

E-Commerce Development Project

1.1 The significance of this negotiation

The significance of this negotiation is that it provides Red with an opportunity to in-source its online retail channel in Negoland by launching its own e-commerce site (EC site). For the past two years, the EC market in Negoland is rapidly expanding and Red cannot ignore this trend. However, Red does not own its online retail platform. If Red continues to use Blue Village, Red would have to put up with disadvantages such as ① inability to conduct in-depth analyses of customer data, as they are inaccessible on Blue Village, ② payment of commissions to Blue, which lowers Red's profitability. Therefore, it is crucial for Red to launch its own EC sites and its in-source online retail channel. As this EC site is required to have high ability to attract customers, it should be equipped with functions that can lead to integration of Red's online and offline channels (Omni-channel strategy). Since Blue is acquainted with Red's business from its long business relationship and also is skilled in development of EC site, Blue is expected to be the partner for EC site development that fulfills Red requirements.

1.2 The goal of this negotiation

In this negotiation, there is the need to achieve following goals, while adjusting the interests of both Red and Blue for a successful negotiation.

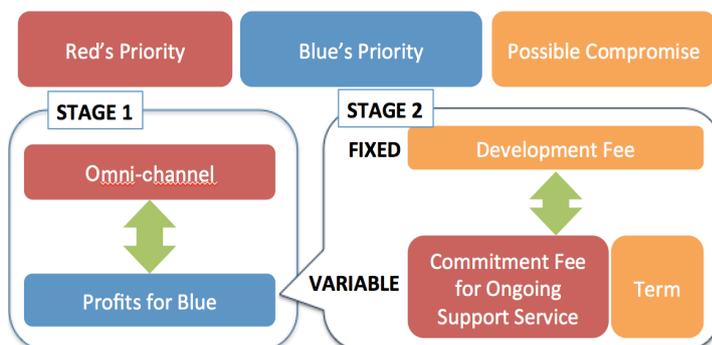
- (1) Develop an EC site that can lead to coordination of online and offline channels (omni-channel).
- (2) Keep the fees (development fee of the EC site, fee for ongoing support service, "OSS") low.

Since the second goal (2) will be against Blue's interest, we must be flexible during the negotiation.

1.3 Priority of Topics and Overall Strategy

The topics can be categorized to two categories: (1) the content of the EC site, (2) Fees (development fee of the EC site, fee and duration for OSS). Red cannot decide the amount that can be paid to Blue unless the actual content of EC sites is agreed. Thus, in the negotiation, Red must first agree upon the content of the EC site (1), and then flexibly adjust the fees (2).

- (1) It is necessary that the EC site is equipped not only with the retail function, but also with functions that can lead to coordination of online and offline channels. We will try to reach an agreement on this point with Blue by suggesting an increase on the development fee of the EC site.
- (2) Fees can also be categorized into "Fixed Fee" (development fee of EC site) and "Variable Fee" (fee for OSS). Since the variable fee bears the risk of drastic increase depending on the sales and duration, it is important that we limit the fee and duration for OSS. As Blue is expected to be on a table of negotiation demanding a certain amount of revenue from this EC site development project, we will make this project attractive to Blue by making a concession to development fee in exchange of fee for the OSS fee.



【BATNA】

If we cannot reach an agreement on the coordination of online and offline channels, or the fees become excessive, we would exit this negotiation and hire Yellow Corp. to develop the EC site.

1.4 Strategy for each topic

I. Details of coordination between the Red's online and offline channels

【Top】 Agree on at least one idea on Omni-channel

【Strategy】

We will actively present detailed ideas about the coordination between EC site and Red's physical stores such as ①System that enables customers to check the inventory of physical stores through the EC site, ②System that enables customers to reserve of a try-on at Red's physical stores through the EC site. When other ideas are presented from Blue, we will examine them with deep consideration of cost effectiveness and respond flexibly. Although we are still in the process of gathering and generating ideas, **it is necessary to specify on the contract on what system will be included in the EC site.** If Blue is reluctant to accept this commitment, we use the development fee (II) as a concession to Blue.

