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I. Position of Blue Corporation

Blue Corporation (hereafter Blue) is now in a situation in which the source of its revenue is largely dependent on the consignment service of its apparel business. Although the business itself is stable, Blue is looking to diversify its sources of income.

Build two businesses: development of robots and e-commerce sites, is quite important in this regard.

Blue is not prioritizing its robot development or EC site development business. However, in terms of its robot development business, Blue does not have another good options as best alternative to a negotiated agreement (hereafter BATNA). Therefore, to conclude an agreement with Red in robot development is more important than EC sites development business in this negotiation.

Therefore, Blue hopes that robot development issues will be discussed first, but it is also possible to discuss robot and EC businesses jointly, if Red and Blue cannot proceed to any further agreement on one topic.

The following sections will explain the details for each issue.

II. Development of robots for the elderly

[1] Negotiation Background

Current situation

Have not been able to sell enough to recover R&D costs
R&D expenditure is limited to grants received from the government

Future vision

To make profit in the robot business by 2019

Future vision

To establish superiority in the robot business among the competitors

Goal for this negotiation

① To secure lease contract for robot developed by 2019

Goals for this negotiation

② To invent profitable robots with great potential
③ To obtain the applicable technology for the future business



[2] Priority of issues

Degree of priority will be shown in the following format: ☆: contribute, ☆☆: contribute directly, ☆☆☆: contribute directly and necessary for Blue

| Robot | Issues | Contribution to the Goals shown above ①~③ | | | Order of priority |
|-------|--|---|-----|---|-------------------|
| | | ① | ② | ③ | |
| 1 | Type of robots to be jointly developed | | ☆☆☆ | | ☆☆☆ |
| 2 | Intellectual property right | ☆☆ | | | ☆☆☆☆ |
| 3 | Exclusive lease agreement | ☆☆☆ | | ☆ | ☆☆☆☆ |

[3] Strategy

| Type of Robots | Intellectual Property Rights | Exclusive Lease Agreement |
|---|--|---|
|   To develop Communication security-type(hereafter C/S) robots To develop any types of robots | Maintenance of whole Intellectual property rights Maintenance of whole intellectual property rights | Do not offer the exclusive lease agreement To offer 2 years IF Red surely leases at least one robot at each of its facilities in Negoland |
| interests  Blue : Development of profitable robots with future potentials Red : Reduction of the burden of nursing care stuffs • Explanation of C/S type robots' contribution to the reduction of their burden • To develop both care support & C/S in longer development period | Blue : Necessity of whole rights for future business Red : To establish superiority by having the rights • To emphasize on that Blue cannot compromise on this point • To satisfy Red's interests by extension of lease agreement | Blue : To earn profit by a shorter agreement with Red's usage of more robots Red : To take advantage by extending the term • Suggestion of the short term agreement with Red's certain usage of robots • suggestion of the partly exclusive agreement which allows to lease non-competitors of Red |
| solution  | | |

★TL=Top Line; The most desirable agreement for BLUE

BL=Bottom Line; The least desirable but still acceptable agreement for BLUE

(1) Type of robots to be developed jointly

In the beginning of the negotiation Blue will ask Red's current problems and demands. After deepening its understanding of Red's position, Blue will suggest a suitable robot to be jointly developed. For Blue, **communication security** type of robots is the most preferable option considering the great potential demands in various markets not only in the elderly care market. Care support or independent type of robots is also acceptable bearing in mind the **short-term profits**. Therefore, Blue can agree to develop such robots if Red shows a strong preference for them.

(2) Intellectual property rights

Blue will make it clear to Red that it is critically important for Blue to obtain all associated intellectual property rights. This is because the rights are indispensable to protect the technologies and designs on which the expanding robot business will be based. Joint ownership with Red is not an option for Blue.

(3) Exclusive lease agreement

First, Blue will show the necessity of making the robot business **profitable by 2019**, hence a shorter agreement is preferable. Furthermore, Blue aims to add the condition that Red should



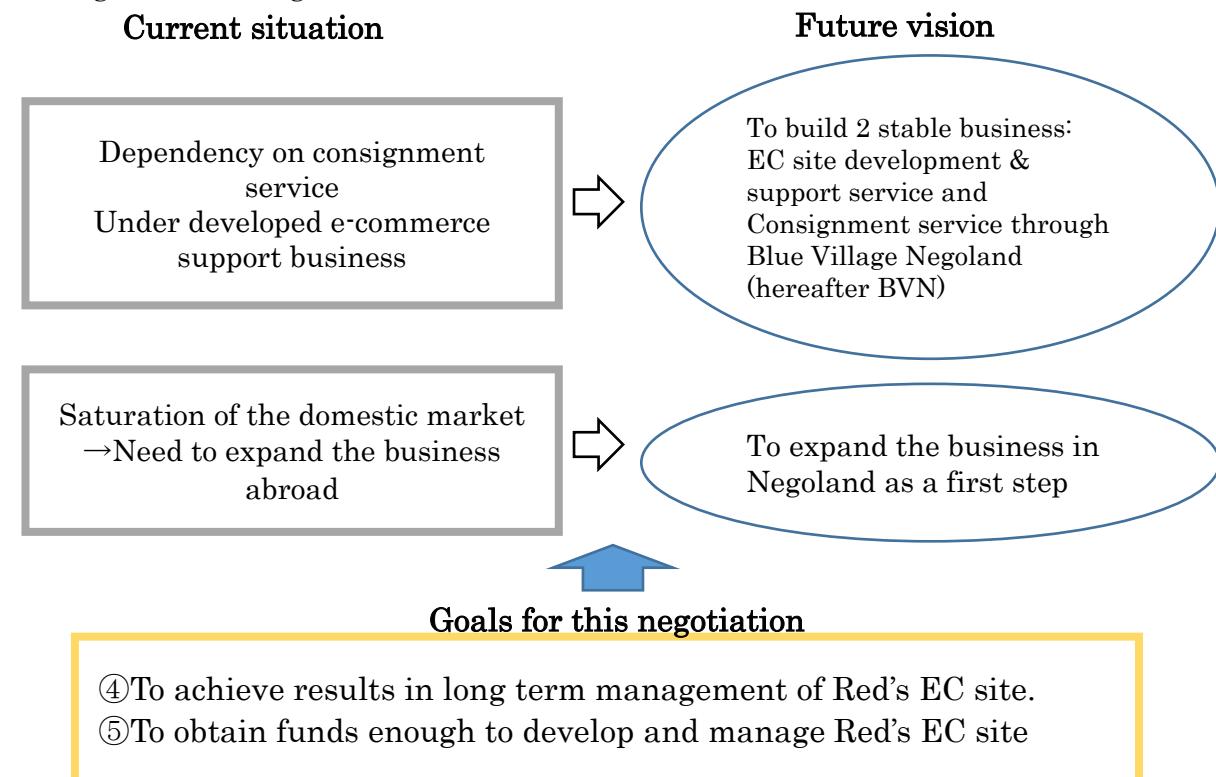
introduce at least one robot for each facility in Negoland. In case that Red needs to have a longer-term agreement, Blue will ask that Red leases multiple robots for each facility to recoup the R&D cost.

