Monsanto's Roundup
Revised: August 31, 2001

When the Pharmacia Corporation merged with Monsanto, in 1999, investors complained that Monsanto would weigh down Pharmacia's profits. As a response, Pharmacia decided to swallow up Monsanto's drug unit, Searle, but then spun off Monsanto as a separate company.

Investors couldn’t have been more wrong. Since Monsanto's initial offering in October of 2000, its shares jumped about 82 percent, whereas shares of Pharmacia, which still owns 85 percent of Monsanto, have fallen about 19 percent.

How did Monsanto do it?

Price and Volume

The answer lies in the extraordinary success of Monsanto's main product, Roundup, a chemical herbicide developed more than two decades ago. It is the best-selling agricultural chemical product ever, with $2.8 billion in sales last year, and outsells other chemicals five to one.

Not only is Roundup a blockbuster, but sales have increased considerably in recent years. From 1994 to 2000, gross profits increased 90 percent, even though price decreased 45 percent. (Roundup's price was $44 a gallon in 1997, $34 in 1999 and about $28 in August 2001.) "It was a classic pricing strategy," said Leslie Ravitz, an analyst at Morgan Stanley. "It was a textbook case. Every 1 percent price drop led to a 2.5 or 3 percent increase in volume."

Entry and Other Threats

Looking at things five years ago, the future did not look particularly bright for Roundup, especially considering that its patent was due to expire in 2000. But Monsanto’s price cuts built loyalty and made it more difficult for competitors to make a profit. As a result, few competitors are willing to produce the generic version of Roundup (glyphosate).

Monsanto also decided to supply its glyphosate molecule to competitors once its United States patent expired. Given Roundup's sales volume (close to 160 million gallons a year) and low price, most competitors opted for buying the molecule from Monsanto instead of building their own plants.

Monsanto is fighting a suit brought about by the DuPont Company in which DuPont alleges that Monsanto violated antitrust laws in its quests to maintain Roundup's market
dominance. “The pressure Monsanto puts on dealers and distributors makes it very difficult for competitors to sell their own glyphosate products, even when those products are cheaper than Roundup,” said John Hinderaker, a lawyer who represents Dupont.

Even if Monsanto wins this battle, it cannot count on Roundup as a long-run solution. In fact, the company is investing about $600 million a year in R&D, more than any rival firm. It takes a clever pricing strategy to fund an ambitious R&D program.

Questions for Analysis

(a) How can you tell that cutting the price of Roundup was the right move for Monsanto?
(b) If you were asked to advise Monsanto in 1995, what would you have said?
(c) If cutting price was a good move, why didn’t Monsanto do it earlier?

Additional Information Sources

Monsanto's website: http://www.monsanto.com/

Notes

This case is partly based on the article “A Weed Killer Is a Block to Build On,” by David Barboza, The New York Times, August 2, 2001. It was prepared by David Backus and Luís Cabral for the purpose of class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. © 2001 David Backus and Luís Cabral.