

By Nir Halevy and Amir Kaspi

You are Hui Wang, head of the Business Development Unit for 3DTV, a start-up in the TV space that was founded three years ago, with a main office in Shanghai, China, and a smaller office in Palo Alto, California. 3DTV develops the next generation of 3D video that will allow users to see any content in 3D without wearing an external device (e.g., 3D glasses). Your competitive advantage comes from a patent that allows you to turn any 2D format into 3D; your most recent valuation was \$100M. You have been working hard on a technology that provides your users a one-stop-shop for all their digital and traditional TV needs. Your unique platform allows users to watch the content either on typical 2D screen or in 3D without the need to use any external device.

3DTV plans on raising funds next year. To do well, you hope to show potential investors high adoption rates. You have determined that the best way to achieve this strategic goal is to partner with a major provider of regular 2D content in the U.S., and use your technology to enable your subscribers to view it in 3D. Although licensing the content directly from the owner would be the most cost effective way, these negotiations typically take many quarters and

you are interested in building a partnership more rapidly. Therefore, you have determined that the main potential partner for such a deal is OmniChannel, a major player in the U.S. TV content market. Established in 1970, OmniChannel (OC) is a publicly traded company that provides users with a one-stop-shop for over 100 channels. OC clients can also access 20 premium channels from PremiumTV, which owns the exclusive distribution rights to premium contents (e.g., HBO). OC users are paying a monthly subscription fee to access the platform.

In parallel to your core mission, which is to develop your own unique TV experience, you have recently made headlines for building your advance data center technology. 3DTV developed a technology that allows it to run its data centers more effectively. You have just registered a patent on that technology, which basically cuts data center costs in half. The new data centers will allow you to process and run the new 3D format more efficiently. Because of this, your data centers became the crown jewel in the industry.

In preparation for the negotiation with OC, your team received the following email from 3DTV's CEO:

From: *Office of the CEO, 3DTV*
To: *Business Development Team, 3DTV*

Dear Business Development team,

Over the past few years our company has been working hard on launching a TV and digital solution that will be tailored to the cord cutter audience. The goal is to provide our users a one stop shop for all their digital and traditional TV needs.

As you know, our success depends on licensing as many channels as possible. Hence, I have determined that we should approach OmniChannel (OC) which owns the licensing and sub-licensing rights to more than 100 channels including local, national and international TV. OC recently signed an agreement with PremiumTV which has access to 20 premium channels, but it's still unclear if OC has the right to sub-license these channels to us. The more of these channels we can license, the better. You should know that OC has a product in the market (while outdated, still popular) that offers its subscribers the ability to access these channels for a traditional 2D experience.

A key benefit of working with OC is that the bundle of channels provides us a large sample that will allow us to further enhance our algorithm and platform to improve the speed and quality of the digital signal we provide users.

There are two ways in which we can leverage the channels from OC:

1. **Internal research purposes.** To turn 2D content into 3D, we need to analyze the metadata that each channel provides us. There is a lot of value for us getting these rights in a bundled fashion. Most importantly, such vast amounts of data will help us improve the algorithm quickly. As such, it will expedite the time to market, save expensive R&D costs and accelerate the overall research effort. We will probably see some incremental cost savings (1-2%) but probably not more than that in the long run.
2. **Offer the content to our subscribers.** In addition to the above use, we want to be able to pass OC's content via our unique technology to our subscribers either in a 2D or 3D format. Obviously that will increase our revenue. We will be able to generate more revenue if we get the option to deliver both 2D and 3D (rather than only 3D).

OC will likely push back on use case #2 as it competes with their current product. We should be able to get support for use case #1 and I would like to you also push for getting the ability to pass their content externally in a 3D format to our subscribers.

I know it won't be easy to negotiate this deal but I trust that you will negotiate the best deal for 3DTV! I have outlined in the attachment to this email the parameters for this negotiation.

Please read the attachment carefully.

Bai Liu
CEO

The attachment to the email from your CEO included the following important points:

- OC are the most credible partners when it comes to licensing and sub-licensing TV content. They also have the largest number of channels and quality of channels (i.e., premium channels). The more channels we have access to, the better – we want to avoid the need to license additional channels from other providers. The latter would be very difficult and will probably take 12-24 months to negotiate and another 12-24 months to integrate and combine with the OC offering.
- Needless to say, we would like this deal to give our product team as much flexibility as possible in terms of usage rights of the data.
- **IMPORTANT INFORMATION FROM YOUR CEO ABOUT THE PROCESS:**

This is going to be a cross-cultural, Chinese-American negotiation. Communication and information exchange may be challenging. We should act in accordance with our principles and values. **I fully expect you to:**

- A. Maintain the formality and hierarchy that we pride ourselves on. Only the leader of the negotiation team should speak; everyone else should demonstrate utmost respect and deference, and maintain the unity and harmony of the team.

- B. Be as minimal as possible in your communications. Always prefer silence over chatter. Remember, *the empty vessel makes the most noise*.
- C. Be true to our principle of *Guanxi* - we only do business with others with whom we have close ties. Thus, it is important that you establish relationships with the Americans. You should spend the first 10 minutes of the negotiation on social introductions, and asking the Americans about their families, hobbies, and entertainment preferences (this information will be useful when we shall host them in Shanghai).

