AGRICO CASE STUDY

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Agrico Background

“Rapidly evolving information technologies are permeating our lives as employees and as private citizens” and this impacted the majority of the industry today, including the agriculture industry (Cash). Agrico, Inc. was started by two farmers in Des Moines, Iowa in 1949, and since then it has provided farm and ranch management services for 691,000 acres of land in the several Midwestern States. In 1987, Agrico had a market value of $500 million and has been ranked as one of the nation’s largest agricultural management firms, providing cost-effective management services for over 350 farms and ranches. During their business planning process in 1985, Agric’s executives decided that their current computer services were not adequate for their needs and changes needed to be made. Every organization’s goal is to make money now and in the future (Goldratt). In 1987, they entered a legally binding contract with the software development firm AMR to update its farm management information system. George P. Burdelle, the Vice President of Information Systems for Agrico realized that the purchase agreement suggested that Agrico be perpetually locked into monthly maintenance and support fees per AMR’s clauses and the escrow of the source code per AMR’s decision did not meet Agrico’s standards. Henry Hockenberry, the CEO of Agrico attempted to purchase the source code but AMR was unwilling and at the same time the relationship between the two companies began to deteriorate.

AMR Background

AMR Contract AMR was a small software company that was founded in 1977 by A.M Rogers. They sell software packages and have twelve clients in nine states. In July of 1986, Agrico and AMR signed a contract in which AMR would provide software consistent with Agrico's needs. This meant AMR would have to make modifications to its current software package. The purchase price for the software and modifications was around $200,000, and Agrico decided to pay 1% of this monthly as a maintenance fee. This contract came with terms directly about the source code. Only AMR could modify the software and had access to the source code. Agrico offered to purchase the source code and sign non-disclosure agreements, but Rogers was worried that someone would steal a copy of his source code and refused. A third party was also required in escrow to ensure adequate backups.

Problem

Jane Seymour, the new software engineer for Agrico's new AMR system, had left source code open on her computer while she was out at dinner. Burdelle must decide whether to copy it to tape and ship it to their off-site storage facility or negotiate with AMR to legally obtain the source code. Given his experience with AMR, he was not confident enough that his proposal will be accepted by the AMR CEO A.M Roger, as he was reluctant to pass the code. He had to consider the risk that if Agrico's portfolio was converted to a new computer system and if corruption or technical difficulty were to occur, Agrico won't have a backup plan. However, the contract states that Agrico access to the source code is limited to view listing reasons for testing while only AMR can make modifications to the code. Their goal, like every organization, is to make money now and in the future (Goldratt). Burdelle is now faced to make the decision of keeping the source code for themselves or return them to Seymour.

Industry Competitive Analysis

Mission Statement

Agrico's mission was to provide cost-effective management services for farms and ranches

Generic Strategy

Agrico's operating strategy is differentiated because they provide specific service for specific customers in a narrow market (Porter). Agrico provided management solutions through crop-share lease arrangements, cash-rent leases, and direct management of farms. Agrico's customers have very specific needs, and Agrico specialized in providing high-quality solutions for those needs. Through decades of growth, Agrico became one of the nation's largest agricultural management firms

Organizational Structure

Agrico operated under a functional structure that allowed the centralization of key areas such as marketing, finance, and operations. By assigning regional office managers to each of its 4 divisions, Agrico controlled accountability for the services rendered throughout the 350 farms with 19 farm managers (Cash, 33).

Stakeholder

- George P. Burdelle Vice President of Information Systems for Agrico: Overseas policies and management of Agrico and must decide on the final destination of the source code.

- AMR A.M Roger: The founder of AMR and maintained a contractual relationship with Agrico. Currently have a deteriorating relationship with Burdelle.
- Agrico Employees: The general employees of Agrico, which includes officers, board members, and all the staff members of the company.
- Agrico's customers: Agrico's customers could potentially lose money if the software doesn't get installed because without the source code, Agrico would have to wait for AMR to fix corruption rather than themselves.
- Henry Hockenberry: the CEO of Agrico and Agrico's success or failure or directly impact him.

