

BRITISH AIRWAYS–USAIR: STRUCTURING A GLOBAL STRATEGIC ALLIANCE (A)

Within a week after having this whole alliance laid out, we were at it. At that point, I would say I was a little bit dazed. We basically had in front of us six weeks to engineer how we were going to go about this. What were the principles, what was the tone, how are we going to motivate people, how are we going to control the process, how are we going to get information to our respective officers—an awful lot of anticipating and engineering.

This would all lead up to the first senior officers meeting between the companies in March 1993. This was where we were going to be asked to lay out what we called the “blueprint” for the coordination effort: here’s how it should work, here’s how our management should be formed into teams to work together, here is how their recommendations and findings should be passed forward for review.

This was how Rich Wilson of USAir, one of the four members of the team charged with implementing the recently initiated strategic alliance between British Airways and USAir, described the challenge that lay in front of him and his three colleagues on the BA–USAir Coordination Team. The team was scheduled to begin its work in January 1993 and would have just a few weeks to create the blueprint for how the alliance would be operationalized and governed. In March 1993, the team was expected to present its recommendations at a meeting of the senior officers of the two firms. Both sides had high expectations, but neither was quite clear how the two airlines would be brought together into a structure that would facilitate the business of the alliance. Yet Sir Colin Marshall, chair of British Airways, and Seth Schofield, chair, president, and chief executive officer (CEO) of USAir, would definitely expect an answer in six weeks.

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British Airways PLC¹

In 1923, the British Parliament asked the Civil Air Transport Subsidies Committee to form a national airline that would serve the various countries that constituted the British Empire. Imperial Air Transport, formed by combining and subsidizing a number of small, private companies, was formed in 1924, and by 1936, all the empire's countries were linked by air travel. In 1935, three small airlines merged to form British Airways. With a fleet of faster, longer-range Lockheed Electras, the upstart soon posed a major threat to Imperial. Parliament, seeking to protect Imperial, proposed that the two merge, and in 1939, British Overseas Airways Corporation (BOAC) was formed. BOAC grew quickly both during and after World War II, supplying logistical support to the British war and later its reconstruction effort. The company became heavily loaded with debt through the 1950s and 1960s as it acquired new aircraft, experienced severe swings in capacity as passenger traffic ebbed and flowed, and began to compete internationally with the large U.S. airlines. The British government, unwilling to see its flagship airlines go under, continually subsidized the losses. By the late 1960s, the market turned around and BOAC became extremely profitable; by 1972, it had retired its debt to the government. Throughout the 1970s, the airline was reorganized several times by the government. In 1972, it was merged with its sister carrier, British European Airways, and in 1974, the two were renamed, creating the British Airways Group (BA). BA gained world renown as it launched service of the first supersonic transport (SST), the Concorde, in 1976.

In 1980, Prime Minister Margaret Thatcher began initiatives that would lead to privatization of the state-controlled airline. She installed a new chair, Lord King, who began to rationalize unprofitable routes and adopt aggressive marketing and management techniques. Lord King built strong relationships with the large, heavily unionized labor force, and by 1983, he had successfully reduced head counts from 60,000 to 38,000—without a strike. At the same time, then-CEO Sir Colin Marshall fired 50 top managers and replaced them with young executives who largely were from outside the industry. This corps of management launched an aggressive campaign to develop a new image for the airline, based on new colors and logo, new aircraft, and a focus on punctuality, reliability, and exceptional customer service. In 1985, the firm was made a public limited company, effectively privatizing the highly profitable airline completely. British Airways PLC (BA) used its healthy cash flow to grow and expand aggressively, and by the early 1990s, it had turned its eye toward the heavily traveled transatlantic market.

USAir Group, Inc.²

In 1953, All American Airways, which had been a regional carrier serving remote communities of Pennsylvania and West Virginia, changed its name to Allegheny Airlines. The firm grew rapidly under government regulation during the 1950s and 1960s, based on a network of routes assigned to it by the Civil Aeronautics Board. Allegheny subcontracted its less profitable routes to

¹ *The International Director of Business Histories*, (ed.) (Thomas Derdak, Chicago, IL: St. James Press, 1988).

² *The International Director of Business Histories*, (ed.) (Thomas Derdak, Chicago, IL: St. James Press, 1988).

smaller, more efficient carriers; each of those, in turn, fed into Allegheny's route system that was expanding rapidly through a series of acquisitions. By the mid-1970s, the company had become a major regional airline based out of Pittsburgh, Pennsylvania. Allegheny suffered, however, from a serious perception problem among its passengers. Because it faced no competition, it had little incentive to improve.

This all changed with the U.S. Airline Deregulation Act of 1978. Allegheny was suddenly free to offer routes to Arizona, Texas, or Florida. A 1978 survey of its passengers ranked Allegheny far behind a nonexistent airline, "USAir." Infuriated, Allegheny's CEO Edwin Colodny changed the name of the company to USAir and embarked on a program to upgrade the firm's image. He inaugurated routes to the southwest, bought new airplanes, and focused his competitive energy on the fact that two-thirds of U.S. domestic air travel covered fewer than 1,000 miles. Soon, USAir became a major force in the industry, and by the mid-1980s, it was the most profitable carrier in the United States. While the company's on-time and service statistics had improved dramatically, the focus on shorter routes was expensive, since turnaround times and maintenance costs were the same, regardless of trip length. Thus, the company was forced to live with a higher cost structure than its industry peers. In 1986, under CEO Seth Schofield, the predominantly East Coast firm acquired Pacific Southwest Airlines, and expanded to the West Coast market. In 1987, USAir absorbed Piedmont Airlines, which served the mid-Atlantic region, and in 1990–1992, the company launched international routes to Germany, France, and the United Kingdom. Yet all that expansion came at a high cost. Duplication of routes, hubs, personnel, high-priced union labor contracts, and expensive new long-range airplanes were part of the price USAir paid in its attempt to become a major player in the U.S. airline industry. By the late 1980s, the company began to lose money rapidly, and by the early 1990s, its financial viability had begun to be questioned. In 1991, Colodny retired, and Seth Schofield, former vice president of operations, took over the controls.

The Alliance Is Announced

Rumors of an alliance between the two airlines had been swirling for months. In July 1992, Sir Colin Marshall, chairperson of British Airways, and Seth Schofield, chairperson, president, and CEO of USAir Group, finally confirmed them. Both BA and USAir had experimented with strategic alliances before: BA had worked with KLM, United, and Northwest; USAir had been involved with Lufthansa and Air Canada. Yet, for a variety of reasons, ranging from unfavorable political conditions to cultural incompatibility to outright strategic differences, none of those efforts had survived. This alliance, however, promised to be different. It involved firm commitments on both sides; moreover, BA had taken an equity position in its new partner.

The idea for an alliance had begun as the result of an informal discussion at a chance meeting in a New York investment banker's office, between USAir's vice president for marketing and British Air's director of corporate strategy. Following that conversation, Schofield and Marshall were introduced to one another. The two leaders quickly became friends. According to a senior BA executive:

They have very strong common visions as to what proper business is all about, as well as getting on personally. There is a foundation for the personal relationship, not just that they like each other, but the way that they've lived their lives—the way they have practiced their business. Their beliefs have been very similar—moving toward the same point at the same time.

