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NEGOTIATING MERGERS AND ACQUISITIONS: A COCKTAIL NAPKIN APPROACH

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ABSTRACT

This paper describes a classroom exercise integrating the techniques of Time Value of Money and Financial Planning. The exercise simulates a real-world decision about whether to buy a new business and how much to pay for it. Simulation allows the instructor to make the point that uncertainty about the future is the "real world" of the financial analyst. The financial analyst works with many different people and each has a different opinion about the future of the business. Determining the most probable case (and the best case and worst case scenarios) is a lengthy, intense Series of discussions, research and modeling on computers. The final p-ice will be decided in negotiation, often in a restaurant setting. However, the prepared decision-makers can determine the financial impact of each proposal with a basic calculator and a cocktail napkin.