 communities of Alberia are present in Puglia, which is the set of geographical areas with a Albanian ethnic-linguistic minority of Italy belongs.

Airline	Stop #1	Reported + Est. Pax	Pax share	Fare	Revenue
Albawings	-	19.201	55	78,48 €	1.506.859,22 €
Blue Panorama Airline	-	14.628	42	63,05 €	922.249,83 €
Alitalia	FCO	1.126	3	69,36 €	78.136,19 €
OTHER	-	113	0	54,99 €	6.214,14 €
TOTAL	-	35.068	100.0	71,67 €	2.513.459,37 €

Albawings and *Blue Panorama Airline S.p.a.* schedules:

		BRI-TIA 1:25h		TIA-BRI 1:20h	
	Albawings	*Blue Panorama*	*Albawings*	*Blue Panorama*	
Mon	19:35	18:55 – 19:35	18:00	17:30 – 18:00	
Tue	-	-	-	-	
Wed	19:35	18:55 – 19:35	18:00	17:30 – 18:00	
Thu	-	-	-	-	
Fri	19:35	18:55 – 19:35	18:00	17:30 – 18:00	
Sat	-	-	-	-	
Sun	-	-	-	-	

Compete with *Albawings*: Albawings on the BRI-TIA route has an average of 53 pax per day and 62 pax per flight. Competing with Albawings is really difficult both for the price and for the reputation and quality of service. *Balbo Airlines* can only compete with the timetables.

Compete with *Blue Panorama*: Blue Panorama on the BRI-TIA route has an average of 40 pax per day and 23 pax per flight. *Balbo Airlines* can only compete with the quality of the service.

Compete with *Alitalia*: Alitalia records an average of less than 3 pax per day. *Balbo Airlines* can compete with Alitalia since it does not offer direct flights from Bari.

Result: Route to be taken into consideration.

Corfu, Greece – CFU ✈

Distance: 315 km

Comments: According to the data of the Hellenic National Statistical Office, in 2016 the general growth of tourism in Greece has registered a + 30% and the latest available data of the Italian tourism authority record an increase of 21.2% in the number of Italian tourists in Greece compared to the previous year. Italian tourists in Greece are concentrated mainly in summer season with particular preference for the Ionian and Aegean islands such as Corfu, Zante, Kefalonia, Santorini, Rhodes, Limnos etc.

Airline	Stop #1	Reported + Est. Pax	Pax Share	Fare	Revenue
Volotea	-	1.872	48	85,40 €	159.864,43 €
Ellinair	-	1.867	47	102,96 €	192.174,41 €
Minerva Airlines	-	69	2	106,62 €	7.303,45 €
Aegean Airlines	ATH	63	2	106,95 €	6.791,56 €
Utair Aviation	-	59	1	140,49 €	8.218,68 €
OTHER	-	2	0	144,99 €	217,49 €
TOTAL	-	3.931	100.0	95,30 €	374.570,01 €

Volotea schedule (only from June to September):

	BRI-CFU 1:00h	CFU-BRI 1:00h
Mon	-	-
Tue	21:40	21:10
Wed	21:40	21:10
Thu	-	-
Fri	-	-
Sat	20:50	19:45
Sun	-	-

Compete with *Volotea* and *Ellinair*: Volotea and Ellinair on the BRI-CFU route have an average of 15 pax per day and 53 pax per flight (considering that this route is only working from June to September). Competing with them is possible both with the price and with the quality of the service offered.

Result: Route to be taken into consideration.

Substitute service for international movements - Ferry

Also the ferries are direct competitors of *Balbo Airlines* with regard to all the eastern states facing the Adriatic Sea and in Italy there are several companies that operate.

According to the statistic of the *Autorità di Sistema Portuale del Mar Adriatico Meridionale* the passenger traffic in the port of Bari has seen a drop of 3.5% from 2017 to 2018, passing from 1.222.940 pax to 1.180.169 pax.

The main advantage of traveling by ferry is above all the possibility of embarking the car, secondly there aren't the limitations of the plane about luggage. Moreover the ferry makes the crossing pleasant and comfortable thanks to the many services on board.

The disadvantages, on the other hand, are certainly the time taken to travel, which often does not depend exclusively on the space to be covered. The rough sea and adverse weather conditions can greatly expand the duration of the journey. And finally even boarding times are often very high and people has to arrive an hour before departure.

We will consider the following as competing routes:
- Bari – Doubrovnik
- Bari - Durres (45 km from Tirana)
- Bari – Corfu

As far as the Croatian cities Split, Zadar and Pula are concerned, there are no connections with Apulia but only with the port of Ancona (467 km from Bari) and Venice (718 km from Bari).

Doubrovnik, Croatia

Duration: 11:00 h

Frequency: 1 per day

Ferry company: *Jadrolinija*

Average cost: 55,00 €

Comments: Dubrovnik is one of the most touristic Croatian cities. Statistics show that in Apulia the Croatian inhabitants in 2017 were 165 (0.13% of the

population). Furthermore, there is also an ethno-linguistic minority in Molise (approximately 2:00 hours away from Bari) but with a total of only 1.604 inhabitants. Bari is the only Italian city that connects Italy with Doubrovnik via sea.

Compete with *Jadrolinija*: Jadrolinija is the only ferry company that connects Bari with Doubrovnik. There are no other Italian ports with ferry departures that connect the two cities except the cruises. *Balbo Airlines* can compete with the ferry on the duration of the trip and on the price but obviously cannot compete on the fact that with the ferry the car can be embarked for then being able to turn Croatia without means. *Balbo Airlines* so it cannot compete with tourists who want to travel Croatia on the road.

Result: Considering only the ferry for *Balbo Airlines* that's a rout to be taken into consideration.

Durrës (45 km from Tirana), Albania

Duration: 10:00 h

Frequency: 1 per day

Ferry company: *Ventouris Ferry, Grandi Navi Veloci (GNV), Adria Ferries (AF)*

Average cost: 50,00 €

Comments: Durrës is a seaside town 45 km from Tirana and is the only way to reach Tirana by sea. To connect the two cities there is then a bus with a journey of 45 minutes and a fee of 2.00 euros.Tirana is the capital of Albania and is the most economically developed city offering the greatest number of jobs. Nowadays it's the country of opportunities, there are over 20.000 Italians who come and go from Romania and invest their savings there. Moreover in Puglia in 2017 it was estimated that 17.69% of the population is Albanian, equal to 22.639 inhabitants. In fact, 3 communities of Alberia are present in Puglia, which is the set of geographical areas with a Albanian ethnic-linguistic minority of Italy belongs.

Compete with *Ventouris Ferry, Grandi Navi Veloci (GNV), Adria Ferries (AF)*: The three companies travel to and from Albania on alternate days and with roughly equal prices and durations of the journey. *Balbo Airlines* can compete with them on the duration of the trip and for the fact that it arrives directly at the airport even if it is also 30 minutes from the city center and there is a shuttle to be taken with a fee of 2.00 euros. *Balbo Airlines* cannot compete with the fact that people can

embark their car on the ferry. *Balbo Airlines* so it cannot compete with tourists who want to travel Albania on the road.

Result: Route to be taken into consideration.

Corfu, Greece

Duration: 09:00 h

Frequency: 1 per day

Ferry company: *Ventouris Ferry, Anek Superfast*

Average cost: 50,00 €

Comments: According to the data of the Hellenic National Statistical Office, in 2016 the general growth of tourism in Greece has registered a + 30% and the latest available data of the Italian tourism authority record an increase of 21.2% in the number of Italian tourists in Greece compared to the previous year. Italian tourists in Greece are concentrated mainly in the summer season with particular preference for the Ionian and Aegean islands such as Corfu, Zante, Kefalonia, Santorini, Rhodes, Limnos and many others.

Compete with *Ventouris Ferry, Anek Superfast*: The two companies travel to and from Corfu on alternate days and with roughly equal prices and durations of the journey. *Balbo Airlines* can compete with them on the duration of the trip. *Balbo Airlines* cannot compete with the fact that people can embarkque their car on the ferry. *Balbo Airlines* so it cannot compete with tourists who want to travel Corfu on the road with their own car without renting car or scooter.

Result: Route to be taken into consideration.

4.2.7 Missing connections

None of the airport that have no Bari as direct destination have Brindisi or Foggia (the other two airport in Apulia) as destinations.

Missing direct nationals connections

Direct nationals connections are not available for:

Florence – FLR

Distance: 547 km

Comments: Florence and Tuscany in general are one of the favorite destinations of Italians both for tourism and for study and work. From Bari there is already a direct flight to Pisa (82 km from Florence) with a rather high density of passengers and certainly a part of those are direct after the flight to Florence. Alitalia with a non-direct flight with change in FCO registered an average of 16 pax per day which would be added to those who get off at Pisa. Also for Florence there is no comfortable train   from Bari with minimum one change a fee quite high.

Airline	Stop #1	Reported + Est. Pax	Pax Share	Fare	Revenue
Alitalia	FCO	5.918	96	93,64 €	554.091,44 €
Blue Panorama Airline	FCO	216	4	57,73 €	12.470,47 €
OTHER	-	9	0	98,40 €	836,38 €
TOTAL	-	6.142	100.0	92,38 €	567.398,29 €

Result: Route to be taken into consideration

Naples – NAP

Distance: 212 km

Comments: Naples is among the most visited and important cities in Italy for business. There is no direct flight from Puglia but only with a change. Flights with change BRI-NAP record an average of only 3 pax per day. There is no direct train either, but only with a change with an average duration of 4 hours. The only strong

competitor is the car that takes little more than 3 hours with a cost of around 50,00 euros.

Airline	Stop #1	Reported + Est. Pax	Pax Share	Fare	Revenue
Austrian	Unknown	725	79	129,62 €	93.911,32 €
Alitalia	FCO	193	21	117,14 €	22.608,51 €
TOTAL	-	2.427	100.0	124,84 €	302.975,66 €

Result: The car cannot be the only fast solution that connects Bari with Naples, above all because Naples is such an important city so this is a route to be taken into consideration.

