

# Soybean industry 5 forces evaluation



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## Soybean Industry 5 Forces Evaluation

Soybeans are an agricultural product that can be used for multiple purposes which along with food related application it can be used to produce oil and can be used as raw material for alternative fuels production. One of the industry leaders in the soybean business is Monsanto Corporation. Soybean originated in Asia, but its production has moved to other parts of the world including the Americas. The soybean industry will be studied in this paper by utilizing Porter's five forces model emphasizing on opportunities and threats. The five forces of Porter's model are current rivalry, potential entrants, bargaining power of buyers, bargaining power of suppliers and substitute products.

Monsanto is the leading producer of soybeans which controls a large portion of the marketplace due to their strategy of producing genetically engineered seeds (Monsanto, 2008). They have an advantage over other competitors because their seeds produce higher yields and the company has implemented strategies such as creating seeds that can be used for crops that will not generate new seeds, thus the buyer has to come back to Monsanto to purchase seeds for future crops. The strategy gives the company higher supplier power. Another opportunity for this leading soybean producer is the fact that their seeds need a special pesticide which forces buyers to purchase the seeds and the pesticide from them.

The soybean production takes place in China, India, the United States, Brazil, and Argentina. In South America, particularly in Brazil, the soybean production poses a major threat to the natural habitat due to deforestation. The United States has several competitive advantages due to the subsidies offered to soybean farmers and the \$1.00 per gallon incentive when soybean

is used in the production of biodiesel or ethanol. Newer entrants into this industry outside the United States are not likely. An issue that poses a threat to new entrants is the rising prices of soybean are making this product less profitable than before. In a matter of a few years the price of soybeans has gone from 22 cents a pound to current price of 56. 4 cents a pounds (Chapman, 2008). The final price of a biodiesel gallon utilizing soybeans is about a dollar and a half more expensive per gallon than petroleum based gasoline. Governmental regulations and economic policy are an opportunity for the industry, especially in the United States.

The government has major buying power over the industry which is helping out the industry indirectly through green regulations that promote soybean production to create cleaner alternative fuels such as biodiesel. There are federal laws in place that will mandate higher biodiesel consumption, in Europe there is plan in place that by the year 2020 10% of fuel consumption originates from biodiesel usage (Chapman, 2008). The individual buyers have power over the industry they are not willing to pay a premium price for green products that are basic necessities for eating such as cooking oil or commodities like biodiesel fuel. This poses a threat for the soybean industry if they are not able to lower costs and persuade the government to continue to provide assistance for next decade to ensure the development of this critical industry.

The bargaining power of the supplier function in the soybean industry is derived from the quality of soybeans of serving a dual purpose of being raw material for human energy (food) and energy for machines. The moral obligation of the industry of using a large of its production to feed the planet is bargaining tool that helps the industry manipulate the markets to ensure

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that the law of supply and demand works in their favor to keep biodiesel prices at higher levels. Corn is a major substitute due to its property of being a high yield ethanol crop. Other substitute food products for soy bean derived food products are butter, ice cream, olive oil, and peanut butter.

#### References

Chapman, D. (2008). An industry running on fumes: As soybeans price rice, hopes for biodiesel fall. Retrieved October 17, 2008 from [http://www.ajc.com/travel/content/business/stories/2008/03/20/biodiesel0320.html?](http://www.ajc.com/travel/content/business/stories/2008/03/20/biodiesel0320.html?cxntlid=inform_artr)

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