



# **“Sample” FINS Pre-Negotiation Report**

**BA 610**

**Spring 2002**

Eurodata S.A. is a European multinational corporation enjoying success as one of the three largest microanalyzer producers in the world. As we look at the future of the company, it is necessary to expand into the Exotica market and to develop strong relationships with smaller local companies, rich with knowledge about their home markets. It is also critical to nurture relationships with the governments of Tropicalia and Paradiso, the two strongest markets in Exotica, using our presence in these countries as strategic entry points to the entire Exotica market.

Currently, Eurodata dominates the European market with 45% market share. Our company is expanding its presence in the North American market with approximately 17.5% market share, and it operates a maxi-plant for assembling microanalyzers in Glendale, Kentucky. We expect to leverage our joint venture experience and our participation in other high tech industries in our future expansion strategies. However, Eurodata is constrained by its debt structure, relatively small international presence, unsatisfactory financial performance, and lack of success in the Japanese microanalyzer market. The expanding microanalyzer markets present a viable opportunity for our organization to improve financial success and expand global market share in said industry.

Megatronics and Tanaka create the largest obstacles for Eurodata in expanding its global market share in the microanalyzer industry. These large multinationals command significant market share in the microanalyzer industry and are courting the emerging markets as well. Megatronics has excellent financial position, a superior global presence, and a strong research and development function. They may, however, be hampered by their high power distance characteristic, i.e. their unwillingness to relinquish managerial control over international manufacturing operations. Tanaka boasts excellent consumer appeal due to low prices and high quality, has a low cost structure, and has operational efficiency. They suffer from high uncertainty avoidance and tend to follow other market players in new technology development.

## **Eurodata S.A. Negotiation Goals**

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1. Obtain the leading market share in Exotica through export strategies utilizing Eurodata assembly and manufacturing operations in Tropicalia and/or Paradiso.
2. Acquire or develop a manufacturing presence in Tropicalia.
3. Initiate a supply chain relationship with a Paradisan company.
4. Develop beneficial relationships with the governments of Tropicalia and Paradiso to foster future mutually beneficial agreements and negotiations.
5. Gain a competitive advantage in Exotica by enhancing distribution and service channels.

## **Eurodata S.A. Negotiation Strategies**

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Eurodata is very aware of the fluid and dynamic nature of the negotiation and decision processes that will be necessary to gain entry into the Exotica market. The company feels that it must develop solid goals and plans to be successful, but it also wishes to remain as flexible and open to new changes and ideas as possible. Given the above characteristics of entry into this new market, Eurodata plans to progressively follow these plans of action (See Appendix A for an Analysis of Globalization and Strategic Entry Factors):

- 1. PREFERRED NEGOTIATION STRATEGY: WHOLLY OWNED TROPICALIAN SUBSID.**
  - a. Gain concessions from the Tropicalian government.**

Before Eurodata can pursue its negotiation strategy, management must approach the Tropicalian government and ask for several incentives and concessions that should be mutually beneficial. The turnkey negotiating point will likely be that the government utilizes its recognized discretionary powers to encourage foreign direct investment by eliminating favoritism toward local firms in the award of incentives, credit, and government purchase. Initially, Eurodata will demand that Tropicalia eliminate tariffs on all imports, both components and subassemblies to promote manufacturing interests. We will also ask for any tax incentives that the government is prepared to offer, and we believe that a 10-15% tax

break or 10 year tax holiday is feasible and can be mutually beneficial. Given our current financial position, a shorter tax holiday may be preferable to a prolonged percentage break of equal value.

To encourage these incentives by the Tropicalian government, we recognize that negotiations require reasonable flexibility by both sides and are prepared to offer several concessions of our own. First, Eurodata is prepared to hire, train, and provide significant employee benefits to over 700 Tropicalian citizens. As a member of the Tropicalian community, Eurodata plans to sponsor local educational programs to facilitate the growth of a technically proficient workforce. Second, we are open to joint venture opportunities and knowledge sharing. We believe that these concessions show our good faith and will enhance a mutually beneficial relationship between our company and the Tropicalian government. Finally, and perhaps most significantly, we will be willing to progressively relocate our supply network directly to Tropicalia in return for the above-mentioned tariff and tax concessions. These investments would result in a significant amount of local economic growth, and would also serve to strengthen Tropicalia's national infrastructure and economy as a whole.