Lamezia Terme – SUF ✈

Distance: 253 km

Comments: Lamezia Terme is one of the most popular cities in Calabria and close to many tourist places during the summer months. Alitalia records an average of one pax per day. The number of Apulians moving to Calabria is in fact quite modest especially in the summer months due to the sea and very beautiful beaches also present in Apulia. By car from Bari it takes about 04:20 h and a price of 41,80 euros.

Airline	Stop #1	Reported + Est. Pax	Pax Share	Fare	Revenue
Alitalia	FCO	388	100	112,30 €	43.626,92 €
TOTAL	-	388	100.0	112,30 €	43.626,92 €

Result: For *Balbo Airlines* is not convenient to set the route for Lamezia Terme.

Reggio Calabria – REG ✈

Distance: 354 km

Comments: Reggio Calabria is the first municipality in Calabria. It is very famous for its historical artifacts and for summer tourism on nearby beaches which is constantly growing. Also from Reggio, ferries leave for Sicily. Alitalia records an average of less than one passenger per day with the plane going from Bari to Reggio or vice versa with a change. By car from Bari it takes about 05:30 h with a price of 65,76 euros.

Airline	Stop #1	Reported + Est. Pax	Pax Share	Fare	Revenue
Alitalia	FCO	234	91	100,70 €	23.615,13 €
Alitalia	LIN	22	9	98,55 €	2.217,28 €
TOTAL	-	257	100.0	100,52 €	25.832,41 €

Result: Given the very low density of passengers in the flights so far present with change, for *Balbo Airlines* is not convenient to set the route for Reggio Calabria.

Trapani – TPS ✈

Distance: 515 km

Comments: Trapani is a very important city for summer tourism especially thanks to the Egadi Islands. Moreover Trapani is 110 km from Palermo so many passengers who get off in Palermo then move. Alitalia records an average of less than one pax per day.

Airline	Stop #1	Reported + Est. Pax	Pax Share	Fare	Revenue
Alitalia	FCO	200	98	94,51 €	18.903,48 €
Alitalia	LIN	3	1	102	305
OTHER	-	1	1	86,78 €	43,39 €
TOTAL	-	204	100.0	94,37 €	19.251,87 €

Result: Given the very low density of passengers in the flights so far present with change, for *Balbo Airlines* is not convenient to set the route for Trapani.

Missing direct internationals connections

Zagreb, Croatia – ZAG ✈

Distance: 515 km

Comments: Zagreb is the capital of Croatia and is the perfect weekend destination. Despite all this, tourism still does not reach high numbers even if it is increasing. Zagreb does not rank among the top 25 most visited cities in Europe. Airlines also records a very low average of one pax per day.

Airline	Stop #1	Reported + Est. Pax	Pax Share	Fare	Revenue
Lufthansa	MUC	89	29	151,72 €	13.427,12 €
Croatia Airlines	FCO	60	20	202,63 €	12.056,41 €
Alitalia	FCO	55	18	169,24 €	9.223,80 €
Lufthansa	FRA	47	16	189,99 €	8.929,31 €
Swiss	ZRH	26	8	158,47 €	4.040,99 €
Swiss	ZRH	11	3	164,15 €	1.723,53 €
Turkish Airlines	IST	8	2	143,21 €	1.074,09 €
OTHER	-	8	2	161,28 €	1.209,59 €
TOTAL	-	301	100.0	172,00 €	51.684,83 €

Result: Given the very low density of passengers in the flights so far present with change, for *Balbo Airlines* is not convenient to set the route for Zagreb.

Split, Croatia – SPU

Distance: 267 km

Comments: Split is located 400 km from the capital and bases its economy not only on tourism but also on the shipping industry, viticulture and on numerous businesses that make this city an important administrative center. Due to its historical heritage and 1700 years of tradition, the port and the city of Split have become the inevitable destination for ships cruising the Mediterranean. Airlines from Bari with change instead records a very low average of one pax per day.

Airline	Stop #1	Reported + Est. Pax	Pax Share	Fare	Revenue
Alitalia	FCO	136	45	181,88 €	24.644,10 €
Alitalia	FCO	136	45	181,92 €	24.649,60 €
Lufthansa	MUC	12	4	158,60 €	1.823,95 €
Eurowings	CGN	10	3	210,39 €	2.103,95 €
Lufthansa	FRA	4	1	432,20 €	1.728,81 €
OTHER	-	2	1	179,32 €	268,98 €
TOTAL	-	298	100.0	185,30 €	55.219,38 €

Result: Given the very low density of passengers in the flights so far present with change, for *Balbo Airlines* is not convenient to set the route for Split.

Sarajevo, Bosnia and Herzegovina – SJJ ✈

Distance: 323 km

Comments: Sarajevo is the capital of Bosnia. In the last year it has registered a tourist increase of almost 20% and among the greatest number of tourists there are also Italians. Airlines from Bari with change instead records a very low density, less than one pax per day.

Airline	Stop #1	Stop #2	Reported + Est. Pax	Pax Share	Fare	Revenue
Alitalia	FCO	BEG	24	42	125,52 €	3.012,46 €
Air Serbia	FCO	BEG	8	14	71,54 €	572,31 €
Lufthansa	MUC	-	7	11	142,65 €	927,23 €
Austrian	VIE	-	7	11	124,09 €	806,60 €
Turkish Airlines	IST	-	6	11	89,09 €	534,56 €
Swiss	ZRH	VIE	3	5	67,08 €	201,23 €
Croatia Airlines	FCO	ZAG	3	5	155,06 €	465,19 €
TOTAL	-	-	57	100.0	114,38 €	6.519,59 €

Result: Given the very low density of passengers in the flights so far present with change, for *Balbo Airlines* is not convenient to set the route for Sarajevo.

Missing national connections with less than 2 stops

Following all the considerations reported in the pages before this is the evaluation of the missing routes in Italy:

Ancona – AOI

Distance: 394 km

Not convenient

Rimini – RMI

Distance: 468 km

In consideration

Grosseto – GRS

Distance: 507 km

Not convenient

Roma Ciampino – CIA

Distance: 357 km

In consideration

Crotone – CRV

Distance: 240 km

Not convenient

Comiso – CIY

Distance: 497 km

Not convenient

Missing international connections with more than 2 stops

Following all the considerations reported in the pages before this is the evaluation of the missing routes in East Europe:

Pula, Croatia – PUY

Distance: 478 km

In consideration

Zadar, Croatia – ZAD

Distance: 349 km

Not convenient

4.2.8 Map summary

Figure 33 – Map summary
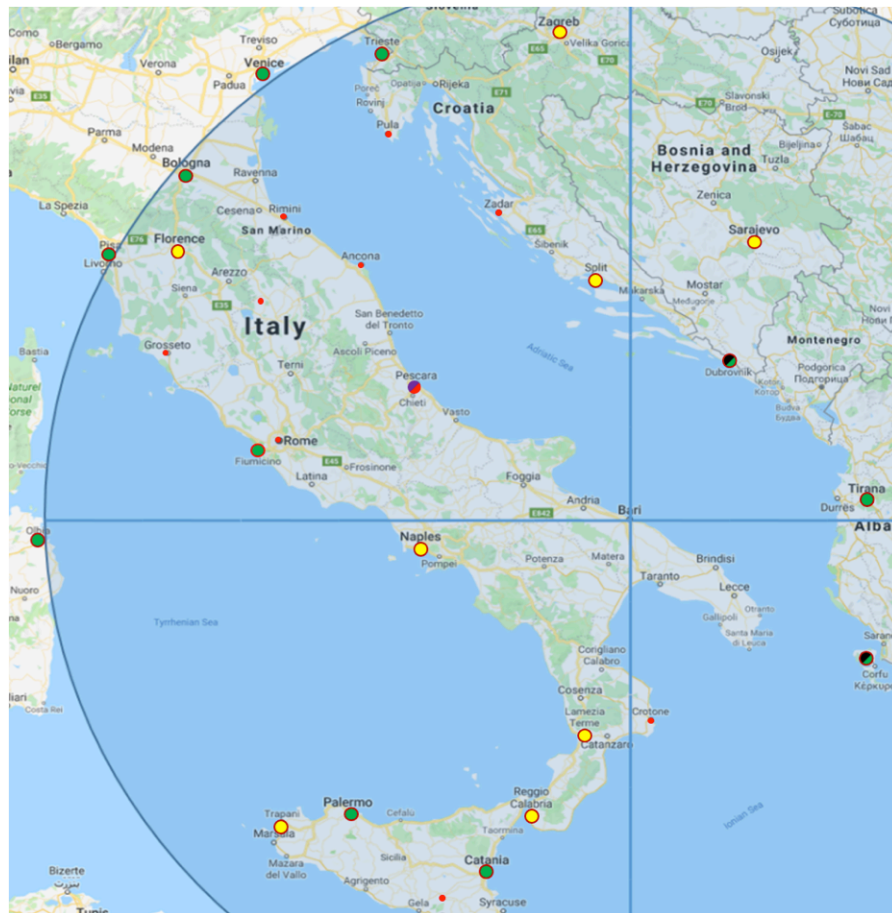
- 🟢 Direct flight to Bari
- 🟡 Flight connection to Bari
- 🔴 Without flight connection to Bari
- 🟣 Connection to Bari with train
- ⚫ Connestion to Bari with ferry

Source: author's personal elaboration based on Google Maps

4.2.9 Summary of the routes from Bari (BRI) that Balbo Airlines has to take into consideration

National	
Airport	**Balbo Airlines**
AOI	X
BLQ	√
CTA	√
CIY	X
CRV	X
FLR	√
GRS	X
SUF	X
NAP	√
OLB	√
PMO	√
PEG	X
PSR	X
PSA	X
REG	X
RMI	√
CIA	√
FCO	in a second moment
TAR	X
TPS	X
TRS	X
VCE	√

International	
CFU	√
DBV	√
PUY	√
SJJ	X
SPU	X
TIA	√
ZAD	X
ZAG	X

Chapter 5

STRATEGIC PLAN

Operative model	Point-to-Point
Sales channel	Airport / Website / Travel agencies
Marketing	Frequent flyer / Branding / Advertising
Alliances	Code-sharing
Fleet	ATR 72-600
Operative bases	Secondary airport
Routes	High frequency / Short haul
Flight schedules	172 flight/week in low season 202 flight/week in high season
Load Factor	LF 79,2%
Customer target	Business / Leisure
Fare	Middle
Services	Free hand luggage and snack on board
Employees	184 / Residents in Italy
Report	Financial and non-financial

5.1 Operative model

Balbo Italia is based on a Point-to-Point model connecting various Italian and Eastern European cities; Point-to-Point refer to connections between two cities by direct routes without stopovers. Usually this type of route is implemented by low-cost airlines between secondary airports.