Porter's Five Forces

- **New Entrants:** The barriers to entry for this industry are low because they already have knowledge of agriculture. The high barrier to exit for the farmers and ranch owners decreases the possibility of new entrants to the market
- **Substitute**: The threat of substitutes is fairly low because Agrico offers different services that other industries do not provide similar services.
- **Power of Buyer:** Low because Agrico doesn't have much rivalry company which means that there are limited options that the buyers can switch to. Furthermore, customers of Agrico are under a contract which made it more difficult for them to switch service providers. Since most customers are in contracts already it would be hard for a newcomer to gain market share.

- **Power of Supplier:** Low because Agrico does not require raw material and uses mainly labor. The only equipment they need is the software that does not require a supplier.
- **Competition:** Moderate because although Agrico is one of the leaders in this small market, this still means that they are expected to be faced with some degree of rivalry with the other companies. Agrico is a nationally ranked firm with an established customer base, something that took decades to accomplish so they held more advantages and brand recognition compared with its competitor

Alternative

Do Nothing by Returning the Source Code

If Burdelle decides to do nothing, Agrico will save itself from legal fees when they get found out of having stolen the source code. However, the issues with Africa's current system meant that they will be heavily relying on AMR for modification, which is not good for the company. They will pay the monthly maintenance fee and perform their part of the terms but without any backup method until AMR takes over. Under the current circumstances, the relationship between the two companies is at a deteriorating state as their previous discussion about the source code seems to have destroyed their "friendship". In the long term, it is not wise to collaborate with a company with who they are on bad terms.

Doing nothing benefits Agrico's customers and employees ethically and legally but not beneficial for the company's future in general. Agrico's public image will be saved and they avoid getting brought to court. If Burdelle decides to leave the source code alone, then the installation and payment process will remain the same.

Copy the Source Code

If Agrico decides to copy the source code, then they will be faced with some risks of AMR's subsection. While Burdelle's job is to pursue the company's best interest, this action is unethical and broke the law. Agrico the code, he is breaking a legally binding contract when he does this. AMR would face. With the amount of paranoia that Rogers showed in the previous discussion, it is no surprise that he would take Agrico to sue for violating the contract and be brought to court.

Agrico will also have bad public images once the customers find that they steal their contractor's resources. This will greatly reduce trust within the customer which in term creates a negative impact on the company. Once this decision is made, Burdelle most likely will lose his current position in Agrico while the employees, shareholders, and the CEO will be negatively impacted once AMR found that their codes are taken.

Switch Vendors

Agrico can potentially end his contract with AMR and switch to another vendor but that would mean that all the resources that the company used will become sunk in cost. For instance, they paid $75,000 for software and debugging. At the other same time, the other vendor option uses a completely different system which would require Agrico to start a new customs system. This will delay the time and cost the company dearly.

Recommendation

I recommended Agrico to do nothing and return the source code. While it is tempting to just take the source code, the potential risk for a lawsuit is too high. Copying source code without permission is unprofessional, illegal, and unethical while the contract clearly states that software may not be copied or reprinted without prior permission. Lawsuits come once AMR found out and that would greatly hurt the company's reputation and public image. If that occurs, customers will unlikely to continue to partner with Agrico and also result in the loss of potential customers for the future. Agrico can only choose AMR because the other vendors either don't fit the criteria that they need or it is too costly in time and resources for the company. If AMR were to allow Agrico to restructure to a new contract that allows them to utilize the source code, then it would be a good thing, but with AMR CEO Roger's attitude, it is unlikely that possibility will come true.

If Agrico chooses to return the source code, then the next step that they need to take is to improve their relationship with AMR. Although their current relationship with Roger is declining, however, they develop a great rapport with Seymour. This can be a potential way for them to restore relationships with AMR. Perhaps, in the future, once more trust is built, they can negotiate the contract to obtain the source code. "It seems that successful organizations evolve appropriate structures and processes for dealing with the challenges of their external environment" (Morgan).

Citation

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