Patrick Warren

Case Study – Agrico

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CIS410-02 SP2018

Overview

Agrico was started in 1949 by two farmers in Des Moines, Iowa with the goal of providing farm and ranch management services for over 691,000 acres of land and for more than 350 farms and ranches in many midwestern states. Their market value was $500 million by 1987 making them one of the larger agricultural management firms in the United States. They accomplished this by providing three diverse types of arrangements for their properties: 1) crop-share lease, 2) cash-rent leases, and 3) direct property management (Cash).

Crop-share leases provided tenant farmers an agreement to return a portion of that year's crops back to Agrico in exchange for the farmers using the land owned by Agrico. Whatever portion was given back to Agrico would eventually be sold for a profit. This encompassed forty-seven percent of their total revenue which equated to $2,477,840 in 1986. Next, they had cash-rent leases which had the farmers pay Agrico directly with cash rather than crops. Fifty-one percent of their revenue came from this type of lease, bringing in $2,688,720. Lastly, their smallest arrangement, was direct property management. This brought in roughly $105,440 a year, or two percent (Cash).

In 1987, Agrico managed 691,000 acres of land, their market value of properties was approximately $500 million, had 250 farms, 130 ranches, employed 83 individuals, and worked with 170 clients. Their net income rose $51,000 from 1985 to 1986 and was only expected to go higher in 1987 (Cash). Agrico was a functional organization which focused heavily on cost leadership which meant they had to be extremely efficient. This information stems from the fact that they are an agricultural organization, rather than a financial organization, mostly focusing their products and service in the Midwest U.S. All decisions were made solely by executives of the organization (i.e. George Burdelle in choosing AMR) (Cash).

Mission Statement

To provide farm and ranch management services in a cost-effective manner, primarily through cash-rent leases (Cash).

Company Generic Strategy

Agrico's generic strategy is based on cost-leadership. The land they manage for their clients can be of any size, but their focus is to offer the best prices possible while maintaining a profit. Since agriculture is a commodity, the market will set the price and the demand on that price should will be low. This is consistent throughout the U.S (Cash).

Organizational Strategy

The organizational strategy for Agrico is a functional one, given the fact that their services must be extremely efficient to keep costs down and to stake their share of the market. All decision rights are made by executives, which is always vertical. Information flows from the executives while data flows straight from the farms and worker's in the field. Their division of labor is split by departments: Marketing, Treasury, Corporate Operations, and General Operations, which consists of as many as six farm managers at each regional office. Their organizational boundaries are fixed, which is desirable for them since they prefer to operate in a market they know they can sell in (Cash).

Porter's Five Forces

"Whilst understanding the macro-environment is essential for developing your strategy it only gives you half of the picture. You also need to have a thorough understanding of your competitors and the impact they can have on your organization. To gain this knowledge, you need to conduct Porter's Five Forces Analysis," (Porter). Porter's Five Forces Analysis is used globally by companies either entering a new market or trying to get a better understanding of the current market they are in to improve their standing.

Bargaining Power of Customers:

This is considered in low proportion since the market dictates the prices on commodities and customers don't have many other services to choose from.

Bargaining Power of Suppliers:

This would be considered high. Aside from AMR, there is only one other mention of a software company providing the management tools needed by Agrico. However, since there are poor reviews on the other company, AMR was the only suitable option.

Threat of New Entrants:

The threat of new entrants is high here. Some money and expertise are all a company needs to enter the industry. However, to succeed as a new entrant, acquiring new tenants or those from previously held organizations may prove difficult. Most likely, all the farmers who would like help, already have it.

Threat of Substitutes:

Threat of substitutes will also be high as anyone with copious amounts of capital and an agricultural management system can do what Agrico does. If they are more cost-effective than Agrico, the tenants could switch over to that company.

Competitive Rivalry:

This is assumed to be low, given that there was no mention of any rivals in the industry (Cash). If there are rivals, they are fighting for tenants that do not have a contract or those who may be looking to switch to another company. However, Agrico has proven themselves as an industry leader so a switch to a new company is highly unlikely.

Problem

Agrico has been introduced with a dilemma to either introduce AMR's agriculture management software system into their own system, or to not use them at all. AMR was contracted by Agrico based on the twelve raving reviews given by other customers and at face value they were incredible. "The total purchase price for the software, including modifications, was approximately $200,000," (Cash). It was also negotiated that Agrico would pay one percent of the approximate total cost monthly – considered a maintenance fee that the CEO explained would be used to make unique modifications geared towards Agrico. The biggest caveat with this scenario is that AMR is unwilling to release the source code to Agrico (or anyone for that matter) under any circumstances which Agrico wanted to modify the software themselves. This included signing nondisclosure agreements, but A. M. Rogers was against giving away. However, the source would be kept in escrow to ensure adequate backups (Cash).