Once Marshall and Schofield realized the degree to which their views were parallel (**Exhibit 1** provides their respective statements on the future of the industry), the idea of an alliance quickly followed. It was soon to become one of the most widely publicized, controversial ventures in corporate collaboration: widely publicized because it was the largest such venture ever attempted in an industry that literally spanned the globe, and controversial because it involved a foreign firm taking an equity position in a highly sensitive national industry. The “big three” U.S. airlines—American, United, and Delta—quickly went on the offensive. The transatlantic international route was the most profitable segment of the entire industry, and they were not about to let BA gain such a strategic advantage without a fight.

In fact, six months of legal wrangling involving the U.S. Congress and the U.S. Department of Transportation ensued; the alliance even became a topic in the 1992 U.S. presidential debates. At issue was whether BA's ownership of a minority interest in USAir ran counter to national security interests and constituted an unfair advantage (**Exhibit 2** shows some of USAir's perspectives about the fight). Despite the fact that the initial deal conformed entirely to U.S. law, the “big three” were able to convince U.S. President George Bush to block the alliance. Ultimately, the deal won approval from the Clinton administration when BA agreed to scale back its investment to a level of ownership of less than 25%.

When the dust finally settled in January 1993, the two airlines had agreed to enter into an unprecedented global alliance that would create seamless travel for a burgeoning customer base—the global traveler. The BA–USAir alliance would have access to more than 1,000 aircraft, flying more than 90 million passengers per year. Combined revenues would be in excess of \$14 billion. In return for its \$300 million investment in the ailing USAir, BA would receive approximately 19.9% of USAir's total equity. The deal contained a convertible stock mechanism that would increase BA's stake to 21.8% in the spring of 1993 and gave BA three seats on USAir's board of directors.

BA was the biggest, most profitable airline in the world (see **Exhibit 3** for BA's financial data); with a far-flung route system serving 155 international destinations in 72 countries with 241 aircraft. BA was known for treating its passengers with the class and style that centuries of British service had raised to a fine art. USAir needed an alliance with a strong partner simply to survive. The company had lost \$1 billion in the previous four years, and the infusion of capital was vital to its future (see **Exhibit 4** for USAir's financial data).

Nevertheless, USAir and its USAir Shuttle, which ranked fourth in the U.S. market behind United, American, and Delta, dominated the populous eastern seaboard of the United States. This was of critical strategic importance to BA, because the domestic U.S. market represented 40% of the world's air passenger volume. USAir's complex web of commuter and main line routes (see **Exhibit**

5 for USAir system facts) demanded what was arguably the most sophisticated route planning and coordination skills in the world. Moreover, with more than 5,000 flights a day, USAir carried more than 54 million passengers per year, a great percentage of whom were business travelers paying full fare.

The potential to feed even a small percentage of those passengers into London's Heathrow, the gateway airport to Europe, and then into BA's extensive route system, could direct millions of British pounds in profits to BA. USAir's ability to directly link its U.S. domestic routes, through code sharing,³ to BA's global network could boost USAir's image, its passenger count, and its profitability. Moreover, the alliance would represent a significant step in BA's plan to become a dominant player in what most observers expected to be a rapidly consolidating global industry. Increasingly, the costs and competitive dynamics of operating an airline business profitably had forced companies into one of two strategies: there were those who might survive by carving out and dominating niches, such as low-cost Southwest Airlines or ultra-luxury MGM Grand, and there were a few who might become strong global players. BA was determined to be one of the latter. According to one senior executive, BA got into the alliance, because it felt it had no other choice:

If you believe the hypothesis that the airline industry is stabilizing in the way that many other industries have stabilized, there will be global players and there will be niche players. We were actually too large to shrink to become a niche player. Which meant that the only option for long-term survival was to become a global player. So if you buy into that hypothesis, you need to find a way into becoming global. Alliances, for us, represented the best way to accomplish that.

Coordination

Build the premier global airline network by achieving superior levels of value for money, customer loyalty, and operational and financial performance through drawing on the complementary strengths and shared values of both airlines.

—BA–USAir alliance mission statement

Numerous possible synergies, based on the core competencies of the two companies, had been identified (see **Exhibit 6** for the alliance integration principles). There were obvious places to collaborate, such as linking flight schedules and gaining new economies in purchasing. There were also less obvious areas, such as financial reporting or catering. While the grand vision of the two CEOs was built on a combination of strategic vision, personal rapport, and gut feel, the reality of implementing the alliance would depend on the cold, hard facts of profitable business cases,

³ Code sharing was the practice of using a single flight number for a journey that might require several carriers. When a travel agent or passenger inquired about options, those flights that were linked by their "code" were the first to appear on the screen. Code sharing, for example, would allow a traveler flying from Albuquerque, New Mexico, to London, England, to book a single ticket for the entire trip. There would be one check-in, one rate quote and one tag on the baggage. The flight, however, would be on a USAir plane to New York and a BA plane to London.

operational viability, and the personal commitment of line managers. It was clear that sorting out *how* the two companies would take advantage of those opportunities was a daunting task.

In December 1992, BA and USAir agreed on the formation of a coordination team. This team, reporting directly to the senior officers of both partner companies, would be charged with actually creating the partnership between the BA and USAir organizations (**Exhibit 7** provides an initial organizational chart). The coordination team would be guided by the integration principles and the mission statement of the alliance.

The Coordination Team's Charge

The coordination team would consist of two senior executives from each company (**Exhibit 8** presents background information on these four individuals). USAir chose Julie Roberts, whose background was in finance, and Rich Wilson, who came from operations. British Airways chose Paul Birch, who had a finance background, and John Wood, who had come up through the marketing ranks. The coordination team's mission was threefold: to champion the idea of two companies working together, to examine and define the scope of the alliance, and to manage the process for identifying cooperation opportunities. (**Exhibit 9** provides the alliance's coordination principles.)

The Concorde climbed into the sky over northern Virginia and began its journey to London; aboard were Rich Wilson and Julie Roberts, on their way to the first meeting of the coordination team. They were about to begin a project for which they had little formal training, and the next six weeks would be critical to the success of the alliance. The "blueprint" that they were charged with creating would be a defining document that would set the tone and scope of the alliance. They wondered aloud what kinds of questions they would have to address and what kinds of answers they might propose. They had not yet met Paul Birch and John Wood, but had talked to them on the telephone. Birch and Wood had also indicated that there would be many questions to ask and many answers to consider. Roberts and Wilson looked at the fax from Paul Birch that read:

We are also starting to think about the stage beyond all of this planning, because one of the issues that we have as a team is that—this is all very well for the moment as a project management job, if you like. We know exactly what we have to do, we've got very clear accountability, it's a great job from that point of view. Once this job finishes, however, something needs to happen so that the next stage of the process, which is actually the implementation of this thing, something needs to happen there. And it certainly isn't the same thing as the coordination team. It's actually lots of very small projects being implemented within each department, so we need to find a way of setting that up. We also need to talk about and have some understanding of what governance structures for the joint organization would be. So that when each department starts thinking about how we bring ourselves together, they don't develop local solutions to something that ought to be a consistent approach.

