Final negotiation activity

The East Africa Tender

This case study has been designed to bring together all the skills and techniques practised and developed in the *International Negotiations* course.

The lesson can be divided into four stages:

- **Stage 1**: Background reading
- **Stage 2**: Preparing to negotiate – discussions within teams
- **Stage 3**: Negotiation with the other team
- **Stage 4**: Feedback and analysis

Each of these stages could be quite quick (around 20–25 minutes each, adding up to a single 90-minute lesson), but will be more effective if you allow more time (30–45 minutes each, adding up to two 60- or 90-minute lessons). If you are short of time, you could set some or all of the reading as homework, but make sure you also provide opportunities in class for trainees to discuss the texts with each other and with you.

However you plan this lesson, make sure you allow enough time for all four stages.

Background note

- The negotiation in the case study is fictional, but based very closely on a series of negotiations that actually took place in 2005. The companies named in the case study are fictional, but the East Africa Community (EAC) is a real organisation (see http://www.eac.int/). The details of the negotiation (e.g. costs, negotiation points) have been carefully researched to make them as authentic as possible.
- See http://en.wikipedia.org/wiki/SEACOM_(African_cable_system) for some background to the real negotiation and project. Trainees may also be interested to read this article after the negotiation.

Stage 1: Background reading

1 Distribute the first page of the case study. Draw attention to the title of the activity (The East Africa Tender) and the article's headline (The Last Continent – Plugging Africa into the Global Network) and accompanying photo, to elicit what they can guess about the negotiation without reading the article.

Language note

- A *tender* is an offer to do a job or supply goods for a specified price. Governments (and other large organisations) often invite *bidders* (= a range of companies) to submit tenders for a particular job (e.g. to build a new road), and then choose the best offer, based on price and other conditions. This process can be called a *Call for Tender*, a *Call for Bids* or a *Request for Tender* (*RFT*).

2 Divide the class into two teams. If you have a large class (i.e. more than around 12 trainees), you may want to divide the class into four teams. However, this will make the lesson more difficult to manage, as you will have two separate negotiations to organise. Tell the teams which side of the negotiation they are representing: either the **East African Community** (EAC), an inter-governmental organisation, or **Subsea Cable Dynamics** (SCD), a company which specialises in underwater fibre-optic cables. You could elicit from the class what else they can guess about the negotiation based on this information (e.g. Which countries might be members of the EAC? Why might the EAC be in negotiations with a fibre-optic cable company?).

3 Tell trainees to read the short background paragraph to identify key information about the negotiation (i.e. that the negotiation is taking place in Arusha, Tanzania, and that it concerns the development of an undersea cable system).

4 Trainees read the article carefully to identify the key facts, and then spend a few minutes discussing the implications of those facts with their teams. When you discuss the key facts with the class, make sure everyone understands all the main implications, especially the challenges from paragraph 5 and the points that have already been agreed and the key deciding factors from paragraph 6, as this will be essential for the success of the negotiations.

Suggested answers (important facts and implications for both teams)

