

Golden Opportunity

It was a chilly September evening when Scott sat down in his favourite chair in the garden. Cold breeze sweeping his face had always helped him think more clearly until that very moment. His heart was pounding like a church bell; his hands were sweating more than if he had spent fifteen minutes in a sauna. He was appointed head negotiator in the approaching talks about strategic alliance of his corporation. GoldDiggers Inc., where he had been working for the previous 10 years, was about to create a joint venture with Dig-Some-Gold (DSG) Corp. Both companies specialize in gold deposits exploration industry – it means that they do not mine gold themselves, but search for it and sell the results of their research, the rights to mine, and the terrain itself, to others.

Scott did not feel ready for this position, but humbly accepted the offer and decided to start any necessary preparations as soon as possible. He had been investigating DSG for some time, but his vast knowledge of the competitor was not useful yet. Now was the perfect time to show both his negotiating and analytic skills, to impress his co-workers and bosses. Should he fail, it would be a major setback in his career. Scott assumed that his friend, Sarah, like everyone else in their firm, already knew about his promotion. Thus, he was so excited that he texted her “I have been waiting for this opportunity for too long”.

Therefore, Scott started writing general notes about his ideas on the alliance in his personal notebook. Suddenly, he heard a loud sound in his house. He rushed there and found one of his antique vases shattered into a thousand of pieces on the floor. A window nearby was open. “Silly me”, he thought, “in all that confusion I forgot to close the windows and now my antique collection is ruined.” He closed the window and went to the kitchen to prepare dinner – roast lamb with mint sauce.

Having returned to his armchair in the garden, Scott put the plate on the notebook and began to eat. A deafening gunshot startled the birds in the garden, which flew up and covered the night sky. Scott’s blood mixed with mint sauce created a macabre scene.

GoldDiggers Inc. – Mr Stevenson

Until recently, you were supposed to be a part of the team negotiating the strategic alliance with DSG. Due to the sudden death of Mr Scott, you were promoted to head negotiator. It is an opportunity you cannot miss out on, and given the circumstances, you are going to take it very seriously. You are too busy working on other projects (mainly office politics) to prepare your own notes for the negotiations. Luckily, the late Mr Scott left some notes that shed some light on the matter:

“Both GoldDiggers Inc. and Dig-Some-Gold Corp. fiercely compete in gold exploration industry. However, they are facing many different difficulties concerning their development, and without each other’s help, they may not survive. For our firm, it is vital to maintain financial liquidity. It would be very beneficial if DSG agreed to pay a signing fee of \$500,000. They probably will try to spread the payment over a few years, but more than five is utterly unacceptable. I cannot expect this alliance to be profitable without an agreement on this matter.

What’s more, the crucial element of the alliance is undoubtedly the creation of a joint venture company, which will explore in search of gold deposits in the region. GoldDiggers have a great relationship with local government, thanks to skilful lobbying to promote mining industry. Therefore, we should choose the proper location for joint venture project and take care of the necessary paperwork.

When it comes to gold exploration, skilled experts are needed to supervise the process and our experts are currently very busy with other projects. We could shift some of the workforce to this project (still, not more than 5 people, which is minimum for the project to operate), but it would hurt our interest. It would be best if DSG assigned their own experts to this joint venture.

Number of our experts reassigned	Potential loss
0	0\$
1	20,000\$
2	40,000\$
3	60,000\$
4	80,000\$
5	100,000\$

Moreover, joint venture project needs to be established for a certain amount of time. It is a common practice in our industry to give up after 2 years of searching for gold in a region to no avail. However, if the enterprise succeeds, gold deposits will be sold to a mining company. It is of utmost importance that our delegation will be present during the

negotiations of selling the deposits to ensure a fair distribution of profits. On the other hand, we could arrange an agreement on this matter now.”

Scott’s notes end here. You have one last reflection, though. The recent demise of Mr Scott will surely draw a lot of unnecessary attention from the press. You know all too well that the circumstances point to you as a suspect. It was widely known that you have been expecting the promotion to the head negotiator for a long time and appointing Mr Scott made you jealous. That is why you expect your negotiating partners to avoid any contact with the press and the police. You reckon it would be best for business to keep things quiet, too.

Negotiations priorities (in order of importance):

1. A signing fee of about \$500 000 in the contract, paid as soon as possible, not later than during 5 years,
2. Either our delegation will be present at later negotiations of selling the gold deposits **OR** we agree on a percentage of profits now (the more – the better),
3. No experts shifted from other projects,
4. We choose the location of exploration ourselves,
5. A 2-year period of exploration,
6. Both companies refuse to disclose any information on the alliance to the press or the police.

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Dig-Some-Gold Corp. – Mrs Lee

DSG is well known for its vast portfolio of projects. However, none of them is located in the region where GoldDiggers operate (who control that market, but lack assets to make full use of this region's vast natural resources). Forging a strategic alliance with them would be a perfect chance to enter a new market and make a few friends in high places (thanks to GoldDiggers' connections in the government). Organising a dinner with local government officials would be a great opportunity. Try to convince GoldDiggers officials to arrange it for you.

You sent a trustworthy employee to investigate GoldDiggers' intentions in advance, but he managed to accomplish nothing. Mr Scott's untimely demise has unsettled you. Your shareholders insist that only full cooperation with the police and controlled distribution of information to the press will ensure that this alliance will be successful. Make sure that your negotiation partners, GoldDiggers, share a similar position on the matter.

When it comes to the alliance, firstly, you need to make sure that all points in the contract are clear and transparent for both sides. Due to the fact that you are about to enter a market dominated by GoldDiggers, they might assume that they need compensation. Remember that their demands might differ from what you expect. Your CFO prepared a proposition on future payments, spreading them over a few periods:

Paid over duration of how many years?	Total sum (<u>not</u> per year)
0 (instant payment)	80,000\$
1	200,000\$
2	300,000\$
3	380,000\$
4	440,000\$
5	480,000\$
6	500,000\$

The above table contains the maximum amount of money you may pay during given period. It is the profit from other projects, generated by your previous contractors (mining companies). Should you require any more, you are authorised to spend up to 100 000\$ of emergency funds, but try to refrain from it.

It is customary in your industry that the joint venture project itself consists of two parts: a 2-year period of exploration for gold in the region and assessing the value of the deposits later. Both stages require qualified experts to work at the project. DSG has a significant amount of experts at your disposal, but their work is expensive – each expert's salary for

the duration of the project is about \$12 000 and at least 5 will be needed for the project to operate properly. That is why you should encourage GoldDiggers to employ their own experts in order to reduce your own costs.

Soon after (and if) gold deposits are discovered and their value assessed, the land will be sold to a mining company. Nobody can predict the exact value now, so it is only possible to discuss percentages. Your personal preference is to convince GoldDiggers to drop out of future negotiations with potential clients and leave them to you. On the other hand, you could discuss and agree on the division of profits beforehand. You feel that they should reflect the level of commitment of each company in the project.

Negotiations priorities (in order of importance):

1. GoldDiggers organize a joint event with government officials,
2. Both companies communicate with the police and the press openly about the alliance,
3. Either GoldDiggers leave the negotiations of profits with potential client to us **OR** we agree on a percentage of profits now (the more – the better),
4. We do not employ more than 2 of our own experts,
5. A 2-year period of exploration,
6. We do not use the emergency funds for a signing fee.