Confidential Instructions for Tokyo Saki Role

Bacchus is a successful winery, with 63 fully owned vineyards scattered throughout the US (although the majority are located in California). Bacchus was founded some 20 years ago, and appears to be a successful and growing company, as they have maintained a strong market share, specializing predominantly in high-end wines, although they also produce some moderately priced wines. Bacchus consistently wins prizes for their wines, both nationally and internationally, with their wines holding up well to French wines in Western Europe, at least outside of France itself.

Tokyo Saki produces sake and rice wines, various Asian beers, as well as a line of alcoholic ginseng products (previously acquired from a Korean company). Tokyo Saki has strong market share within Asia, and has been making inroads as a novelty product, especially with its ginseng lines, in Europe and North America. At least part of the success of the ginseng lines has been due to the common belief that the ginseng root prevents the negative effects of alcohol on the system (such as liver damage due to over-consumption) and has long been recognized for its medicinal and curative powers in Asia, and more recently in Europe and North America.

Serbian Steins & Stems specializes in fine decanters, wine glasses, and accessories. More importantly, however, they recently patented a new process that makes fine, delicate crystal and porcelain virtually indestructible, while maintaining its beauty and fragile appearance. This development has obvious customer appeal, but also significantly reduces the expenses associated with shipping breakage and the like. If costs can be reduced on the process, it may even be feasible to use the technique for bottling, making it attractive as a virtually unbreakable bottle for wine and beer, as well as other products. Tokyo Saki recently acquired a small stake in Serbian Steins & Stems, hoping to complement its offerings with the accessories that would appeal to the North American and European markets, thus bringing it into the merger talks in a three-way play.

Last year, Bacchus management made overtures to Tokyo Saki in an effort to acquire their full line. Tokyo Saki declined, but encouraged a discussion of a possible merger between the companies, including the possibility of Serbian Steins & Stems for contemplation. Such a three way merger might provide Bacchus with complementary products and a presence in high-potential markets, while providing Tokyo Saki and Serbian Steins & Stems with product visibility and distribution systems that include the lucrative U.S. market. With the increasing popularity of fine wines and accessories, as well as “New Age” herbal medicines, such a three-way merger provides a particularly attractive opportunity. However, there are risks. For example, whether or not Bacchus has topped out in its market expansion isn’t clear. And the instability of the political situation in Eastern Europe is cause for concern as well, in any deal involving Serbian Steins & Stems. Given the risks and possible benefits, Bacchus has expressed cautious interest in the possibility of a three-way merger, and these discussions led to a satisfactory agreement on price, however, there are several issues that are yet to be resolved. These unresolved issues have led to the present meeting between your executive groups. In preparation for the meeting, the three companies have already exchanged appropriate information and figures. Unfortunately, a merger between any two of the companies loses significant synergy and is considerably less attractive; hence it is important to negotiate an agreement that is satisfactory to all parties, if there is to be an agreement at all. At this time, the remaining issues to be resolved include:

- **Stock ownership** of the combined company that would result from a merger. The division of stock influences the amount of the annual profits that would accrue to each of the three respective companies. This issue is, of course, of very high importance to you. You believe that the division of stock ownership should be driven by the fact that you are bringing a totally new product line to the table, and that you have a much greater profit margin than anyone else does at the table. However, you are also aware of the fact that Bacchus has a considerably higher value, and that Serbian Steins & Stems brings something unique to the table. You believe that these differences entitle you to a *minimum* of 25% ownership of the combined company.

- **Control**, as represented by the number of voting seats on the 12-person executive board to be controlled by each company. It is extremely important to you that you have multiple members represented – enough to wield some level of power – on the executive board. This issue is a point of pride, as you explicitly do not want to be “taken over” by Bacchus — you desire a merger that is respectful of your identity and accomplishments. You worry that minimal representation could easily be intimidated and silenced on the board and would become “tokens” with little or no actual influence. You bring a unique product line – especially with the ginseng products, one that is highly saleable in multiple markets. This will invigorate Bacchus’ currently rather stale lines. In addition, given your small ownership in Serbian Steins & Stems, you are clearly bringing a great deal to the table and your contributions should *not* be minimized.

- **Management.** There are three management issues. ***First***, is the management of the company in each country? In order to capitalize on the strategic synergies, management issues are key, and it will be critical to staff each location appropriately. It has not yet been established whether each location would continue to run as they have been running, or whether the Americans will try to select and send general managers, or whether there will be some form of exchange program or cross-training of managers. However, it is extremely important that you have *at least one* Japanese manager in each location, otherwise you will be unable to appropriately monitor other components of your business and react quickly and appropriately to decisions that are not in Tokyo Saki’s best interests. Your preference, of course, is to staff with Japanese mangers, but you realize that is not realistic. Yet, you also understand the importance of working within a socio-cultural network, and know that the locals have contact that your managers might lack. Hence, in lieu of Japanese representation, you will accept local management. The ***second*** issue is more troubling. That is what to do about Nikko Raspovliac, the son of the founder of Serbian Steins & Stems. It is your understanding that he is an unrepentant womaniser, and there are even rumors that he may be involved with the drug trade. Unfortunately, you learned of all this ***after*** you originally purchased a stake in their business. Raspolivac’s negative reputation will result in significant loss of face for your company in any public liaison (and you have debated ending the existing one if you can find a way out!). It is simply not acceptable to have someone at the helm whose reputation is so sullied. Finally, the ***third*** issue is management incentives, or how to motivate the management teams towards the common goals of the merged companies. You have always paid your managers an attractive salary, yet Bacchus has suggested that they be paid contingent on performance. Although you are willing to provide a small contingent incentive, you know there are clearly differences in the different foci of the companies and that some are simply easier to make a profit at, and any manager accepting a "difficult" assignment would be penalized. In addition, you know that such differences will create status and power differences among the managers of the different divisions, which is simply unacceptable You strongly prefer no contingent incentives, as you want to continue the culture you have developed at Tokyo Saki, a culture that has served you very well indeed. If a competitive culture were instantiated, your past experience in Asia suggests that they refuse to help one another, or lobby for specific interests, which clearly could be to your detriment. In addition you know well that such a plan will substantially reduce the morale among the management team and create conflict and tension.

