Round 1 – Donovan's Galaxy

JUDGES' SUMMARY

N.B. These specifics are provided to give you background and guidance in evaluating the teams. There are few rigid, "right" or "wrong" answers to negotiating problems. Some moves by negotiators may be poorly thought out or based on a misunderstanding of the facts or violate specific instructions from their clients. Those should cause you to grade that team poorly. Conversely, some moves by negotiators may be especially well planned, based on a complete mastery of not only the facts, but an understanding of their client's real-world interests, and may meet their client's interests in a creative way. Those characteristics should cause you to grade those highly. In between, there are myriad of behaviors that you will need to use your best judgment on: how effective was the negotiator in representing his client's interests.

Background

This is a contract negotiation between midfielder Landon Donovan, and his current Major League Soccer (MLS) team, the Los Angeles Galaxy. The two sides are tasked with agreeing to a contract extension that will keep Landon Donovan in Los Angeles and in American professional soccer, whose popularity partially hinges on keeping Donovan in the United States. While Donovan has an offer from Everton of the English Premiere League, he would much prefer to stay in the United States with the Galaxy if the money is reasonably comparable. The Galaxy has no attractive alternative to not signing Donovan. The parties must come together to agree to various terms including contract length (including options), base salary and various perks that may drive up the overall value of the contract and entice Donovan not to leave for greener pastures in Europe. These perks may include an ownership stake, endorsement and marketing deals, post-retirement job opportunities and any other creative solution the teams can come up with. The two sides must be both imaginative and flexible enough to bridge the gap between the salary the English Premiere League can offer and what the less-profitable MLS Galaxy can pay. The grid on the following page summarizes the instructions that the parties have been given by their clients.

Issues and Instructions from Clients:

The grid on the following page summarizes the issues to be negotiated and the instructions for each team on that issue:

	Landon Donovan	**Los Angeles Galaxy**
Length of Contract	Wants four or more years to finish out his career with the Galaxy	Three-year contract, but willing to go to four subject to salary demands;

Base Salary	Wants compensation comparable to Beckham deal for 32.5 million over 5 years; Everton offer of 9 million per year ($27m total), but not guaranteed; **Agent at the table has authority to determine what is comparable**; Wants $6.5m per year for four years	$18 million total base salary over three years, willing to go to $24 million over four years; additional compensation available through marketing, endorsement, ownership, and deferred compensation
Ownership Interest	Ownership interest at 1% for $1 million; Galaxy valued at $100m. Is willing to find a mutually acceptable way to value the Galaxy stock if they dispute the $100 million. Would also be willing to purchase stock with salary, but only at the $100 million valuation. Stock purchase is limited to 2% of shares; would take an unlimited amount of option shares.	Values Galaxy stock at $150 million. Is willing to give options on 2% of the shares at a price of 1.5 million for 1%. Willing to negotiate a different price for the option, but the amount of any price below $1.2 million would count as cash compensation to Donovan when he exercised the option. As a last resort, if there is a dispute over value of Galaxy willing to find a mutually acceptable way to determine the value of the stock and use as the option price. Willing to discount the price for a purchase of shares by 20% of the actual value of the shares. Will sell up to 2% of Galaxy.
Everton Deal; Loan	$9 million per year ($27m total), but not guaranteed; Does not want to leave Los Angeles unless it is a permanent move	Does not know terms of Everton deal; If Donovan signs with Galaxy willing to loan him to Everton and give Donovan part of loan payment at 5-7% of Donovan's base salary if Donovan is loaned
Endorsement Deal	Nike endorsement deal is worth $5 million if Donovan stays in the U.S. and is guaranteed; drops to $3 million if he goes to Europe and not guaranteed	Aware there is $ difference in Nike deal if Donovan signs with Galaxy, not sure of dollar amount, but knows money is not guaranteed in Europe
Post-Retirement	Willing to accept deferred compensation if interest is paid. Staying in LA grows chances at gaining contract as announcer or on ESPN, etc.	Deferred compensation up to $8 million, plus 2% interest on owed amount. Willing to offer $500k over three years as TV announcer after he retires
Television Deal	No info	Drops from $80 million to $72 million if Donovan does not re-sign;