Balbo Italia will ensure that Bari Airport (BRI) acts as a hub airport in southern Italy, despite the presence of the very important airport of Rome Fiumicino (FCO) in central Italy.

5.2 Sales channels

Balbo Italia will develop different distribution channels. First of all, the online one, which now occupies almost 60% of airline ticket sales, through the company website and from the airport websites. In addition *Balbo Italia* flights will be present

on the flight search engines as *Skyscanners* made available to users not to buy flights but to compare the different offers. This is because in Italy these search engines are widely used and being *Balbo Italia* a new name in Italy it will have to make itself known through non-specific searches of potential customers.

Secondly there will be the direct distribution of tickets at the airport through the ticket office located in the departure area with sale of normal flights, sales of last-minute tickets (sale with check-in still closed) or last-second (sale with check-in already open).

Balbo Italia will collaborate with travel agencies both for the business part, and therefore to collaborate with companies, and for the tourism part, and therefore to collaborate with travel groups or group transfers (sports, school trips, music etc.). In particular, *Balbo Italia* will work with the largest incoming agency in Puglia, *Nicolaus*, which is active in the provision of tourist services and in the planning and packages for the past 15 years with which *Balbo Italia* has already contacted. *Balbo Airlines* will also work with the Regional Tourism Agency, called *Pugliapromozione*, which manages and promotes the tourist destination of Puglia as an integrated and flexible complex of tangible and intangible values, through the work of different subjects integrated and organized for balanced tourism development and sustainable.

Finally, *Balbo Italia* will also collaborate with Online Travel Agency (OTA) which operate on the web and enjoy large catchment areas; Among the best known with which *Balbo Italia* will seek a collaboration there is *FlyUvet* (Italian OTA), *eDreams* and *Expedia* (Spanish OTAs).

5.3 Marketing

Balbo Italia will develop a frequent flyer program that is a service provided to travelers who make frequent flights in order to offer better services and advantages during travel. Travelers enrolled in the program earn as many points as the miles traveled. The points thus accumulated can be used to obtain discounts on subsequent flights or to enjoy additional benefits such as access to reserved areas (lounges) and priority reservations.

Moreover *Balbo Italia* will have to do a lot of branding being a new company in Italy and therefore not known. The brand, in fact, contains many more meanings

and many more elements than just the name, it is something more complex, complete and abstract: it is rather what the brand - but also the company and its products - represent in the minds of consumers. The brand - and draws - from consumers' values and expectations, is able to generate promises and on the basis of these to gain trust and loyalty not only in the short term but also in the medium-long term. The brand does not limit itself to offering quality products but suggests styles and philosophies of life, becoming a reference point. As such, the brand is not reduced to an image made up of slogans, visual identities and logos, but embraces and includes in itself the experience of customers, their perception, and their values. Branding means knowing how to present the image of the company, communicating its values and its mission, and to do this a *Balbo Italia* needs to know

Figure 34 – Balbo Italia's slogan

Source: author's personal elaboration

the company from the inside, in its most intimate essence, in its purpose. The relationship that is created between brands and consumers is, in fact, of an emotional type: the brand must know how to guide consumers' choices by overcoming the rationality plan to reach the emotional one; in other words it must arouse emotions in consumers and then place them at the heart of corporate strategies. The slogan of *Balbo Italia* will be "Connecting Emotions" (*Figure 34*).

Finally, it will be important for *Balbo Italia* to do advertising through magazines, blogs and travel forums, such as *TripAdvisor*, the most widespread US travel company in the world.

5.4 Alliances

Balbo Italia will carry out code sharing that is an agreement between airlines in which a carrier markets and places its code on the flight of another carrier, which actually operates that flight. Usually foreign companies create code sharing with the flag airline. In the case of reservations in code sharing, the airline that actually operates the service is called the Operating Carrier (OPE), while the company (or companies) that sell the ticket is called Marketing Airline. In this way *Balbo Italia* can carry out more national and international routes.

5.5 Fleet

Balbo Italia will have its fleet made up exclusively of ATR 72-600 aircraft. Today, turboprops operate 75% of flights below 330 Nm (616,16 Km) worldwide and represent the most efficient solution in terms of fuel consumption for short-haul flights. The ATRs are particularly renowned for their eco-efficiency, with a fuel consumption 45% lower than regional jets and 30% less than the competing turboprop (*Figure 35*).

Figure 35 – ATR eco-efficiency
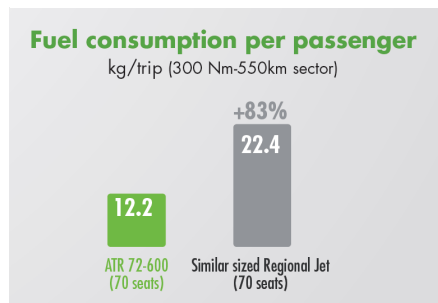
Source: company annual report

For calculating the number of aircraft required, it must be considered that an airplane that runs domestic routes can run about 10-12 routes a day. To this then a spare airplane is added in case of technical problems to one of the aircraft. Usually there are 1-2 reserve aircrafts for every 10. In our case our fleet will be smaller but it will still be necessary to have a reserve plane in sight and then also for future expansion of the company with the addition of new routes. Calculating the number of routes in next paragraphs, *Balbo Italia* will start for the first years with five ATR 72-600 in leasing with a cost of 1.200.000,00 € a months for each aircraft.

5.6 Operative bases

Balbo Italia will operate mainly with secondary airports and in particular especially in the early years it will focus on the connection and development of new routes to connect cities in the South of Italy. This also followed the scarcity of flights present today discovered with the analysis of competitors. In addition, *Balbo Italia* will connect with primary airports in Eastern Europe due to the absence of direct flights from Italy.

Moreover, today the airports no longer have a passive role but also on their part there is their will to encourage and see more traffic, rather than just waiting for new customers. It is a policy that has become customary since privatization entered the airport sector. This has meant that the airport, like the airline, has every interest in seeing the number of passengers increasing, but obviously to achieve this goal it is first necessary to make sure that there are carriers willing to land in that airport through commercial agreements. *Balbo Italia* will have to develop all these agreements for all the new routes so far not made by any company.

5.7 Routes

Balbo Italia, as mentioned in the previous paragraphs, will make short national and international routes to Eastern Europe. The headquarters will be in Bari and initially all routes will be direct (*Figure 36*). Later on, other routes will develop with stopovers. The first objective of *Balbo Italia* will have to be to improve connections with southern Italy so in a future it will have to add routes starting from Sicily and Calabria to the rest of Italy or to other destinations that always fall within the range of 600 km as for example Greece or Tunisia.

Figure 36 – Balbo Italia's route
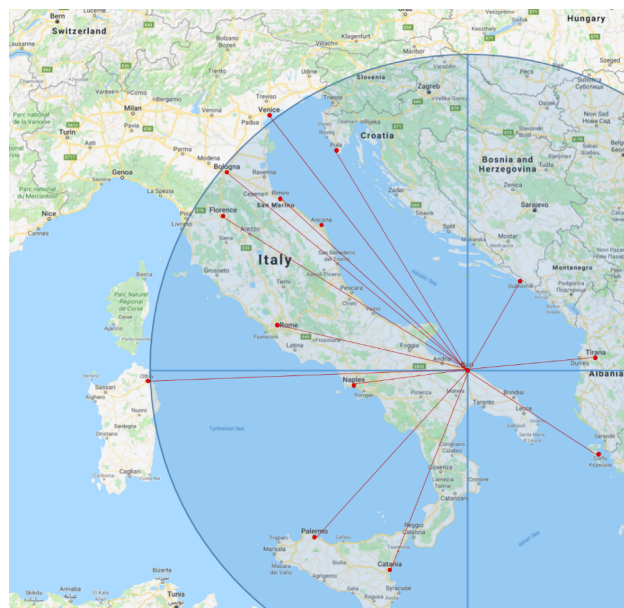
Source: author's elaboration based on Google Maps

Furthermore the characteristic of *Balbo Italia*'s routes will be the high frequency. The objective of *Balbo Airlines*, in fact, already in the Spanish Archipelago, is to have characteristics very similar to those of a bus (*Figure 37*). Passengers must have the possibility to go and return in a day from a city. The time table will be fundamental, there will have to be early morning flights, especially for customers who move for business and the latter must have the opportunity to return home once their working day is over. In this way, even if the flights have slightly higher prices than the low-cost companies that perform the same route, the customer's savings will be in not being forced to spend money on overnight stays in hotels.

Figure 37 – Balbo Airlines' characteristic

SIMILAR CHARACTERISTIC

Source: author's elaboration based on Google Images

Following what was analyzed below there are the new routes of *Balbo Airlines* with the total number of flights per week, the number of necessary aircraft, the seasonality, the block time (flight time + taxi time) and the distance.

About the number of flights, aircraft and seasonality, they have already been analyzed.