Exhibit 1

**BRITISH AIRWAYS—USAIR:
STRUCTURING A GLOBAL STRATEGIC ALLIANCE (A)**

Global Vision

SIR COLIN MARSHALL

**CHAIRPERSON OF
BRITISH AIRWAYS
OUTLINES HIS
GLOBAL VISION**

A world air transport network unhampered by the competitive constraints of political discrimination, and able to serve varied global markets with customized, but complementary range of services under the guarantee of one brand.

This is the vision of the future, which the contemporary business strategies of British Airways foresee and are geared to making reality.

To the casual observer and even the frequent airline user, the ways of the air transport business can seem complex in the extreme. In particular, the British Airways drive to invest in other airlines, and the publicly reported industry debates, which have attended them, can easily create confusion. It is the same with most innovations.

British Airways is at the forefront in breaking the mold of the traditional structure of the airline industry, which was arguably created for the benefit of aviation development, rather than the benefit of the customer.

For reasons which linger hazily in the mists of history, international airlines have operated to a commercial regime dictated by governments at either end of every single route of every single network in the world. Mostly, the airlines have been owned in the whole or in part by those same governments.

That is why the kind of competition in service, product and pricing, delivered as a matter of course in other industries, has been lacking in the field of international scheduled air services.

In recent years, however, there have been the stirrings of fundamental change in air transport. They have been brought about by two key factors: the sheer growth in volume and ambition of consumer demand; and the appetite of efficient airlines to respond to it.

The result is the process we call deregulation, or “open skies”—the lifting of government controls over our commercial activities to allow airlines the freedom to compete as freely as they and their customers desire.

Deregulation has occurred in the U. S. domestic market, in the United Kingdom and, more recently, in the EC with the emergence of the single market. The forces, which prompted these moves, are now swirling around the world.

Exhibit 1 (continued)

A World of Service For Our Customers

We shall, therefore, see more open skies breaking out in more markets. Ultimately, there is no sound reason to believe that there will not be a single global market in air transport.

The old barriers which have contained even the biggest and strongest airlines within tight, national compartments are crashing down. The result is that growth, expansion, and investment across borders, in the way of most other major industries, is becoming available.

Instead of old, loosely connected national and regional networks of airlines with disparate products and varying standards, we are able to contemplate the building of integrated world transport systems offering consistency throughout.

They will emerge through international amalgamation of one kind or another; and, in the end, I believe there could be perhaps 10 or 12 such global systems, operating on a multinational basis from a range of geographically strategic hubs.

Against this exciting, but demanding, background of development, it is my objective that British Airways should form the core and motivating force of the first and most successful global combine.

Accordingly, we have set about seeking international partners who are like-minded in attitude to quality of product and commitment

to service. They must also offer network fit, in which route structures are complementary, to develop more choice and more competition for the consumer. In USAir, Quantas, Deutsche BA and TAT European Airlines, we have found them.

The overall world alliance produced through the catalyst of British Airways' investment and the British Airways brand will create a whole new set of air transport dynamics for the twenty-first century.

The most important one comes from recognition of the fact that airline regulations is [sic] rapidly passing from the restrictive grip of government to the free reign of the consumer.

The British Airways global alliance demonstrates the strength of our commitment to respond.

Not so long ago, Marshall McLuhan's "global village" was considered a radically new idea. Now, we see references to "globalization" and the "global economy" everywhere.

The notion of a "shrinking" world is hardly new. Bringing the world together through trade dates back to the Phoenicians. World trade flourished even when there were disagreements over the size and shape of the world itself, and when most people still

Exhibit 1 (continued)

A World of Service For Our Customers

believed that the Earth was the center of the universe.

Another not-so-new trend is foreign investment. Individuals and institutions have been investing their resources in foreign lands for many centuries. During the 18th and 19th centuries, erratic tariff wars did much to hinder the flow of goods, but had little effect on the flow of capital.

In the nineteenth century, for example, British investment contributed financing as well as foundation stock to the American cattle industry. The prospectors who broke open gold fields in California and the Yukon came from all over the world. So did much of the mining company investment and technology that followed them.

In this century, examples abound. You can drive an American-manufactured foreign car, fill it with foreign oil marketed by a U.S. oil company, then go home and watch an American movie produced by a foreign-owned entertainment company on your American-developed, foreign-built video recorder.

Our industry commercial aviation is behind the rest of U.S. business in capitalizing on the opportunities of foreign investment. While there has been foreign investment in the U.S. airlines, it has mostly been in the form of small minority stakes and debt financing.

This is because U.S. federal law bars foreigners from owning more than 25% of the voting stock of a U.S. airline (before the Civil Aeronautics Act of 1938, it was 49%). The reasons: national security concerns at the onset of World War II about possible foreign control of increasingly critical national assets and the fact that federal subsidy payments were then being made to U.S. airlines.

U.S. airlines no longer receive a federal subsidy, and there are no genuine foreign policy or defense reasons for prohibiting noncitizen investment in U.S. airlines. While the U.S. commercial airlines remain important to our national defense, increased foreign ownership will not affect the ability of the military to use the civil aircraft fleet in times of national emergency. Additional rules mandating the commitment of U.S.-registered aircraft to the military would solve any defense objection to increased foreign ownership.

Just as the 17th-century poet John Donne taught us, "No man is an island," we have learned that no country is *really* an island. In this modern age of jet transportation and satellite communications, economic isolation has become little more than an illusion.

In today's world economy, not to mention the hotly competitive airline industry, the most logical investors in U.S. airlines are foreign airlines. Investing in a U.S. carrier would give the foreign airline access to U.S. communities

Exhibit 1 (continued)

A World of Service For Our Customers

where individual access would be either impossible or too expensive. These communities would benefit by being linked to a worldwide transportation network. The U.S. carrier would benefit from the new source of investment capital, which would improve its economic well-being and enable it to compete more effectively.

Both parties would improve revenue from the coordination of their schedules and enjoy cost savings by combining their support services. Creating a stronger competitor with a wider selection of domestic and international routes on what would be viewed as a single airline would be very convenient for the traveling and shipping public. For the business traveler, global business would become local business.

This is exactly what USAir and British Airways, which together serve 339 destinations in 71 countries, had in mind when we announced our proposed alliance in late July. As this issue of *USAir Magazine* goes to press, we are seeking approval from regulatory authorities in the United States and the United Kingdom. Under the terms of the proposed transaction, British Airways would make an investment in USAir through new issues of convertible preferred stock. The British Airways holding would not exceed the 25% voting limit currently stipulated under U.S. law.

The proposed alliance ensures the viability and strength of USAir as a major U.S. carrier to the benefit of our millions of customers, our thousands of shareholders, our more than 47,000 employees, and the 260 cities that rely upon USAir and USAir Express for safe, high-quality service.