**b. Build a Wholly Owned Output Unit and Final Assembly Plant in Tropicalia.**

Recognizing that Tropicalian tariffs are extremely high at 40%, and that manufacturing output subassemblies and final assemblies are dramatically less expensive in Tropicalia, we plan to build two standard manufacturing plants in this country. The goal is to decrease the effect that tariffs have on the profits of the microanalyzer product segment and to provide a solid presence in the Exotica market. Given Eurodata's extremely high stock price, we will issue common stock to finance this initiative. (See Appendix B for a Sample Profitability Calculation.)

**c. Structure a distribution and service joint venture with Tropimatics S.A.**

Eurodata's continued presence in the Tropicalian market will depend on the effective delivery and service of its products. With this in mind, we want to build the most effective distribution and service network possible through a joint venture collaborative effort. The purpose of the proposed joint venture will be to leverage Tropimatics' knowledge of the local markets, distribution networks, and service

arrangements. Eurodata will offer Tropimatics the opportunity to expand its international presence by distributing microanalyzers in Eurodata's European market.

**d. Form a distribution and service joint venture agreement with Electro Paradys, S.A.**

The purpose of this joint venture would be to establish a distribution and service presence in Paradiso. We would not need a very high level of control in the joint venture, whether it be contractual or through equity ownership. Electro's competencies in electronics manufacturing, distribution, and service could prove invaluable in the future.

**e. Confidentiality Agreements**

Recognizing that the high tech industry is very competitive and that maintaining secrecy about Eurodata's strategic initiatives is of utmost importance, a confidentiality agreement is essential to all negotiations. (See Appendix C for a sample Confidentiality Agreement.)

**2. SECONDARY NEGOTIATION STRATEGY: TROPICALIAN JOINT VENTURE/OTHER**

If the primary negotiation strategy with Tropicalia fails, Eurodata must be prepared to reorganize its position. We feel that revising the criteria for investment in Tropicalia will still be lucrative up to a certain point. For example, we may consider a joint venture as a viable alternative to the wholly owned subsidiary. However, if the Tropicalian government is not willing to make any concessions, we must be prepared to look to a vastly different international strategy. (See Tertiary Negotiation Strategy below.)

The factors that will affect this decision are:

- a. Level of concession from the Tropicalian government: For example, Paradiso offers a 20% tariff, so if Tropicalia is not prepared to lower tariffs below 20%, it may not be lucrative for Eurodata to invest in this market.
- b. Political and economic environment: Currently, we are confident that the political regime in power is stable, and we believe that the inflation rate has been slowed to a manageable level. However, given the country's relatively volatile past, we may reconsider our investment strategy if this political or economic climate changes.

- c. Competitor's negotiation strategies: We must also be prepared to react to the negotiating positions assumed by our major competition, by increasing or by decreasing our levels of investment. We are also prepared to talk with our competitors about any opportunities they believe may be profitable through a mutual cooperation strategy.

### **3. TERTIARY NEGOTIATION STRATEGY: PARADISAN JOINT VENTURE**

#### **a. Gain concessions from the Paradisan government.**

The negotiation points that will be crucial in talks with the Paradisan government will include tariff and tax concessions. Eurodata will request the same elimination of tariffs and tax breaks or tax holiday that would have been requested of the Tropicalian government. We understand that our level of investment in the Paradisan economy will not rival the proposed investment in the Tropicalian economy, so we may need to be more flexible on these negotiating points.

#### **b. Form a manufacturing joint venture with Electro Paradys S.A.**

The purpose of this joint venture would be to establish a manufacturing presence on Exotica to avoid tariffs and to obtain entry into the Exotican microanalyzer market. We would want a very high level of control in the joint venture, whether it be contractual or through equity ownership. This would provide us with some security against technology dissemination risk. However, the merits of this joint venture could be substantial. It would allow Eurodata to free up some financial assets and could create a strong relationship with Electro Paradys. As acknowledged earlier, Electro's competencies in electronics manufacturing, distribution, and service could prove invaluable in the future.

