Tanaka

…Committed to Quality, Excellence and Building Relationships

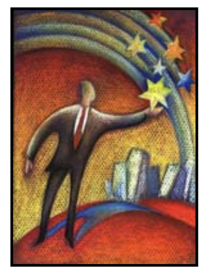
PRE-NEGOTIATION STRATEGY REPORT

Prelude

Over the years, ***Tanaka*** has become a name synonymous with quality, excellence, and dynamism. With a humble beginning in the city of Tokyo, we have built ourselves as a strong, respectable, and successful electronics corporation in Japan. We are one of the leading manufacturers and exporters of microanalyzers with a world market share of 20%. With the objective of expanding our global reach and maintaining our competitive position, we are building strategies to invest in the emerging markets of the Exotican continent, with the primary focus being on the countries of East Tropicalia, West Tropicalia, and Paradiso.

We, the Board of Directors of Tanaka, are proud to present our Pre-Negotiation Strategy Report.

Intended End-Game Position



Broadly speaking, our intended end game position is based on the five mutually supporting foundations with respect to the Exotica market. First, we intend to capture a 50% market share of the microanalyzer market in Exotica. Secondly, we will take advantage of our internal efficiencies in microanalyzers production in conjunction with the efficiencies gained by a transnational value chain structure in order to further reduce costs and increase margins.

The following crucial factors have been analyzed to provide a basis for our strategy:

Microanalyzer Industry and Globalization:

Local	Global Driver	Global
←	Market	→
	Cost	→
←	Government	
	Competition	→

Third, microanalyzers are a relatively small portion of our overall business (10% of sales), so while anticipated sales growth in this product line is significant, its largest impact is expected to serve as a brand leader for our other product lines. Fourth, we need to acquire expertise in the character of business activities such as production and marketing in the specific emerging markets. Finally, we recognize that our microanalyzer is a value product and as such it is well positioned to compete with the more leading edge but correspondingly lower profit margin products in emerging markets which tend to be more value conscious.

More specifically, we are looking to:

- Establish and operate manufacturing plants of microanalyzers in the emerging markets of Tropicalia and Paradiso through a joint venture with our local distributors. This will allow for an efficient transnationally-structured value chain with local production and distribution along with other activities which can be aligned in a similar fashion;

- These savings along with our existing efficiencies will allow for lower price points while maintaining our existing margins;

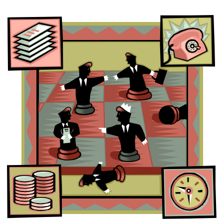
- Lower price points will allow us to aggressively push our microanalyzers into Tropicalia, Paradiso and the Exotica region. Note that our most direct competitor is Eurodata, which has a product technologically on par with ours but with a higher cost structure. Megatronics, on the other hand, has a technological lead but they too suffer from lower margins. This confluence of circumstance gives us a unique opportunity in the Exotican market. By enhancing value while maintaining quality and margins, we can capture market share from both corporations;

- The expected Exotican market demand for microanalyzers is 180,000 units six years from now, with an aggressive but reasonable projection of a 50% market share yielding 90,000 units annually;

- Our overall corporate position and brand recognition will be enhanced in the rapidly growing markets of Exotica via the extension of our brands through the joint ventures and contractual agreements. Thus, our regional sales in non-microanalyzer product lines would be expected to grow in conjunction with our increased brand recognition generated by the microanalyzer;

- Tax incentives and import duty relief have a significant impact upon margins and the ability to achieve a lower price point. Therefore, it is critical to that our rates are at least as low as Eurodata and Megatronics. This is required to ensure our ability to implement the cost leader strategy. Moreover, due to expected ramping of sales over time, rates starting low and increasing with time are highly undesirable. Instead, either a constant low rate or a higher initial rate decreasing with increased sales is desirable. Our target tax rate is 5%, and regional import duties of 0% along with a non-regional rate of 6%. The target dividend tax rate is 10%;

- The target for technology license fees will be set at 3%.