Regarding the block time, it's defined as the period of time counted from the moment in which the aircraft starts to move from the parking area to carry out a flight route up to the moment in which, after landing, it stops in the assigned parking position and up to when all the engines have stopped completely. It is obtained as the sum of the times (*Figure 38*):

$$T_b = T_{taxi\ out} + T_{flight} + T_{taxi\ in}$$

Figure 38 – Block time
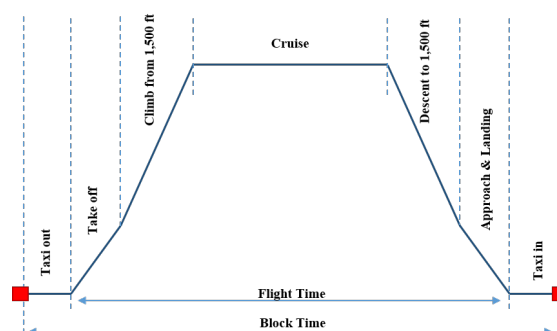
Source: author's personal elaboration

Block Time Computation (BH):

Connection		Taxi out (min)	Taxi in (min)	Taxi time (min)	Take off (min)	Cruise (min)	Landing (min)	Flight time (min)	Block Hours (BH)
BRI	BLQ	4	5	9	7	58	5,5	70,5	1:19
BRI	CTA	4	4	8	7	42,73	5,5	55,23	1:03
BRI	FLR	4	4	8	7	53,75	5,5	66,25	1:14
BRI	NAP	4	4	8	7	17,22	5,5	29,72	0:37
BRI	OLB	4	3	7	7	60,84	5,5	73,34	1:20
BRI	PMO	4	4	8	7	47,72	5,5	60,22	1:08
BRI	RMI	4	3	7	7	45,13	5,5	57,63	1:04
BRI	CIA	4	5	9	7	33,03	5,5	45,53	0:54
BRI	VCE	4	4	8	7	59,96	5,5	72,46	1:20
BRI	CFU	4	3	7	7	28,45	5,5	40,95	0:47
BRI	DBV	4	3	7	7	15,91	5,5	28,41	0:35
BRI	PUY	4	3	7	7	46,22	5,5	58,72	1:05
BRI	TIA	4	5	9	7	21,14	5,5	33,64	0:42

Balbo Italia's routes:

Connection		Flights per week	Seasonality	Aircraft	Distance (kms)	Block time (h)	Flight time (h)
BRI	BLQ	24	Yearly	1-2	586 km	1:19	1:10
BRI	CTA	28	Yearly	1-2	446 km	1:03	0:55
BRI	FLR	14	Yearly	1-2	547 km	1:14	1:06
BRI	NAP	24	Yearly	1-2	212 km	0:37	0:29
BRI	OLB	10	Summer	1-2	612 km	1:20	1:13
BRI	PMO	28	Yearly	1-2	455 km	1:08	1:00
BRI	RMI	10	Summer	1-2	468 km	1:04	0:57
BRI	CIA	28	Yearly	1-2	357 km	0:54	0:45
BRI	VCE	8	Yearly	1-2	604 km	1:20	1:12
BRI	CFU	6	Summer	1-2	315 km	0:47	0:40
BRI	DBV	6	Yearly	1-2	200 km	0:35	0:28
BRI	PUY	4	Summer	1-2	478 km	1:05	0:58
BRI	TIA	12	Yearly	1-2	248 km	0:42	0:33

5.8 Flight schedule

In the table below there is the weekly flight schedule.

The √√ symbol indicates round trip for the same route for which there are two flights. For operational constraints, such as airport opening time, and turn-around time between two flights, *Balbo Italia* consider a maximum potential of 10 flights a day per each ATR aircraft. Based on this consideration and the total number of flight per day for the considered network, we compute the number of necessary planes, to which we add 1 planes as spare for any possible technical failure. Normally 1-2 spare airplanes are used for a fleet of 10 aircraft, as it was explained before, because otherwise it is a big cost of unused capital but in this case we consider 1 of them in view of future routes or an increase of flights per day.

Tot. flights a week, summer weeks excluded:

	Mon	Tue	Wed	Thu	Fri	Sat	Sun	Tot. Flight
BLQ	√√√√	√√√√	√√√√	√√√√	√√√√	√√	√√	24
CTA	√√√√	√√√√	√√√√	√√√√	√√√√	√√√√	√√√√	28
FLR	√√√√		√√√√	√√√√			√√	14
NAP	√√√√	√√√√	√√√√	√√√√	√√√√	√√	√√	24
PMO	√√√√	√√√√	√√√√	√√√√	√√√√	√√√√	√√√√	28
CIA	√√√√	√√√√	√√√√	√√√√	√√√√	√√√√	√√√√	28
VCE		√√√√			√√√√			8
DBV	√√				√√		√√	6
TIA		√√√√		√√√√		√√	√√	12
Total flights	26	28	24	28	26	18	22	172
Min. Planes	3	3	3	3	3	2	2	3

Tot. flights a week during summer:

	Mon	Tue	Wed	Thu	Fri	Sat	Sun	Tot. Flight
BLQ	√√√√	√√√√	√√√√	√√√√	√√√√	√√	√√	24
CTA	√√√√	√√√√	√√√√	√√√√	√√√√	√√√√	√√√√	28
FLR	√√√√		√√√√	√√√√			√√	14
NAP	√√√√	√√√√	√√√√	√√√√	√√√√	√√	√√	24
OLB	√√√√					√√	√√√√	10
PMO	√√√√	√√√√	√√√√	√√√√	√√√√	√√√√	√√√√	28
RMI	√√√√		√√				√√√√	10
CIA	√√√√	√√√√	√√√√	√√√√	√√√√	√√√√	√√√√	28
VCE		√√√√			√√√√			8

CFU	√√				√√		√√	6
DBV	√√				√√		√√	6
PUY			√√			√√		4
TIA		√√√		√√√		√√	√√	12
Total flights	36	28	28	28	28	22	32	202
Min. Planes	4	3	3	3	3	2	3	4

5.9 Number of passengers per route

In order to optimize the asset, the aircraft has to fly as much and with as many passenger as possible.

Therefore the aircraft utilization is measured in terms of flight hour (FH) per year and by the ratio between the number of passengers and the number of seat available, which is called Load Factor and is expressed in percentage. The LF changes according to the type of flight, domestic or international, and according to the season, high or low.

The LF increase while the airline become more stable on a specific market. Based on this and on LF of other similar competitors on the considered market, we have assumed the following LF for *Balbo Italia*.

Intermediate season	High season	Low season
Apr - May - Oct - Dec	Jun - Jul - Aug - Sept	Gen - Feb - Mar - Nov
LF 77,6%	LF 90%	LF 70%
Average LF = 79,2%		

Balbo Italia will use ATR 72-600 aircraft with a capacity of 72 seats as we can see in the cabin configuration of *Figure 39*.

Figure 39 – ATR configuration
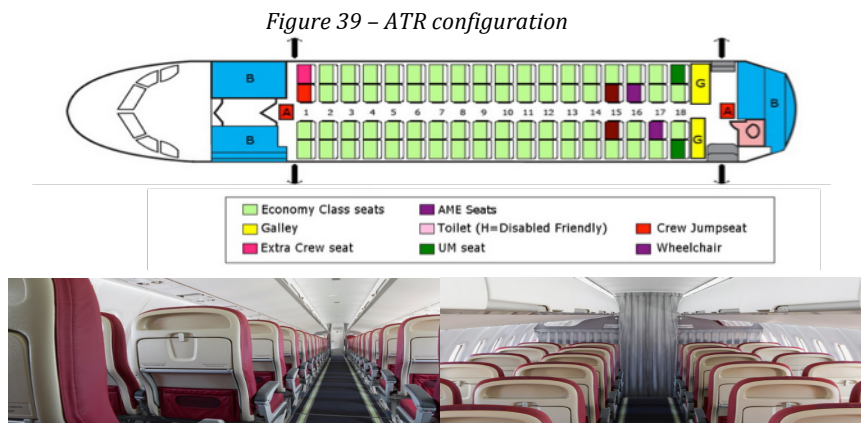
Source: company report

Balbo Italia will therefore have, in a basic scenario, an average number of passengers per flight of:

$$72\ pax \times LF = 72\ pax \times 79,2\% = \boldsymbol{57\ pax}$$

5.10 Target customers

The travel purpose of our customers will be prevalently for business or for regular movement between cities, for example for studies.

	Business people 45%	Private
		Public
	Students 20%	Offsite
		Student trip
Travel purpose	Tourism 20%	Weekend
		Elderly trip
	Passengers in transit 15%	Europe
		Extra Europe

For this reason the main characteristic of *Balbo Italia* will be high frequency and comfort.

5.11 Total data per year

Connection		Tot. Pax	Tot. Flight	Tot. BH	Tot. FH
BRI	BLQ	65864	1248	1653:36:00	1456:00:00
BRI	CTA	76842	1456	1534:22:53	1334:40:00
BRI	FLR	38421	728	900:54:00	800:48:00
BRI	NAP	65864	1248	784:34:34	603:12:00
BRI	OLB	8444	160	214:14:24	194:40:00
BRI	PMO	76842	1456	1655:28:19	1456:00:00
BRI	RMI	8444	160	172:20:48	152:00:00
BRI	CIA	76842	1456	1323:15:41	1092:00:00
BRI	VCE	21955	416	557:51:22	499:12:00
BRI	CFU	16466	312	249:20:24	208:00:00
BRI	DBV	16466	312	184:07:55	145:36:00
BRI	PUY	3378	64	70:06:05	61:52:00
BRI	TIA	32932	624	443:27:22	343:12:00
		508761	**9640**	**9743:39:46**	**8347:12:00**

5.12 Company organization and employees

The subsidiary in Italy will be composed of 184 employees from the outset who will then increase in the future with more routes. Employees, including flights and cabin crew, must be Italian or otherwise based in Italy to cut all costs and not have to pay for the flight home or hotels. All work and remuneration policies must comply with Italian laws. Organizational chart is below exposed (*Figure 40*).