[4] BATNA

In case that Blue fails to achieve the goals in the negotiation with Red, Blue will consider a joint development project with Purple Corporation in Arbitria instead. However, it is unclear about the extent to which Purple would accept our requests. Hence Blue cannot easily move to this option as BATNA.

III . Development of the e-commerce site for Red

[1] Negotiation Background



[2] Priority of Issues

Degree of priority will be shown in the following format: ☆: contribute, ☆☆: contribute directly, ☆☆☆: contribute directly and necessary for Blue

| EC | Issues | Contribution to the Goals shown above ④～⑤ | | Order of priority |
|----|----------------------------|---|-----|-------------------|
| | | ④ | ⑤ | |
| 1 | Charge for the development | - | ☆☆ | ☆☆ |
| 2 | Ongoing support service | Fee | ☆ | ☆☆☆ |
| | | Term | ☆☆☆ | ☆☆☆☆☆ |
| 3 | Omni-channel Strategy | ☆ | ☆ | ☆☆ |



4

Blue Village Negoland

☆☆☆

☆

☆☆☆☆

Although the issue 4 'Blue Village Negoland' is not clearly written as matters, keeping Red in BVN is necessary for Blue because Blue considers it important to maintain BVN even after the commencement of Red's EC site.

[3] Strategy

| | Charge for development | Fee for ongoing support service | Term of ongoing support service | Omni-channel strategy | Blue Village Negoland |
|-----------|---|---|---|---|--|
| TL | 20 million US\$ | 30 % (as % of sales in Red's EC site) | 5 years | Click & Collect | Red stays in BVN |
| BL | 15 million US\$ | 20 % (only when Term is 5 years) | 2 years | - | Red withdraws from BVN |
| interests | Blue: To obtain funds enough to develop the site Red: To cut the cost as low as possible | Blue: To obtain funds enough to develop the site Red: To cut the cost as low as possible | Blue: To obtain funds and experience Red: Concerns about the risk by a long contract | Both: To strengthen the connection to physical stores with omni-channel strategies | Blue: Coexistence of BVN and EC site Red: Concerns about the low sales |
| solution | <ul style="list-style-type: none"> • Connection to the other issues such as the term of the contract | <ul style="list-style-type: none"> • Connection to the other issues such as the term of the contract | <ul style="list-style-type: none"> • To extend term with discount on development/ongoing support fee • To explain the advantage of 5 years contract | <ul style="list-style-type: none"> • Presentation shows the suggestions of omni-channels • To ask Red's demand in omni-channels | <ul style="list-style-type: none"> • To extend the term by discount on the commission • Share the customer information |

(1) Presentation about the services and omni-channels

Blue will give a short presentation which includes the contents of development/ongoing support service, and suggestions regarding Omni-channels. In the end of the presentation Blue will suggest the price; development fee, terms of the contract, and fee for ongoing support service. For Blue, long maintenance service with a high commission will make the greatest profit. Blue will emphasize the **quality of the E-commerce site** and let Red know the value of making a **longer contract with Blue**. In the case that Red has a strong interest in keeping the development fee or maintenance fee low, it is important for Blue that Red concludes a **long term contract with Blue** in exchange for the lower cost.

(2) Blue Village Negoland and cooperation with it

It is quite important for Blue to keep Red in BVN for several years ahead. This is because not only is Red one of the largest clients of BVN, but also Red's withdrawal from BVN could lead to the loss of potential business partners from BVN. Blue will show that BVN and its EC site do not compete with each other, and that we can expect a synergy effect between them.

[4] BATNA

In the case that Blue is not satisfied with the agreement which suits the goals mentioned above, Blue will aim to have another EC sites development contract with Green Corporation in Negoland. Green will be a good business partner of Blue because Green is interested not only in EC develop and maintenance service but also in wholesale business through BVN.

If the negotiations reach a deadlock on Red's idea, that is, less than **25%** of the fee for an ongoing support service AND the contract for less than **3** years, Blue will intimate the possibility of making a contract with Green as a competitor of Red.