- **Form of the agreement** is also quite important. In your previous negotiations with Bacchus, it seemed as if they were completely unwilling to build any flexibility into the agreement. Yet, in merging the three companies, you are charting new territory, and having some flexibility – to accommodate the unexpected as it arises – is not only essential, but makes good business sense. Thus, it is important to you that any agreement struck be flexible, with adequate safeguards for accommodating the unexpected. In addition, you find Bacchus' insistence on penalties for minor accommodations in the contract to be repugnant and insulting, and will clearly damage the relationship among all parties. Your preference is for a contract that avoids threatening trust by specifying penalties that may never be needed.

- A final issue is **status**. It is quite important that you negotiate with those who are of equal (or greater) status to yourself; otherwise, it is clear that the other parties are not taking you seriously, if not insulting you. Negotiator status is an important indicator of the respect with which you and the company are viewed. If they send negotiators of superior status, then that indicates that the future relationship will be one of respect and in which parties will attempt to accommodate our company and its issues. If, however, the negotiators sent by Bacchus and Serbian Steins & Stems are of lesser status, it suggests that the long-term relationship will be one in which you and the company will be discounted and marginalized. You should use job experience rank as a proxy for status, such that a negotiator with no job experience has a status of zero; if they only had "odd job" experience, their status would be 1; seasonal experience would be 2, part time experience 3, full time experience 4, and management 5. To compute your status score, you should use the following formula:

[(Average Status of Tokyo Saki Negotiators) - (Average Status of other Negotiators)] * (-10)

To help you in your negotiations, your team has constructed a table (attached) of the issues and devised a point scheme to help you prioritize among the issues and select the optimal agreement – all you need to do is to "maximize" your point value and you will have the best agreement for Tokyo Saki. Note that the point scheme represents a one-time estimate of the combined long-term financial and symbolic impact of any deal component. **To assess the total value of any offer, add up the points assigned to each component of the "package."** You must assume that the value estimates of each settlement are accurately represented. **Do not show this table to anyone else, nor should you reveal specific pay-off information!**

Issue:	**Spread:**	**Minimum**	**Maximum**
Stock Ownership	1100	-300	608
Board Seats	200	-100	100
Management Staffing	60	10	70
Nikko Raspovliac	400	-200	200
Management Compensation	100	0	100
Form of Agreement	20	0	20
Status	100	-50	50
	Total:	-640	1148

Evaluation of Negotiated Agreements for Tokyo Saki	
Issue	**Point Value**
Tokyo Saki Stock Ownership[1] less than 25%	300 point ***loss***
each % *above* 24% is worth:	8 points
Control (Tokyo Saki seats on Board)[2] fewer than 3 seats	100 point ***loss***
each seat above two is worth:	10 points
Management Staffing: Upper level management in each location to:	
be locally staffed (polycentric)	20 points
be staffed by best management, regardless of nationality (geocentric):	10 points
at least one manager from the non-local countries:	70 points
include proportional representation from all three countries:	10 points
Nikko Raspovliac fire him	200 points
buy him off (he leaves firm)	100 points
place him in powerless position	50 point ***loss***
Retain as management	200 point ***loss***
Management Incentive: less than 5% of pay contingent on performance	100 points
0% - 15% of pay contingent on performance	65 points
16% - 25% of pay contingent on performance	10 points
greater than 25% of pay contingent on performance	0 points
Terms of the agreement:	
flexible contract, that specifies only the general terms of agreement, & allows for modifications	20
specifically delineated contract, that suggests penalties for non-compliance	10
specifically delineated contract with clearly specified penalties for non-compliance	0
Status[3]: managerial on scale of 1 to 5 with 5=executive level	
(Average status of Tokyo Saki negotiators - Average status of all other negotiators) * (-10) =	
TOTAL POINTS	

[1] So, for example, if you negotiate 0 - 24%, you would receive -300 points, 25% you would receive 8 points, and for 30% you would receive 48 points.
[2] So, for example, if you negotiate one seat, you would receive -100 points, for three seats, you would receive 10 points and for five seats you would receive 30 points.
[3] So, for example, if your status is five and the average status of all other negotiators is three, your status points would be equal to -20. If your status is three and the average status of all other negotiators is four, you would receive 10 points.