Figure 40 – Organizational chart
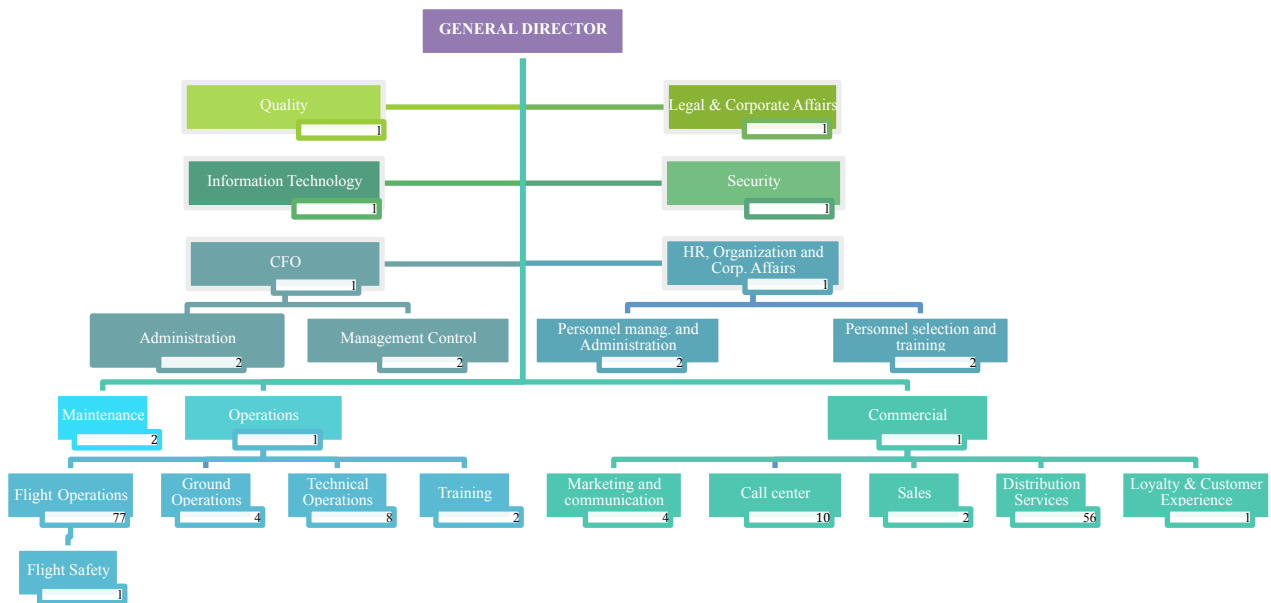
Source: author's personal elaboration

5.13 Fares

The *Balbo Italia* fares will be positioned in the middle between a low-cost company and a full-service one. In addition, ticket purchase rates will be divided as follows:

- Super Promo: once the ticket has been purchased it cannot be changes and the reservations cannot be canceled.
- Promo: once the ticket has been purchased, time, data and destination changes can be made within 24 hours before the flight but reservations cannot be canceled.

- Economic: once the ticket has been purchased time, data and destination changes can be made within 24 hours before the flight and the reservation can be canceled with a 20% penalty.

- Flexibility: once the ticket has been purchased time, data and destination changes can be made and the reservation can be canceled without any penalty.

- Business: once the ticket has been purchased time, data and destination changes can be made and the reservation can be canceled without any penalty. Moreover, the buyer has the right to priority, to the acceptance in the VIP area, to a suitcase to be boarded and to the premium service on board.

5.14 Services

Figure 41 – Free services

The services that *Balbo Italia* offers free to all its customers of any price range are hand luggage, which has now become a fee in low-cost airlines and snacks plus drinks during the flight (*Figure 41*).

It is also possible to buy meals and other drinks and many articles and gadget that are shown on the catalogue on board.

Source: author's personal elaboration

5.15 Integrated Thinking and Integrated Report

"Integrated thinking is the active consideration by an organization of the relationships between its various operating and functional units and the capitals that the organization uses or affects. Integrated thinking leads to integrated decision-making and actions that consider the creation of value over the short, medium and long term" (IIRC, 2013: p.2).

Integrated Thinking is part of a *Balbo Italia*'s DNA, because when we talk about Integrated Thinking, immediately, we think over the correlation within the Integrated Reporting: each cell match jointly together to another, in order to mutually fit well and create the living being's identity with its genetic heritage, and so

Integrated Thinking is required as part of a DNA's company to compile an Integrated Report. Hence, it leads to processes embedded into integrated decision-making and action to perform tasks over the short-medium and long run, rather than the traditional focus based only on short term and financial outcomes.

During the last decades, the sets of disclosure and the processing of unleashing information have been changed a lot, and since business information has been affected by this revolution, thus the practice of reporting to stakeholders, in general, must respond to changes in the circumstances in which it operates. And yet, providing the traditional financial result, in the ongoing year, is still necessary, but not sufficient when we take in consideration the higher perception of responsibilities and requirements, for more qualitative and useful information. Therefore, Integrated Thinking is very important in order to figure out why companies, banks and whatever business in the loop, release such detailed reports in which both financial and non-financial results as social and sustainability development over time are considered key factors to improve transparency among stakeholders with respect for the corporation concerning social, environmental and financial issues, identifying which opportunities might be the best one to pick-up on.

Since *Balbo Italia* is really taking care to sustainability and so to the three pillars economy, society and environment (*Figure 42*), it should draw up both financial and non-financial reports at the end of the year.

Figure 42 – Integrated report
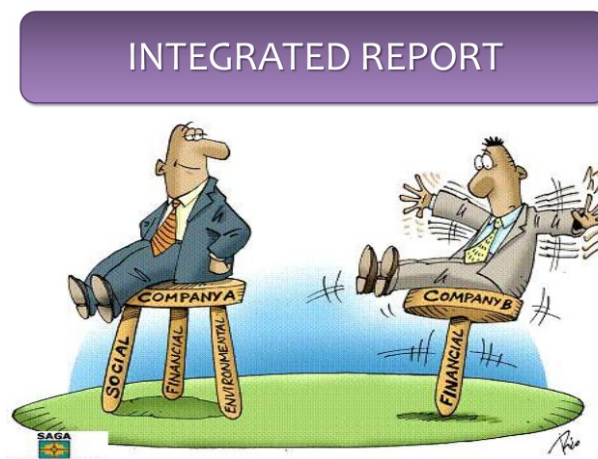
Source: Google Images

Chapter 6

FINANCIAL PROJECTION

6.1 Finance in the aeronautical sector

Investments have always played a fundamental role for companies: they fuel their economics and makes them to grow and to prosper, generating richness for the society and creating jobs. However, before making any investment companies need a method to evaluate the profitability of a specific project. The problem fundamentally lies in the evaluation of business uncertainty: no one is in fact able to predict exactly what is going to happen in the future and which could be the relevant implications in the business environment.

Over time, therefore, scholars have tried to create tools able to help managers in their choices by providing them with different criteria for the evaluation of investments.

To make the financial forecast I assumed three different probabilistic scenarios: basic, worst and best. The risk manager of *Balbo Airlines* has estimated that their probability of success is 70%, 10% and 20% respectively.

I used the cash flow forecasting method. This method is intended to predict future financial needs and the times in which they will arise. So it aims to predict the timing and volume of future cash-in and cash-out flows.

One of the most difficult item to estimate in cash flow forecasting is the sales forecast. Especially when the embraced period goes beyond 12 months, the forecast often is aleatory. The recent history of air transport is full of unexpected events that are difficult to predict such as wars, recessions and episodes of terrorism.

On the cost side, the forecast is less random. Many costs are practically fixed. Uncertainties remain for what concerns the trend in prices and purchase volumes of services and materials whose consumption is linked to sales volume.

Starting from pre-existing models, selected with *Balbo Airlines*, I formulated a model that contains the main financial decisions, for short and long term, concerning both economic and asset management.

The model starting point is the forecast of traffic volume and yields (unitary average fare). From this data, it is possible to formulate a forecast about the operating revenues, to which the extraordinary revenues have then to be added. The forecast of the traffic volume and the forecasts about the load factor (operational capacity used) give indication to establish the available operating capacity (expressed in Available Seat Miles, ASM) from this latter forecast derives the fleet structure and therefore the type of necessary aircraft. When the types of aircraft are known and the traffic volume forecasts are available, it is possible to calculate the operating costs for each type of aircraft and to forecast the total operating costs. By comparing the operating costs with the operating revenues, we obtain the planned operating profit. As shown in *Figure 41*, having defined the number and type of aircraft needed to meet certain traffic volumes, it is possible to estimate the necessary investments and the respective depreciation rates, financial charges and the debt repayment plan in the case of loan capital has been used. If operating leases are used instead, the relevant installments can be estimated. All this allows going from operating profit to net profits, thus forecasting the cash flow and also foreseeing how the equity capital debt ratio changes.

Figure 43 – Revenues/Costs model
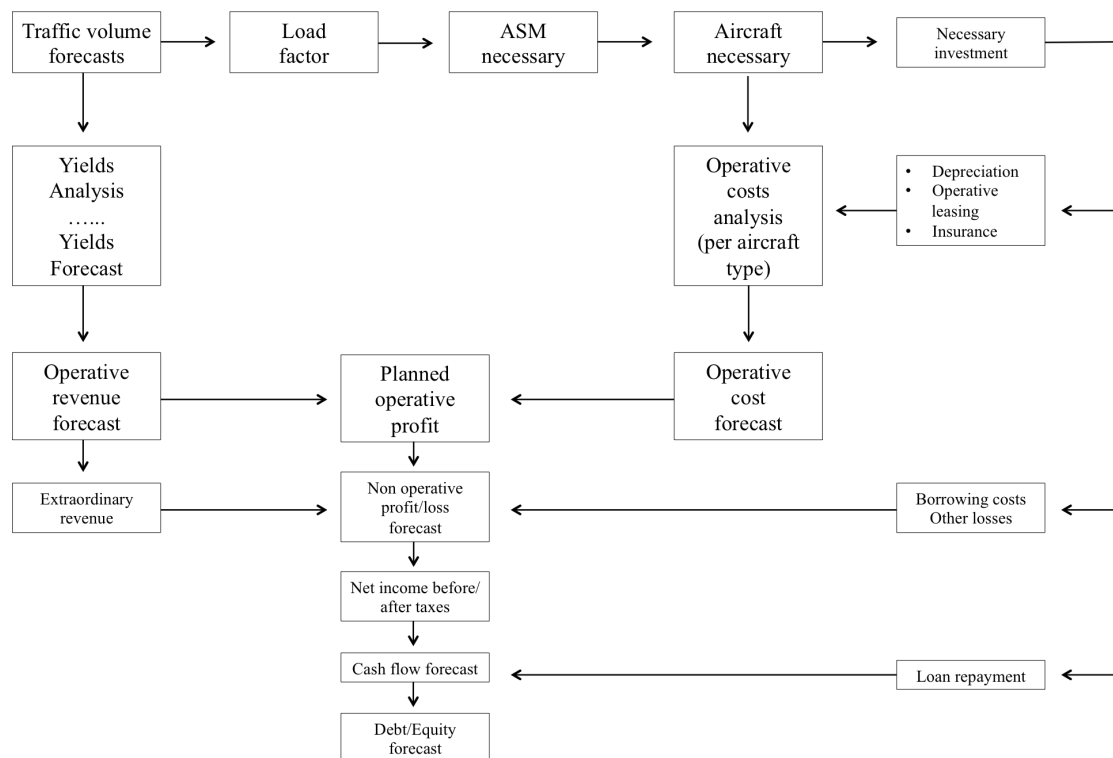
Source: author's elaboration based on Boeing model

