OVERVIEW

1. **Overall Interests**

Blue's interests lie in achieving long-term profitability. This can be achieved through expansion into overseas markets as our profits have been plateauing for e-commerce. Our robot industry also aims to make profit by 2019.

We want to continue to develop our relationship with Red as this business collaboration has been beneficial to both parties, and are amenable to Red's suggestions that can help fulfill both our interests.

2. **Overall strategy**

We will explore and know Red's interests, priorities and concerns, then understand how our interests may converge. We will also brainstorm options that will cater to both parties' interests.

As Blue is in a comfortable financial situation, our focus is on long-term profitability, and are willing to accept alternative options that may slow down our rate of expansion in Negoland, as long as we receive stable returns. Furthermore, between the two issues, Blue sees recouping the costs from the robots' development as being more crucial than securing a highly lucrative deal for the E-commerce business.

INDIVIDUAL APPROACHES

E-COMMERCE

3. **Interests**

a. Long-term Profitability

The need for long-term profitability is important in our e-commerce business in Blue Village. Our profits within Arbitria are plateauing, so we are seeking other ways to establish our presence in overseas markets. Long-term profitability can also be achieved through offering long-term on-going service.

b. Growth and expansion

As a public-listed company, Blue also wants to safeguard the interests of its shareholders. This can be achieved through stable growth. Blue is not known in Negoland yet, and entering the Negoland market with Red, a reputable firm, would help Blue establish a stronger footing in a new market.

c. Reputation

Blue values its reputation in Arbitria. Hence one of the goals which is to keep Red as a vendor on Blue Village is also to avoid bad publicity if Red no longer renews the Main Vendor's Contract.

4. **BATNA for E-commerce**

If this contract with Red does not materialize, Blue will work with Green, a lesser known apparel company in Negoland. It is similar to Red in terms of the customer base and the type of merchandise sold. However, even though Green is willing to accept a higher commission rate and also wants to stay as a consignment customer on Blue Village, the projection of Green's sales pales in comparison to that of Red. Yet, we can bring in the BATNA as a bargaining chip to either justify our price or the period of time for the on-going support service.

5. Agenda of the Negotiation

a. Issue 1: Red's plan for the website

Strategy

We will ask Red what they have in mind for the website. Customising the website to meet their needs can help us justify the higher cost of building it (Issue 2).

We will also divide the introduction of these plans into phases spanning a year. This will allow us to lengthen the duration of the support service (Issue 3) by lengthening the period for this entire E-commerce plan to be executed.

Goal

This is to convince Red the viability of working with Blue for the e-commerce project. By customising the omni-channel strategies, we are giving Red reassurance that we have their best interests at heart. They are not just buying a product off the shelf but gaining something specially catered to their needs.

b. Issue 2: Upfront payment for the e-commerce site

Strategy

The cost can be justified based on what Red wants from the discussion in Issue 1. We will emphasise that the standard rate we charge for customising a website is $30 million, and we are already giving them a discount by offering $20 million.

Bottom line

We need to secure an upfront payment of 15 million at least.

c. Issue 3: Terms of the on-going support service

Strategy

We will highlight the benefits of adopting a longer period of time for the on-going support service, as Red is not merely providing a basic operational maintenance which can be done by Red's staff. Instead, Blue is constantly updating and revamping the site in response to customer feedback. However, if Red insists on shorter period, we will have to increase the commission rate to 30%, in order to profit from the agreement.

If one of Red's interests in keeping the on-going support service short is to be self-sufficient, we will first understand their reasons, and then seek alternatives to cater to their interests. For instance, we can provide staff-training for the transfer of technical know-how, so that they will still find the ongoing support service useful to achieve their eventual goal of self-sufficiency. We will then benefit from stable income from continued service support.

If Red still refuses to accept the ongoing support service, we can ask for other benefits from Red in exchange for helping them to become self-sufficient such as their endorsement of us in Negoland, as one of our interests is to expand and gain international recognition to secure long-term profitability.

