

Case 4: agrico

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# Case background:

“Rapidly evolving information technologies are permeating our lives as employees and as private citizens” (Cash). Agrico was founded by two farmers in the city of Des Moines, Iowa, in 1949 to provide ranch and farm management services for land in the Midwestern United States. Agrico rapidly became known as one of the largest agricultural management firms. (Barker). By 1987, the market value of Agrico’s portfolio skyrocketed to over $500 million. Agrico accomplished this by providing low-cost management services for farms and ranches throughout the Midwestern U.S. Agrico had three main business processes: crop-share lease arrangements (47% of their portfolio), cash-rent leases (51% of their portfolio), and direct management of properties (2% of their portfolio). Agrico also managed a few properties on its own. As Agrico grew their current computer services were not meeting their needs and decided to invest in a new system that would allow them to better coordinate their business and keep track of business activities. Agrico decided to contract with AMR to develop one-off management software to assist Agrico by developing software for Agrico to manage its property portfolio. By July 1986, Agrico and AMR signed a contract, stating that AMR would make modifications to the system to fit Agrico’s large, complex organization and Agrico purchased the system for around $200,000.

The problem:

AMR was a small software company formed by A. M. Rogers in 1977 that only made one software package. Agrico signed a contract with AMR to pay $200,000 dollars for the software as well as a 1% fee every month for updates and modification. Agrico paid for 20% of the software when they signed the contract and were expected to pay 60% after they accepted the software (which would not happen until AMR fixed the issues). Although AMR delivered the software on time, it did not come without issues. Instead of modifying the standard software, AMR altered the code based on the needs of each individual client. 1

AMR offered to fix the bugs in the system over time as they appeared, however, Agrico did not accept these terms. The primary issue was the disagreement over AMR’s insistence that it would not provide its source code to Agrico, but merely the compiled object code. Agrico viewed the inconsistency of AMR as a threat, even with the insurance of third-party escrow of the source code in the event AMR failed in some manner, such as filing bankruptcy. After dealing with these issues, Agrico found it important that they had copies of the source code to back up their systems. Agrico’s main issue was that “they had no way to verify that the source code AMR stated was our escrow copy was, in fact, the source code that generated our object code” 1. Agrico and AMR could not agree on a solution that satisfied both parties completely. After a half year of still not getting the software they promised, an employee with AMR left the source code on an Agrico computer when they stepped out of the office. Agrico now has to decide whether they should take the source code without AMR knowing.

Industry Competitive Analysis

1. Mission Statement:

The mission of Agrico was to provide cost-effective farm and ranch management services throughout the Midwest. Primarily through their cash-rent leases, while focusing on cost leadership.

1. Stakeholders:

“A stakeholder is anyone who is affected by your business in one way or another.” 5 The main stakeholders on this case are Agrico shareholders, employees, customers and AMR.

* 1. Agrico Shareholders: the shareholders have a critical stake in the success or failure of the company. When Agrico succeeds in the industry, shareholders make money and are happy.
  2. Agrico employees: The employees rely on Agrico for stable income. There are eighty-three people employed at Agrico. These individuals rely on Agrico to provide for themselves and their families. They need the company to be profitable to continue working for the company.
  3. Agrico customers: The customers rely on Agrico for their land to be managed. If their assets are not managed correctly then they lose money.
  4. AMR: AMR are the software vendor responsible for providing Agrico with its system software package. AMR is the reason for this dilemma in the first place. AMR, seek to prevent Agrico from obtaining the source code to the software, as the code represents AMR’s only revenue source.

1. Market:

Agrico primary market is its cash-rent leases for its tenants. Agrico had total revenue from all three-business models of 5.3 million in ’86 and 5.2 million in ’85. Agrico services over 691,000 acres of land throughout the Midwest.

1. Generic Strategy

Their generic strategy is cost leadership. As a company, they seek to offer the best prices for their management services for their tenants. They have services that may be different from other management service firms for farmers and ranchers, but at the end of the day, they are a bank and farm management company. Agrico is essentially a financial and service provider to the agricultural industry, therefore placing them in the agricultural industry rather than the financial services industry. With agriculture being a commodity good, Agrico is cost-leadership oriented by nature.4

Porter’s 5 Forces

Porter’s five forces is a very important framework in analyzing a company against competition in the industry. "Understanding the competitive forces, and their underlying causes reveals the roots of an industry's current profitability while providing a framework for anticipating and influencing competition (and profitability) over time." 3

1. Inter-Industry Competition

The threat of inter-industry competition is low in this case. Since Agrico provides services to a narrow market, on this case the competition is below normal.

1. Threat of New Entrants

The threat of new entrants is low for Agrico. Agrico is one of the largest agricultural management service providers. It would take a new entrant a very long time to gain a loyal customer base, and it would take time and money to install a system for managing so many farms and ranches.

1. Customer’s Barging Power

Customer’s bargaining power is low. Agrico has contractually locked up customers, erecting barriers that discourage customers from switching services.

1. Supplier’s Barging Power

The bargaining power of suppliers is high. Since AMR specializes in the software that Agrico needs. Agrico will not have many options to choose from. Agrico thought that AMR could create a system that would improve efficiency in their business. Since no one can provide software that would fit the business needs as well as AMR.

1. Threat of Substitutes

The threat of substitutes is medium. Although there are many organizations that provide property management services. The services provided by Agrico are highly differentiated, not many firms are going to be able to provide the same level of quality service.

alternatives:There are only two alternatives in this case Agrico can either do nothing and not copy the source code. Or make backup and copy the source code.

1. do nothing:

Do nothing and continue operations normally. At the rate those things are going. If they decided to not to copy and store the source code, Burdelle is choosing to forgo an opportunity for Agrico to have a source code backup directly accessible by Agrico in the event of a disaster. There is already a trusting issue between both parties, which will continue causing issues until the system is finished. The shareholder will like this alternative because will save them from the legal consequences. Employees may notice the tension between organizations and choose to leave the company. Customers will not notice the difference but their service will not be safe. After successfully completing the software to Agrico’s standards, AMR would receive the rest of their money and would be happy with the results. They may have to go to court to agree on the source code.

1. Copy the source code:

This decision would ethically be in the interest of Agrico" if it's good to the organization then it's ethical" 1. As it would be a decision that could potentially save money in the event of further complications with AMR or insufficient backup on the part of AMR. However by doing that they might face legal consequences because according to the contract with AMR it clearly states that AMR is the only one that can copy and store the code and so Agrico will only have access to as much of the code as they need to test the software1. The affect of this option on the stakeholders. There would probably be no effect on employees. Shareholders would be happy if they were making money and from their point of view. Agrico did the right thing because it's their mission to maximize the shareholders' profit 1. Customers would not be affected until the system is done and if there are no issues they might not feel the difference. AMR would lose trust with Agrico if they found out, and they would also take Agrico to court for stealing their source code.

Recommendation

I believe the best alternative is to do nothing. “Since the strength of the chain is determined by the weakest link, then the first step to improve an organization must be to identify the weakest link” 2. By doing that they will avoid positional legal issues and keep the contract. Which states clearly, they are not allowed to do so and if they do not continue to use AMR, there is no other front contender that produces exactly what they need. I believe that Agrico and AMR should work to find a solution that satisfies both parties. They may even need to make sacrifices in order to get the superior product that AMR is able to provide. Agrico should not consider the other alternative because that will break the trust and lead to legal issues. Even if taking the code consider ethical but it's not moral. They signed a contract that states clearly, they are not allowed to do so and if they do not continue to use AMR, there is no other front contender that produces exactly what they need.

Citation:

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