

CONFIDENTIAL SUMMARY FOR JUDGES

This negotiation is between the Minnesota Vikings, a National Football League franchise, and the City of Los Angeles. Currently, the Vikings are playing in the outdated Metrodome in downtown Minneapolis, and the voters just turned down a referendum to help update the facility to make it more lucrative for the Vikings. The City of Los Angeles already is in the process of securing the necessary means to build a new billion-dollar football stadium in downtown Los Angeles

The Vikings' owner is focused on enhancing the value of his franchise to \$1 billion so he can sell it within five years to restore his lost real estate fortune. He can do this by generating \$250M per year in operating revenues (gross of football salaries and all other costs not discussed in the problem). He is using a conservative rule of thumb (franchise value = four times the gross operating revenues). The Vikings' anticipate a total of \$377-379 million per year in revenues in Los Angeles. Any deal leaving the Vikings' with at least \$250 million of these revenues is acceptable for the team where the City of Los Angeles receives as much as \$129 million.

The City of Los Angeles cannot enter into this deal unless they can show that it is a real moneymaker. The City Council wants them to show total cost recovery plus an additional \$20 million per annum for enhanced public transportation plus an annual return of 3-6% on the initial investment of \$1.2 billion. The city has secured financing for the bonds at 2% simple interest in four maturities of \$300 face amount -- due in 5 years, 10 years, 15 years and 20 years. Debt service is estimated by the authors of the problem to average \$75 million per year over the 20-year period (teams must calculate this themselves). The City will also have expenses of \$25 million in utilities and maintenance and \$20 million in enhanced public transport. The City has a breakeven point of \$120 million and a desired goal of \$156 million to \$192 million.

Given the two sides' bottom lines, a deal is possible within the range of finding a way to give the City somewhere between \$102.5 million and \$129 million from stadium operations. If the commercial development of unused parking is agreed to, there is an extra \$12 million that could be added to this total. The negotiators should be able to reach a deal in this range.

WHAT TO LOOK FOR IN EVALUATING THE NEGOTIATORS:

Job one for each side is to reach an agreement within the range of their authority. Although both sides have alternative suitors, this is the best deal for each of them. Negotiators will need to demonstrate the ability to understand and accommodate the other side's needs. E.g. Vikings cannot share advertising revenue, but this should not bother the City as long as its bottom line is met. In fact, although there are a large number of line items, the particular split between the line items is of relatively little minor importance compared to getting to the overall deal. Judges should look to the quality of the deal made and to some degree to where in the range the negotiators reach a deal. (E.g., \$102.5 million to the City is the best the Vikings can do and \$129 million to the City is the worst the Vikings can agree to). However, more is at stake in evaluating than bottom line numbers:

Preparation:

This is a negotiation about numbers. Good preparation includes the following specifics:

1. How well did each team analyze the numbers and have an idea of what they needed to do to get to reach a deal? (A little easier for Vikings than LA because LA has to calculate debt service to figure out its bottom line).
2. How well did each team figure out a way to present the numbers in a way that the other team and the judges could follow the negotiations?
3. The instructions give both teams enormous flexibility in coming to a bottom line agreement. How well did each team develop a strategy for conveying this flexibility without giving away the store? E.g. they each needed to figure out in advance how they will signal to the other side that they are flexible without so giving away their bottom line that they got a deal, but the least attractive deal their client will accept.
4. Did they seem to understand from the outset what advantage points they have: the Vikings have another offer from San Antonio and could leave the deal. That deal is expected to increase franchise value well below Owner Wilf's goal so it an alternative, but largely a bluff since San Antonio will never get them to the magic \$1B Wilf is seeking. The City has another suitor in Jacksonville, but Jacksonville is less attractive as well because of demands for \$30 million in opt-out payments they are demanding from LA so they can get out of their lease with Jacksonville. The real leverage the City has is that the deal has to be approved by the City Council and the voters. The City negotiators should see that this gives them considerable advantage because they can use the Council and the voters as a bargaining tool to pressure the Vikings to get larger and larger financial concessions.
5. Did the teams plan for roles for each negotiator that were designed to advance their client's interests?

At the table:

1. Critical at the table is for each side to maintain a positive relationship with the other side. Although the deal is largely about numbers, the zeal to get too good a deal for their clients could blow the deal.
2. Negotiators should strive to arrive at an optimal deal for their client without jeopardizing the deal. Thus, they need to convey some idea of what they need to other side. Hiding the ball completely is likely to be counterproductive.