Our customers will benefit from increased opportunities for on-line service to the 339 worldwide destinations served by the two carriers and through coordinated schedules and related services. Further, with the dedication of both USAir and British Airways to be the best, this alliance will not only bring the world, but also a world of service, to our customers.

Exhibit 2

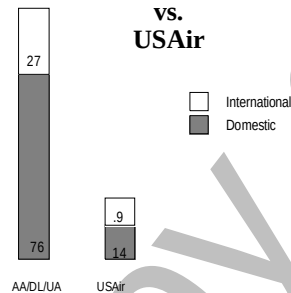
**BRITISH AIRWAYS—USAIR:
STRUCTURING A GLOBAL STRATEGIC ALLIANCE (A)**

Behind the Rhetoric

Perspective

- It is a global marketplace.
- There exists a worldwide capital shortage.
- For USAir to be an aggressive domestic and international competitor against the Big Three U.S. carriers—American, Delta, and United airlines—it must improve its balance sheet. The British Airways investment of \$750 million into USAir provides this strength.

**The Big Three
vs.
USAir**



**Available Seat Miles Flown
(billions)
Second Quarter 1992**

Summary

- The U.S. airline industry has become highly concentrated and dominated by three carriers, American, Delta, and United. Since deregulation of the U.S. airline industry in 1978, the number of airlines has shrunk from 23 to 10. The Big Three now account for about 60% of the domestic market and nearly 70% of U.S. carriers' international flights between the U.S. and Europe.
- For USAir to be a viable competitor with the Big Three, it needs a stronger balance sheet. This strength will come through the British Airways investment.
- British Airways gains absolutely no new route authority through its investment in USAir. The agreement is totally consistent with the current U.S.–U.K. bilateral.
- American, Delta, and United all have substantial rights to fly beyond the U.K. United has a hub in London with service to seven points beyond and Delta has a hub in Frankfurt with service to seven points beyond.
- USAir and British Airways are both major customers of the Boeing Company and neither has ever ordered an Airbus aircraft.
- Approval of this alliance promotes the attainment of global aviation liberalization and strengthens and broadens U.S. airline competition. Disapproval of this alliance would set back the movement of global aviation and create further U.S. consolidation and Big Three domination.

Exhibit 2 (continued)

Economic Impact:

Employment–USAir employs about 47,000 people across a route network that includes 160 cities in 38 states, Canada, the Bahamas, Puerto Rico, Bermuda, the United Kingdom, France, and Germany.

Geographic–USAir’s economic contribution to these geographic areas includes billions of dollars paid for salaries, landing fees, airport space rentals, local goods and services, taxes, and other services. In addition, thousands of additional jobs exist with companies doing business with USAir.

Pittsburgh–USAir is the primary tenant at the new terminal complex at the Pittsburgh International Airport and has committed to about \$1 billion in lease payments.

Aircraft industry–Both USAir and British Airways are major Boeing customers. Neither has ever ordered an Airbus aircraft. USAir operates a fleet of 268 Boeing-built planes and British Airways has 174. USAir has on order and option 183 additional Boeing aircraft and British Airways has orders and options for 151 more. British Airways is an initial customer for the new B777 and opted for U.S.-built GE engines to power its B777s. In the next two years, half of American Airlines’ aircraft deliveries will be from foreign companies. The largest transatlantic carrier, Delta, performs 30% of its European departures with Airbus aircraft. United has announced 50 firm orders and 50 options for Airbus aircraft.

Legality:

Federal Aviation Act–The agreement between USAir and British Airways is perfectly legal. It fulfills every requirement of the U.S. Federal Aviation Act.

Straightforward investment–This is a straightforward investment in a U.S. business. It is not a merger, acquisition, or takeover. USAir will remain a company owned and operated by U.S. citizens.

Voting stock–Through its investment, British Airways will own 21% of the voting stock of USAir, well within the legal limit of 25% that can be owned by non-U.S. entities. British Airways will own 44% of USAir’s total equity, also well within the legal maximum of 49%.

Board of director–U.S. law requires two-thirds of an airline’s board of directors to be U.S. citizens. In fact, 75% of the USAir board will be U.S. citizens.

Business agreement–The agreement is totally consistent with existing aviation trade pacts. British Airways will receive absolutely no new route authority through this investment transaction. It represents a business agreement between two privately held companies and is not a political matter between two countries. The agreement should not be “politicized” through linkage with on-going air bilateral negotiations between the U.S. and the U.K.

Competition:

Consumer benefits–Competition benefits consumers and a stronger USAir will offer more travel options and competitive fares by challenging the Big Three market domination.

Domestic carriers–During the past 12 years the number of U.S. carriers dropped from 23 to 10 and the Big Three’s domestic market share jumped from 38% to 60%.

Transatlantic service–Since 1979, the first year of airline industry deregulations, the Big Three share of U.S. carrier service between the United States and Europe has grown from 3% to nearly 70%.

The Big Three currently operate 644 nonstop transatlantic flights weekly, compared with USAir’s 42 and British Airways’ 177. United and American Airlines operate more nonstop flights to the U.S. from London’s Heathrow Airport than British Airways.

Code-sharing–U.S. carriers have code-sharing rights within the U.K. and Europe, identical to that being proposed by USAir and British Airways within the U.S. United, for example, code-shares with British Midland Airlines from London to both Glasgow and Brussels.

Exhibit 3

**BRITISH AIRWAYS—USAIR:
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BA Financial Data

FIVE-YEAR SUMMARIES*For the five years ended 31 March 1994***GROUP PROFIT AND LOSS ACCOUNT**

	1990	1991	1992	1993	1994	1993	1994
\$ million						US\$million	
TURNOVER	4,838	4,937	5,224	5,566	6,303	8,405	9,328
Operating expenditure	(4,454)	(4,890)	(4,880)	(5,256)	(5,807)	(7,937)	(8,594)
OPERATING PROFIT	384	47	344	310	496	468	734
Income from interest in associated undertakings	(17)	6		(17)	(11)	(26)	(16)
Other income and charges	(10)	6	(7)	(12)	(32)	(18)	(48)
(Loss)/profit on disposal of fixed assets	45	100	36	15	(5)	23	(7)
Profit on sale of engine overhaul business			149				
Net interest payable	(57)	(29)	(88)	(111)	(147)	(168)	(218)
Profit before taxation	345	130	434	185	301	279	445
Taxation and minority interests	(99)	(35)	(39)	(7)	(15)	(10)	(22)
Profit for the year	246	95	395	178	286	269	423
Dividends	(64)	(64)	(74)	(79)	(106)	(119)	(157)
Retained profit for the year	182	31	321	99	180	150	266

Translation rate = \$1.51, \$1=\$1.48

Following the adoption of Financial Reporting Standard 3 in 1993, amounts for prior years have been adjusted accordingly.

