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:**
  – $\alpha-\beta$ or $\beta-\alpha$ 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
15.067 Competitive Decision-Making and Negotiation
Spring 2011

For information about citing these materials or our Terms of Use, visit: http://ocw.mit.edu/terms.