Round 2 – Wolf Pack Migration

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

In Round 2, the Pacific 12 (Pac-12) Conference (now called the Pac-15 after adding an additional three teams) is courting the University of Nevada to even out the conference at 16 schools. Nevada has just signed a new contract with the Mountain West Conference (MWC), which despite plans to merge with Conference USA, is not nearly as prestigious as the Pac-15. But while the move would be extremely beneficial for Nevada, increasing its television revenue from $1.33 million to $20 million per year, the school would have to pay the MWC an $8 million exit fee if it were to leave the conference now ($4 million if they were to leave after 2015). They also must make significant upgrades to its football stadium in order to meet the rigid Pac-15 standards those upgrades would total as much as $30 million, but they do not all need to be done at once.

The Pac-15 is willing to help pay for these costs through subsidies and television revenue advances, but it is proposing that Nevada only have football and men's basketball enter the conference now, and only agree to conditionally move their smaller sports in 2015. This is something Nevada is willing to do, but it will cost Nevada an additional $6 million per year as per its contract with the MWC, and the performance conditions that the smaller sports will be allowed entry (the "trigger") must be realistically attainable. Nevada is limited in its resources because of a budget crisis in the state. It must find a way to fund all of the expenses of any merger on a cash basis out of the revenues from the merger. Further complicating the negotiation is the specter of competing offers for both sides –the Big 12 Conference has offered Nevada a spot in their conference which is potentially more lucrative in the short term, but the conference is unstable. The Pac-15 is also looking at either University of Nevada-Las Vegas or Utah State for the 16th spot in its conference (though it greatly prefers University of Nevada to the other two schools.)

Issues:

The issues the parties are asked to negotiate are subsidies for exit fees from the MWC, stadium standards and costs, travel costs, voting rights in the Pac-16, and the triggers, timing and cost of entry of Nevada's smaller sports teams into the Pac-16.

Analysis of Instructions from their Clients:

The precise instructions are stated in the confidential facts for each side and summarized for you in the grid below in this document. The Pac-15 is willing to provide a subsidy to pay the exit fees of up to $5 million (leaving $3 million for Nevada to pay), a subsidy for stadium upgrades of up to $5 million and let Nevada limit its stadium upgrades to increased seating capacity ($11 million cost) and concourse accessibility ($5 million). Thus, with the subsidy, Nevada would have to come up with $11 million for construction. The Pac-15 is also willing to pay Nevada an annual subsidy of $1 million in travel costs. All told, the Pac-15 is willing to subsidize Nevada to the tune of $11 million. In return, the Pac-15 wants Nevada to have provisional voting power until 2015 when its smaller sports would enter the league if Nevada meets trigger requirements of between winning 8 and 14 football games won in the first two years. If Nevada insists on having small sports teams enter earlier, it will cost $500K per sport for each smaller sport or a total of $7 million that Nevada would have to pay to have all of its teams play Pac-15 teams for the next two years. Their permanent entry into the league would wait until 2015 and would be conditional on at least 8 football wins by Nevada. The Pac-15 has the power to facilitate an advance of the entire $20 million of the TV revenue Nevada would receive.

Nevada has other choices, including staying in the Mountain West and joining the Big-12. The details of those potential alternatives are outlined in "alternatives" below. There alternatives may give Nevada leverage, but they want to join the Pac-15 and this negotiation is about them getting the best deal they can from the Pac-15. They do have $5 million in their budget for stadium upgrades and cannot do more than 3 upgrades (see grid for list of needed upgrades). They need the Pac-15 to pay $5 million of the $8 million exit fee that would be owed to the MWC. They want as much help in construction costs as they can get. They would also appreciate any help with travel costs (though travel costs are less in the Pac-15 than they would be in the MWC). The date of full membership in the Pac-16 (with all sports included) is of great interest to Nevada. They would like to start playing football, basketball and 60-80% of their smaller sports immediately. Their travel costs in the MWC for small sports are substantial and the MWC is taking a carrot and stick approach to subsidizing small sports travel – if Nevada stays in the MWC, the MWC will pay the increased travel costs ($6 million per year), but if Nevada exits the MWC in 2013, Nevada will have to pay the $6 million itself. If all other issues are resolved satisfactorily, Nevada is willing to have provisional membership in the conference for two years; but, they want the trigger for full membership to be as low as possible, preferably 8 football wins in two years,, though they would go to 10 if necessary.