Once the cash flows have been computed, in our case calculated for the first seven years, I use the NPV (Net Present Value) method, which consists in the algebraic sum of the cash flows occurring along a time line t, ranging from 0 to N, discounted according to a reference rate r. The initial outlay is defined as I_0 (start-up investment).

$$NPV = -I_0 + \sum_{t=0}^{N} \frac{FCFt}{(1+r)^t}$$

As a discount rate I used two different types for two different methods: the "risk-free rate" for the probabilistic scenario and then I found an average NPV and the "risk adjusted discount rate" (RADR) for a sensitivity analysis.

The risk free rate represents the interest rate of a risk-free investment. The theoretical assumption at the origin of its definition derives from the observation that in the markets it is always possible to find a security for which a return is certain and can be known ex ante. So it is a security that has a return linked to the marginal product of capital without the additive component based on the risk premium. In Italy the title considered "risk free" is the BOT, the Ordinary Treasury Bill. Assuming some margin, due to the uncertainty on future BOT rate, I take 1.5% as risk-free rate. "*It is the same for a utility company which is likely to have a low level of cost of capital as compared to say an airline company which is in a riskier business and hence has a higher cost of capital*" (Nippani, 2017: p.154). This method has many limitations as the author said and this is why it is preferable to use an alternative method.

The risk-adjusted discount rate, in fact, adds to the risk-free rate also a risk-premium appropriate to the project. This rate has to be higher than the cost of capital (WACC) because this project is riskier than the current business operation of *Balbo Airlines* (Bhaumik, 2016). In our case the company has a WACC of 7,5% so I made a sensitivity analysis considering different Δ difference from it for obtaining different RADR.

After, having actualized the cash flow, the decision is based on the value of the NPV: if it is greater than zero, the company should proceeds to launch the project making the necessary investment; if it is less than zero the project should not be launched because it will most probably not produce positive returns.

6.2 BASIC SCENARIO

Revenues

	Year 0 Incr.	Year 0 Val.	Year 1 Incr.	Year 1 Val.	Year 2 Incr.	Year 2 Val.	Year 3 Incr.	Year 3 Val.	Year 4 Incr.	Year 4 Val.	Year 5 Incr.	Year 5 Val.	Year 6 Incr.	Year 6 Val.	Year 7 Incr.	Year 7 Val.
Tot. Flight	-	-	-	9640	10%	10604	10%	11664	10%	12831	10%	14114	10%	15525	10%	17078
N. pax	-	-	-	57	2,5%	57,99	2%	59,15	1,5%	60,04	1%	60,64	1%	61,24	1%	61,86
Average fare	-	-	-	73,98 €	2%	75,46 €	1,5%	76,59 €	1%	77,36 €	1%	78,13 €	1%	78,91 €	1%	79,70 €
Sales Revenues	-	-	-	40.347.136,00 €	-	46.401.223,76 €	-	52.843.105,65 €	-	59.589.320,73 €	-	66.865.772,69 €	-	75.030.752,19 €	-	84.192.757,34 €

+

	Year 0 % sales	Year 0 Val.	Year 1 % sales	Year 1 Val.	Year 2 % sales	Year 2 Val.	Year 3 % sales	Year 3 Val.	Year 4 % sales	Year 4 Val.	Year 5 % sales	Year 5 Val.	Year 6 % sales	Year 6 Val.	Year 7 % sales	Year 7 Val.
Extr. Revenues	-	-	25%	10.086.784,00 €	25%	11.600.305,94 €	25%	13.210.776,41 €	25%	14.897.330,18 €	25%	16.716.443,17 €	25%	18.757.688,05 €	25%	21.048.189,34 €

=

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Tot. revenues	50.433.920,00 €	58.001.529,70 €	66.053.882,06 €	74.486.650,92 €	83.582.215,86 €	93.788.440,24 €	105.240.946,68 €
Inflation	1%	1%	1%	1%	1%	1%	1%
Adj. Revenues	50.938.259,20 €	58.581.544,99 €	66.714.420,88 €	75.231.517,43 €	84.418.038,02 €	94.726.324,64 €	106.293.356,14 €

Costs

	Year 0		Year 1		Year 2		Year 3		Year 4		Year 5		Year 6		Year 7	
	Incr.	Val.	Incr.	Val.	Incr.	Val.	Incr.	Val.	Incr.	Val.	Incr.	Val.	Incr.	Val.	Incr.	Val.
Start-up	-	3.000.000,00 €	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fix IOC	-	-	-	4.606.511,19 €	-	4.606.511,19 €	-	4.606.511,19 €	-	4.606.511,19 €	-	4.606.511,19 €	-	4.606.511,19 €	-	4.606.511,19 €
Fix DOC	-	-	-	6.092.400,00 €	-	6.092.400,00 €	-	6.092.400,00 €	-	6.092.400,00 €	-	6.092.400,00 €	-	6.092.400,00 €	-	6.092.400,00 €
Variable IOC	-	-	-	2.487.247,75 €	10%	2735972,53	10%	3009569,78	10%	3310526,76	10%	3641579,43	10%	4005737,37	10%	4406311,11
Variable DOC	-	-	-	44.787.770,53 €	10%	49.266.547,58 €	10%	54.193.202,34 €	10%	59.612.522,58 €	10%	65.573.774,83 €	10%	72.131.152,32 €	10%	79.344.267,55 €
Tot.		3.000.000,00 €		57.973.929,47 €		62.701.431,30 €		67.901.683,31 €		73.621.960,52 €		79.914.265,45 €		86.835.800,88 €		94.449.489,85 €
Inflaction		-		1%		1%		1%		1%		1%		1%		1%
Adj. Costs		3.000.000,00 €		58.553.668,76 €		63.328.445,61 €		68.580.700,14 €		74.358.180,13 €		80.713.408,11 €		87.704.158,89 €		95.393.984,75 €

Ebit

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Ebit	3.000.000,00 €	7.615.409,56 €	4.746.900,62 €	1.866.279,26 €	873.337,30 €	3.704.629,91 €	7.022.165,75 €	10.899.371,40 €

Cumulated ebit

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Cum. ebit	3.000.000,00 €	10.615.409,56 €	15.362.310,18 €	17.228.589,44 €	16.355.252,14 €	12.650.622,23 €	5.628.456,48 €	5.270.914,92 €

Break-even year

Discounted Cash Flow

With risk-free rate

$$r = 1,5\%$$

$$NPV = \text{Ebit}_0 + \frac{\text{Ebit}_1}{1+r} + \frac{\text{Ebit}_2}{(1+r)^2} + \frac{\text{Ebit}_3}{(1+r)^3} + \frac{\text{Ebit}_4}{(1+r)^4} + \frac{\text{Ebit}_5}{(1+r)^5} + \frac{\text{Ebit}_6}{(1+r)^6} + \frac{\text{Ebit}_7}{(1+r)^7} =$$

$$NPV = -3.000.000,00 + \frac{-7.615.409,56}{1+0,015} + \frac{-4.746.900,62}{(1+0,015)^2} + \frac{-1.866.279,26}{(1+0,015)^3} + \frac{873.337,30}{(1+0,015)^4} + \frac{3.704.629,91}{(1+0,015)^5} + \frac{7.022.165,75}{(1+0,015)^6} + \frac{10.899.371,40}{(1+0,015)^7} =$$

$$NPV = 4.687.888,98 \ \text{€}$$

with a probability of 70,0%

6.3 WORST SCENARIO

Revenues

	Year 0		Year 1		Year 2		Year 3		Year 4		Year 5		Year 6		Year 7	
	Incr.	Val.	Incr.	Val.	Incr.	Val.	Incr.	Val.	Incr.	Val.	Incr.	Val.	Incr.	Val.	Incr.	Val.
Tot. Flight	-	-	-	9640	10%	10604	10%	11664	10%	12831	10%	14114	10%	15525	10%	17078
N. pax	-	-	-	55	1,5%	55,83	2%	56,94	1,5%	57,80	1%	58,37	1%	58,96	0,5%	59,25
Average fare	-	-	-	73,98 €	2%	75,46 €	1,5%	76,59 €	1%	77,36 €	1%	78,13 €	1%	78,91 €	1%	79,70 €
Sales Revenues	-	-	-	39.224.196,00 €	-	44.669.691,13 €	-	50.871.184,35 €	-	57.365.654,10 €	-	64.370.574,12 €	-	72.230.864,93 €	-	80.649.733,39 €

+

	Year 0		Year 1		Year 2		Year 3		Year 4		Year 5		Year 6		Year 7	
	% sales	Val.	% sales	Val.	% sales	Val.	% sales	Val.	% sales	Val.	% sales	Val.	% sales	Val.	% sales	Val.
Extr. Revenues	-	-	25%	9.806.049,00 €	25%	11.167.422,78 €	25%	12.717.796,09 €	25%	14.341.413,53 €	25%	16.092.643,53 €	25%	18.057.716,23 €	25%	20.162.433,35 €