**GEOGRAPHICAL ANALYSIS OF GROUP
TURNOVER AND OPERATING PROFIT**

	<i>By area of destination</i>				
\$ million	1990	1991	1992	1993	1994
TURNOVER					
Europe	1,825	1,950	2,064	2,238	2,435
The Americas	1,619	1,615	1,645	1,709	2,029
Africa	356				
Africa, Middle East, and Indian sub-continent		590	665	757	900
Middle East, Far East, and Australasia	1,038				
Far East and Australasia		782	850	862	939
	4,838	4,937	5,224	5,566	6,303
OPERATING PROFIT/(LOSS)					
Europe	3	(10)	20	30	69
The Americas	249	123	119	87	129
Africa	52				
Africa, Middle East, and Indian sub-continent		13	119	134	203
Middle East, Far East, and Australasia	80				
Far East and Australasia		41	86	59	95
	384	167*	344	310	496

In 1992, the directors changed the analysis of geographical segments to bring them into line with British Airways operational management structure, and the figures for 1991 were adjusted accordingly.

* In 1991, exceptional charges of \$120 million (comprising costs associated with employee reductions of \$93 million and the write down to estimated realizable value of TriStar aircraft surplus to requirements of \$27 million) are not allocable by geographical region.

Exhibit 3 (continued)

OPERATING STATISTICS*For the five years ended 31 March 1994*

SCHEDULED SERVICES		1990	1991	1992	1993	1994
<i>Traffic and capacity</i>						
Revenue passenger km (RPK)	m	61,915	64,734	65,896	73,996	81,907
Available seat km (ASK)	m	86,601	92,399	93,877	104,507	116,974
Passenger load factor	%	71.5	70.1	70.2	70.8	70.0
Cargo tone km (CTK)	m	2,400	2,463	2,510	2,691	2,991
Total revenue ton km (RTK)	m	8,290	8,641	8,778	9,730	10,792
Total available ton km (ATK)	m	12,035	12,929	13,379	14,695	16,240
Overall load factor	%	68.9	66.8	65.6	66.2	66.5
Passengers carried	000	23,671	24,243	23,788	25,905	28,656
Tons of cargo carried	000	498	506	502	532	607
<i>Financial</i>						
Passenger revenue per RPK	p	6.37	6.27	6.50	6.13	6.32
Cargo revenue per CTK	p	16.21	15.27	15.78	14.72	15.41
Average fuel price (U.S. cents/U.S. gallon)		69.72	89.72	70.94	69.32	63.64
<i>Operations</i>						
Unduplicated route km	000	685	665	584	599	643
Punctuality within 15 minutes	%	72	73	79	81	85
Regularity	%	98.9	98.7	99.2	99.13	99.3
TOTAL GROUP OPERATIONS						
Total revenue ton km (RTK)	m	8,627	8,979	9,111	10,313	11,336
Total available ton km (ATK)	m	12,445	13,351	13,818	15,424	16,913
Passengers carried	000	25,238	25,587	25,422	28,100	30,595
Average number of employees		52,054	54,427	50,409	48,960	49,628
RTK per employee	000	165.7	165.0	180.7	210.6	228.4
ATK per employee	000	239.1	245.3	274.1	315.0	340.8
Aircraft in service at year end		224	230	230	241	253
Aircraft utilization (average hours per aircraft per annum)		2,787	2,663	2,708	2,928	3,051
Revenue aircraft km	m	375	389	390	431	476
Revenue flights	000	274	271	261	268	291
Total traffic revenue per RTK	p	51.36	50.54	52.55	49.28	51.03
Total traffic revenue per ATK	p	35.60	33.99	34.65	32.95	34.20
Net operating expenditure per ATK	p	32.52	32.74	32.16	30.94	31.27
Breakeven overall load factor	%	63.3	64.8	61.2	62.8	61.3

Operating statistics do not include those of associated undertakings and franchises (CityFlyer Express and Maersk Air).

Exhibit 3 (continued)

GROUP BALANCE SHEET

\$ million	1990	1991	1992	1993	1994
Fixed assets					
<i>Tangible assets</i>	2,464	3,134	3,472	4,230	4,648
<i>Investments</i>	108	108	93	546	575
	2,572	3,242	3,565	4,776	5,223
Current assets	1,295	1,057	1,687	1,577	2,357
Creditors: amounts falling due within one year	(1,816)	(1,600)	(1,706)	(1,851)	(1,928)
Net current assets/liabilities	(521)	(543)	(19)	(274)	429
Total assets less current liabilities	2,051	2,699	3,546	4,502	5,652
Creditors: amounts falling due after more than one year	(1,075)	(1,686)	(2,208)	(3,219)	(3,759)
Provisions for liabilities and charges	(64)	(55)	(54)	(69)	(66)
	912	958	1,284	1,214	1,827
Capital and reserves					
Called-up share capital	180	180	182	185	293
Reserves	732	778	1,102	1,029	1,588
	912	958	1,284	1,214	1,827

Following the adoption of Financial Reporting Standard 4 in 1994, the convertible capital bonds have been reclassified within creditors falling due after more than one year and corresponding amounts have been restated.

Exhibit 4

**BRITISH AIRWAYS—USAIR:
STRUCTURING A GLOBAL STRATEGIC ALLIANCE (A)**

USAIR Financial Data

(Annual Report 11-Year Summary) SELECTED FINANCIAL DATA (in millions, except per-share amounts)												
	1993	1992	1991	1990	1989	1988	1987	1986	1985	1984	1983	
Statement of Operations:												
Operating revenues	\$ 7,083	\$ 6,686	\$ 6,514	\$ 6,559	\$ 6,251	\$ 5,707	\$ 3,001	\$ 1,835	\$ 1,765	\$ 1,630	\$ 1,432	
Operating expenses	7,159	7,017	6,682	7,052	6,224	5,273	2,682	1,666	1,597	1,438	1,304	
Operating income (loss)	(75)	(331)	(168)	(493)	27	434	319	169	168	192	128	
Income (loss) before accounting changes	(349)	(601)	(305)	(454)	(63)	165	195	98	117	122	81	
Accounting changes ¹	(44)	(628)	—	—	—	—	—	—	—	—	—	
Net income (loss)	(393)	(1,229)	(305)	(454)	(63)	165	195	98	117	122	81	
Net income (loss) per share:												
Before accounting changes	(7.68)	(13.88)	(7.62)	(10.89)	(1.73)	3.81	5.27	3.33	3.98	4.46	3.22	
Effect of accounting changes ¹	(0.80)	(13.35)	—	—	—	—	—	—	—	—	—	
Income (loss) per common share	(8.48)	(27.23)	(7.62)	(10.89)	(1.73)	3.81	5.27	3.33	3.98	4.46	3.22	
Dividends per common share	—	—	—	0.06	0.15	0.12	0.12	0.12	0.12	0.12	0.12	
Balance Sheet:												
Total assets	6,878	6,595	6,454	6,574	6,069	5,349	5,257	2,147	1,951	1,621	1,318	
Long-term obligations and redeemable preferred stock ²	4,198	3,714	2,577	2,743	1,901	1,419	1,870	454	474	430	350	
Stockholders' equity (deficit)	(213)	44	1,318	1,434	1,893	2,070	1,895	1,058	956	737	615	
Shares of common stock outstanding	59.2	47.2	46.6	45.5	44.2	43.8	43.2	27.3	26.9	23.0	22.8	
Book value per share	\$ (7.19)	\$ (3.58)	\$ 23.69	\$ 31.50	\$ 42.86	\$ 47.28	\$ 43.90	\$ 38.77	\$ 35.44	\$ 31.89	\$ 26.77	

