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DuPont Gains on Monsanto as Farmers Question High-Tech Seeds
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By Jack Kaskey

Aug. 24 (Bloomberg) -- Iowa farmer Tom Oswald says he used to prefer Monsanto Co.'s premium corn seeds because they "yield like crazy." That was before they became too expensive.

Oswald, whose family has farmed hundreds of acres in Cleghorn since 1870, learned in late 2008 through AgTalk Internet discussion forums that the St. Louis-based company was planning to raise prices 25 percent, just as commodities were starting their biggest decline in 50 years. The 51-year-old farmer chose to double his purchases over the next few years from Monsanto's biggest rival, DuPont Co.

"The aggressive prices drive your desire to see if someone else has got something, because you want to send a message," Oswald said in an interview. Monsanto, the world's largest seed maker, "got a little too big for their britches," he said.

Under Chief Executive Officer Ellen Kullman, DuPont has taken the lead in the U.S. soybean-seed market with 30 percent of sales, compared with Monsanto's 28.5 percent. It also expanded its share in corn seed to 34 percent, compared with Monsanto's 36 percent. DuPont's Pioneer seed unit is winning on price and service after asking farmers whether they need the most advanced products, said David Begleiter, an analyst at Deutsche Bank AG in New York.

"Some farmers believe they have been buying something they don't need, and Pioneer's message plays into that," said Mark Gulley, a New York-based analyst at Soleil Securities who recommends buying DuPont shares and holding Monsanto stock.

Price Cuts

Monsanto, whose innovations helped increase plantings of genetically modified crops every year since their introduction in 1996, had no growth in U.S. corn and soybean-seed sales for the past two years. CEO Hugh Grant, 52, is trying to spur a recovery by breaking with his previous strategy. He's cutting prices on the newest innovations, while offering seeds with fewer genetic bells and whistles.

DuPont has risen 20 percent on the New York Stock Exchange this year while Monsanto has plunged 30 percent. In addition to concern over the uptake of seeds among farmers, Monsanto faced increased competition from generics for Roundup, the world's best-selling herbicide.

Monsanto and Wilmington, Delaware-based DuPont are competing in a biotech seed market that industry consultant Phillips McDougall in Edinburgh estimates was worth \$26.7 billion in 2009.

Pioneer had 42 percent of the U.S. corn-seed market when DuPont acquired it in 1999 under CEO Charles O. Holliday Jr., now chairman of Bank of America Corp., while Monsanto had 13 percent. By 2007 Monsanto had seized the lead as surging crop prices allowed farmers to buy the latest bug-resistant, herbicide-tolerant corn. Gross profit from seeds

and genetic licenses doubled from 2005 to 2009 and Monsanto's stock price nearly tripled.

Sales Agents

To halt years of eroding market share, Holliday in 2007 increased spending on seed sales and research by \$100 million, a trend that Kullman, 54, continued after taking the reins in January 2009. DuPont now devotes half its \$1.4 billion research and development budget to agriculture, compared with Monsanto's \$1.1 billion budget. Pioneer sales agents, agronomists and account managers total 4,600, up 25 percent from 2007, Pioneer President Paul Schickler said in an interview.

Grant's problems began two years ago when he began aggressively raising prices and introducing Monsanto's newest seeds at a higher premium, Begleiter said. Previously, new technologies were priced low to encourage farm trials.

DuPont's Message

Grant also made the mistake of pushing farmers to buy more technology than they wanted, said Mike Wilson, CEO of Agrium Inc., North America's largest retailer of seeds and other agricultural products. Growers who wanted corn seed that tolerates Monsanto's Roundup brand herbicide and kills one type of insect were encouraged to buy so-called triple stack seed, which protect against a second type of bug, he said.

"If you don't want it, why wear two condoms when you need one and get charged for two?" Wilson said in a May interview. "Their marketing approach was flawed."

Monsanto spokesman Kelli Powers declined to comment for this story.

While Monsanto sells seeds and herbicides through farm retailers such as Agrium, DuPont deals directly with growers. That allows DuPont to pass on its message that Monsanto's high-end technology isn't needed on every acre, Gulley said.

Monsanto's leading products include triple-stack corn and Smartstax corn, which has eight added genetic traits. Pioneer's Schickler had Pioneer Growing Point, a free magazine published by DuPont, ask farmers in a 2009 cover story: "Do you Need Triple Stacks?"

Missed Targets

That approach has made DuPont the leader in low-tech corn seed. About 63 percent of Pioneer's U.S. corn-seed sales this year containing two genetic traits or less, while 75 percent of Monsanto's had at least three.

Grant began to back-peddle on price in April after Monsanto's new Smartstax corn and Roundup Ready 2 Yield soybeans, the company's most advanced and expensive seeds, fell short of sales targets for 2010 planting. Grant, also facing a glut of generic glyphosate herbicide from China, was forced to retract his 2007 pledge to double earnings in five years.

Grant told investors Aug. 12 he would cut premiums by 75 percent on Roundup Ready 2 seeds and by 67 percent on Smartstax to encourage trials. Monsanto will focus 2011 sales of Smartstax on the most productive areas of the Corn Belt, while surrounding regions with lower

potential yields will be offered budget- friendly double stacks and triple stacks.

'Path of Contrition'

Monsanto and DuPont also are squaring off in a federal court in what started out as an effort by Monsanto to block DuPont from combining Monsanto's Roundup Ready gene with a similar trait for herbicide tolerance. DuPont countersued, claiming Monsanto is unlawfully using its market power to stifle innovation and extend its monopoly on Roundup Ready soy to Roundup Ready 2 before patents on the original expire in 2014.

The allegations are being probed by the Justice Department.

Grant is forecasting 15 percent annual earnings growth from seeds and genetics starting in fiscal 2011, when the unit will account for about 90 percent of Monsanto's profit.

"The company has pursued a path of contrition with dealers and farmers and the message appears to be resonating," Robert Koort, a Houston-based analyst at Goldman Sachs Group Inc., said in a report. "Continued supportive actions are necessary to convincingly change attitudes toward the company."

Grain Rally

Monsanto should benefit from the rally in grain prices that started June 29 and from increased infestations of earworm, which may help convince more growers of the benefits of triple- stack and SmartStax corn, Koort said.

DuPont predicts sales in the agriculture unit, the company's largest business, will climb more than 30 percent to about \$11 billion by 2012 on demand for corn and soybean seed. Wider operating margins will boost profit in that time by about 60 percent to as much as \$2 billion, the company forecasts.

Oswald says the risk to DuPont is that Pioneer's success over the last two years will lead executives to make the same mistake of hubris as Monsanto.

"If Pioneer wants to come across as the farmer's friend -- kinder gentler with good products that perform -- their potential to pick up market share can be significant," Oswald said. "They can't be arrogant. Arrogance will get you eventually."

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