

Pepsi co history and company analysis



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Pepsi Co Inc. has established itself as a dominant snack food and soft drink distributor with its PepsiCo North America, Pepsi Co International, Frito-Lay, and Quaker Oats segments. (Refer to exhibit 1) In 2007, PepsiCo became the world's largest snack and beverage seller bringing in revenues of more than \$39.5 billion and with its Frito-Lay merger brands accounting for 29 percent of the company's total revenues and 36 percent of the company's operating profits. The company emphasizes maintaining spectacular performance operations that were accomplished thorough strategies aimed at product innovation, creating and sustaining close relationships with distributors, international growth, and beneficial acquisitions. The company sported an impressive business portfolio in 2008 which included its brands such as Pepsi soft drink products, Frito-Lay, Quaker Oats products, Doritos, Gatorade, Tropicana, SoBe, Lipton Brisk tea, Propel, Hickory Sticks, SunChips Multigrain snacks, Aquafina, the acquisition of Pizza Hutt, Gatorade, and several other consumer goods. The PepsiCo International division is an ever-growing sector in emerging markets such as Russia, The Middle East, China, and Turkey. "The company grew by 9 percent in 2007 with volume gains and acquisitions that allowed the company to attain a 22 percent increase in division revenues and 15 percent increase in operating profits. (Gamble 433) The Quaker Oats division attained 2007 sales of \$1.8 billion, and held a 58 percent market share in its North America division since 2006" (Gamble 435).

PepsiCo has successfully diversified itself with different product lines and methods to improve those product lines so that they ensure customer satisfaction. The company has developed a diversification strategy that is

executed through acquisitions of similar or complimentary products.

Expanding into these markets not only creates consumer satisfaction, but increases shareholder value as well. With well established, diverse markets PepsiCo has secured business affiliations that benefit the company and allow it to compete better than they would alone. Since 2008, they have focused on new product innovations that addressed consumer health and wellness concerns. PepsiCo has diversified into a multi-business corporations, offering products through their four main business segments; PepsiCo North America, PepsiCo International, Frito-Lay, and Quaker Foods North America. Refer to exhibit 1 to see a complete list of products PepsiCo has been able to offer through their diversification strategy.

A key competitive strength of PepsiCo is that it has close relationships and partnerships with distributors. PepsiCo has also established successful strategic acquisitions and continues its expansion into profitable markets. The company has adjusted its product innovation to create healthier products in response to consumer demands, thus creating better consumer value and a higher rate of return. The company capitalizes on its consumer research and development which helps it to apply strategies such as the “Power of One” strategy which increases the opportunity for consumers to purchase more than one PepsiCo and Frito-Lay product at a time on each visit. Dominant corporate strategies that support their many acquisitions of well know products have led to diversification of the company. Products are customized to suit the consumers’ preferences; for example, the company has designed their product tastes to country specific satisfaction. Because PepsiCo has created and maintained strong brand loyalty with its consumers,

it continues to possess a significantly large portion of the food and beverage market shares. The company's business units have been able to successfully cut costs. Frito-Lay and Quaker had savings of \$40 million for their joint distribution and Quaker Oats saved \$160 million in innovative packing materials and sharing specific product ingredients. The company also redesigned their shipping methods to reduce stock-outs in retail stores.

There are many ways companies try to maximize the value of their shareholders. Some of the strategies that CEO's of companies may use to maximize the value of their shareholders are reducing company costs while at the same time maintaining a stable revenue levels. Another way that companies maximize shareholder wealth is by partaking in acquisitions of companies. Acquiring companies however is an often risky business venture for a company to undertake. PepsiCo is an example of how acquiring various business ventures in turn benefited the shareholders of the company. The various acquisitions that PepsiCo partook in had a gross value of two billion nine hundred and twenty two dollars. This increased the revenues of PepsiCo substantially by a twenty billion dollar increase from 2000 to 2007. This increase in revenues being brought in, in turn increases the value of the issued stock. You can see the gradual increase in the price of common stock in exhibit ____.

A strong driving factor in the maximization of shareholder value is the CEO Indra Nooyi. Her tenure as an employee of PepsiCo has yielded only improvements for the company as a whole. She was seen as a negotiator and involved in many of the acquisitions that were very profitable for PepsiCo. She built her reputation with various acquisitions such as the

Tropicana acquisition in 1998 and the 2001 acquisition of Quaker Oats. She also spearheaded the public offering of Pepsi's bottling operations. The hard work of Nooyi at PepsiCo has made the company a multi-billion dollar company. Bringing in the substantial additional revenue increased PepsiCo's net worth which also made the stock of Pepsi rise in value also which is beneficial for those who invested good deals of money in this company.

PepsiCo appeared to always have a handle on their revenues and knows at what levels to price their goods at as to not lose customers base. Looking at their financial summary, exhibit ____ you will notice that from 1998 to 2007 there has been a steady increase in the revenues brought in which affects the value of the shares of common stock as well that are increasing at a corresponding rate. Pepsi Co has proved to be a company that truly does have the resources to remain a leader in the carbonated beverage industry. Even when Coca-Cola tried to be the leader in the carbonated beverage market holding a little more than forty percent of the market shares, PepsiCo held a little over 30 percent of the market shares.