Bottom line:

The term of the contract must be at least 2 years. The commission rate can be lowered to 20% if Red is willing to contract for a longer term. Otherwise the commission rate must be 30% at least.

6. Continuation of the Vendor Contract

Strategy

We will raise this issue after the e-commerce plans have been agreed on to get Red's commitment to stay on Blue Village.

We will emphasize to Red that continuing to sell their goods on Blue Village would be more advantageous than re-establishing themselves in Arbitria. The crowd that visits Blue Village is diverse and large. Being a prioritized shop on Blue Village would give Red's goods greater exposure.

If Red still wishes to terminate the Vendor Contract, we can renegotiate the terms instead. Our main concern with Red's termination of the Vendor Contract would be its impact on our reputation. We can therefore lower the 30% that Red pays us in the Vendor Contract if need be, to retain their business and protect our reputation.

ROBOTS

7. Interests

a. Profitability

Blue's interest is to achieve profitability to recoup its costs of $120 million spent on Research and Development. This is done through tapping on Red's demand from Negoland, and from other consumers outside of Arbitria.

b. Development of Robots

Blue is interested in developing the robots business, as it is a new branch of Blue's business. It has not established its footing in the robotics business and hopes to do so through product development and ownership of its rights over creative inventions.

8. BATNA for Robots

If this contract with Red does not materialise, Blue will work with Purple, a company who can provide us with onsite-testing of our Robots at their nursing homes. While Blue will not be guaranteed of its profits through the lease of Robots as there are no facts on the amount Purple is willing to pay, Blue's comfortable financial position from its other businesses can withstand the costs of the research and development, while Purple aids Blue in product development. We can use Purple as a bargaining chip to Red to justify the low-risk nature of allowing our robots trial at the nursing homes.

9. Agenda for the Negotiation

a. Issue 1: Type of Robots

Strategy

We will separate the discussions for the enhancement of the care support robot and the development of a new robot to suit Red's nursing home needs. We will begin by asking Red how they would like the current care support robots to be enhanced so that we may propose an estimated lease figure based on their requirement for enhancement.

We can enhance the care support robots within half a year. If Red requests for it to be done in less time, we may use that as a bargaining chip to negotiate with Red for more developments of the communication and security-type robots in crafting the new robot. This is to support all-round product development in the three branches of robots Blue has. The remaining 1.5 years of the joint development period will be used to develop the new robot.

Lastly, we hope to start R&D for care-support robots first as it would help us profit more based on the increasing market share of care-support robots. Since our goal is make profit by 2019, we should aim for a 1-year or 2-year exclusive lease agreement, so that the agreement would end in mid-2019, giving us time to sell our robots to other companies in Negoland before the end of 2019.

If Red wants an immediate solution to labour shortage, their interest in using care-support robots may align with ours.

b. Issue 2: Issue 1: IP Rights

<u>Strategy</u>

We will begin by asking and establishing Red's interest in the IP rights. If they have an interest in the IP rights because the robots are tested in their nursing homes, we will point out that the prototypes for the robots are already done. Moreover, if their interest in the IP rights stems from the need to remain competitive as the forerunner of nursing care in Negoland, we can always offer a suitable period for exclusive lease agreement.

<u>Bottomline</u>

IP rights to the robots are non-negotiable.

c. Issue 3: Exclusivity Agreement

<u>Strategy</u>

If Red's priority is to stay competitive in the elder care industry, Blue can offer an exclusive lease agreement. If Red wants it to be longer than 2 years, we will understand their rationale and point out that since they are investing in the company that produces robots, a long-term exclusive agreement will be to their detriment. We will justify the shorter term by saying that the robots industry evolves rapidly. One year can give them a head start over all their competitors. The Research & Development cost is also

<u>Bottom line</u>

We can only give maximum 2 years for the lease agreement.