

Confidential Instructions for Serbian Steins & Stems 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, Bacchus is not sure of the potential market for rice wine, as it is frequently considered too sweet by most North Americans, and may not fit well with the sophisticated image that Bacchus has worked hard to develop. Whether or not Bacchus has topped out in its market expansion isn’t clear. There does appear to be a fledgling market for Saki and Asian beer, and especially ginseng products, with considerable potential. The impact of the recent Asian financial crisis on Japanese companies is also a concern. 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

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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 your profit margins are outstanding. However, you are also aware of the fact that Bacchus has a considerably higher value, and that Tokyo Saki brings new lines to the table as well. Although somewhere close to 1/3 of the stock for each company is probably fair, you are also aware that others may not agree. However, all in all, you believe that what you bring to the table entitles you to *minimum* of 20% 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, as you are concerned about a potential voting block of the Americans and Japanese. In addition, 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 your patented process, one that is highly saleable in multiple markets. This will complement Bacchus’ currently rather stale lines. 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? 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 local managers for the Serbian Steins & Stems component of the merger, in order to capitalize on unique synergies available to you in your own locales. The **second** issue is even more important. Nikko Raspovliac, the son of the founder of Serbian Steins & Stems, was heir apparent to the business. It is critical that he keep his position at the helm of the Serbian operations, both as a matter of pride and identity, but also to ensure that the business continues to be profitable for the family that has owned it. Nikko has had some troubles in the past, but his days of sowing his wild oats are over. And he clearly knows the ropes and knows how to grease the wheels of the local officials in order to get things done and to get advantageous prices on raw

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materials and the like. Nevertheless, you do expect some resistance over retaining Nikko to arise at the table. Finally, the **third** issue is management incentives, or how to motivate the management teams towards the common goals of the merged companies. You prefer to pay your managers contingent on performance. Although you are willing to provide some salary, you prefer that a large part of each manager's compensation be paid in the form of a contingent bonus. Past experience indicates that this can substantially increase performance

- **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**. Given the relative status of women in your society, as well as much of the world, you believe it appropriate that the other parties at the table send male negotiators, who are of superior relative status, and also generally higher up within the companies. If they send female negotiators, it may be a sign that they are not taking you quite as seriously, and, depending on the status of women within their own societies, perhaps 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 (males), 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 (females), it suggests that the long-term relationship will be one in which you and the company will be discounted and marginalized. You should compute the average status of your own negotiator(s) and of all other negotiators giving females a rank of one and males a rank of two and then apply the following formula:

$$[(\text{Average Status of Serbian Steins Negotiators}) - (\text{Average Status of other Negotiators})] * (-20)$$

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 Serbian Steins & Stems. 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.

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Do not show this table to anyone else, nor should you reveal specific pay-off information!

Issue:	Spread:	Minimum	Maximum
Stock Ownership	1172	-200	972
Board Seats	170	-50	120
Management Staffing	100	0	100
Nikko Raspovliac	400	-200	200
Management Compensation	75	0	75
Form of Agreement	50	0	50
	Total:	-450	1517

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Evaluation of Negotiated Agreements for Serbian Steins & Stems	
Issue	Point Value
Serbian Steins & Stems Stock Ownership ¹ less than 20%	200 point loss
each % <i>above</i> 19% is worth:	12 points
Control (Serbian Steins & Stems seats on Board) ² fewer than 3 seats	50 point loss
each seat above two is worth:	10 points
Management Staffing: Upper level management in each location to:	
be locally staffed (polycentric)	100 points
be staffed by best management, regardless of nationality (geocentric):	0 points
at least one manager from the non-local countries:	30 points
Include proportional representation from all three countries:	60 points
Nikko Raspovliac fire him	200 points loss
buy him off (he leaves firm)	100 points loss
place him in powerless position	50 points
retain as management	200 points
Management Incentive: less than 5% of pay contingent on performance	0 points
0% - 15% of pay contingent on performance	25 points
16% - 25% of pay contingent on performance	50 points
greater than 25% of pay contingent on performance	75 points
Terms of the agreement:	
flexible contract, that specifies only the general terms of agreement, & allows for modifications	50
Specifically delineated contract, that suggests penalties for non-compliance	0
Specifically delineated contract with clearly specified penalties for non-compliance	0
Status ³ : female status = 1, male status = 2	
(Average status of Serbian Steins & Stems negotiators - Average status of all other negotiators) * (-20) =	
TOTAL POINTS	

¹ So, for example, if you negotiate 0 - 19%, you would receive -200 points, 20% you would receive 12 points, and for 30% you would receive 132 points.

² So, for example, if you negotiate one seat, you would receive -50 points, for three seats, you would receive 10 points and for five seats you would receive 30 points.

³ So, for example, if you are a male and both other parties are represented by females, you would lose 20 status points. If you are a male and Tokyo Saki is represented by one female, while Bacchus is represented by two males, you would lose 6.67 status points. If you have two negotiators, one male and one female and all other negotiators are male, you would receive 10 status points.