Exhibit 4 (continued)

	1993	1992	1991	1990	1989 ⁷	1988 ⁷	1987	1986	1985	1984	1983
USAIR OPERATING STATISTICS											
Revenue passengers (millions) ³	53.7	54.7	55.6	60.1	61.2	61.9	24.8	21.7	19.3	17.0	16.2
Average passenger journey (miles) ³	656	642	614	592	551	505	528	514	505	481	447
Revenue passenger miles (millions) ³	35,221	35,097	34,120	35,551	33,697	31,282	13,072	11,155	9,732	8,191	7,245
Available seat miles (millions) ³	59,485	59,667	58,261	59,484	55,610	52,107	20,014	18,254	16,433	14,098	12,235
Passenger load factor ³	59.2%	58.8%	58.6%	59.8%	60.6%	60.0%	65.3%	61.1%	59.2%	58.1%	59.2%
Revenue per revenue passenger mile (yield) ³	17.274	16.494	16.674	16.184	16.504	16.184	14.914	14.934	16.714	18.574	18.424
Passenger revenue per available seat mile ³	10.224	9.704	9.764	9.674	10.004	9.714	9.744	9.124	9.894	10.794	10.914
Total revenue per available seat mile ⁶	11.044	10.384	10.334	10.194	10.484	10.164	10.194	9.634	10.454	11.324	10.544
Cost per available seat mile ^{4,6}	11.094	10.824	10.774	10.834	10.454	9.404	8.904	8.744	9.454	9.984	10.504
Average distance between stops (miles) ³	536	516	495	469	440	407	425	406	395	374	355
Breakeven load factor ^{4,6}	61.7%	63.2%	62.7%	64.5%	60.6%	56.0%	57.3%	56.4%	54.2%	51.7%	54.6%
Gallons of fuel consumed (millions)	1,161	1,183	1,168	1,283	1,264	1,192	463	435	404	367	327
Cost per gallon of fuel	58.404	60.944	65.904	75.424	59.074	51.954	54.744	53.854	79.744	84.804	89.084
Number of employees at year-end ⁵	45,400	46,200	45,300	49,200	49,900	44,670	16,509	14,976	13,789	12,524	11,899
Aircraft fleet at year-end ⁵	441	440	436	454	441	421	162	149	143	133	127

¹ Cumulative effect of change in method of accounting for post-employment benefits in 1993 and postretirement benefits other than pensions (net of income tax benefit of \$118) in 1992. See Note 11 of the USAir Group Consolidated Financial Statements for more information.

² Long-term obligations include long-term debt, capital, leases and postretirement benefits other than pensions, noncurrent.

³ Scheduled service only.

⁴ Adjusted to exclude nonrecurring and special items.

⁵ Represents USAir, Inc., information only.

⁶ Financial statistics for 1993 exclude revenue and expense generated under the BA wet lease arrangement.

⁷ Statistics for 1988 and 1989 are set forth on a pro forma basis to include the jet operations of PSA and Piedmont as if both had merged into USAir effective January 1, 1988.

Note: Numbers may not add or calculate due to rounding.

Exhibit 5

**BRITISH AIRWAYS—USAIR:
STRUCTURING A GLOBAL STRATEGIC ALLIANCE (A)**

USAIR System Fact Sheet¹

Daily Departures

USAir: 2,548
USAir Express: 2,490
USAir Shuttle: 64
Combined USAir System: 5,102

Airports Served

USAir Jet service: 121
USAir Express service: 187
USAir Shuttle service: 3
Combined USAir System: 217

Daily Departures at Major Hub Airports

	<u>USAir Jet</u>	<u>USAir Express</u>	<u>Total</u>
Pittsburgh, PA	341	171	512
Charlotte, NC	371	146	517
Philadelphia, PA	187	128	315
Baltimore, MD	112	89	201

Destinations Served

Domestic:

40 U.S. states
District of Columbia
Puerto Rico
U.S. Virgin Islands

International:

Bahamas
Bermuda
Canada
Mexico
Jamaica
Netherlands Antilles
Cayman Islands
Germany
France

USAir Fleet

Total jet aircraft	427
767-200ER (widebody)	12
757-200	27
727-200	6
737-400	54
737-300	100
737-200	66
MD-80	31
DC9-30	72
F-100	40
F28-4000	19

Passengers Boarded

1993	53,678,114
1992	54,654,575
1991	55,600,119

Employees

45,000 system wide

Corporate Headquarters

2345 Crystal Drive
Arlington, VA 22227

¹ December 15, 1994.

Exhibit 6

**BRITISH AIRWAYS—USAIR:
STRUCTURING A GLOBAL STRATEGIC ALLIANCE (A)**

Integration Principles

I. Mission and Goals

The aim is to create the first truly global airline group. The global airline group will seek to attain a presence in each of the major air transport markets of the world through establishing hubs and networks where there exists the economic conditions to support them. The airline group will strive to optimize long-term profitability as the best means to serve the interests of consumers, shareholders, and the communities in which the airline group operates. Consumers in each market segment are to be provided with value for money at a level of service delivery, which meets or exceeds those provided by the leading competitors and which consumers identify with the services provided elsewhere in the global airline group.

The integration and coordination of the functions and activities performed by the Company and the Investor constitute a central purpose of the transaction and will yield cost savings (from increased efficiency) and revenue enhancements (from improved service) that are necessary to fulfill the mission and goals of the airline group. It is the governing philosophy of the airline group to integrate and coordinate all functions and activities in as short a time as possible unless a sound commercial justification can be found not to do so.

It is intended that the integration described herein be undertaken in a manner that would not cause the airline group to be treated for any purpose as a partnership between the Company and the Investor.

This document represents the intentions of the Company and the Investor with respect to the coordination and integration of branding and certain airline functions. It is anticipated that the integration described herein shall be accomplished within five years.

II. Integration

The following is a list of the activities and functions which the Investor and the Company intend to integrate. The list reflects the preliminary identification by the parties of the core aspects of the airline business. To the extent that the airline business develops in ways, which raise the commercial importance of other activities and functions, it is the intention of the Investor and the Company to seek the integration of such activities and functions.

Exhibit 6 (continued)

1. *Brand*. Initially, there are to be three regional brands: Intercontinental (including all trans-Atlantic services), North American, and European. Within each of the regional brands, there will be sub-brands such as economy, business, and first class. Other regional brands may be added as the service coverage of the group expands. All regional brands will be closely associated with one another leading consumers to recognize the services provided in each region as part of the services provided by a unified airline system. The differences between regional brands will only reflect the special needs of the region in question. It is contemplated that within three years of the introduction of the regional brands, a global master brand will be introduced covering all operations of the global airline group.