#### **c. Confidentiality Agreements**

Again, we will require a confidentiality agreement as a condition precedent to any negotiations. (See Appendix B for a sample Confidentiality Agreement)

# APPENDIX A: ANALYSIS OF GLOBALIZATION AND STRATEGIC ENTRY FACTORS

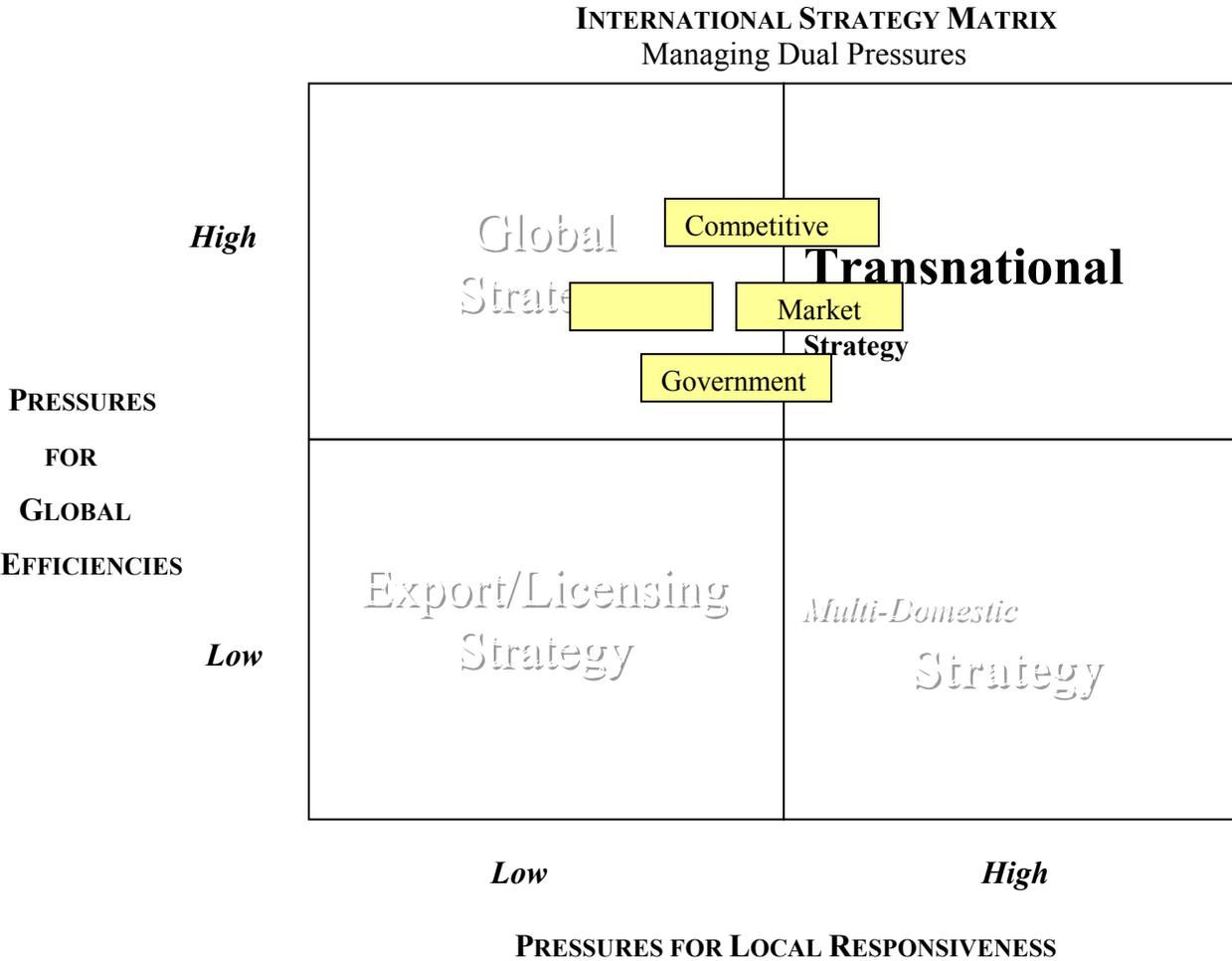
## Globalization Drivers & International Strategy

**Market Drivers:** Factors like common customer needs, global customers, global market channels, transferable marketing...relatively high in this case, leaning more towards transnational or global.