3. They should seek to establish a positive relationship with the other side; they should listen well to the other side and try to get the information they need to determine whether a deal is possible.
4. They should use good communication skills, including reflective listening, and demonstrate good gate-keeping – setting agendas, recording agreements, organizing their time.
5. Time management is important in this negotiation because the negotiators big job is to reach a bottom line deal, but they are also instructed to reach specific deals on rent, utilities, maintenance, parking, etc. Do they avoid getting bogged down in the details of any one item and are therefore unable to get to an overall agreement. On the other hand, do they so focus on the bottom line that they fail to get at the smaller details? (Obviously, the shape of an overall deal is more important, but a good overall deal might fall apart if the details are not also ironed out.
6. Do the teams demonstrate that they can apply leverage without creating hostility?
7. Does the team show good teamwork?

Overall Representation of Client's Interests:

Results:

1. If a team agreed to a deal outside the parameters of their authority, they should not be given a satisfactory score no matter how well they did in planning or at the table. Thus, if Vikings negotiators agreed to give the City more than \$129 million (not counting any revenue from the parking conversion deal) or if the City agreed to a split of revenues that gave them less than \$102.5 million, then that team should get no better than a “2” for less for fair (less than satisfactory).
2. Presumably, most negotiations will fall within the deal making range or not yet reach deal. Evaluating these performances will be more subtle.
 - a. If they did reach a deal, where in the settlement range was it?
 - b. Did the side do the best it could with the cards they were dealt? By using the City Council and the Voters as a foil, the City can create substantial leverage and should be able to force the agreement toward the top of the range. On the other hand, the Vikings need only to get to their magic \$250,000 gross. Good negotiators for that side could move toward the top of their range and still be deemed to have done a good or excellent job.
 - c. Did they come up with creative solutions that overcame differences?
 - d. Even if they did not reach an agreement on all issues, did they make important progress and establish a relationship, which will make finalizing the deal relatively simple at another session. (A team can get excellent score for overall representation without reaching a full deal if they met their client's interests).
 - e. Did they force the other side into a deal in a way that antagonized the other side and sowed the seeds for future trouble?

Other Factors:

1. How well did the team understand and articulate their clients' interests?
2. How well did the team react to situations in a way consistent with their clients' interests?

ISSUES AND CLIENT INSTRUCTIONS FOR EACH SIDE:

| <u>ISSUE</u> | <u>MINNESOTA VIKINGS (V's)</u> | <u>CITY OF LOS ANGELES</u> |
|---------------------------------------|---|--|
| <i>Bottom Line Revenue Needs</i> | 1. \$250 Million (M) to achieve \$1 Billion (B) Franchise Value | 1. \$156-192 Million (M) 2. \$102-138 M from Vikings |
| <i>Broadcast/Merchandise Revenue</i> | 1. \$85 M; 2. Assume V's will keep all | 1. No instructions |
| <i>Ticket sales Revenue</i> | 1. \$275 M = \$95 M 2. Regular seats + \$180M luxury; V's expect to keep all | 1. Wants a cut of \$275 M to meet bottom line goal |
| <i>Football Advertising Revenue</i> | 1. \$8-10 M; 2. Willing to share if V's get commensurate share of non-football advertising | 1. Wants a cut to get meet bottom line goal |
| <i>Non-Football Ad Rev.</i> | 1. \$4 M; 2. Wants share commensurate with City's share of football advertising | 1. Assumes it is City's |
| <i>Football Parking</i> | 1. \$8.2 M; 2. Would like to split parking with City | 1. Would like a cut \$8.2 M to get to Bottom line goal |
| <i>Unused Parking (10,000 spaces)</i> | 1. Commercial development 2. \$12 M annual revenue | 1. City amenable |
| <i>Non-football Parking</i> | 1. No instructions | 1. Assumes \$6.25 M is City's |
| <i>Concert Revenue</i> | 1. No instructions | 1. Assumes all \$8 M is City's |
| <i>Naming Rights</i> | 1. V's are aware of \$35 M 2. No instructions | 1. \$35M for 20 years; 2. Assumes all \$35 M is City's |
| <i>Rent</i> | 1. \$6-8M for 10 years, \$15-18 M thereafter 2. Can go higher as long as total meets bottom line goals | 1. \$25 M package for rent, utilities; can go higher or lower as long as the bottom line met |
| <i>Lease Term</i> | 1. 10 yrs + "thereafter" | 1. Minimum of 20 years; Prefer 30 years |
| <i>Utilities/Maintenance</i> | 1. \$25 M willing to pay some or all | 1. Part of \$25 M package |
| <i>Public Transport Sup.</i> | 1. No Instructions | 1. Need \$20 M from V's |