Possible Agreements

There should be a deal possible. As indicated in the grid, Donovan wants four years and the Galaxy is willing to go to four years as long as the money is right. On the money issue, Everton would pay $9 million per year which seems like more than the $6 million that the Galaxy will pay. But the Everton contract is not guaranteed and, in addition, Donovan makes $2 million more in endorsement money from Nike which makes the offers more comparable. In fact if you include the difference in Nike endorsement money, the total value of the Galaxy deal is $34 million guaranteed over four years as compared to $27 million not guaranteed over 3 years. Note: The Galaxy know that Donovan will get less endorsement money from Nike if he goes to Everton, but do not know the precise amount or other details of the difference

The Galaxy have much to offer, including making Donovan the face of the MLS in promotions and possible ownership interests in the Galaxy and a broadcast contract for $500k per year after Donovan retires. Therefore, there should be a way to reach an agreement unless Donovan's reps are rigid in insisting that his salary be at least $6.5 million; they have authority as his financial advisors to look at the whole package and not get hung up on an arbitrary minimum salary when other aspects of the deal make it more attractive than the Everton deal. On the other side, the deal should be able to work for the Galaxy. Donovan is willing to defer some of his compensation and Galaxy is willing to pay interest on the deferred balance. In the end, the only issue over which there are somewhat conflicting instructions is the question of stock options or purchases. Both are willing to include options or purchases in the deal, but Donovan values the Galaxy at $100 million and the Galaxy values itself at $150 million. Assuming the parties get this far in the 45 minutes they have to negotiate, the most disputed item will be the price of the shares and whether the shares come in the form of stock options or straight purchase. Because both parties' representatives have the authority to agree to a mutually agreeable mechanism to value the shares, the parties can agree to a neutral evaluation or an arbitration of the issue or some other method they come up with. Both parties might be well advised to put some limits on the price the evaluation can arrive at, e.g. (1) last offer arbitration in which the arbitrator picks only between the final offer made by each side or (2) setting the range for the value of the Galaxy at somewhere between $100 million and $150 million. There is some tension between the parties over whether the ownership interests are in the form of a stock option or a straight purchase. Although it is not specifically stated in the instructions, Donovan's representatives should prefer stock options to stock purchase (because he risks no cash if the Galaxy shares go down in price) and the Galaxy representatives should prefer purchase because it generates sure cash).

Evaluating the Representation

This is a deal where both sides want a continuing relationship. Accordingly, it is important that both teams are professional, cordial and do nothing to damage the long-term relationship between their clients. Even though Donovan is not at the table, the Galaxy reps should be careful not to say things that would antagonize Donoavn if it got back to him. So, communication skills including how issues are framed and how well each party's representatives listen to each other are important bases for judging the four teams you will see. Organization and directness are also important. With only 45 minutes to negotiate and lots of issues to discuss, you should weigh how well each party contributes to resolutions. Because the time is so limited, you should not judge the parties on whether they actually arrived at a deal, but how well they advanced their clients' interests in the negotiation. In real life, these issues would never be resolved in one short meeting, so judge the teams on what they did with the time they had and how they represented their clients' substantive interests.

In terms of substance, Donovan has substantial leverage because of the offer from Everton and his reps should be able to get the other side to get to their top dollar pretty easily. Donovan's representatives have authority to evaluate the value of the total package offered by the Galaxy and to determine whether it is comparable to the Everton deal; the authors of the problem expect that they will see that when you add the $2 million Nike Endorsement money into the mix, and the other incentives into the eal The Galaxy has no attractive alternative to Donovan, so this increases the need for the Galaxy representatives to go to the top of their authority. The Galaxy representatives should be judged on how well they sell the advantages of their deal and their ability to find out what Donovan needs. It would good for them to explore the details of Nike to endorsement deal Donovan has ($5 million if with Galaxy; 3 million if he goes to Everton). Both teams need to be careful to avoid hanging up the deal on the ownership interest amounts, as it should be possible for them to agree to have the value of shares determined by arbitration (perhaps last offer arbitration).   It is permissible that the parties may not be able to agree on a specific deal on that issue without conferring with their clients. That is a sensible resolution given the short time they have to negotiate.