

ALPHA BETA ROBOTICS

NEGOTIATIONS

Confidential Information for Alpha Robotics, Inc.

Five months ago the CEO of your firm approached and held preliminary discussions with local representatives of Beta Robotics, Inc. on a possible robot manufacturing and marketing relationship. Some tentative understandings were reached regarding the general nature of a collaborative arrangement, but a number of specific details still need to be worked out. A negotiation team was appointed to work out these points with Beta Robotics, Inc. The CEO's of both organizations suggested that it might be useful to have a facilitator assist in this final negotiating stage to ensure that the deal can be wrapped up as soon as possible. You agreed to this.

In preparing for your negotiations you read a number of articles on Beta. While Beta is a large country, with some regional variations, it appears that Betans generally exhibit behaviors which are characterized as "formal", "unemotional", "passive", "indirect", or "patient". They also tend to behave collectively, and have a strong sense of group loyalty.

Your company's long-range strategic objective is to become a profitable, innovative, global, full-service supplier of automation equipment and systems. You believe leadership in equipping the "factory of the future" will come by putting more pieces of the automation puzzle together than any other firm. Even in the robotics portion of this business you believe that the key to success lies in having a broad range of models to offer industrial customers. You have also determined that you must get into the market now, not five years from now. You must first accumulate experience and establish yourself as the first and favored supplier of those companies turning to automation to boost their quality and productivity.

Top management has considered a variety of options with respect to achieving these goals. It has concluded, for example, that the company robotics program is developing too slowly. Exciting things will definitely be pouring out of the labs and into production in about 3 to 4 years, but at the moment, the company cannot rely just on in-house capabilities. In order to establish an initial market presence, to learn the business and to bridge the transitional R&D gap, Alpha must acquire and exploit the leading edge robotics technology of other firms as an interim move.

Licensing high quality technology from leading foreign firms seems to be the best strategy. Alpha Robotics, Inc.'s unique strategic advantage is its large industrial sales, distribution and service network, in addition to its experience in installing factory automation packages. These qualifications have made Alpha an attractive potential partner in the eyes of a number of foreign robotics producers, including Beta Robotics, Inc., a leader in the field. Beta Robotics, Inc. is producing a variety of types of robots. Their robots are both high quality and cost competitive.

In the preliminary talks with Beta Robotics, Inc., it was tentatively agreed that 1) the relationship will be for 7 years; 2) initially Alpha Robotics, Inc. will receive fully assembled Beta Robotics, Inc. robots from Beta Robotics, Inc.'s current model lines to be sold under the Alpha Robotics, Inc. name; 3) later on Alpha Robotics, Inc. will begin to assemble robots using Beta Robotics, Inc. technology and components; 4) the agreement will be non-exclusive, meaning that Beta

Robotics, Inc. can enter Alpha Robotics, Inc.'s markets directly at any time and can also enter into relationships with other firms in Alpha.

Five issues that still need to be decided include:

1) **The number of different models involved.** You would like the number to be 8; you will take 6 only as a last resort. Your interest in so many models is in line with Alpha's "supermarket of automation" strategy. Fewer models will mean that several different manufacturers' robots may be needed to automate a factory. This will increase the transaction costs of putting together a deal as well as the costs to service and maintain equipment supplied by many different manufacturers.

2) **The number of Beta Robotics, Inc. units to be imported and/or produced under license by Alpha each year.**

You would like that number to be 150 of each model, a total of 1200. While you believe that Alpha Robotics, Inc.'s share of the market will be at least 1200 robots a year, you do not want to be overextended and have to maintain Beta Robotics, Inc.'s expensive robots in inventory. You know that Beta has a commitment to vastly increase its manufacturing capacity and you are confident that as your sales volume increases, Beta Robotics, Inc. will be able to increase production. Thus, while you do not want to commit to more than 1200 robots per year initially, you anticipate being able to sell perhaps as many as 900 more than that after the first year.

3) **The matter of technology sharing.**

Beta Robotics, Inc. is aware of your research related to artificial vision for robots, though they do not know that you anticipate that at least 4 more years of development will be necessary before robots with artificial vision will be ready for commercial use. You do not want to share this technology with Beta Robotics, Inc. because you think that it may be Alpha Robotics, Inc.'s unique technological contribution to robotics.

