Mediation Semi Finals

**Confidential Information for HLG Ltd.**

You are Mr. Goyal, sitting in your office in the city of Hisar, a few hours away from Chandigarh. You are scheduled to meet Samuel Jr., CEO of Dawaai Ltd. in a few hours. You are in constant touch with your head of sales in Germany, Ms. Satika, who has been advising you on the sale of ‘Lucy’. This sale is strategically important to you and it could lead to profits that are much needed, since lately, your company hasn’t been doing too well financially. You have also been embroiled in some controversy surrounding evasion of taxes in India, but your legal team headed by Mr. Vaughn-Ish says there’s nothing to worry about. You are concerned about your public image, especially since your philanthropy from the yesteryears has built you a lot of goodwill in India. You would like for this sale to go through as it could mean good things for your image in India.

You face fierce competition in the Indian market, with competitors offering discounts of upto 30% in some cases. However, your technology is new, and unparalleled. It makes production of drugs cheaper and more efficient. However, one of your engineers working on the development of ‘Lucy’, Mr. Narayan, had left for a better opportunity with a competing manufacturer in India about a year ago. Not being bound by a non-compete clause, you are concerned that other companies might soon come up with similar technology. Acquiring the first-mover advantage and making profits from sale of ‘Lucy’ is your top priority right now.

You are aware that you would have to give a guarantee for the sale. Machines operating in countries like India break down more often than those in countries in Europe. However, unexpected high costs due to guarantee is partly the reason why your financial position is not very strong at the moment. You would not want to offer a guarantee of more than a year. However, you are aware that Samuel Jr. might not find this palatable. You believe that the additional cost of extended warranty could be balanced against the purchase price and other clauses of the sale transaction. You are completely averse to the idea of guaranteeing any more than five years. This is unheard of in the industry and would hinder sale of follow-up models.

Ms. Satika has helped you come up with calculations to assist you with the expected costs of providing a guarantee:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Year** | **1** | **2** | **3** | **4** | **5** | **Sum** |
| *No guarantee* | 0 | 0 | 0 | 0 | 0 | 0 |
| *Guarantee (untrained staff)* | 120,000 | 100,000 | 80,000 | 30,000 | 80,000 | 410,000 |
| *Guarantee (trained staff)* | 50,000 | 40,000 | 10,000 | 10,000 | 60,000 | 170,000 |

*All figures are in USD*

Two results of this analysis are particularly interesting:

1. The annual average guarantee costs slowly decrease up to the fourth year, then begin to rise again.
2. Guarantee costs are much higher if the staff operating the machine have not been trained beforehand. The figures confirm your assumption that numerous breakdowns and damages of the machine during the guarantee period result not from defects of the product but from improper operation. However, it is hard to prove if the damage was caused by operational error or otherwise, and you do not want to get into arguments about the same during the guarantee period.

You would thus want to train the staff operating ‘Lucy’. Training could be done by German experts in India. This would be very expensive for you ($90,000). This is because these experts would want to live at a German standard and would be giving up valuable time for training purposes. Another possibility is to invite engineering staff from Dawaai Ltd. to Germany to get training. Even if you pay for the hotel and flights this would still be distinctly less expensive ($50,000). These expenses are worth incurring even in the case of a one-year guarantee. You are sceptical though that Samuel Jr. would agree to his staff being sent abroad for training for three months.

Another issue is bound to be about financing of the purchase. You have been told by your legal team that Dawaai Ltd. was embroiled in some legal disputes which could mean they have upcoming regulatory fines to pay. You do not want a lack of financing to be an obstacle to this sale. Ms. Satika has helped you discuss financing options with several banks already. The most favourable offer would be a loan of $1m over the period of five years which would cost you $200,000. You are not prepared to finance any lesser or more as the offers did not make business sense. If Samuel Jr. agrees to this, you are positive you could recover these costs either by charging him directly for the cost of financing or by adjusting the purchase price and discount.

You do not want to make a loss in any scenario. The net proceeds (after deduction of all costs) have to be above the manufacturing cost of the machine which is $1m. The written offer made by you was unacceptable to Samuel Jr. The terms of the offer included no discount on the purchase price, a one-year guarantee, no financing from your side, and training in Germany. This would have led you to make a significant profit of $400,000.

To illustrate calculations and better explain the business consequences of this offer, Ms. Satika had explained the break-up to you in the following terms:

Price (1.5m) - One-year guarantee costs with trained staff (50,000) - Training costs in Germany (50,000) = 1.4m of net proceeds

Profit (400,000) = net proceeds (1.4m) – manufacturing costs (1m)

You want to reach an agreement with Samuel Jr. The technology and product speak for themselves. You believe this deal fits perfectly with what you want for HLG Ltd. and yourself right now. There is another pressing point: you want to make this deal at the possible soonest since you have a friend waiting in Chandigarh who you haven’t caught up with in 20 years.

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