Desired Entry Mode:

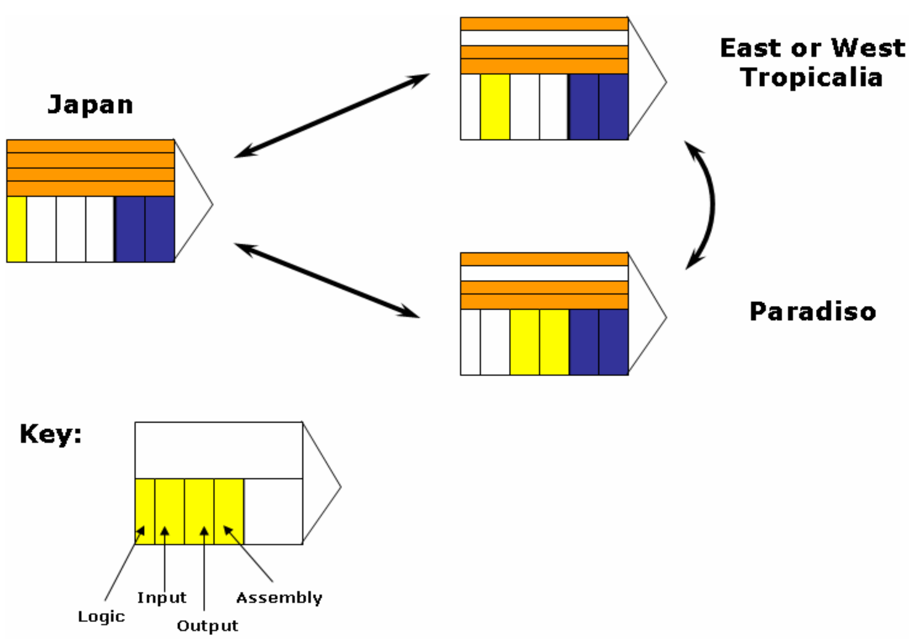
We propose a joint venture, in the emerging markets of Exotica with local companies of Paradiso and Tropicalia. Tanaka's first effort will be directed towards negotiating with SysTrop S.A and ParaInfo S.A which are currently distributors for our microanalyzers in East and West Tropicalia and Paradiso.

ParaInfo will produce the output sub-assemble and final assembly, while SysTrop will produce the input sub-assemble. Each plant will be in the country of its respective locality. In respect to East and West Tropicalia, the country giving the better offer will be chosen. Logic sub-assemblies will be imported from Japan. Each JV will be apportioned with their contribution toward the entire enterprise. Plant sizes are ideally to be one standard each.

It is expected that each JV's equity will be determined by capital contribution of the partners. Tanaka will directly provide at most 60% of the capital required for investment. In some circumstances, Tanaka may entertain the possibility of floating a loan to the other participant.

Each JV will be given exclusive rights to market in its own country, marketing in Exotica as a whole will be apportioned between the two JV firms. Each joint venture will have equal access to the pool of units produced. In case of production shortfalls, complete units will be imported from Japan at the current Tanaka wholesale price rates. Procurement and human resources will be handled in each of the joint ventures individually. With respect to research and development, interoperability will be standardized by Tanaka, final approval for production of revised sub-assembles lies with Tanaka. Within this framework, research and development will be done by the JV associated with each sub-assemble.

A diagram of our plan is as follows:



Negotiation Game Plan

Primary Participants
- Tanaka
- SysTrop
- ParaInfo
- East (West) Tropicalia
- Paradiso

Secondary Participants
- Megatronics
- Eurodata
- Tropamatics
- ElectroParadys
- West (East) Tropicalia

Issue Priorities (highest to lowest)

- Cost Leadership (Margin-Related)
  - Minimum parity of tax, import rates, and dividend rates compared to other MNCs
  - Low Tax Rate
  - Low Import Duties
    - Regional
    - Extra-Regional
  - Low Dividend Rate
  - License fees
- Plant Locations
  - Assemble plant location – lowest import duties
- Plant Sizing (Target – standard plant)
  - Downsize standard to two mini plants (reduces capacity and increases costs)

Process Strategies/Tactics

Initially, negotiations will begin with ParaInfo and SysTrop, and then proceed to the governments involved. Note that there is significant leverage with the Tropicalian governments, as SysTrop could go either way with little impact on the joint venture.

With the respect to the countries, we will push for rate relief while offering jobs and increasing volumes of exports as market capture is in progress. Local firms through the JV will have extended sales regions, and will gain directly through profits from their respective JV.

A key point is that we are aggressively attempting to capture 50% of the Exotican market. Successfully doing so can be shown to increase the revenues of the local firms as well as the tax base of the countries concerned. With this kind of growth, all parties will be amply rewarded.

Internal Decision Process

All members of the Tanaka Board have equal authority and decision-making power. Any new information will be evaluated in a meeting, and all team decisions will be made by a unanimous vote of members in attendance.