As members of the Business Development Team for 3DTV, you will have to reach agreement on 9 issues with OC's representatives to finalize the deal. **The Payoff Schedule on the next page provides information about the relative importance of different issues to your team. Make sure not to show your payoff schedule to the other party.**

You have a total of 75 minutes to complete this negotiation. If you fail to reach agreement with 3DTV today your outcome will be 0 points.

3DTV Payoff Schedule

Issue	Alternatives	Points
Use of Manipulated Data Manipulated and merged data can be used to learn how to augment the realism of content. You are <u>extremely</u> interested in this for your research and development.	* 3DTV has a perpetual license to use the data for internal research * 3DTV has a license to use the data for internal research <u>during the agreement term</u> * 3DTV cannot use manipulated data for internal research	3800 1900 0
Data License Restrictions Your main interest is in broadcasting the content in 3D; getting permission to also broadcast the content in 2D will be helpful, but is not a top priority for you.	* 3DTV can offer the content to their subscribers in 2D or 3D format * 3DTV can offer the content to their subscribers in 3D format only	3200 0
# of PremiumTV channels licensed (Raw Channel Data & Meta Data) You are interested in maximizing the number of channels you license to show high adoption rates to future investors and maximize opportunities to improve your machine learning algorithm.	20 15 10 5 0	2400 1800 1200 600 0
Fees for PremiumTV channels You obviously prefer to pay less rather than more in licensing fees. The following fees are per channel/month.	11,000 12,000 13,000 14,000 15,000	6600 4950 3300 1650 0
# of OC channels licensed (Raw Channel Data & Meta Data) You are interested in maximizing the number of channels you license to show high adoption rates to future investors and maximize opportunities to improve your machine learning algorithm.	100 90 80 70 60	0 -500 -1000 -1500 -2000
Fees for OC channels You obviously prefer to pay less rather than more in licensing fees. The following fees are per channel/month.	600 700 800 900 1000	0 -1200 -2400 -3600 -4800
Fees for using 3DTV's Data Centers You are willing to include access to your data centers in this deal. Obviously, you prefer to charge more rather than less for such access.	30,000 per month 25,000 per month 20,000 per month 15,000 per month 10,000 per month	4400 3300 2200 1100 0
Length of Agreement You are interested in establishing a long-term partnership. Thus, the longer the term of the agreement, the better.	8 years 7 years 6 years 5 years 4 years	6000 4500 3000 1500 0
Termination Options You view this as a long term partnership, and you need it to continue uninterrupted to allow you to achieve the high adoption rates you want to show investors and to improve your algorithm. If this partnership will need to be terminated during the contract term, you need sufficient time to negotiate with other content providers.	12 month notice 9 month notice 6 month notice 3 month notice 1 month notice	5200 3900 2600 1300 0

OmniChannel – 3DTV Agreement Form

OmniChannel representatives' names: _____

3DTV representatives' names: _____

Please circle the alternative you agreed on in each of the 9 issues. If you failed to reach an agreement on all issues, write down the word "impasse" below.

Issue	Alternatives
Use of Manipulated Data	<input type="checkbox"/> * 3DTV has a perpetual license to use the data for internal research <input type="checkbox"/> * 3DTV has a license to use the data for internal research <u>during the agreement term</u> <input type="checkbox"/> * 3DTV cannot use manipulated data for internal research
Data License Restrictions	<input type="checkbox"/> * 3DTV can offer the content to their subscribers in 2D or 3D format <input type="checkbox"/> * 3DTV can offer the content to their subscribers in 3D format only
# of PremiumTV channels licensed	<input type="checkbox"/> 20 <input type="checkbox"/> 15 <input type="checkbox"/> 10 <input type="checkbox"/> 5 <input type="checkbox"/> 0
Fees for PremiumTV channels	<input type="checkbox"/> 11,000 <input type="checkbox"/> 12,000 <input type="checkbox"/> 13,000 <input type="checkbox"/> 14,000 <input type="checkbox"/> 15,000
# of OC channels licensed	<input type="checkbox"/> 100 <input type="checkbox"/> 90 <input type="checkbox"/> 80 <input type="checkbox"/> 70 <input type="checkbox"/> 60
Fees for OC channels	<input type="checkbox"/> 600 <input type="checkbox"/> 700 <input type="checkbox"/> 800 <input type="checkbox"/> 900 <input type="checkbox"/> 1000
Fees for using 3DTV's Data Centers	<input type="checkbox"/> 30,000 per month <input type="checkbox"/> 25,000 per month <input type="checkbox"/> 20,000 per month <input type="checkbox"/> 15,000 per month <input type="checkbox"/> 10,000 per month
Length of Agreement	<input type="checkbox"/> 8 years <input type="checkbox"/> 7 years <input type="checkbox"/> 6 years <input type="checkbox"/> 5 years <input type="checkbox"/> 4 years
Termination Options	<input type="checkbox"/> 12 month notice <input type="checkbox"/> 9 month notice <input type="checkbox"/> 6 month notice <input type="checkbox"/> 3 month notice <input type="checkbox"/> 1 month notice