II. Development Fee of the EC site

【Top】 Development fee of US\$10million

【Bottom】 Development fee of US\$30million

【Strategy】

We will compromise on this topic in order to get a promise on the contents of EC site (I). If any promise on the contents of the EC site were given by Blue, Red can afford up to US\$30million according to the system and service. As written in the Overall strategy, we would like to keep the variable fee as low as possible. Thus, **in order to acquire Blue's compromise on fee(III) and duration (IV) of the OSS, we will make a further compromise on the development fee.**

III. Fee for the ongoing support service

【Top】 20%

【Bottom】 25%

【Strategy】

The percentage for the fee of the ongoing support service is an important factor in deciding the variable fee. Furthermore, a high percentage for the fee will decrease the profitability of the e-commerce site, going against the aim of developing our own EC site. Therefore, we will aim to keep the percentage of the fee at 20%, and negotiate on a firm stance so that it will not go over 25%.

We will appeal to Blue that Blue will still be able to gain large profit from this EC site even with a low fee percentage, using Red's outstanding performance in with Blue's EC site in the past years as evidence. In addition, **we can seek for a concession from Blue on this point by compromising on the fixed development fee (III) and the duration of the OSS (IV).**

IV. Duration of the ongoing support service for e-commerce

【Top】 1 year renewable contract

【Bottom】 3-year renewable contract

【Strategy】

With the use of the OSS, Red can expect an increase in profit and will be able to gain the know-how on online retail. Therefore, there is significance in using Blue's OSS. On the other hand, the duration for the support service is a factor in deciding the variable cost, and furthermore, Red plans on in-sourcing all online retail channels in the future. Therefore, we would want to keep the term as short as possible. Thus, we would want to first agree on a one-year contract, and renew it each year considering the cost effectiveness of the service. We will negotiate on a firm stance that a contract longer than 3 years is not acceptable. In addition, **in the case the duration is 3 years, we will aim to lower the fee (III).**

Development of Robots for the Elderly

1.1 The significance of this negotiation

The significance of this joint development negotiation is that **it allows Red to overcome problems and expand its elderly care business by utilizing Blue's high technical skills in robot development.** In Negoland, while the need for the nursing care business continues to expand, caregivers are resigning at a very high rate due to poor working conditions. Red has sufficient number of caregivers at the current moment, but it is a matter of time until workers start resigning and Red faces a shortage of workers. To combat this problem, Red needs to develop care support type robots, which will help alleviate the physical and mental stress burdening the workers, and thus improve working conditions. On the other hand, Negoland is also facing the increase in numbers of dementia patients, and thus the demand for communication/security robots ("CS robots") is in the rise. Red plans on starting a home-visit nursing care service from January 2018, and has in mind the introduction of CS robots to differentiate from competitors. Therefore, there is also significance in developing CS robots.

1.2 The goal of this negotiation

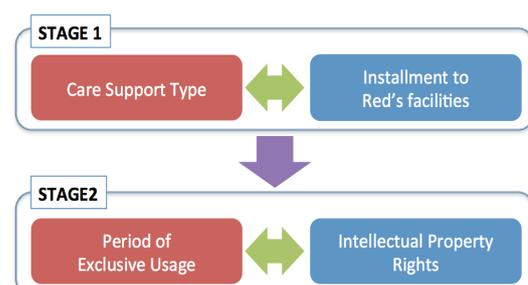
In this negotiation, there is the need to accomplish the following goals while adjusting the interest of both Red and Blue for a successful negotiation.