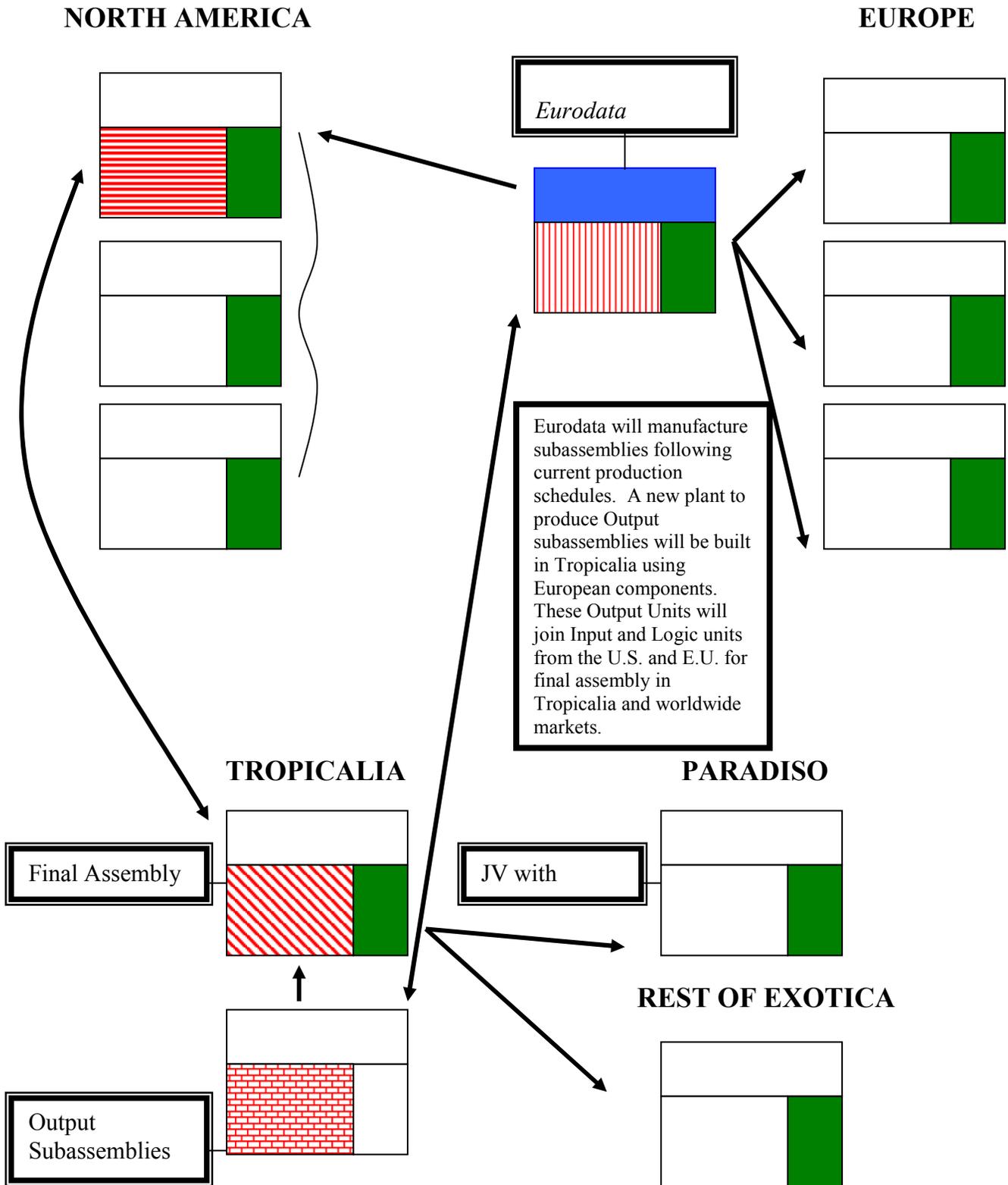
**Cost Drivers:** Factors like increasing economies of scale and efficiencies, production differences and high product development costs, rapidly changing technology...again relatively high here.

**Government Drivers:** Factors like unrestrictive trade and investment policies and compatible technical standards...relatively high since tariff and investment policies will likely influence entry mode and strategic negotiating decisions.