=

	Year 1	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Tot. revenues	-	49.030.245,00 €	55.837.113,91 €	63.588.980,44 €	71.707.067,63 €	80.463.217,65 €	90.288.581,16 €	100.812.166,74 €
Inflation	-	1%	1%	1%	1%	1%	1%	1%
Adj. Revenues	0	49.520.547,45 €	56.395.485,05 €	64.224.870,24 €	72.424.138,30 €	81.267.849,83 €	91.191.466,97 €	101.820.288,41 €

Costs

	Year 0		Year 1		Year 2		Year 3		Year 4		Year 5		Year 6		Year 7	
	Incr.	Val.	Incr.	Val.	Incr.	Val.	Incr.	Val.	Incr.	Val.	Incr.	Val.	Incr.	Val.	Incr.	Val.
Start-up	-	3.000.000,00 €	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fix IOC	-	-	-	4.606.511,19 €	-	4.606.511,19 €	-	4.606.511,19 €	-	4.606.511,19 €	-	4.606.511,19 €	-	4.606.511,19 €	-	4.606.511,19 €
Fix DOC	-	-	-	6.092.400,00 €	-	6.092.400,00 €	-	6.092.400,00 €	-	6.092.400,00 €	-	6.092.400,00 €	-	6.092.400,00 €	-	6.092.400,00 €
Variable IOC	-	-	-	2.487.247,75	10%	2735972,53	10%	3009569,78	10%	3310526,76	10%	3641579,43	10%	4005737,37	10%	440311,11
Variable DOC	-	-	-	44.787.770,53 €	10%	49.266.547,58 €	10%	54.193.202,34 €	10%	59.612.522,58 €	10%	65.573.774,83 €	10%	72.131.152,32 €	10%	79.344.267,55 €
Tot.		3.000.000,00 €		57.973.929,47 €		62.701.431,30 €		67.901.683,31 €		73.621.960,52 €		79.914.265,45 €		86.835.800,88 €		94.449.489,85 €
Inflaction		-		1%		1%		1%		1%		1%		1%		1%
Adj. Costs		3.000.000,00 €		58.553.668,76 €		63.328.445,61 €		68.580.700,14 €		74.358.180,13 €		80.713.408,11 €		87.704.158,89 €		95.393.984,75 €

Ebit

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Ebit	3.000.000,00 €	9.033.121,31 €	6.932.960,56 €	4.355.829,90 €	1.934.041,82 €	554.441,72 €	3.487.308,08 €	6.426.303,66 €

Cumulated ebit

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Cum. ebit	3.000.000,00 €	12.033.121,31 €	18.966.081,87 €	23.321.911,77 €	25.255.953,60 €	24.701.511,88 €	21.214.203,79 €	14.787.900,13 €

157

Discounted Cash Flow

With risk-free rate:

$$r = 1,5\%$$

$$NPV = \text{Ebit}_0 + \frac{\text{Ebit}_1}{1+r} + \frac{\text{Ebit}_2}{(1+r)^2} + \frac{\text{Ebit}_3}{(1+r)^3} + \frac{\text{Ebit}_4}{(1+r)^4} + \frac{\text{Ebit}_5}{(1+r)^5} + \frac{\text{Ebit}_6}{(1+r)^6} + \frac{\text{Ebit}_7}{(1+r)^7} =$$

$$NPV = -3.000.000,00 + \frac{-9.033.121,31}{1+0,015} + \frac{-6.932.960,56}{(1+0,015)^2} + \frac{-4.355.829,90}{(1+0,015)^3} + \frac{-1.934.041,82}{(1+0,015)^4} + \frac{554.441,72}{(1+0,015)^5} + \frac{3.487.308,08}{(1+0,015)^6} + \frac{6.426.303,66}{(1+0,015)^7} =$$

$$NPV = -14.486.702,99€$$

with a probability of 10,0%

158

6.4 BEST SCENARIO

Revenues

	Year 0		Year 1		Year 2		Year 3		Year 4		Year 5		Year 6		Year 7	
	Incr.	Val.	Incr.	Val.	Incr.	Val.	Incr.	Val.	Incr.	Val.	Incr.	Val.	Incr.	Val.	Incr.	Val.
Tot. Flight	-	-	-	9640	10%	10604	10%	11664	10%	12831	10%	14114	10%	15525	10%	17078
N. pax	-	-	-	58	3%	69,74	3%	61,53	2%	62,76	2%	64,02	1%	64,66	1%	65,30
Average fare	-	-	-	73,98 €	2%	75,46 €	1,5%	76,59 €	1%	77,36 €	1%	78,13 €	1%	78,91 €	1%	79,70 €
Sales Revenues	-	-	-	41.363.697,60 €	-	47.802.370,77 €	-	54.972.487,37 €	-	62.295.922,14 €	-	70.594.984,89 €	-	79.215.338,49 €	-	88.888.323,47 €

+

	Year 0		Year 1		Year 2		Year 3		Year 4		Year 5		Year 6		Year 7	
	% sales	Val.	% sales	Val.	% sales	Val.	% sales	Val.	% sales	Val.	% sales	Val.	% sales	Val.	% sales	Val.
Extr. Revenues	-	-	25%	10.340.924,40 €	25%	11.950.592,69 €	25%	13.743.121,84 €	25%	15.573.980,53 €	25%	17.648.746,22 €	25%	19.803.834,62 €	25%	22.222.080,87 €

=

	Year 1	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Tot. revenues	-	51.704.622,00 €	59.752.963,46 €	68.715.609,21 €	77.869.902,67 €	88.243.731,11 €	99.019.173,11 €	111.110.404,34 €
Inflaction	-	1%	1%	1%	1%	1%	1%	1%
Adj. Revenues	0	52.221.668,22 €	60.350.493,10 €	69.402.765,31 €	78.648.601,70 €	89.126.168,42 €	100.009.364,85 €	112.221.508,39 €

Costs

	Year 0		Year 1		Year 2		Year 3		Year 4		Year 5		Year 6		Year 7	
	Incr.	Val.	Incr.	Val.	Incr.	Val.	Incr.	Val.	Incr.	Val.	Incr.	Val.	Incr.	Val.	Incr.	Val.
Start-up	-	3.000.000,00 €	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fix IOC	-	-	-	4.606.511,19 €	-	4.606.511,19 €	-	4.606.511,19 €	-	4.606.511,19 €	-	4.606.511,19 €	-	4.606.511,19 €	-	4.606.511,19 €
Fix DOC	-	-	-	6.092.400,00 €	-	6.092.400,00 €	-	6.092.400,00 €	-	6.092.400,00 €	-	6.092.400,00 €	-	6.092.400,00 €	-	6.092.400,00 €
Variable IOC	-	-	-	2.487.247,75 €	10%	2735972,53	10%	3009569,78	10%	3310526,76	10%	3641579,43	10%	4005737,37	10%	4406311,11
Variable DOC	-	-	-	44.787.770,53 €	10%	49.266.547,58 €	10%	54.193.202,34 €	10%	59.612.522,58 €	10%	65.573.774,83 €	10%	72.131.152,32 €	10%	79.344.267,55 €
Tot.		3.000.000,00 €		57.973.929,47 €		62.701.431,30 €		67.901.683,31 €		73.621.960,52 €		79.914.265,45 €		86.835.800,88 €		94.449.489,85 €
Inflaction		1%		1%		1%		1%		1%		1%		1%		1%
Adj. Costs		3.000.000,00 €		58.553.668,76 €		63.328.445,61 €		68.580.700,14 €		74.358.180,13 €		80.713.408,11 €		87.704.158,89 €		95.393.984,75 €

Ebit

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Ebit	3.000.000,00 €	6.332.000,54 €	2.977.952,52 €	822.065,17 €	4.290.421,58 €	8.412.760,31 €	12.305.205,96 €	16.827.523,64 €

Cumulated ebit

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Cum. ebit	3.000.000,00 €	9.332.000,54 €	12.309.953,06 €	11.487.887,90 €	7.197.466,32 €	1.215.293,99 €	13.520.499,95 €	30.348.023,59 €

Break-even year

Discounted Cash Flow

With risk-free rate:

$$r = 1,5\%$$

$$NPV = \text{Ebit}_0 + \frac{\text{Ebit}_1}{1+r} + \frac{\text{Ebit}_2}{(1+r)^2} + \frac{\text{Ebit}_3}{(1+r)^3} + \frac{\text{Ebit}_4}{(1+r)^4} + \frac{\text{Ebit}_5}{(1+r)^5} + \frac{\text{Ebit}_6}{(1+r)^6} + \frac{\text{Ebit}_7}{(1+r)^7} =$$

$$NPV = -3.000.000,00 + \frac{-6.332.000,54}{1+0,015} + \frac{-2.977.952,52}{(1+0,015)^2} + \frac{822.065,17}{(1+0,015)^3} + \frac{4.290.421,58}{(1+0,015)^4} + \frac{8.412.760,31}{(1+0,015)^5} + \frac{12.305.205,96}{(1+0,015)^6} + \frac{16.827.523,64}{(1+0,015)^7} =$$

$$NPV = 23.450.560,93 \; €$$

with a probability of 20,0%

161

6.5 PROBABILISTIC ANALYSIS

With risk-free rate:

$$r = 1,5\%$$

$$NPV = \frac{NPV_{basic} \times 70 + NPV_{worst} \times 10 + NPV_{best} \times 20}{100} =$$

$$NPV = \frac{4.687.888,98 \times 70 - 14.486.702,99 \times 10 + 23.450.560,93 \times 20}{100} =$$

$$NPV = 6.522.964,173 \text{ €}$$

6.6 SENSITIVITY ANALYSIS

With risk adjusted discount rate (RADR)

$$NPV = -3.000.000,00 + \frac{-7.615.409,56}{1+r} + \frac{-4.746.900,62}{(1+r)^2} + \frac{-1.866.279,26}{(1+r)^3} + \frac{873.337,30}{(1+r)^4} + \frac{3.704.629,91}{(1+r)^5} + \frac{7.022.165,75}{(1+r)^6} + \frac{10.899.371,40}{(1+r)^7} =$$

Being this project riskier than the current business of the company, *RADR* > *WACC*, with *WACC* = 7,0%.