Harmonizing the brand identities of the Investor and the Company shall be an immediate priority. The Investor shall be responsible for specifying the intercontinental and European regional brands. The Company shall be responsible for developing the North American regional brand in a way that is consistent with the Investor-developed regional brands and with the mission and goals statement set forth above. The specification and market research testing of the regional brands and their sub-brands should be completed within one year. The implementation of the new brands should take place as soon as possible thereafter. The Investor shall decide if and when the airline group shall adopt a global master brand and shall also develop its specifications.

A brand is defined to include not only the name and public identity, which lead to the expectation of service to the consumer, but also every aspect of the service, which affects the customer. In particular, a brand includes the following aspects:

- A. Name
- B. Public identity
- C. Airline designator code (i.e., all flights operated within the group shall, to the extent feasible, carry the same airline designator code)
- D. Product design, livery, and logo
 - a. Aircraft exteriors, such as livery, paint work, logos, lettering, and temporary messages—e.g., World's Biggest Offer
 - b. Aircraft interiors, such as seat covers and design, aircraft layout, carpets and other furnishings, bulkheads and wall coverings, storage space, galley specification and layout, toilet specification and layout
 - c. Uniforms, including cabin crew, flight crew, customer service staff, engineering staff, and ramp staff
 - d. Facilities and ground vehicles (signage, lounges, check-in desks, vehicle livery, city ticket offices, sales offices)
 - e. Business cards and stationery

Exhibit 6 (continued)

E. Service delivery standards covering

- a. In-flight service, including cabin crewing levels and training, catering, duty free and gifts, entertainment, publications
 - b. Airport customer service, such as check-in facilities and check-in performance standards, waiting areas, lounge availability and qualifications, baggage handling, free or charged ground transportation, after baggage service).
 - c. Sales, including telephone services, city, and airport sales offices
2. *Sales*. The integration of the sales function includes (for both cargo and passenger services): trade terms and incentives; sales-force manning levels and deployment (including primary/secondary role by account); management of national accounts; sales-force remuneration, benefits and incentives; below the line promotional activities (trade or customer); telephone reservations facilities and procedures; city ticket office facilities and procedures.

The integration of the sales activities of the Company and the Investor shall be paced to preserve the existing relationships that are beneficial and strengths of each sales-force while seeking eventual full integration. The Company/Investor alliance shall be promoted and joint products sold as soon as they are in place.

3. *Pricing and inventory control* (including yield/capacity management). The immediate coordination and subsequent full integration of pricing and inventory control is a priority. The Company takes note of the Investor's expertise in this area and agrees to undertake changes to the organization and these functions as recommended by the Investor.
4. *Network planning* (including scheduling, analysis of commercial opportunities). The planning of the operations of the Company and the Investor shall be coordinated as a priority. After the first round of coordination of schedules has been achieved, the Company and the Investor will seek to bring this activity under an integrated management unit. The Company takes note of the Investor's expertise in this area and agrees to undertake changes to the organization of these functions as recommended by the Investor.
5. *Advertising and promotion*. The pace of coordination and integration of this activity shall be determined by progress in implementing the new brand structure described in (1) above. Both the Investor and the Company recognize the importance of assuring that the advertising and promotion of the airline group's services be consistent with the branding strategy as well as the mission and goals of the group.
6. *Frequent flyer programs*. A common frequent flyer program will be developed. The setting of accrual and redemption terms for frequent flyer program members and all other terms of the program shall be determined without regard for the carrier identity. All data and information, whether collected or generated by the Investor or the Company, shall be equally available to the Investor and the Company.

Exhibit 6 (continued)

7. *Ground handling* (passenger and baggage handling, ramp services, local station maintenance/engineering station). The integration of ground handling at each location served by both the Investor and the Company provides an important element in the group's efforts to create a single identity and achieve cost savings. Each station faces unique circumstances and it is, therefore, agreed that the integration of the ground handling function shall be managed on a case-by-case basis.
8. *Cargo operations*. As with the carriage of passengers, the coordination and integration of the group's schedules shall open new commercial opportunities in the area of cargo. Cargo handling integration shall be managed on a station-by-station basis, while the administration of cargo operations will be integrated to best exploit the new opportunities that arise from the creation of the airline group.
9. *Catering* (including catering supplies, facilities). The administration of the catering function shall be integrated not only as a cost-saving measure, but also as a way to ensure that the delivery of catering is consistent with the branding strategy.
10. *Information management* (including systems development, computer reservations systems, inventory control systems, data networks, and management information systems). The integration of the information management functions of the Company and the Investor is a priority. Information management will provide much of the support base needed to bring about the overall integration of the Company and the Investor. In the first instance, an analysis of the relative strengths and weaknesses of the Company's and the Investor's systems and systems development capabilities shall be undertaken. Using the results of this analysis a unified information management function shall be created for the purpose of supporting the activities of the airline group. The Company takes note of the Investor's expertise in this area and agrees to undertake changes to the organization of these functions as recommended by the Investor.
11. *Training* (including customer service training, flight crew, and management). The coordination of customer service training is essential in bringing about the strategy agreed for branding. The management of such training should be integrated in the early stages of the new relationship. The coordination of the training of flight crew and others may yield cost savings.
12. *Financial reporting and systems*. The integration of systems development should give rise to opportunities to integrate many finance functions.
13. *Financing of capital equipment*. The pooling of joint expertise in aircraft and equipment financing is expected to yield benefits through such changes as economies of scale.

Exhibit 6 (continued)

14. *Facilities* (including airport facilities, sales offices (city ticketing offices), and administration facilities). The integration of the Company and the Investor shall create a surplus of facility space in many cities. The airline group will seek to make savings through the disposal of surplus facilities. As the circumstances and joint facility needs of the Company and the Investor will vary from city to city, decisions regarding changes to facility ownership/lease will be made on a case-by-case basis. The Company and the Investor agree that in no circumstance will duplicate facilities be opened in any city unless a compelling commercial reason can be found.
15. *Purchasing* (including fleet planning, acquisition and disposal of aircraft, fuel purchasing, spare parts, capital equipment, and general supplies). By combining the purchasing needs of the Company and the Investor, economies of scale should create cost savings. The Company and the Investor will seek the integration of the purchasing activity as a priority and in the meantime undertake not to seek the individual purchase of any goods or services, unless a compelling commercial justification can be found.
16. *Engineering*. The Company and the Investor recognize that at every level of engineering requirement, cost savings are possible by the coordination of engineering. An analysis of the engineering capability of the Company and the Investor shall be undertaken and it shall be compared to the engineering requirements of the airline group. Those changes that will achieve cost efficiencies will be made.
17. *Quality assurance*. In order to ensure that the branding strategy set forth above is proceeding as intended, an independent and wholly integrated quality assurance team will be created.

The development of time scales for each stage of coordination and integration shall be of critical importance in ensuring that the global airline group objective can be realized in the shortest possible period of time and for the most effective cost. Work on defining time scales and specific integration plans and objectives will begin prior to the transaction's closing. Those responsible for the planning of the integration should be clear that, unless a sound economic justification can be found to the contrary, it is the intention of the Company and the Investor to integrate all the core aspects of the airline business described above. It is envisioned that in many instances, to the extent consistent with the intention that the Company and the Investor not be treated for any purpose as a partnership, functions will be unified to the point where they operate under one management structure serving the needs of the entire airline group.