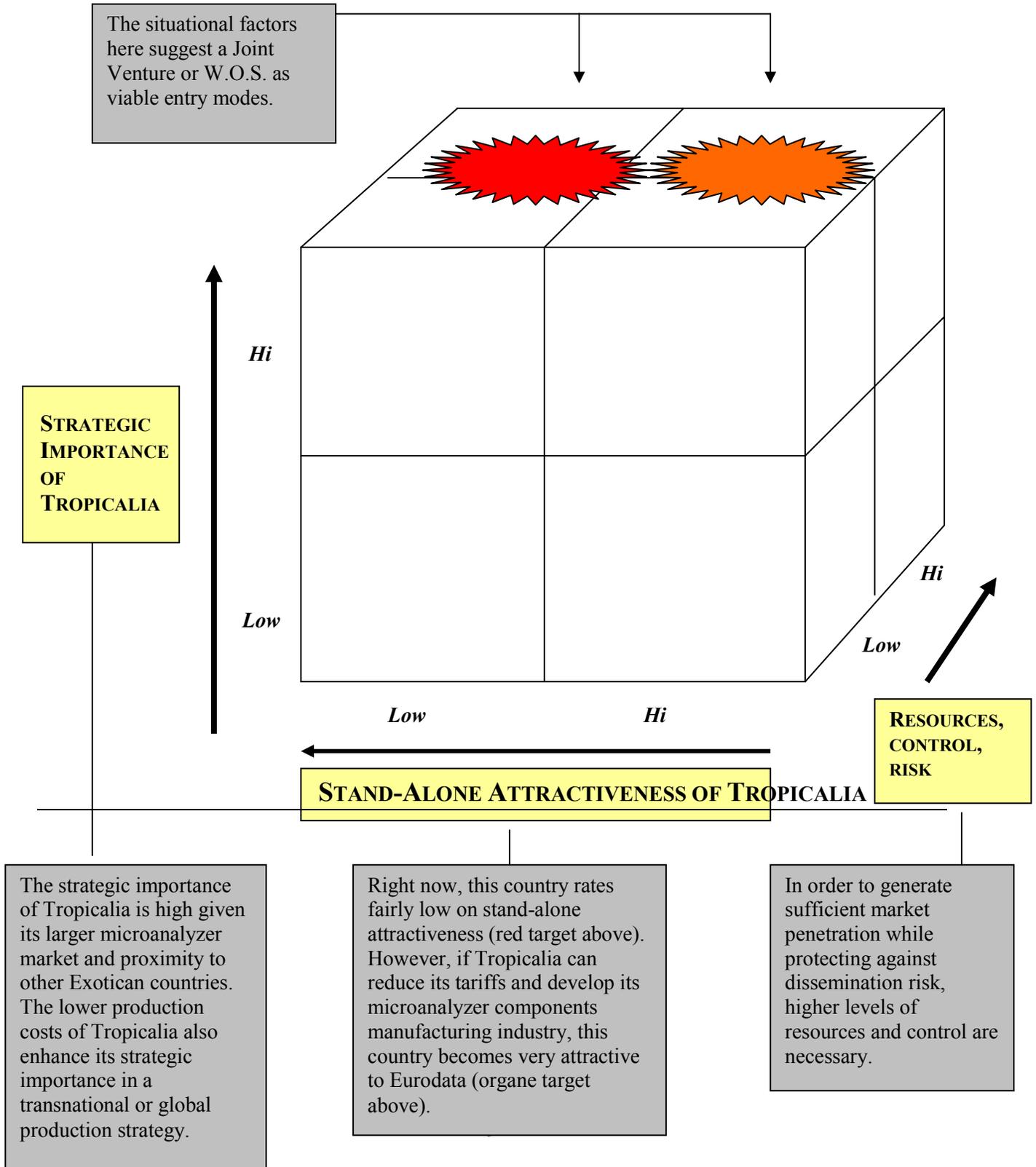
**Competitive Drivers:** Relatively high considering the need for global economics and vast differences in factor of production costs.



