# RITA'S RIVER SUITE

## NEGOTIATION

### Teaching Note for Rita's On the River and Rita's By the River

Both *Rita's On the River* and *Rita's By the River* are intended to be primarily integrative negotiation simulations. The only difference between the two simulations is that one has a ZOPA on the $, and the other does not.

In *Rita's On the River*, Melange requires a minimum of $8 million and Gadol can pay $ $9 million. The ZOPA has a width of $1 million. In *Rita's By the River*, Melange still needs $8 million but Gadol can only pay $7 million. In this latter exercise, there is no ZOPA and the gap is $1 million.

The fact pattern is short and sweet: Melange Restaurant Group owns Rita's restaurant and the 8-acre riverfront parcel on which it sits. Gadol is a developer with an option to purchase the adjacent 24-acre parcel, where it seeks to develop a mixed-use urban community with upscale residential, office, retail, condominium, and rental units. Gadol's business team has determined that acquiring between 4 and 10 additional acres to add to the 24-acre parcel under option would greatly enhance the project's profitability by enabling Gadol to offer more high-margin upscale features that require additional space.

Unfortunately, another developer recently purchased the 35-acre parcel to the north and is unwilling to sell any (or all of it) for less than $40 million. This is too high a price and far too much risk for Gadol to take on. The Melange parcel to the south is the only option to make the Gadol development operate at maximum profitability.

Not surprisingly, creative negotiators should find many ways to make it work if they exchange information about their respective interests and capabilities. And because we've all been to restaurants and probably visited a mixed-use development of some sort, shared common experiences permit each negotiator to consider in advance what the other's interests might be.

Melange has an interest in securing the funds to renovate and expand Rita's with the ultimate aim of improving revenues at Rita's. While Gadol could purchase the entire 8-acre parcel, the first 4 acres have the most utility as 4 acres are the minimum additional space requirements for Gadol's development plans.

Gadol has an interest in the opportunity to maximize spaces with river views. And of course, Gadol benefits from a great and well-established restaurant, already in place. Fundamentally, Gadol wants a thriving development that attracts condo purchasers, renters, and events. The property and the restaurant have value to the extent they enable Gadol to generate revenue as soon as practicable.

Among the many options this exercise often yields are:

- Gadol purchases approximately 4 acres from Melange; Melange funds Rita's renovation and pays down other corporate notes with the proceeds.
- Gadol purchases the parcel, leases it back to Melange, and places event space or condos above Rita's.
- Gadol requires Melange (or the Melange VP – see ethical note below) to secure agreement from its seasoned chefs and prep staff to stay on for a time and/or offer recipes and customer lists.

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- Rita's gets an exclusive catering contract during construction with Rita's providing box lunches and dining services to the hundreds of construction workers and other tradespeople who are building the development.
- Rita's gets exclusive or first refusal catering contract for all future Gadol conferences & events.
- Gadol assists with promotional materials for Rita's; Rita's collaborates on promotional events during the construction and marketing phase.

Why these two alternative ZOPA versions seen in *Rita's By the River* and *Rita's On the River*? They enable an instructor to demonstrate several points:

- Negotiators who focus only on the dollars, fail to consider broader interests- interests that also carry economic value- and will miss agreements that would have been highly beneficial. That's certainly true where there's a dollar gap. By focusing more on the dollars and less on the outcomes, Rita's will limp along, Melange won't meet its cash flow needs, and Gadol may decide not to exercise its option on the property or perhaps go with a smaller and less profitable development. Where there is a small ZOPA, Gadol pays somewhere between $8 million and $9 million, both parties do benefit but many opportunities for greater gains are lost for both sides.

- It's wise to spend time exploring interest early in the negotiation discussion and in preparation, especially where the set-up makes it easy to imagine future benefits from an array of terms beyond dollars. After all, Melange is a restaurant group in addition to being the Rita's restaurant owner. Rita's already has loyal customers who would see the development in progress when driving over for the pasta. And a new development would surely bring in more diners to Rita's. From the beginning, negotiators should be able to recognize that to treat this negotiation as a used car haggle would miss potential opportunities for both sides.