- It's the final round of negotiations. *Possible implication*: Both sides have invested a lot of time and effort into these negotiations, so they want to make them work; they are close to a solution; they probably already have a business relationship, built up over previous rounds.
- The subsea fibre-optic cables are very important for East Africa's economic development: current satellite networks cannot supply the increasing demand for internet access. *Possible implication*: This is a vital project for the EAC – they want to build the network urgently but properly.
- Africa is an important region for internet companies, because it is expected to grow faster than other parts of the world. *Possible implication*: This is an important project for SCD, in terms of its long-term strategy and involvement in future big investment projects in Africa. It is good to build strong relationships and a reputation in this part of the world.
- The cables will be 17,000km long, and will take three years to complete. *Possible implication*: This is a huge project, and potentially quite complicated.
- The project will be divided into three phases, each costing around $200 million. *Possible implication*: The contract for each phase may need to be renegotiated separately.
- Challenges to the project include severe weather and piracy. *Possible implication*: There could be large unexpected costs and delays. Even if nothing goes wrong, there will be high insurance premiums to pay.
- Only two of the original seven companies remain in the negotiations. *Possible implication*: SCD has done well so far, but could still lose out to MarCom. The EAC has a very clear BATNA in its negotiation with SCD (i.e. it can accept MarCom's offer).
- Some aspects (budget and technical specifications) have already been agreed. *Possible implication*: there is no need to worry about these in the final round of the negotiation, although it may be possible/necessary to bring them back into the discussion to break a deadlock.
- The key deciding factors are likely to be performance guarantees, the shareholding split and inward investment. *Possible implication*: the negotiation should focus on these.
- The result will be announced soon. *Possible implication*: The EAC are keen to reach a deal with one of the two remaining companies. They do not want to have to go back to the beginning of the process again.

You could check everyone understands the meanings of the following words and phrases from the article: *to put sth out to tender*, *to impede sth*, *a boost*, *to lag behind sb*, *bandwidth*, *to outstrip sth*, *a phase*, *vulnerable*, *adverse*, *a disruption*, *piracy*.

Language notes

- A *guarantee* is a promise to fix a future problem with a product or service (e.g. by repairing or replacing it). It is very similar to a *warranty*, which is a legal promise about the present quality of a product or service, but which does not specify how problems will be remedied. A guarantee is often free, while a warranty can be bought for an additional fee. Very often the terms are used interchangeably (as they are in this case study).
- The *shareholding split* describes the division of ownership rights between two or more owners of a business. For example, there may be a 51:49 split, where one party has a slight majority of shares, and therefore more control over the business.
- *Inward investment* means investment into a country by foreign-owned businesses. Governments are often keen to encourage inward investment, as it creates jobs for local people. It is also called *FDI* (*Foreign Direct Investment*).
- *Transfer of technology* involves sharing your technological expertise with other organisations. Sometimes this is unavoidable (e.g. in jointly-owned factories), but companies often try to keep it to a minimum.

Stage 2: Preparing to negotiate

1 Hand out copies of the team briefings. Trainees work in their two teams to read the information and work through the list of steps in the procedure (1–3). Monitor carefully to make sure they have fully understood all the information for their team. You can also refer trainees to the relevant units in *International Negotiations* (e.g. Unit 1 for allocating roles).

2 Make sure they spend plenty of time (i.e. at least five minutes) on each of the three steps, and check their progress carefully. You can use the *Stage 2: checklist* (see p5 below) to make sure they fully understand all the relevant information. With weaker classes, you could photocopy the questions, which serve as a comprehension check. With stronger classes, you could ask the questions informally as a checklist.

Stage 3: Negotiation

1 Make sure both teams have worked through stages 1–3 of their procedures. Then distribute copies of the feedback forms. Go through them carefully with the class to make sure everyone knows what they will need to focus on during the negotiation.

2 Elicit from the class which team will lead the negotiations (probably the EAC, as they are the hosts). Go through point 4 of the procedure, the list of seven stages (which are the same for both teams), to make sure everyone knows how the negotiation will work. You may also decide to set a time limit, especially if this is something beyond your control (e.g. because the lesson needs to finish), but make sure you allow plenty of time for both the full negotiation and thorough feedback (in the next lesson if necessary). Make sure trainees also know that the aim for both sides is to reach the point where a decision can be made quickly, rather than leave problems to be resolved later.

3 Start the negotiation and monitor carefully. Ideally, you would also record the negotiation on video, for later analysis. Focus on the effective use of the techniques from the course, rather than language mistakes. Try not to get involved, although it may be necessary to move the negotiation forward if you are running out of time.

Stage 4: Feedback and analysis

Ask trainees to work alone to complete the feedback form. They then discuss their ideas in pairs. After a few minutes, open up the discussion to include the whole class. Go through the form question-by-question to elicit and give feedback on the strengths and weaknesses of the negotiation.