The key to Nevada being able to enter the Pac-15 is finding the funding to pay for construction costs ($16 million); exit fees ($8 million); small sport travel costs ($6 million per year if they keep small teams in MCC until 2014 and an unknown up to $7 if they put all their small sports in the Pac-15 immediately for all 14 teams; they only want 8-11 teams so that figure would be $4 to $5.5 million]). This is a total of $30 to $31 million. They have $5 million budgeted for upgrades which brings the total needed down to $25-26 million. They know the Pac-15 has some money to subsidize exit fees and construction and they may learn it tops out at around $11 million. This means that they have to find at least $14 million more to make the deal meet their need to not put up cash. As it happens, up to $20 million is available through cash advances from the TV contract, but Nevada has not been instructed about that. The negotiators need to figure that out and/or learn it from the other side. Depending on how much of the first-year TV revenue is devoted to exit fees, stadium upgrades, and fees necessary to integrate small sports into the Pac-15 immediately, Nevada could be able to gain a positive cash flow in the first year of the Pac-15 deal and then reap close to $20 million per year for the next twelve years.

Alternatives

Although both teams have alternatives, the Pac-15 has already decided that University of Nevada is their choice for the 16th team in their league because the other two schools lack high power football programs and academic respectability. The league is, however, hardly desperate to get Nevada and could seek either of the other teams. Indeed, UNLV with the Las Vegas market is arguably a more lucrative addition, though their academics and football program are well below that of Nevada. With a TV contract that would provide $20 million per year for twelve years for any team that joined the conference, they are in a strong position.

Nevada options are somewhat more complex. If it stays in the Mountain West Conference, Nevada will get only $1.33 million per year in TV revenue, but would have no exit fees, no stadium construction costs and it will get its travel costs subsidized by the MWC, leaving it with positive cash flow. If it accepts an offer to join the Big 12, it would have TV revenues of $20 million per year and smaller stadium costs, but it still have the same exit fees of $8 million if it exits in the next 3 years. So, the school would get more immediate money than staying in the MWC, but the Big-12 is very unstable and Nevada is not confident the money will be there long term. The money from the Big-12 deal probably be somewhat more in the first year than the Pac-15 deal because the Big-12 will does not require as many stadium upgrades.

If Nevada elects to enter the Pac-16, it will have the least financially attractive package for the first year, but then will have a close to a $20 million per year revenue stream for years after that.

Evaluating the Representation

This is a complex problem, especially for the Nevada negotiators. They must understand the basic requirement that the merger pays for itself as a constraint that dominates their goals. They have to “do the math” to figure out how much they need. The Pac-15 negotiators have less to go on in planning a strategy, but they need to create a strategy that is capable of being both integrative (meeting Nevada’s needs as well as their own) and distributive (holding the costs down). This is a challenging task to accomplish in just 45 minutes and it would not be surprising that a number of heats have difficulty communicating and do not reach an agreement.

Oddly enough, Nevada’s greatest power comes from the fact that they are cash poor and cannot increase their expenses to make the deal. They must be able to fund any additional expenses necessary for the deal (exit fees, stadium upgrades, travel costs) out of current revenues. The sooner they let the Pac-15 negotiators know this, the better off they are. Disclosing this constraint will put substantial pressure on the Pac-15 to go to the high end of their subsidy budget. As the numbers work out, Nevada can only fund the merger in a cash neutral manner by getting a substantial advance on their TV revenues. Skillful Pac-15 negotiators will disclose this available resource early. If the Pac-15 can put out the TV revenue advance as the main source of the funding the costs of the merger, they can reduce their budget for costs. As stated above, Nevada needs $30-31 million to fund the merge and it has 5 million budgeted for construction. So it needs $25 to $26 million to pay all costs. If all $20 million of the TV revenue goes to these costs, theoretically, the Pac-15 will only have to put up $5-$6 million total. If the TV revenue comes up later, the Pac-15 may have already been pushed to the top of its budget $11 million.

Nevada will be surprised by the $500K cost of integrating each of its small teams immediately into the Pac-15, but its negotiators should not be thrown by it. Entering the Pac-15 is highly desirable and even if it added all 14 of its small sports the additional cost of $1 million more than MWC travel costs can be funded out of TV revenues and subsidies; in fact it wants only 60-80% of its teams integrated so the cost would be a maximum of $5.5 million.

There is also some distributional bargaining over the trigger. Nevada would agree to having to win 10 games in two years and Pac-15 wants 14 but would settle for 8. There is also discussion of other possible triggers: BYU got a trigger based on the record of its small sports teams and Nevada would like the same deal. The Pac-15 negotiators are given firm instructions to keep to a football trigger and explain that BYU has nationally established football and basketball programs whereas Nevada's football team has yet to prove itself outside the MWC.