However, if Alpha Robotics, Inc. is to develop its own robotics manufacturing capacity, assistance from a company like Beta Inc which is already manufacturing robots in volume will greatly reduce the learning curve. Beta Robotics, Inc. has already agreed in principle to assist Alpha Robotics, Inc. in developing the capacity to assemble Beta Robotics, Inc. robots during the latter part of the licensing agreement. You want a firm commitment as to when this transfer of technology will occur.

You may have to provide access to the artificial vision technology in order to get access to the assembly technology.

4) **The royalty rate.**

You are willing to pay a 3% royalty on gross sales of Beta Robotics, Inc.'s robots. If necessary, you can go as high as 7% if Beta Robotics, Inc. comes through substantially on your demands on items 1, 2 and 3 above.

5) **The dispute resolution clause.**

In your preliminary talks with Beta Robotics, Inc., you indicated that you wanted a contract provision that all disputes would be resolved by final and binding arbitration. You think such a clause is highly desirable, because some disputes are inevitable in any long-term relationship, and you don't want to get involved in litigation in the Betan courts or in attempting to enforce an Alphan judgment in Beta. The Betans were initially resistant to arbitration, however, and you do

not want to see the deal fail on this issue. Thus while you should try once again to persuade Beta Robotics, Inc. to accept an arbitration clause, if necessary you will settle for a mediation provision, since you have great faith in the capacity of mediation to resolve most disputes.

While there are other robotics manufacturers, Beta Robotics, Inc. is the only producer with a full product line. If no agreement can be reached with Beta Robotics, Inc. you will have to negotiate with at least two other producers in order to have a full product line. This will cause delay in the implementation of Alpha Robotics, Inc.'s strategy to be the premier provider of factory automation.

The Alphan Negotiation Style

Negotiators from the Alpha culture typically employ a style (i.e., set of behaviors) which is individual, informal, impatient, direct, emotional and aggressive. It is vitally important that your team exhibit this “style” in your bargaining with Beta Robotics, Inc. today. Guidelines on how to do so are provided below. You should discuss each guideline as a group and plan how each will be followed in the negotiating session. A little practice may be useful in regard to some of the prescribed behaviors. In your negotiations you must:

- 1. BEHAVE INDIVIDUALLY** Initiative is characteristic of your “can do” culture, and is expected from each of you; you each have individual responsibilities and can make individual contributions. The words "I" and "you" should be prominent in your discussion at the bargaining table. Decisions by your side can be made either by voting or independently by the appointed group leader.
- 2. BEHAVE INFORMALLY** Alphans don't attach much importance or significance to ceremony, tradition or formalized social rules. You consider formality, style and protocol as pompous and arrogant. Alphans are easy-going, casual, relaxed and friendly people; they love to kid and joke around. Greet people with vigorous handshakes and slaps on the back. You want to get on a first name basis as soon as possible.
- 3. BEHAVE IMPATIENTLY** To be idle is wasteful and non-productive in the Alpha culture--“time is money.” You feel annoyance when confronted with delay or opposition. You want to get right down to business--no “pussy-footing” around. You are willing to make concessions throughout a negotiation. The idea is to settle one issue and move on to the next. What you want is an effective total package obtained in the most efficient manner possible.
- 4. BEHAVE DIRECTLY** In the Alphan culture it is a matter of honor to “get the cards on the table.” The assumption is that no matter how much it hurts, the “truth” is good for you and it is a sign of strength and maturity to give and receive negative feedback. So today you'll “tell it like it is” and minimize ambiguity and uncertainty by complete openness, explicitness and frankness. You won't hesitate to “clear the air” if it needs it.
- 5. BEHAVE EMOTIONALLY** Alphans tend to be extroverts and show emotion easily, exuberantly and rapidly. Alphans also tend to be confident and optimistic; be sure to enter the negotiation room confidently and to talk assertively. But convey sincerity and warmth since that is also a big part of your character.
- 6. BEHAVE AGGRESSIVELY** Taking risks, being active, and intelligently using power are all virtues in the Alphan culture. You are full of enterprise and initiative. You are ready and willing to take issue or engage in direct action. Your tool kit of persuasive tactics includes threats and warnings.