- On the topic of used car haggles: groups who begin with price do nothing but set up a competitive and adversarial dynamic which drains considerable time and energy before either finding a dollar deal within the ZOPA or revealing there is no dollar ZOPA. Even if those negotiators then decide to discuss interests and look for creative options, it's more difficult to shift the already adversarial dynamic. All that is left is two parties with vanishingly less time to spend on creating mutual gains.

- On the other hand, necessity is the mother of invention. Groups who quickly realize the lack of a ZOPA are more likely to arrive at robust agreements with creative terms maximizing value for both sides. There was no choice. The desire to make a deal drove creativity.

## Teaching Options

Especially in a class or workshop with limited time, you can drive home the points above by giving *Rita's On the River* to half the participants and *Rita's By the River* to the other half. This makes it so that half of the group is working with a ZOPA and half without. In debriefing, it's best to ask for the results of *Rita's On the River* and *Rita's By the River* separately, putting them into separate PowerPoint pages or, space permitting, separate columns on the same PowerPoint.

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Reveal the ZOPA differences right away in the discussion and then ask debriefing questions of each group: how did they plan for the negotiation? What were their assumptions or aspirations? Did they consider their relevant interests? What happened during their negotiations? How did they begin? Did they talk about interests fairly early on? Was any trust or rapport established? How? What information was provided or withheld and why? Or did they start with the dollars?
How did they reach agreements with options that enhanced mutual gains? Looking at all the agreements – all the options – do you see any from another group that you would have liked? How did they find it? What process might negotiators follow if they want to do as well as possible?

Ask students to estimate the value of the options for the businesses they represent. Of course, in this simulation, there's no real basis for such estimates, but in a real negotiation, their clients would be well served by exactly that type of inquiry and calculation. Point out the often false distinction between dollars paid or spent and creative options. Especially in a business relationship, "creative options for mutual gain" means they have projected or estimated financial value. For example, a future exclusive catering contract generates revenue and avoids competition from another caterer. Of course, future catering guarantees might be good for Gadol, but do they want to lock themselves into Italian cuisine? If Gadol can have more condominiums for event spaces with river views, they can charge premium prices. Due diligence includes reasonable calculation or projections of value in a business setting.

## An Ethical Issue in the Broth?

If Gadol purchases the entire parcel, including the restaurant, from Melange, they wouldn't be obligated to continue the restaurant. An interesting aspect of the case involves a potential ethical issue for Melange's representative, a regional vice president, who believes strongly in the Rita's product and has an interest in taking over the restaurant with a few partners. The VP's ambitions might be better served by a deal that sells the entire parcel to Gadol, but has Gadol sell back or lease the restaurant property to the VP's partnership. Catering contracts, funds for renovation with revenue sharing, perhaps even Gadol as a silent partner – there are many possibilities here for the VP to benefit as the head of a group that controls Rita's.

Note that these arrangements wouldn't optimize revenues for the Melange Restaurant Group. In fact, Melange would likely be better served by selling half of the site (around 4 acres) to Gadol, keeping the restaurant, and plowing the money from the sale into Rita's to fund renovations and increase revenue streams. So, while the VP has the authority to sell the entire 8-acre parcel to Melange for $8 million, isn't the VP ethically obligated to structure the best deal for Melange after more beneficial options become known? How should the VP handle this?

If you are teaching in a law school setting, you might note that while Melange's VP and Gadol's business representative are not lawyers, though a lawyer could certainly represent clients in similar circumstances. Looking again at the ethical issue, what obligations would Melange's lawyer have if he learns or suspects the Melange VP would like to form a partnership to take over Rita's? What if the Melange VP is pushing for a sale of the entire parcel and you learn Gadol would gladly take only 4 or 5 acres? What if the VP wants you to do the legal work for a partnership to take over Rita's and include terms favorable for that in the Gadol-Melange agreement?

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