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Agrico Case Study

Executive Summary

Agrico was a company started by two farmers in Des Moines, Iowa in 1949 that catered to the ranching industry in midwestern states. Agrico serviced the 691,000 acres of land between all their clients by providing them with ranch management services. Agrico had three major aspects of its operating business that allowed for its profits. The first was that Agrico had a crop-share lease arrangement that allowed for farmers to act akin to tenants on the land that would farm the land provided and managed by Agrico in exchange for a portion of the crop that Agrico would then sell on the market, this represented 47% of their portfolio. The second was cash-rent leases where farmers would pay Agrico a certain agreed amount of capital for using the land that Agrico owned and managed, this accounted for 51% of their portfolio. Finally, Agrico managed some of the properties directly as well where it accounted only about 2% of their overall portfolio.

Agrico had identified a need where their current services could or would no longer be able to meet the demands of their various business endeavors as well as a need to conduct office automation to improve productivity. Agrico put a request for proposal (RFP) in 1986 for a software suite that could meet their business needs such as running everything concerned with farms, accounting, office productivity, and managing other properties. The firm Agrico selected was a small company called AMR who had 12 clients running their software and had excellent references. The main problem Agrico faced was one of an ethical decision with their dealings with AMR. Agrico had made an agreement with AMR to keep the source code of the system in escrow to ensure safety of the source code, AMR had not effectively fulfilled this part of the agreement. On May 27, 1987, one of the programmers for AMR, Jane Seymour, had left the source code open on desktop in one of Agrico's computers after she left for dinner. George P. Burdelle faced the ethical question of discovering this and possibly copying the source code to disk and taking which would be a severe breach of trust and contract.

Industry Competitive Analysis

Organizational Mission

The organizational mission of Agrico is to provide service to ranches and their owners that required and needed management of their properties. They also provided services to tenant farmers. Their strategy was to grow the company through land purchases, crop-share agreements, and provide excellent service.

Generic Strategy

Agrico utilized the Cost Leadership generic strategy along with offering a differentiated and specialized service. Cost leadership is when a firm competes in an industry by price and normally targets a broad market (Kennedy et al., 2020). The products that Agrico were those associated with the agriculture industry. This meant that actual products were items such as crops and services such as management and profitable lease agreements with tenants and other entities that desired to use land that Agrico owned and managed. In the commodity market, the prices are set at a designated market rate, there is virtually no differentiation possible with crops as they are identical or nearly identical. This means there is no chance for the differentiation strategy when selling goods such as corn, it will be the same regardless of who grow or sells it. Given this, the best strategy for Agrico was to lead with cost leadership by being as efficient as possible when farming the land so that profits could be at their highest. Landowners would select Agrico to reduce their operating expenses, reduce overall costs, increase efficiency, and maximize profits.

Organizational Structure

The organizational structure of Agrico was a functional structure. A Functional structure is essentially a team structure that segments employees into groups or teams by their expertise or related roles (*Organizational Structure by Function | Nibusinessinfo.Co.Uk*, n.d.). Agrico followed a centralized model for some of the business functions such as marketing, the treasury department, and the operations department. There were also four regional offices located around the Midwest states that allowed for the needs of their clients to be met with more customizable solutions. Within these four regional offices they had additional personnel such as farm managers that oversaw the farms themselves and were responsible to the local regional vice president

Porter's Five Forces Analysis

Porter's Five Forces Analysis is a simple tool that allows industry competitors to understand the forces that affect their industry, a Five Forces analysis can help business entities and individuals asses the attractiveness of and industry, where the company or individual should compete within the industry, what trends will impact the competition within the industry, and how business entities can position themselves for success (*The Five Forces - Institute For Strategy And Competitiveness - Harvard Business School*, n.d.).

Competitive Rivalry: Competitive Rivalry is the extent or measure of competition within a market of industry for existing firms (Phillips, n.d.). For Agrico this is perceived to be low. Agrico operated in a niche and specialized market where there were few other companies that would perform the same specialized service they provided. In addition to this, there were no other companies mentioned in the reading material. Given that Agrico's very business was about reducing costs and maximizing profits, it can be assumed that other companies have little to offer as a similar service. The only competitive rivalry that would be considered high is sellers on the commodity market as there are thousands of other sellers selling identical goods on the market, but even this is debatable as prices are determined by supply demand intersection so there are little competitors can do to influence price.

Threat of New Entrants: Threat of New Entrants for Agrico is low. Agrico has standing contracts with many different farms totaling roughly 350 farms and 691,000 acres of land. Agrico had engrained themselves with these clients with longstanding contracts and built and infrastructure that was highly specialized to their market share: their cash-rent leases and crop-share leases as well as managing farms directly which required a great deal of specialized software, experience, and personnel. Any firm that sought to enter the Agrico's market would require significant amounts of capital to gain a foothold.

