

Lecture 9

- Alphexo vs. Betonn Debrief
- WineMaster.com vs. HomeBase.com
 - Instructions & Guidelines
- Pick up Confidential Information for your role in Aerospace Investment
 - VC Aerovent Capital is considering a \$100MM investment in a startup Earth Escape

Themes

- **Alphexo vs. Betton Tension between local & Global Value Claiming Tactics:**
 - Slice & Dice individual gains?
 - Accumulate & divide all at once?
 - Mix the two?
- **Winemaster vs. Homebase**
 - Probability Tree BATNAS
 - Logrolling Again

Alphexo vs. Betonn

Creating Value in
Joint Venture Negotiations

Issues

- ***Name:***
 - α - β or β - α or something else
- ***Investment Split:***
 - % to Alphexo, % to Betonn
- ***Venture Location:***
 - Alphexo or Betonn
- ***Facilities Charge:***
 - Paid to Alphexo ; Paid to Betonn

- ***Profit Sharing:***
 - Alphexo share; Betonn share

- ***Venture Leadership:***
 - Ralph from Alphexo or Beth from Betonn

- ***Residual IP Rights:***
 - To Alphexo or to Betonn

Negotiator's Dilemma

- Openness opens one up to exploitation
- If you act tough and strongly claim value, you lead your counterpart to do the same to protect herself
- Individual moves to claim value tend to drive out moves to create it
- This dynamic leads to:
 - Poor Agreements
 - Soured Relationships
 - Conflict Escalation

Creating Value Requires Learning

- *About* tradeoffs among individual costs to Alphexo and Betonn and JV sales gain
- *Where* JV sales gain is greater than the direct costs to Alphexo and to Betonn of relaxing sales restrictions

Arbitrage

- *Differences* in costs and benefits often lead to a trade that benefits both parties—such a trade is an “arbitrage”
- Creating value requires “*a relentless focus on expanding the TOTAL PIE*”
- *IF* an alternative deal increases total profit at the expense of one party, both sides gain if it is adopted and individual “loser(s)” are compensated with a “side payment”

- *All other options are dominated; i.e. not Pareto optimal.*
- Dominated options leave “money on the table.”

Winemaster.com

Background

- Winemaster.com a successful online vendor of mid-range wines located in Rhode Island is negotiating with Homebase.com to sell the company
- Elimination of direct shipment laws means
 - Winemaster can broaden its customer base to the national market
 - But your competitors can go after Rhode Island!

Issues

- Winemaster gets how many Homebase shares?
 - 4.5 million outstanding
 - 0.5 authorized but unissued
- Value of Homebase shares?
 - **For this transaction, \$50/share seems right**
- **Use \$50 share value— ignore uncertainties**

- **What is Winemaster.com worth?**
 - There are some typical benchmarks, but **cash flow valuation is out of the question!**

- **Vesting: when does Winemaster receive title to Homebase shares?**
 - Homebase believes it takes two years to get its online wine project under way
 - They want to retain Winemaster personnel
 - Winemaster wants to get title as quickly as possible

- **Board Seat**

- A good way for them to monitor Winemaster's investment

- **Lawsuit**

- Who should assume all of this liability? Why?
- Can both parties do better?

BATNAS

- Each party faces an **uncertain BATNA**
- You are **Expected Value Maximizers**
- Create a probability tree of your No Agreement alternatives
- **Homebase: Compute the Expected Cost of an alternative acquisition**
- **Winemaster: Compute the Expected Sale Value to an alternative firm**

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