- (1) To develop a robot that can be used in Red's nursing care business. Specifically speaking, there is a need to agree on the development of the care support type robots or the CS robots. **In the case priority is placed on the development of the CS robots, there is a need to get a firm agreement to develop the care support type robots next.**
- (2) To set a period in which Red can use the developed robots exclusively in Negoland, in order to assure that Red gains a **competitive advantage from the use of the developed robots.**

1.3 Priority of topics and overall strategy

The key issues in this negotiation are (1) the type of robot to be jointly developed, (2) Ownership of intellectual property rights, and (3) the length of the period of Red's exclusive use of the robots in Negoland. The flow of the overall negotiation is as follows.

- (1) Firstly, **Red and Blue must share its aim of the joint development.** When doing this, **we will stress that Red is entering the joint development negotiation with the aim to improve working conditions for caregivers in the nursing care business.** It is assumed that Blue, who shall be paying for the costs in development, is entering the negotiation with the aim to expand its robot business overseas, but this aim shall be checked if it is correct.
- (2) Next, we will propose the priority development of care support type robots, with the aforementioned-shared aim in mind. If Blue disapproves to this proposal, we will try to get an agreement for the development of care type robots with the proposal that in the case the care support type robot is developed, we will agree to install the robots in Red's facility, leading to greater profit in Blue's challenge for overseas expansion.
- (3) After the type of robot to be developed is agree upon, Red will demand for a exclusive usage period for over 3 years (2 years at the minimum). If Blue disapproves of this proposal, **we will seek concession by compromising on the ownership of intellectual property rights and gradually proposing the installation of the developed robots in all of Red's facilities.**



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In the case the prospects for the development of the care support type robots cannot be seen, or the exclusive usage period of over 2 years cannot be agreed upon, Red will exit the negotiation with Blue and opt to lease care support type robots from Orange Inc.

1.4 Strategy for Each Topic

I. Type of robot to be jointly developed

<Top> Develop the care support type robots first

<Bottom> Develop the CS robots first (On the condition there is a firm agreement to develop the care support types next)

<Strategy>

It is important that Red comes up with measures to solve the future shortage of caregivers. Therefore, we would want to agree on the priority development of care support type robots, even if it means concession on other negotiation issues. On the other hand, Blue is looking to develop CS type robots first. The aim of this is probably to enter the Arbitria's CS robot market that is rapidly expanding. Thus, we will propose Blue's merits in developing the care support type robots. To put in detail we will propose the following: (1) If the care support type robots are developed, Red will immediately install them in Red's nursing care facilities, (2) in the long term, the demand for the care type robots in Negoland will be twice the size of that of CS type robots in Arbitria, (3) Blue can PR its care support type robots in preparation for the expansion of the market in robots for the elderly in Negoland.

On the other hand, there is also sufficient significance in developing the CS type robots. As stated above, the demand for the CS type robots is gradually increasing in Negoland, and Red has in mind the installation of said robots. In addition, it is still unclear when the worker shortage will actualize, and even if it were to actualize, Red can deal with this by leasing care support type robots from Orange. Still, because the leasing costs are very expensive, Red must work to avoid or minimize the period of the lease. Therefore, we must gain a firm agreement from Blue that the development for the care type robots will start immediately after the CS type robots are developed.

II. Ownership of intellectual property rights in and to the developed robots

<Top> If there is an exclusive use period, Blue has full ownership

<Strategy>

Red has no know-how on the R&D, manufacture or sale of robotics, so there is no use in gaining ownership for the intellectual property rights. Therefore, we will compromise on this point to have Blue agree on a exclusive use period of over 2 years (III).

III. The period during which Red may use the robots exclusively in Negoland

<Top> 3 years

<Bottom> 2 years

<Strategy>

If Red's competitors were able to use the jointly developed robots in Negoland, Red will not be able to satisfy its goal to gain competitive advantage. Thus, we will need to agree on an exclusive use period of at least 2 years. By compromising on the ownership of intellectual property rights (II), we will seek for concession from Blue on this point. In addition, we will seek for an exclusive use period of 3 years by proposing to make up for the profits that could have been made from selling the robots to other Negoland businesses by installing the developed robots to all of Red's facilities in Negoland.