Threat of Substitutes: Threat of Substitutes for Agrico is low. Agrico provides a highly specialized service that would require another firm to provide a similarly specialized service. Agrico services a massive number of farms and land across the Midwest and there was no mention of any other companies in the reading material.

Bargaining Power of Suppliers: Bargaining power of suppliers for Agrico is low. Agrico's business model is mostly cash-crop leases and cash-rent leases that require only capital and personnel. 98% of Agrico's business requires little to no actual raw materials so they would have little impact on the majority of Agrico's business model. The remaining 2% of Agrico's business would be the farms they directly manage. These farms would require labor, material, and capital and the complexity of farm equipment and materials differs radically in supplier power. Even if the farms themselves had high supplier power, this would have little impact on Agrico due to the limited impact on its overall business.

Bargaining Power of Customers: Bargaining power of Customers for Agrico is medium. Agrico has longstanding contracts with many of the farmers and owners that will guarantee their service for a specified amount of time. Once that time is up though, the farmers can choose to not continue their contracts. Farmers could choose an alternative, limited though they may be, or take over operations themselves. The commodity market has little power due to the nature of it. Since commodities prices are affected by the supply and demand intersection it would require a substantial amount of the population to have any impact on the pricing.

Stakeholders

Agrico Customers: The customers of Agrico rely on the smooth transition of the new computer management system. The customers, being farmers and other clients associated with the lease agreement business sector, rely on Agrico to keep their data secure. Any loss of information, compromise of assets, or loss of productivity would affect Agrico's profits and reduce their stature in the eyes of their customers.

Agrico Employees: The employees of Agrico are affected by any decision that Agrico makes. Any issues with the transition of the computer management system would have a negative impact on the employees. It would greatly complicate their job and duties as well as possibly affect productivity, this could lead to layoffs in the future if the effect was too great to Agrico's profitability.

Agrico Investors and Shareholders: Investors and shareholders in Agrico are impacted due to the stock price fluctuations with any decisions that Agrico makes. If the transition to the new system goes smoothly and there are no complications, then productivity will rise along with the stock price.

Agrico Suppliers: Suppliers for Agrico are affected due to any changes in Agrico's operations. Suppliers are limited for Agrico except for the small 2% of farms directly managed by Agrico. Due to this, most of the suppliers to Agrico would be negligibly impacted by any decisions of Agrico.

AMR – AMR is affected by Agrico due to them being the creator and supplier of the software that Agrico commissioned from them. If the software fails or the transition is not smooth for Agrico, then AMR's reputation will falter. This would impact any future endeavors of the company as their reputation would fall and effect future contracts through references.

Alternatives

First Alternative: Do nothing: This is the solution that would require the least amount of work. AMR would continue to reassure Agrico that they have the source code placed somewhere effective vie the contract. The possible pitfall with this option is that there was no standard edition of the software, if Agrico needed the software there was a good chance of never gaining access to the source code and being unable to make modifications to future needs in the software.

Second Alternative: Copy the Source Code from Jane Seymour's Desktop: This would be taken if Burdelle copied the source code from Jane Seymour's computer. This has huge potential pitfalls for Agrico and AMR as there would be a huge legal battle from AMR to regain their code and seek damages for the breach of trust and contract. It would be a clear violation of the contract; this would cause Agrico's reputation to be sullied and other firms would be hesitant to work with Agrico in the future. There is a strong need for moral agents within business as they tend to act amoral or within moral ambiguity, when situations like this occur it is best to think of the company as a collection of people rather than a nameless firm that can accept no responsibility (Moriarty, 2021).

Third Alternative: Pursue legal action against AMR for better terms with the escrow of the source code: This would cause strife for a short period of time between Agrico and AMR in the court system. Agrico could make a reasonable legal case that they would need better escrow of the software or a copy of it due to their need for future changes to the software. They could likely come to a reasonable solution through the court system as the head of AMR, A.M. Roger, was acting unreasonably toward efforts to come to a solution for the source code placement. There would be little effect in the reputation of either party.

Recommendation

Recommendation: Pursue legal action against AMR for better terms with the escrow source code: This would be the ideal choice to address the concerns for Agrico and their need to have access to a standard version of the program to customize in the future if the need arose. It would be costly in the short term for legal proceedings but the need for certainty for the proper storage and access of the source code was necessary. Doing nothing is not recommended as it would only exacerbate the problems and cause continuing concern from Agrico. Relations between Agrico and AMR would likely continue. Stealing the source code would be illegal and break the contract as there is no justification for this action, this would violate their corporate agency as one of their most prestigious people in a leadership position would not be acting as a moral agent.

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