In terms of leverage, Nevada seems to have more because of the Big-12 possibility and because of their need for cash. In real life, the Pac-15 might have the leverage, but here the Pac-15 negotiators need to realize their power is limited and use distributional bargaining techniques. They must focus on the TV revenue to fund as much as possible, understate their resources as much as possible, and generally act as if they have the power even though they do not (all without driving Nevada away from the bargaining table).

Although the Nevada negotiators have great leverage because of the Big-12 deal, the Pac-15 makes the most sense for them. But depending on what the Pac-15 offers, it might not be sensible for the Nevada team to walk away from the deal. It would be even more sensible for them to take the best deal they can back to the University and let the higher ups make the value judgment of which league to enter.

We expect the performances of the teams to vary widely on this problem. And it is up to you to reflect the differences in performances in both your Ranking Sheet and your Evaluation Criteria (especially flexibility and outcome of negotiation criteria).

Grid Summarizing Issues and Client Instructions:

	Pac-15 Conference	**University of Nevada**
Exit Fees	Will pay up to $5M of the $8M Mountain West Conference exit fees. Is also willing to pay up to $5 million in construction costs. But would prefer the total of the two to be in the range of $6 to $8 million.	Nevada must pay an $8M exit fee to leave the MWC now or $4M to leave the MWC after 2015. They can pay this in two installments They can pay $3M of $8M exit fee or $2M of $4M.
Advances from Television Deals	Each team in the conference receives $20 million per year in broadcast revenue. Fox/ESPN will allow Nevada to draw up to $20M from their future TV earnings,	Nevada is not told they can draw on this, but are told they cannot put up any cash up front to make this deal happen.
Stadium Standards	Nevada must upgrade football stadium's seating capacity, luxury box capacity and concourse accessibility in order to meet conference standards. Would also like Nevada to upgrade locker rooms and field lighting. Conference will pay $5M to help upgrade stadium. The conference is willing to prioritize: It must have the seating expansion and concourse availability for first season. Willing to wait some for luxury boxes, lighting and locker rooms, but must be on a time line. Failure to meet time line would result in a penalty of 25% of revenue	Costs: Seating Capacity = $10M; Luxury Boxes = $2M; Concourse = $6M; Lighting = $4M; Locker Rooms = $8M. Has $5M budgeted to pay for upgrades but cannot do more than three upgrades now in order to not disrupt play.
Travel Costs	Is willing to provide $1M in travel costs, but would prefer Nevada to use that money to cover other costs.	Does not need money to cover travel costs in Pac-16, but wants anything it can get to cover other costs. If Nevada stays in MWC-USA for small sports for one year, it will cost 6 million in travel costs for 2013 (so Nevada would need to cover one year). MWC-USA would pay these cost for 2 years if Nevada stays in its present conference “permanently”

Entry into Conference (Sports)	Wants football and men's basketball in conference for 2013 but wants to hold off on adding smaller sports for two years. Wants provision that football must win 14 games in two years in order to add smaller sports, but would settle for 8. As a last resort, would allow performance by smaller sports in nonconference game to determine trigger, but needs to have football ultimately determine entry. Any additional sports added will cost Nevada $500K per sport.	Football and basketball to join in 2013. Does not want provisional period for other sports, but will accept so long as the football team does not have to win more than 10 games in next two years. Nevada would like to play somewhere between 60-80% of its sports within the Pac-15 conference immediately (2013-14 school year). It would prefer to have the trigger for full entry into the league to be record in small sports competition, not football wins at all
Voting Power	The conference will give provisional voting power to Nevada until 2015-2016 when all other sports are added, and then Nevada will receive a permanent voting seat. Is willing to increase payments for construction costs/exit fees up to $10 million to get the provisional voting provision.	Willing to accept provisional voting period as long as the Conference will help them get into the league with no cash advance.
Alternatives	UNLV and Utah State, but don't seem that attractive	Has Big 12 offer for $20 million in TV revenue per year for 4 years. Big 12 would not require stadium upgrades Big 12 is unstable league and Nevada would prefer pac-16, but the deal must be financially feasible. TV MSC/USA gets only $1.33 million per year TV. Only thing to recommend that is that Nevada might dominate. If Nevada stays in MWC-USA after announcing leaving, it will have to pay its own travel costs for that period -- $6 million per year.