Exhibit 7

**BRITISH AIRWAYS—USAIR:
STRUCTURING A GLOBAL STRATEGIC ALLIANCE (A)**

Organizing Ourselves

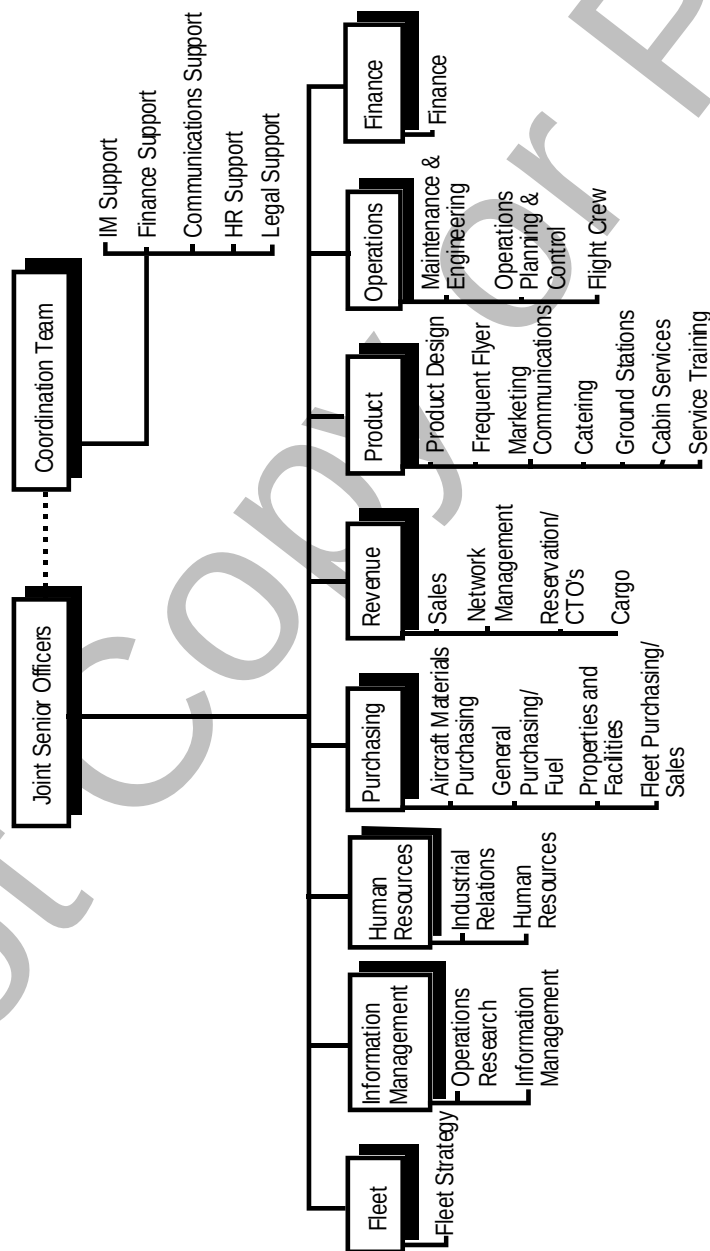


Exhibit 8

**BRITISH AIRWAYS—USAIR:
STRUCTURING A GLOBAL STRATEGIC ALLIANCE (A)**

Biographical Sketches: The BA–USAir Alliance Coordination Team

- *Paul Birch, Head of USAir Coordination:* Paul Birch earned his BSc with honors in Sociology from Newcastle Polytechnic in 1978; in 1984, he earned a diploma in Management Studies from Slough Management Center, and in 1990, earned an MBA from Lancaster University. Birch started at British Airways in 1978, and worked in a variety of roles starting as a baggage handler through a series of clerical jobs and then into senior management posts. Birch worked in most of the departments at BA, including Ground Operations, Operational Research, Information Management, Marketing, Finance, Engineering, and Corporate Strategy. His job as Head of USAir Coordination involved ensuring that the alliance worked, and that it generated the maximum returns possible for the two companies, their shareholders, staff, and customers.
- *Julie Roberts, Vice President–Strategic & Financial Planning, USAir:* Julie Roberts earned her BBA at the University of Iowa in 1976; in 1980, she earned an MBA from the George Washington University. Roberts initially worked as a consultant at MACRO Systems, Inc., and then joined the staff of the Mitre Corporation. In 1980, she joined USAir as a systems analyst; she held a series of progressively responsible jobs in the finance area, rising to assistant vice president. In 1991, she was promoted to vice president. Roberts had direct responsibility for strategic planning, long-range financial forecasting, fleet planning, flight profitability, operating and capital budgets, statistics, investor relations, operations research, and the USAir/BA alliance activities. Her job as senior representative to establish the alliance was a one-year special assignment taken on at the request of Chair and CEO, Seth Schofield.
- *Richard Wilson, Director–Product Development, USAir:* Rich Wilson earned a BA from Stanford University in 1972, an MPhil (1976) and PhD (1981) from Yale University. Wilson joined USAir's Operations Research department in 1984, developing and supporting OR systems in support of crew planning, aircraft gate assignments, aircraft routing and inventory management. From 1988 to 1993, he served as Manager and Director of Budgets and Performance for the Operations division. In 1993, he was selected by the chair to be part of the BA–USAir Coordination Team. During his tenure with the team, Wilson helped to establish the framework for cooperation between British Airways and USAir. Wilson left the team in 1994 to head up USAir's Project Highground, which developed USAir's innovative short-haul product, Business Select.

Exhibit 8 (continued)

- *John Wood, Vice President and General Manager, BA/USAir, Canada:* John Wood earned a BA with honors in classics from University of Reading (1970) and a Diploma in Management Studies from Ealing College of Technology. He joined BA in 1970 as a graduate trainee. His career involved a number of senior commercial positions both in the U.K. and overseas. Between 1986 and 1988, he was General Manager of BA's Capacity Management department, and from 1988 to 1990, he was General Manager of the World Sales Organization. In 1990, he moved to New York as Senior Vice President Marketing for the U.S. and returned to the U.K. in 1991 to become Head of Cabin Crew Operations. In 1993, he was appointed to the team that spearheaded the BA–USAir Alliance effort. In 1994, he left the team to become the first line manager to head up operations for both airlines in a global region.

Exhibit 9

**BRITISH AIRWAYS—USAIR:
STRUCTURING A GLOBAL STRATEGIC ALLIANCE (A)**

Coordination Principles

Working together

- Create a true sense of partnership
- Build a “win/win” environment maximizing the shareholder value of both companies
- Ensure employee commitment through active communication

Scoping the effort

- Develop best practice throughout both organizations and implement where there is a business case to do so
- Encourage radical thinking—look beyond existing processes/practices for solutions
- Integrate where there is a business case to do so within legal constraints

Managing the process for identifying cooperation opportunities

- Lead by line management
- Coordinate centrally
- Dedicate resource
- Harness enthusiasm