It was odd that Rogers would not release the source code to their customers, given the contract that was written up. Under Item 16 "AMR Proprietary Material", it explains in full that Agrico would not copy or sell, nor could they reprint, give, or allow access to anyone not employed by Agrico (Cash). This combined with a nondisclosure (or other documentation) would put Agrico in a terrible position financially by being sued, as well it would create a very poor image of the company. The fighting between AMR (Rogers) and Agrico (Burdelle) grew strong leading up to the signing of paperwork, focusing mainly on the topics mentioned. Rogers did not want to release source code by any means even after Burdelle insisted many times.

Once an agreement was met and the contract was signed, twenty percent of the price was to be paid upfront to AMR. Sixty percent of it was to be paid 30 days after completing the software acceptance testing, and the rest 90 days after the system went online. What Burdelle and his testers quickly found out is that Rogers did not really give Agrico a full version of the software, but rather gave them a modified version geared towards their organization. This left very little room to modify the software in the future to meet their needs.

Stakeholders

Employees:

With only 83 employees on staff, they hold a large stake in the company and how they proceed in the future. Without the success of Agrico, they could see their jobs at risk. Burdelle, as well as the testers he hired, would be at an even higher risk if AMR's software turns out to have a negative impact on the company.

Shareholders:

Another group who has a high stake in the company. If the company fails, they see the immediate effects to their bank accounts. They need Agrico to do well.

AMR:

AMR doesn't have an extremely high stake in Agrico given the twelve other contracts they already have solidified; however, it would be a good amount of extra money coming in on top. Not only that, if Agrico decides to discontinue use of AMR's software and break the contract, AMR would have negative reviews on their account from a reputable source.

Customers:

The customers do not have a big stake in Agrico. If Agrico stays successful and keeps providing quality service, the tenants will stay happy.

Alternatives

Do Nothing:

This solution is simple. No work is to be done and the process laid out by Rogers and AMR will be followed without deviation. Source code backups will be made by AMR and put into a third-party escrow account to be held in good faith until it is truly needed. They will be the only ones to copy and store it, as it states in the contract.

Impact on Stakeholders:

Employees: Would not be affected. They would have to learn a new system for managing their company's leases, but it should be an improvement.

Shareholders: No real effect on the shareholders. Agrico will keep posting positive numbers every year which should be great for the shareholders.

AMR: AMR will win the contract, place the source code into a third-party escrow, and be the only one to copy and store it. They will also gain another contract and a thirteenth revenue stream.

Customers: Customers should see the effect of a new management system immediately and positively. Agrico will be able to provide better, quality service to all their customers.

Create Backups of Source Code:

Burdelle will decide to make backups of the source code that Jane Seymour has left open on her desktop so that in the future when modifications are needed, they will be able to take care of them. The issue with this is that it would be a clear violation of the contract and AMR would have power to sue Agrico under reasonable cause in breaches to the contract.

Impact on Stakeholders:

Employees: Specifically, only Burdelle and his team would be affected by this, however it is possible that the company would fold if AMR ever found out that their source code was copied in an “unsatisfactory” manner.

Shareholders: No real effect on the shareholders. Agrico will keep posting positive numbers every year which should be great for the shareholders.

AMR: AMR will win the contract, place the source code into a third-party escrow, but will not be the only one to copy and store it. They will also gain another contract and a thirteenth revenue stream.

Customers: Customers should see the effect of a new management system immediately and positively. Agrico will be able to provide better, quality service to all their customers.

Solution

Do Nothing:

My normative recommendation would be to do nothing and keep going with the plan that AMR has laid out, regardless of how ridiculous Rogers is being. The source code will be put into the third-party escrow to be updated once a year and backups of that source code will be taken to the escrow account frequently. Burdelle and Agrico could potentially keep testing their software in the hopes that as time goes on, Rogers will begin to fold and give in to Burdelle's request, possibly rewriting the contract.

Rejected Solution: Create Backups of Source Code

This action should not be taken for many reasons. If Rogers were to find out, a huge legal battle would ensue, wasting company money that could've been saved. By breaking that contract, Rogers could strip all parts of the system out of Agrico and possibly win a large chunk of money in court. It is unethical and immoral to sign a contract stating you will refrain from doing something, only to do it anyways. Goldratt stated, "…the goal of our company is to make more money now as well as in the future (Goldratt 95)." It's going to be very tough to do that if you are spending all of it in court.

Sources:

Management of Information Systems CIS410-02 Cash – Gray's Books

Goldratt, Eliyahu M. The Goal.Great Barrington: North River Press, 1984 Print

"Porter's Five Forces: Strategy Skills." Team FME, 2013, pp 1-33