Considering a Δ difference from *WACC*, we obtain the *RADRs* to calculate the various *NPVs*.

With: Δ= 1,0% → *r* = 8,0%	With: Δ= 2,0% → *r* = 9,0%	With: Δ= 3,0% → *r* = 10,0%
NPV = 2.885.246,57 €	*NPV* = 2.689.815,07 €	*NPV* = 2.511.666,48 €
With: Δ= 4,0% → *r* = 11,0%	With: Δ= 5,0% → *r* = 12,0%	With: Δ= 6,0% → *r* = 13,0%
NPV = 2.349.494,24 €	*NPV* = 2.202.095,81 €	*NPV* = 2.068.363,76 €
With: Δ= 7,0% → *r* = 14,0%	With: Δ= 8,0% → *r* = 15,0%	With: Δ= 9,0% → *r* = 16,0%
NPV = 1.947.277,58 €	*NPV* = 1.837.896,31 €	*NPV* = 1.739.351,89 €

Chapter 7

CONCLUSIONS AND LIMITATIONS

This thesis provides the development of a strategic model that combines both horizontal and vertical analysis of the aeronautical sector, taking into account that the competitive scenario in which the Italian airlines are operating is particularly dynamic and turbulent, due both to endogenous and exogenous factors. The work offers practical methods in order to follow the model of airline expansion, describing the analysis step by step.

I used an analysis model that is divided into an "at desk" analysis of the macro-environment and a more in-depth analysis of the sector about the microenvironment and marketing mix. With this analysis, I came up to the conclusion that there is a possibility of expansion by the analyzed airline in the Italian market, which offers great opportunities, even if, at a first sight, it may look like a saturated market due to the existing competition. As demonstrated, southern Italy is still poor in transport links and this opens a possibility for *Balbo Airlines* to find its room in that area.

In addition to this analysis, a financial evaluation has been performed to guide the investment and financing choices presented to the company, to project into the future the consequences of a decision taken today and to decide which alternatives to consider according to the evolving situation. I used the NPV method with two different rates and the results obtained supported the decision to go forward with the project.

The thesis covers the literature gaps concerning the market expansion of airlines, also considering that the existing academic researches applied on the aeronautic sector are somehow outdated.

The case studied demonstrates how a company, however large and consolidated it is, must continuously seek and evaluate other opportunities on the market in which it is already present or in others.

It is possible to understand how globalization is an opportunity because it opens doors to previously closed markets with consistent economic returns. On the other hand, it is clear that globalization also represents a threat, because, even for big

companies, the fall of geographical barriers means new competitors, often aggressive and able to offer good quality services at low prices. In addition, a company that decides to expand, is going to face three types of risks: economic, political and directly related to its business.

Because entering into a market, in whatever form it is carried out, always involves sustaining costs, considerably high in the aeronautical sector, it is evident from this research that, before starting a policy of commercial penetration abroad, it is necessary to have a method allowing to select the right market with a potential demand above an acceptable minimum threshold.

Finally, for a company that decides to cross the political borders in which it normally operates, it appears that marketing is the function most exposed to globalization and that has a decisive role in the success or failure of this operation.

The limitations of this study are relevant to the fact that the research has been done only in one market, Italy, because it was so decided by the airline were I have done my internship. Therefore, even if, as analyzed in the findings, there is good opportunity for expansion in this market, the results cannot be compared with the ones of other markets, which could have shown to be even more profitable.

However, this model can be used to analyze all other markets in a similar way and, with some adjustment, it is also applicable to other companies active in different transport sectors.

BIBLIOGRAPHY

Ansoff, H.I. (1957), Strategies for diversification, *Harvard business review*. 35(5), pp. 113-124.

Berry, L., Zeithamal, P.A., Parasuraman, A., *Responding to Demand Fluctuations: Key Challenge for Service Businesses*, in AMA Educators Proceedings, Russell Eds., Chicago: American Marketing Association, 1984, pp. 231-234.

Bhaumik, P.K. (2016), An appropriate risk addendum for risky project, *Managerial Finance*, Vol. 42 Iss:6, pp. 604-616.

Boario, F., Pellicelli, G., Pugliese, D., Versino, M. (1999), *Marketing Internazionale: per entrare nel mercato globale*, Il Sole 24 ORE, Milano.

Boeing, *Current Market Outlook*, Seattle, Annual.

Caves, R.E., Ghemawat, P. (1992), Identifying mobility barriers, *Strategic Management Journal*, Vol. 13 Iss:1, pp. 1-12.

Caves, R.E. (2007), *Multinational entreprise and economic analysis*, third edition, Cambridge University Press, Cambridge.

Chan Kim, W., Mauborgne, R. (2005), *Blue Ocean Strategy: How to Create Uncontested Market Space and Make Competition Irrelevant*, Harvard Business Review Press., Harvard.

Chernev, A. (2018), *Strategic Marketing Management*, ninth edition, Cerebellum Press, United States.

Civera, C., De Colle, S., Casalegno, C. (2018), Stakeholder engagement through empowerment: The case of coffee farmers. *Business Ethics: A European Review*: 1-19.

Cowell, D. (1984), *The marketing of services*, Heinemann, London.

Davemport, T., Harris, J. (2007), *Competing on analytics*, Harvard Business School

Press, Harvard.

Day, G.S. (1989), Deciding how to compete, *Planning Review*, September-October, pp. 18-23.

Day, G.S., Reibstein, D.J. (1997), *Wharton on Dynamic Competitive Strategy*, John Wiley & Sons, United States.

Deming, W.E. (1986), *Out of the Crisis*, Cambridge Mass., Center for Advanced Engineering Study, p. 23.

Doganis, R. (1992), *Flying off Course, The Economics of International Airlines*, Routledge, London.

Dooley, L. M. (2002), Case study research and theory building, *Advances in Developing Human Resources*, 4(3), 335–354.

ENAC (2019), *Comunicato Stampa n. 20/2019*, Retrieved on June 20, 2019 from https://moduliweb.enac.gov.it/Applicazioni/comunicati/comunicato.asp?selpa1=2525&NumCom=20

Heskett, J.L. (1986), *Managing in the Service Economy*, Harvard Business School Press, Boston.

Humphrey, A. (2005), *SWOT Analysis for Management Consulting*, SRI Alumni Newsletter, SRI International, United States.

IATA (1994), The economic benefits of air transport, Retrieved on June 24, 2019 from www.iata.org

IATA (2017), *2036 Forecast Reveals Air Passengers Will Nearly Double to 7.8 Billion*, Retrived on May 25, 2019 from https://www.iata.org/pressroom/pr/Pages/2017-10-24-01.aspx

IIRC (2013), *The International IR Framework*, pp. 1-37, Retrieved on July 15, 2019 from https://integratedreporting.org/wp-content/uploads/2013/12/13-12-08-THE-INTERNATIONAL-IR-FRAMEWORK-2-1.pdf

Kaplan, A.D.H. (1954), *Big Enterprise in a Competitive System*, p. 142, The Brookings Institution, Washington.

Levitt, T. H. (1960), Marketing Myopia, *Harvard Business Review*, Vol. 38, pp. 45-46

Murray, K.B., A Test of Services Marketing Theory: Consumer Information Acquisition Activities, *Journal of Marketing*, vol. 55, No. 1, 1991, pp. 10-25.

Murray, K.B., Schlacter, J.L., The impact of Services Versus Goods on Consumer's Assessment of Perceived Risk and Variability, *Journal of the Academy of Marketing Science*, Vol. 18, No. 1, Winter, 1990, pp. 51-65

Nippani, S., (2017), Why the risk-adjusted discount rate method is a better method than the certainty equivalent method: a teaching perspective, *Afro-Asian Journal of Finance and Accounting*, Inderscience Enterprises Ltd, vol. 7(2), p. 154.

Noto, G. (2004), *Imprese e marketing internazionale: una nuova politica per lo sviluppo produttivo e il governo dei sistemi locali*, Franco Angeli, Milano.

O'Connor, W. (1995), *An introduction to airline economics*, Praeger, New York.

Pellicelli, A.C. (1996), *Le compagnie aeree: economia e gestione del trasporto aereo*, Giuffrè Editore, Milano.

Pellicelli, A.C. (2008), *Alleanze strategiche nel trasporto aereo*, Giappichelli, Torino.

Pellicelli, G. (1983), *Il Marketing Internazionale: fattori di successo nei mercati esteri*, Gruppo Editoriale Fabbri, Milano.

Pellicelli, G. (2015), *Il Marketing*, quinta edizione, UTET Giuridica, Torino.

Pettigrew, A. M. (1990), Longitudinal field research on change: Theory and practice, *Organization Science*, 1(3), 267–292. https://doi. org/10.1287/orsc.1.3.267

Porter, M.E. (1980), *Competitive Strategy, Techniques for Analyzing Industries and Competitors*, p. 324, The Free Press, New York.

Porter, M.E. (1985), *Competitive Advantage, Creatinig and Sustaining Superior*

Performance, The Free Press, New York.

Quintano, M. (2006), *Concorrenza e strategie di differenziazione nel settore del trasporto aereo*, G. Giapicchelli Editore, Torino.

Rose, N., Borenstein, S. (2014), *How Airline Markets Work, or Do They: Regulatory Reform in the Airline Industry*, in Nancy Rose (ed.), Economic Regulation and Its Reform: What Have We Learned?, Chicago, University of Chicago Press.

Shostack, G.L., Breaking Free from Product Marketing, *Journal of Marketing*, April 1997, pp. 73-80

Teneja, N.K. (2003), *Airline survival kit: breaking out of the zero profit game*, Ashgate Publishing Limited, Hants.

Valdani, E., Jarach, D. (1997), *Compagnie aeree e deregulation. Strategie di marketing nei cieli senza frontiere*, Egea, Milano.

Yin, R. K. (2003), *Case study research: Design and method (3rd),* Sage, London.

SITOGRAPHY

http://datatopics.worldbank.org/world-development-indicators/

https://www.studiocataldi.it/codicecivile/

https://pax-is.com/bsp/login

https://es.wikipedia.org/

https://www.istat.it/