Michael Plasmeier

# OuterBay EMC Complex Deal

## 1) Real problem

OuterBay faces a tough challenge as it tries to negotiate a partner deal with EMC. EMC has the upper hand in this situation. The deal would change the course of business of OuterBay; it could double sales in a short time, rather than having to wait 3 years. Meanwhile, the deal is a drop in the bucket for EMC. EMC also has other options: they currently work with a competitor of OuterBay’s, who is pushing to be involved in the project. EMC and OuterBay share customers currently; how would those customers be impacted by a change. How would OuterBay’s current direct sales team work if OuterBay were to partner with EMC.

## 2) Key Facts

OuterBay currently operates a direct sales team of 6 individuals. OuterBay was founded 4 years ago and currently has sales of $2 million in the fourth quarter from 26 accounts. EMC is a global giant that is currently focused in hardware, but is looking towards software.

OuterBay is hitting a wall because large companies are not willing to trust the startup with their data. In addition, it was having trouble ramping up its sales force to be able to call on possible clients. Currently the average deal size is $200,000. OuterBay sells software that allows companies to rotate lesser used data from active databases onto cheaper discs, while still allowing transparent access.

## 3) What are viable options?

OuterBay can either do a deal with EMC or it can pass. If it passes, it can continue to work on its own or try to work with other partners.

EMC can either do a deal with OuterBay or move on to its current partner, Princeton.

If a deal is done, there are different options for what the terms are. These are summarized in Exhibit 4 of the case.

## 4) What methodology to solve which options?

It is clear that OuterBay has tried to negotiate a deal with EMC. If they feel like they can’t improve on the deal, then they must decide to do the deal or not.

They should write out the pros and cons of doing the deal or one of their other options, listed above, or think of more options, listed below. They could try to estimate the NPV of each option. They would need to forecast potential sales under each model. They also need to consider what would happen to their sales force. If the new terms are not good for the sales force, then the people might leave. Is that a good thing? Could they be offered incentives besides cash, such as stock options, that would make the sales people reconsider leaving?

The future of the company rests on this decision. A deal with EMC might put them better off than they could be on their own, despite the deal being costly to their independence. However it might be their best option.

## 5) What will it take to get to a better situation?

OuterBay needs more leverage. Could the partner with companies besides EMC? If they were talking to EMC’s competitors, than EMC could offer a better deal.

Also, they should consider relationships with larger firms other than an OEM partnership. EMC or a similar company could acquire OuterBay and take over the sale of its products.