



RITA'S ON THE RIVER

NEGOTIATION

Confidential Information for Melange Restaurant Group VP

You are a regional vice president of Melange Restaurant Group, Inc., a medium-sized company that purchases independent restaurants with commercially promising dining concepts with the intent to launch small, high-quality restaurant chains built around the features that made the original location appealing. Six years ago, Melange purchased Rita's, an Italian restaurant on the Ohio River just south of downtown Cincinnati. Originally opened by Rita Dal Vera, Rita's was known for its spectacular food, friendly atmosphere, and funky decor. Melange purchased Rita's with its 8-acre parcel of riverfront land for \$8 million dollars. Since then, Rita's has generated an average of \$400,000 in annual profits - a 5% annual return on investment. Given the economic conditions and Rita's location over a quarter from the main roads downtown, you see those numbers as respectable. However, Melange's target annual return on restaurant investments is 10% or more.

For the last two years, Melange's upper management has claimed to be cash-strapped due to other investments and they have denied your requests for additional investment in Rita's. They never tried to implement the Rita's concept elsewhere, which is contrary to Melange's general business model. You would like Rita's to succeed and grow. The more restaurant profits in your region, the better your compensation. You strongly believe in Rita's product- it is a different and appealing take on Italian dining. But it needs more table space, a design upgrade, and creative marketing strategies to become a truly successful dining destination. What Rita's does have is a team of seasoned chefs and prep staff and the potential capacity to add a highly profitable catering arm to the restaurant. Of course, that would require an expanded kitchen, refrigerated storage space, and expenditures on dishware and transport equipment. It's a Catch-22; Melange corporate complains about Rita's revenues but won't invest and Rita's profits are throttled back for want of investment dollars. You have even thought of gathering a few other partners and approaching Melange with an offer to purchase an equity stake in Rita's knowing you could turn it into a very profitable enterprise.

Though the influx of affluent out-of-state arrivals and remote workers to downtown Cincinnati portends future growth for the area, Melange management is impatient. You heard that Melange grossly neglected due diligence when purchasing two upscale Asian restaurants six months ago, resulting in a massive overpayment for underperforming restaurants. They claim to have no choice but to put \$3 or \$4 million into those establishments as soon as possible, but the company credit line won't go that far. They instructed you to try to sell Rita's and its lot for no less than its \$8 million purchase price to avoid taking a capital loss. If they must take a capital loss, they may sell one of the recently purchased Asian restaurants instead.

You advertised the property for sale in real estate and trade journals and received a call from a representative of Gadol, Inc., a nationally known developer of mixed-use urban landscapes. You agreed to meet to discuss a possible sale of the Rita's restaurant property. You assume Gadol is interested in developing the 8-acre site.