Specified roles for each team member have been established as follows:

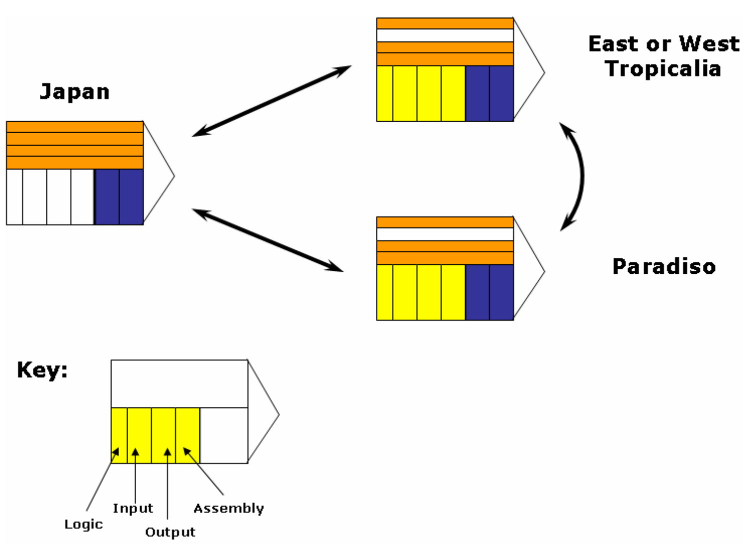
Scott Lambert: Finance and Business Process
Vasundhara Parameswaran: Public Relations
Jill Fisher: Legal/Process Documentation
Scott Powell: Business Advisory
Peter Rothgery: Business Advisory

Key Contingencies

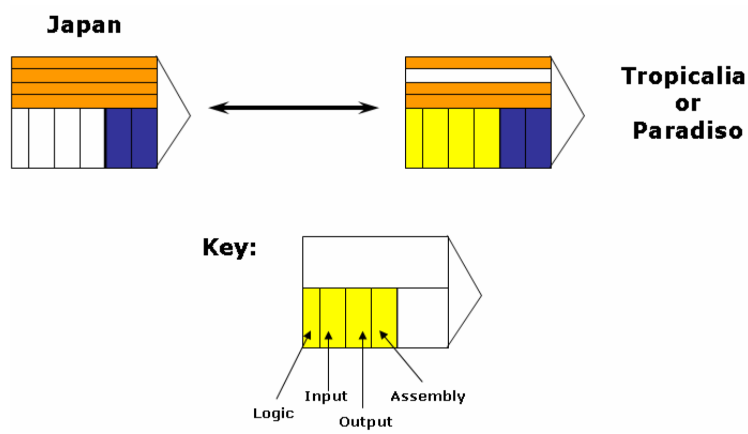
The proposal as given is complex, particularly because it requires five separate parties to come to agreement. Nevertheless, there is considerable flexibility inherent to the plan. The choice of local partners can be changed. First, the local partners can be changed with little impact. The plan is indifferent as to the choice of East or West Tropicalia. Moreover, if no party can be lined up in either country due to the local firms or the countries intransigence, this is of relatively little impact as the input unit was to be produced there. This sub-assemble has no benefit to being produced locally except for reduced transportation costs and import duties, of which import duties may be negotiated with the other country involved. Moreover, it could be given to the other JV, as a carrot for the hosting country.

In the absolute worst case scenario, Tanaka can continue to export to the region, but a cost leader strategy would require the reduction of margins. But more reasonably, we can expect the worst case to be a one partner and one country joint venture. Putting the production in one country will give further incentives for that country to lower rates. However, this is at the expense of gaining access to the other countries involved.

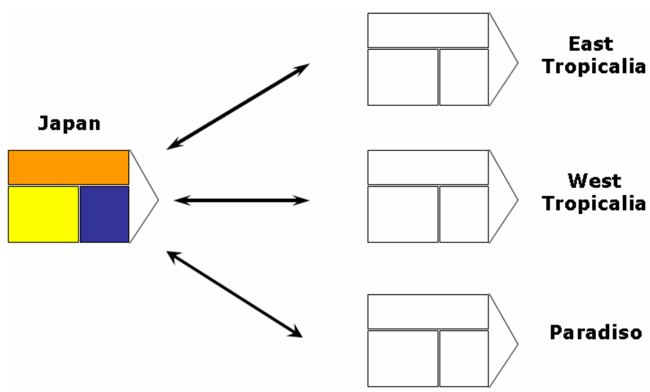
Alternative Strategy #1: Two mini-plants in Tropicalia or Paradiso