Follow-up ideas

1 Members of one team try to work out which roles (e.g. facilitator, number-cruncher) the people in the other team were playing. This could generate some surprises.

2 They could also try to guess what the other team's H.I.T. list was, what their BATNA was, and what the target point, opening point and reservation points for each of their variables were. Again, when they discuss these with the other team, there could be some surprises. They could also read the other team's briefing to check how well they did.

3 You could ask trainees to write a short report of their negotiation, or simply to read the background to the real negotiation (see the **Background note** on p1).

Stage 2: checklist for Team 1 (SCD)

1 What are your strengths as a company?
2 How realistic was your cost estimation?
3 What has been agreed about the three phases?
4 Will the local plants (factories) be brand new or simply converted old ones?
5 Why are you worried about the term of the contract?
6 Why do you need to exercise caution when discussing the term of the contract?
7 What does the figure of $25 million represent?
8 Why are you worried about your intellectual property rights?
9 Why might your insurance costs be higher?
10 What does 'subject to approving the quote' mean?
11 Why is this such a good ROI for the EAC?
12 Why are you worried about the warranty period?
13 Why didn't you include PlowSafe in your bid?

Stage 2 checklist: Team 1 answers

1 15 years of expertise; an excellent reliability record
2 It was realistic – within the 10% margin.
3 Only phase 1 is covered under this contract; phases 2 and 3 will need to be renegotiated, with other contractors also making offers.
4 This hasn't been decided yet.
5 Because you wouldn't be able to recoup (= recover) your costs.
6 Because the EAC believe the term has already been agreed.
7 It is one third of the cost of setting up the cable plants – the $75 million mentioned in point 1.
8 Because you don't want your patented technologies to fall into the hands of your competitors.
9 Because of the higher risks from piracy.
10 The EAC would be able to check that the quote from the insurers is genuine, and not just a figure invented by SCD.
11 Because they can recover their costs quite quickly, and then effectively have the cable network for free for the rest of its long life.
12 Because there are many factors which are outside your control.
13 Because it's more expensive.

Stage 2: checklist for Team 2 (EAC)

1 How many meetings have you had with the two companies?
2 What was the maximum cost quote you were prepared to accept?
3 In what way was MarCom's bid better?
4 In what ways was SCD's bid better?
5 What has been agreed about the three phases?
6 What is the advantage of dividing the contract into three phases?
7 Will the local plants (factories) be brand new or simply converted old ones?
8 In what three ways can the EAC support the manufacturing facility?
9 Why is inward investment such an important factor in favour of SCD?
10 What do the three ownership splits represent: 51:49, 70:30 and 60:40?
11 Why is reliability so important to you?
12 Why is this such a good ROI for you?
13 What does the 'two-year period of vulnerability' refer to?

Stage 2 checklist: Team 2 answers

1 Two with MarCom, one with SCD
2 $550m + 10% = $605m
3 The cost was lower.
4 They were prepared to invest in sourcing and manufacturing locally; they gave a more impressive technological presentation.
5 Only phase 1 is covered under this contract; phases 2 and 3 will need to be renegotiated, with other contractors also making offers.
6 It keeps the successful bidder focused.
7 This hasn't been decided yet.
8 By contributing 10% to the costs; by minimising administrative time and costs; by allocating state-owned land.
9 Because MarCom is offering only to assemble imported components locally, not manufacture them.
10 51:49 is the minimum in any joint venture; 70:30 is the ideal split; 60:40 is what MarCom accepted.
11 Breaks in transmission would be embarrassing, and would be bad for trade and commerce.
12 Because you can recover your costs quite quickly and then effectively have the cable network for free for the rest of its long life.
13 The period between the end of the standard two-year warranty and the earliest time you will recover your capital outlay (4 years).