Agrico Case Study

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Overview

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Mission Statement

The mission of Agrico is to provide farm and ranch management services in a cost-effective manner, primarily through the use of cash-rent leases.

Generic Strategy

Agrico utilizes a cost leadership generic strategy. The focus of their business is to offer the best prices possible to their clients regardless of size. The market that Agrico participates in will set the price and the demand on that price will be low due to agriculture being a commodity. The main emphasis of this strategy is on efficiency, which is what the organization is trying to improve through implementing software from AMR (Tanwar).

Organizational Structure

Agrico operates using a functional organizational structure, combined with a cost leadership generic strategy, to remain efficient and cost effective. They are able to create an initial division of labor, focused around business functions, based on the diverse operations they have (Barker). The division of labor is separated into the following departments according to their organizational chart: Marketing, Treasury, Corporate Operations, and General Operations.

These departments can be broken down further into sub-departments. The executives at the top are given the decision rights and information flows through them. According to Cash, the functional form works well for an organization when their dominant competitive issues stress functional expertise, efficiency, quality, and a relatively stable environment (Barker). Agrico encompasses the traits listed above and operates in a stable environment allowing them to have expertise and be efficient.

Porter's Five Forces Analysis

The forces Agrico's environment can exert on the market and how they can affect the long-term success of the organization are measured with this analysis (Porter).

1. <u>Competition – Low Threat:</u> There was no mention of other rivals in the industry. If there were to be rivals participating in the same market as Agrico, it could be assumed that they are seeking customers who do not yet have a contract or are looking to switch from one. Agrico is a proven industry leader.
2. <u>New Entrants – Low Threat:</u> The barriers to entry facing potential new entrants is a high cost of capital. There is much needed to get started in this industry such as purchasing land, equipment, and other various costs. The large up-front investment is likely to deter potential new entrants.
3. <u>Substitutes - Threat:</u> The customers in this market are searching for a way to manage their land and this can only be done through an agricultural management company such as Agrico. An alternative solution to outsourcing this would be to invest in the

management software yourself, but this is not financially realistic for majority of farm owners considering the sizeable cost attached to it.

4. Suppliers – High Threat: There are not many software companies providing the management tools sought by Agrico. The two companies that were able to do what they had requested, one of which being AMR. The other company did not have raving reviews and left AMR to be the only option.
5. Customers – Low Threat: Within the commodities market, a shift in asking price would have to occur across the market as a whole for a customer to experience a decrease in their purchase price. A customer does not have the leverage to dictate the selling price as other buyers would still be purchasing at the current market price.

The Problem

Agrico has gone into contract with AMR, a software company, to receive software for their new system to aid in farm management. The terms of the contract stated that the source code for the software would be placed with a third-party escrow company. George Burdelle, Agrico’s VP of Information Systems, has offered to obtain the source code from AMR, however the offer has not been successful. The disagreements have created tension between the two. Burdelle is now faced with an ethical dilemma. The opportunity to create a copy of the source code has presented itself due to one of AMR’s software engineers’ negligence. The window of opportunity to do so is slim, forcing Burdelle to make a decision on what to do swiftly. According to Goldratt, the goal of an organization is to make money now as well as in the future, which is putting pressure on Agrico to make the right decision (Goldratt).

The Stakeholders

1. Employees – Agrico employees 83 individuals, giving them a large stake in the success of the company. If Agrico is not doing well, they are at risk to lose their jobs.
2. Shareholders – Shareholders want to see the success of Agrico, so they get a return on their investment. If Agrico does not do well, they will feel the effects of a poor investment.
3. AMR – While they are not a huge outfit, they have secured 12 other contracts that are receiving raving reviews. Although, they are receiving revenue and should something go wrong with the software or the contract gets broken, there could be effects on the reputation of AMR.
4. Customers – The customers want Agrico to stay in business and provide them with quality service.

Alternative Solutions

1. <u>Do Nothing:</u> This solution will prove to be the simplest due to the fact that no extra work would need to be done. They would follow the process that is detailed in the contract and will not deviate from that. The source code would be expected to be backed up and placed in an escrow account until it is needed. According to the contract, they will be the only ones that are allowed to copy and store the source code for the software.

   <u>Impact on Stakeholders:</u>

1. Employees – The employees would not be affected by this alternative. They may have to learn a new system to manage the company's leases, but it would likely be an improvement and make the process more efficient.
2. Shareholders – As long as Agrico is producing profit, the shareholders will be happy.
3. AMR – The contract will continue to go as they had originally intended. This will provide them with an increased revenue stream.
4. Customers – Those using the new management system will get to see the results as soon as possible. They will continue to receive quality service from Agrico.

2. Create Backup of Source Code: The system that is currently in place at Agrico is not sufficient and acts as a bottleneck because of the high cost and inability to meet future demand (Goldratt). Burdelle was given the opportunity to copy the source code from the computer of a software engineer at AMR. This would allow Agrico to update the software whenever they wanted and to include all of their requests. This would clearly be a violation of the contract. By violating the contract, AMR would be given the power to sue Agrico due to the breaches in the contract. Morgan states that leaders must understand how they can shape and create meaning that guide organized action, and by doing something unethical it would not shape the organization in the way needed (Morgan).

   Impact on Stakeholders:

   1. Employees – Burdelle and his team would be affected by this decision. The company would feel repercussions if a law suit pursued and forced the company

to go under, resulting in a loss of jobs. Some employees would be disappointed by the unethical behavior and make a decision to leave the company.

2. Shareholders – As long as Agrico is producing profit, the shareholders will be happy.
3. AMR – If AMR were to find out that the source code was taken, they would have be in a position to take Agrico to court which does not look good on either company.
4. Customers – The management system would be able to get updates more easily and then customers would be able to reap those benefits. Ideally, Agrico would be able to provide higher quality service.

3. Choose a new system: There is potential for Burdelle to terminate the contract and look elsewhere for Agrico's software needs. Although, there are not many options to choose from given the circumstances at the start of this contract. There would be one other company that could potentially provide Agrico with the solutions they need, however, it would be a costly investment as they require mainframe computers which would be another external cost.

   Impact on Stakeholders:

   1. Employees - The employees may have to learn a new system to manage the company's leases, but it would likely be an improvement and make the process more efficient.
   2. Shareholders - As long as Agrico is producing profit, the shareholders will be happy.

3. AMR – They would be losing a long term contract, however, they have already received a good portion of money for the system that is not refundable to Agrico.
4. Customers - Those using the new management system will get to see the results as soon as possible. They will continue to receive quality service from Agrico.

Recommendation

I would recommend that Agrico and Burdelle do nothing. The other two options that they have are not feasible nor ethical. The reasoning behind looking at the source code is the ability to ensure that is able to do so. In the contract that they signed, it clearly states that they are not allowed to do that. Outside of AMR, they don't have many options for substitutes and those that are available are not as robust comparatively. Financially speaking, doing nothing would have the lowest financial implications and allow the company to continue to increase profits. If Burdelle had decided to steal the source code, he very well could be taken to court by AMR. This would be a breach in the contract and clearly violate the agreement between the two companies. This would also create an unsure situation for Burdelle, because the court would most likely side with AMR but there is a chance that it could rule in his favor. Although the intentions of Burdelle are in the right place by wanting to improve the organization, it does not mean that it is the correct thing to do. If Agrico chose to go with another system, it would cost the organization way too much money. They would have to pay off the contract with AMR and then invest in a whole new system that is not as robust and feature heavy as they wanted.

Works Cited

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