Agrico

Case Study 5

CIS 410-02

Zach Smith

Agrico, Inc. is a provider of farm and ranch management services. Founded in 1949 by two farmers in Des Moines, Iowa, Agrico provided management services for 691,000 acres of land across several midwestern states. They had three different arrangements for their properties, crop-share lease arrangements, cash-rent leases, and directly managed. The majority of Agrico’s properties were either crop-share or cash-rent arrangements, only 2% of their properties were directly managed. By 1987 the market value of their portfolio had reached $500 million, making them one of the larger agricultural management firms in the nation.

During their 1985 planning process Agrico decided that their existing computer services were not sufficient for their present and future needs. It was decided that they would search for a new software package to support their business. The functional requirements for the system were very complex because one software package needed to work for all three property arrangements. Agrico insisted that the requirements be met by a single vendor offering an integrated package. A vendor called AMR with 12 clients already up and running was selected to provide the software. Some modifications to the software were needed, but AMR’s software package would be able to meet all of Agrico’s needs.

An agreement was reached with AMR to provide their software package to Agrico. AMR was very protective of the software’s source code, worried that someone would steal a copy. The software purchase agreement required that AMR maintained the software in escrow with a third party to insure adequate backups. This portion of the agreement was ambiguous which caused problems between AMR and Agrico. As the project proceeded Agrico found that each instance of AMR’s software was unique, making the source code for the software crucial. Agrico was not satisfied with AMR’s escrow process, and found their system to be buggy, causing a strain on the relationship. Agrico had sunk a lot of money into the project, and with no other alternatives, they stuck with AMR.

The problem faced by Agrico is ethical in nature. An AMR software engineer working onsite for Agrico left the source code for the software package on an Agrico computer when she left for dinner. Should they copy the code and store it as a backup?

Agrico’s mission statement is to provide agricultural management services for farmers and ranchers through cost leadership. Their organizational structure is functional. The generic strategy used by Agrico is cost leadership as they aim to obtain an extensive distribution through regional offices (Tanwar 12).

An analysis of Porter’s five forces reveals the following:

**Competitive Rivalry: High**

There are other agricultural management providers, some even larger than Agrico. Agrico must compete on price in order to remain competitive. When there is little differentiation between your product and the product of your competitors, competitive rivalry is high (Team FME 15)

**Threat of New Entrants: Low**

Agrico is well established, and it would require a significant investment to enter the market. Agrico has large land holdings that they manage or lease. The industry requires a significant investment in both land and technology. The assets are also specific to the industry and have little use elsewhere leading to a low threat of new entrants (Team FME 19)

**Threat of Substitutes: Low**

There are few substitutes outside the industry that Agrico must worry about leading to low threat of substitutes (Team FME 20). It is possible however that software companies could market agricultural management software directly to farmers.

**Bargaining Power of Suppliers: Low**

Agrico provides management services and is not heavily reliant on raw materials from suppliers leading to a low bargaining power (Team FME 23). The main supplier they are reliant on is the supplier of their new system, AMR.

**Bargaining Power of Customers: Low**

Many of Agrico’s customers lease the land they farm from Agrico. These agreements are not short term and moving to farm elsewhere would have significant costs associated with it. When switching costs are high customers have low bargaining power (Team FME 25).

**Stakeholders**

**Agrico’s Employees –** All hourly and salaried employees of Agrico.

**Agrico’s Customers** – The farmers and ranchers who use Agrico’s management services.

**Agrico’s Shareholders** – any person or organization who has invested in Agrico.

**AMR’s Employees –** All hourly and salaried employees of AMR

**AMR’s Shareholders -** any person or organization who has invested in AMR.

**Alternatives**

1. **Do Nothing.**

By choosing not to copy the source code left on the computer Agrico could save themselves a lot of trouble down the road. While having the code would be good for Agrico, it would be a violation of their contract with AMR to copy it. They would have to continue to work with AMR to find an escrow solution that was satisfactory to both parties which could be extremely difficult. Conflict will always be present in organizations and Agrico must find a way to work with AMR (Morgan 163). Agrico does not have many options other than working with AMR so it would be in their best interest to avoid damaging the relationship. They are reliant on AMR to provide the software package in order to support their business functions today and into the future. The downside to this option is that Agrico cannot be sure that the code AMR places in escrow is the source code that generated the object code they were provided. If the source code for Agrico’s software package was lost it would have a significant impact on Agrico’s ability to make sure the software can grow with them.

1. **Copy the Source Code.**

By copying the source code Agrico could completely alleviate one of their major concerns with AMR. They would have a copy of the source code stored safely to their standards available to them in case any modifications needed to be made in the future or if AMR was unable to support them for any reason. However, if they were caught copying the code it could lead to a legal battle with AMR. Not only would a legal battle with AMR be costly, it would likely bring negative attention to Agrico which could potentially hurt business in the future. It is possible that Agrico may lose the ability to use the software package provided by AMR if they are found to be in breach of contract. Agrico had sunk a lot of money into testing the AMR software, and only one other vendor provided a similar software package, but it had never been put into production, and had only sold a few copies. Changing directions at this point would be extremely expensive for Agrico, and it is impossible to predict the cost of a legal battle coupled with negative publicity for the company.

**Recommended Alternative**

I would recommend that Agrico choose to do nothing and not copy the source code. While losing the source code for any reason would be costly for Agrico, it pales in comparison to the cost they could face in a legal battle with AMR if they lose. They may lose access to the software package provided by AMR and be forced to start back from square one. It was not advised that they design their own system and only one other vendor can provide a similar software package. Being forced to start the process of finding a new software package now would be extremely expensive and Agrico has already sunk money into testing the AMR system. If they are caught copying the code it would damage the company’s reputation and it may make it harder to find a software provider willing to work with them. It may also affect customer’s perception of Agrico and hurt business. Choosing not to copy the code is the ethical decision in this case.

**Works Cited**

Tanwar, Rikita. “Porter’s Generic Competitive Strategies.” IOSR Journal of Business and Management Volume 15, Issue 1 (Nov. – Dec. 2013)

Team FME “Porters Five Forces: Strategy Skills” [www.freemanagementebooks.com](http://www.freemanagementebooks.com)

Morgan, Gareth. Images of Organization. Updated Edition, Sage Publications, 2006.