**INTERNATIONAL STRATEGY AND ENTRY MODES**



# Tropicalian Entry Mode Decision Matrix



### Appendix B: Profitability Calculations

- Initial Investment: \$35,000,000
  - Includes a standard output unit subassembly plant at \$15,000,000
  - Includes a final assembly plant at \$20,000,000

<b>Sales</b>	<b>\$250,000,000</b>	<b>\$4500/unit with 50,000 units produced and sold</b>
<b>Manufacturing Costs</b>		
<b>Logic Unit Imports</b>	<b>\$57,000,000</b>	<b>(\$1100 transfer price + \$55 transport cost) * 50,000</b>
<b>Input Unit Imports</b>	<b>\$44,625,000</b>	<b>(\$850 transfer price + \$42.50 transport cost) * 50,000</b>
<b>Output Unit Manufacturing</b>	<b>\$15,250,000</b>	<b>(\$200 + \$5 + \$100) * 50,000 Assumes components tariffs are waived.</b>
<b>Final Assembly</b>	<b>\$20,000,000</b>	<b>\$400 * 50,000</b>
<b>Other Costs</b>	<b>\$20,000,000</b>	<b>The company allocates other costs of \$400 * 50,000 to Tropicalian plants</b>
<b>Profits Before Tax</b>	<b>\$93,125,000</b>	
<b>Tax @ 20%</b>	<b>\$18,625,000</b>	
<b>Profit After Tax</b>	<b>\$74,500,000</b>	
<b>Net Cash Flow</b>	<b>\$74,500,000</b>	

## Confidentiality Agreement

THIS CONFIDENTIALITY AGREEMENT (the "Agreement") is dated and effective as of April 15, 2002, by and between **EURODATA S.A.**, a European corporation, whose address is Königinstraße 5, 80539 Munich, Federal Republic of Germany (hereinafter referred to as "Eurodata"); and **PARIDISO**, an Exotica country (hereinafter referred to as "Paridiso").

### WITNESSETH:

WHEREAS, Eurodata desires to establish manufacturing capabilities within the borders or Paridiso, and

WHEREAS, Eurodata is willing to divulge proprietary information to facilitate negotiations with Paridiso, and

WHEREAS, Paridiso desires to facilitate the microanalyzer industry within its country.

NOW, THEREFORE, in consideration of the mutual covenants and promises set forth herein, the parties hereby agree as follows:

1. **Definitions.** "Confidential information" as used herein shall mean all information, documentation, data, designs, e-mails, discussions, negotiations, or other technical information disclosed or made available by Eurodata to Paridiso, including, but not limited to the existence of discussions between Eurodata and Paridiso.
2. **Acknowledgements.** Paridiso acknowledges and agrees that Confidential Information is proprietary to and a valuable trade secret of Eurodata and that any disclosure or unauthorized use thereof will cause irreparable harm and loss to Eurodata. Paridiso further acknowledges that unauthorized disclosures will negatively impact, and may delay or harm the establishment of said manufacturing facilities, and will be in violation of this Agreement.
3. **Obligations of Paridiso and Eurodata.** In consideration of the disclosure of Confidential Information and continuation of negotiations between the parties, Paridiso and Eurodata agree to treat Confidential Information in confidence and to undertake the following obligations with respect thereto:
  - a. not to disclose the existence of any negotiations between the parties to any entities including, but not limited to any other countries, corporations, or individuals.
  - b. not to disclose any information regarding the substance of any negotiations between the parties to any entities including, but not limited to any other countries, corporations, or individuals.

- c. to limit the dissemination of any information concerning any negotiations concerning Eurodata to only those Paradiso officials who have a need to know such information.
4. **Assignment: Binding Effect.** This Agreement shall not be assignable, in whole or in part, by Eurodata or Paridiso except with prior written consent of the other party. Subject to the foregoing, this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors, heirs, and assigns.
5. **Governing Law.** This agreement shall be governed by and construed in accordance with the laws and regulations of the Commonwealth of Kentucky.
6. **Severability of Provisions.** If any provision of this Agreement or if the application thereof to any person or circumstance shall to any extent be held to be invalid or unenforceable, the remainder of this Agreement shall not be affected thereby and shall be valid and be enforceable to the fullest extent permitted by law.
7. **Entire Agreement.** This Agreement constitutes the entire agreement by and between the parties hereto with respect to the transactions contemplated herein. There are no representations, warranties, covenants, agreements, or commitments with respect to the subject matter hereof except as expressly set forth herein.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on this day and year first above written.

**“Paridiso”**

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Saima Zuberi

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Norbert Maier

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Robert Stith

**“Eurodata”**

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Elizabeth “Lizzie” Barret

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Buddy Goodwin

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Kelly Swartz

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Coley Stilz

