Mediation Semi Finals

**Confidential Information for Dawaai Ltd.**

You are Samuel Jr., sitting in your friend’s house at Chandigarh. You are scheduled to meet Mr. Goyal from HLG Ltd. to negotiate the purchase of their new machine ‘Lucy’. Your engineers are enthusiastic about the new machine. You, however, do not care about the technology but are more interested in the money. It is your hope that this machine will do wonders for your business. You want Mr. Goyal to submit to you an offer that is also financially attractive. The written offer that he submitted to you earlier was rather disappointing. In the negotiations you want to most focus on the following three points:

1. **Price:** The list price of $1.5m can only be a starting point. In the past, other manufacturers have offered substantial discounts on the list price, some up to 25%.
2. **Financing:** You were involved in a law suit over IP rights violation and competition law concerns. This means you are potentially looking at a significant fine. At this time, you cannot pay for the machine using your own funds. The most favourable way of financing that you were able to find in order to cover up the missing $1m over a period of five years would cost you $300,000. You want to explore the option of Mr. Goyal helping you secure a better financing option.
3. **Guarantee:** HLG Ltd. offered a guarantee on Lucy of only one year in their written negotiations. It seems absurd to you that given the industry practice, the guarantee should be so limited. You are of course concerned of the climate in India affecting the longevity of the machine. You heard that the machine has been offered in the past with a guarantee of 5 years to a purchaser in China. Your outsourced research on statistics to a renowned statistician Ms. Bubbles, who has come up with the following table to indicate the repair and maintenance costs of the machine (based on market research) with and without guarantee:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Year** | **1** | **2** | **3** | **4** | **5** | **Sum** |
| *Repairs and breakdowns (without guarantee)* | 200,000 | 140,000 | 70,000 | 20,000 | 50,000 | 480,000 |
| *Repairs and breakdowns (with guarantee)* | 60,000 | 40,000 | 10,000 | 5,000 | 10,000 | 125,000 |

*All figures are in USD*

The table indicates the following:

* Over a period of 5 years, repairs and consequent interruption in production is considerable, and can endanger the profitability of the venture.
* Even with a guarantee, repairs and maintenance costs are there though they pale in comparison to when there is no guarantee.
* The first two years have a rather high burden in term of costs. They fall annually in the first four years before rising again.

It is clear to you that you want a guarantee. If necessary, you are willing to pay a premium on the price to include a guarantee.

Another important issue related to the damages and interruptions is that your engineering staff would have to get used to operating the machine in the first few years. Thus, there is a need for training. However, training is not cost-free. The working hours lost due to training would translate in money terms to $20,000 if it was to be held in India. If training takes place in Germany, the costs rise to $30,000. These costs don’t even include things like instructor remuneration, accommodation for staff (if training happens in Germany), etc. These costs would be undertaken by HLG Ltd., but you are wary of the fact that they might push these onto you through the purchase price.

The overall profit that you expect from this deal is $2m. In no situation would you want this deal to exceed the profits. You would want the transaction to go through, but given your business priority, you do not want to incur a loss. Thus, the overall expenses (purchase price + financing costs + repairs and breakdown costs + expenses for guarantee, training etc.) cannot exceed the overall proceeds of $2m.

To illustrate the calculations for better clarity, you sat down with your CFO (Ms. Mukeshwari) who explained the consequences of the offer to you. The offer included no discount on the list price, had a standard guarantee, no financing from HLG Ltd and training in Germany (costs of accommodation and instructors borne by HLG Ltd.). This meant that the costs were:

Price (1.5m) + Repair and Breakdown costs (60,000 + 140,000 + 70,000 + 20,000 + 50,000 = 340,000) + Training costs in Germany (30,000) + Financing costs (300,000) = $2.17m

It led to a loss of $170,000, and was thus unacceptable to you.

You hope to conclude a transaction with Mr. Goyal. The engineers would be happy about a brand new ‘Lucy’. If Mr. Goyal is reasonable and does not insist on his unattractive written offer, this deal can also be profitable for you. If the negotiations fail you would lose valuable time and opportunity to make a lot of money. There is another pressing point: you want to make this deal at the soonest since you have lots of catching up left with your friend in Chandigarh.

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