<u>Alternative Strategy #2</u>: Full production in either Tropicalia or Paradiso



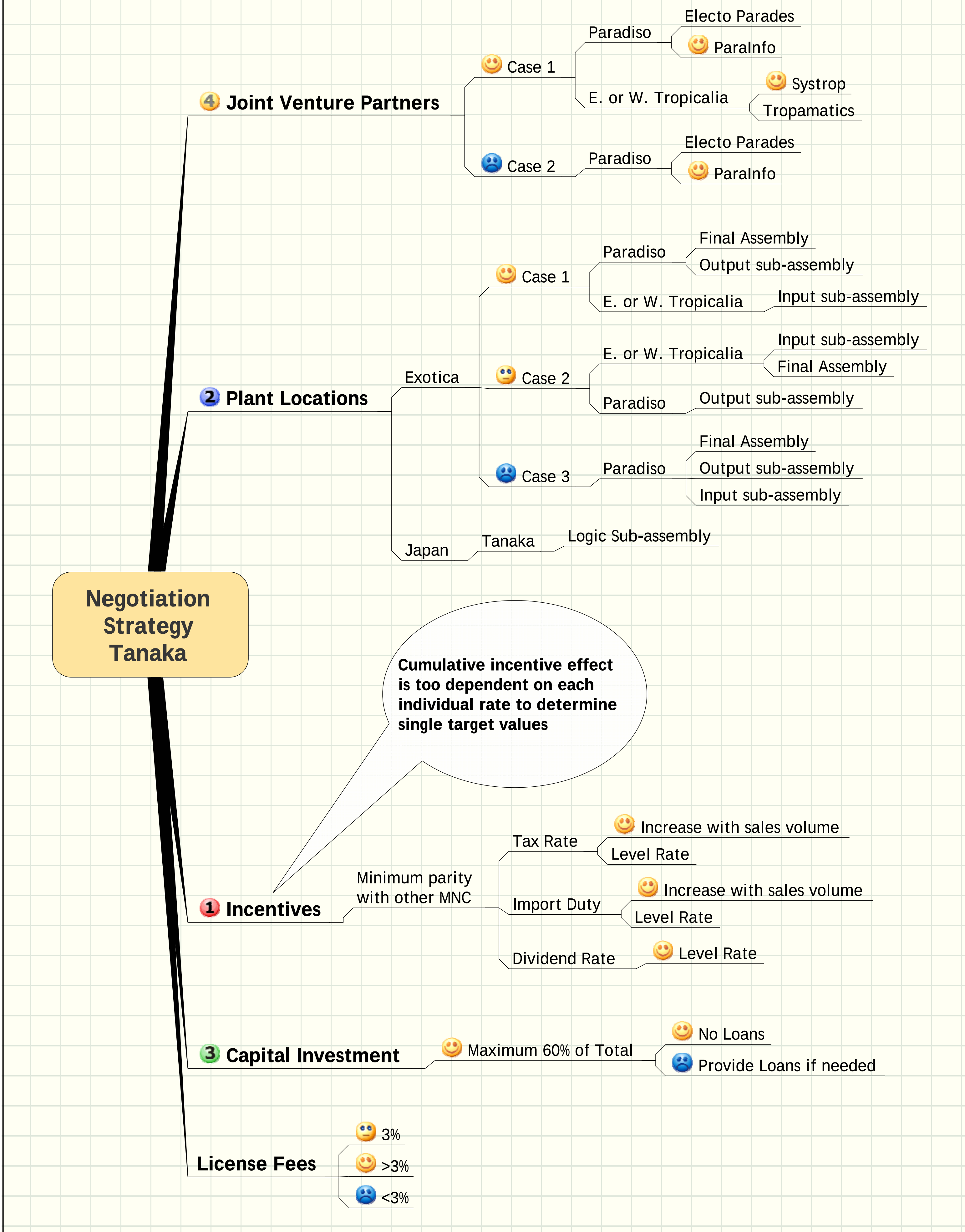
<u>Alternative Strategy #3</u>: Export Only



Thank you for the opportunity to submit this report.

Sincerely,
The Board of Directors
Tanaka
...Committed to Quality, Excellence and Building Relationships

Appendix 1: Tanaka Negotiation Strategy Map



Appendix 2: Tanaka SWOT Analysis Map