Looking at Exhibit ____ you will see the break down of PepsiCo's net cash provided by operating activities. You will notice that they have a decent amount of Management operating cash flows that can be disbursed or used for benefit of the company. Part of the manager's operating cash flows could be used to try and acquire more food or beverage products that would make their product base more diverse. They could also use part of the money to put towards having Pepsi or Tropicana products served in new restaurant chains. PepsiCo clearly have a surplus of money from operating activities that could be put toward their Research and development team so that they

can improve the products that they already have. Another way they could disperse their management's cash flow is by looking to acquire or merge with a manufacturer of candy or a sweet of some sort. PepsiCo is well versed in the variety of snack foods that they offer when it comes to salty snack spending the time and money to find a sweet snack would benefit them. This would in turn would bring in more money to Pepsi and increase their stock prices which would in turn increase the value of their shareholders. If a sweet snack was added to Pepsi's line of products it would compliment the notion of wanting to eat something sweet after you eat something salty, and vice versa. This would bring in more revenue which in turn would give PepsiCo more operating cash flows to work with in the future and become a very powerful company.

We do not recommend PepsiCo to divest any Quaker brands since the acquisition provided PepsiCo a stable platform to enter the health foods and isotonic beverage market. PepsiCo's portfolio is established in 2011 with a good mix of carbonated beverages, isotonic beverages, fruit flavored beverages, fruit juices, salty and savory snacks, cereals and other health foods and drinks. (Refer to exhibit __ If they were to divest any Quaker Oats brands. PepsiCo could harm its portfolio and decrease its shareholder value, lower stock prices and lower economies of scale. Also, it is possible that the brand could be acquired by another company and pose as a threat to PepsiCo.

We recommend PepsiCo to acquire or form a merger with RedBull. " Red Bull holds a 70 percent share of the world market for energy drinks, or functional beverages, a category it was largely responsible for building" (Red Bull

GMBH). The biggest isotonic beverage brand Gatorade is already under PepsiCo. Adding Red Bull to their portfolio would create higher shareholder value and increase revenues. The volume share for energy drinks on the PepsiCo portfolio was only 1% in 2007. We believe that there is great potential for an increase if Red Bull is acquired or merged with. Also, with PepsiCo's strategy of 'better-for-you' and 'good-for-you' products, PepsiCo could encourage Red Bull manufacturers to use different types of healthier sweeteners which would increase sales and publicity for Red Bull and PepsiCo's health awareness. Having Red Bull on their portfolio of products would also give PepsiCo a better market share and add value to the brand for appealing to various consumer demands. Refer to exhibit___ to see PepsiCo's current market share.

PepsiCo's current portfolio has a wide variety of snacks, beverages, and cereal catering to all types of demands including health conscious consumers. Refer to exhibit 1 to see a full list of PepsiCo's snacks, beverage and Quaker Oats Brands. We recommend PepsiCo to acquire or merge with a candy company to add a different product to their portfolio. Mars Incorporated, has strong brands such as Mars, Snickers, M&M's, Whiskas, Uncle Bens, Dove, Extra, Orbit, Flavia, Pedigree, and Royal Cannin on their portfolio. A merger or acquisition with Mars incorporated would give PepsiCo a wide variety and add to their existing brands which will make them achieve greater economies of scale. Through such a merger or acquisition, PepsiCo will be able to cater to the consumer population that they are unable to reach with their existing products. They will also be able to cater to

consumers with pets with popular brands like Pedigree and Royal Canin that are a part of Mars Incorporated.

The corporate strategy recommended for PepsiCo is the Best Cost Provider Strategy. “ The essence of a best cost provider strategy is giving customers more value for the money by satisfying buyer desires for appealing features/performance/quality service and charging a lower price for these attributes compared to rivals with similar caliber product offerings” (Gamble111). We recommend PepsiCo to implement this strategy into their business by cutting costs and lowering prices to cater to those who enjoy PepsiCo products but are not able to afford them any longer due to the current recession. Also offering those products at a lower price will give them a competitive edge against Coca Cola which is one of their biggest rivals. In order for the Best Cost Provider Strategy to work, “ a company must have the capability to incorporate attractive or upscale attributes at a lower cost than rivals” (Gamble111). PepsiCo has the capability to out compete Coca Cola by focusing on their core competencies through the value chain and by eliminating costs that do not add value.

In addition to the recommendations above, we also recommend PepsiCo to focus more on their Good-for-you and Better-for-you products. With an increasing population of health conscious citizens, PepsiCo should enter a line of Organic ready to eat products and beverages apart from the Naked Juice products. Quaker Oats brand is already known for healthy food like oatmeal, cereals, granola bars, and etcetra. We recommend PepsiCo to focus more attention to ready made, ready to eat foods like noodles, organic tv dinners, and quick organic lunch options.

EXHIBIT 1

Breakfast Bars/Granola Bars

‡² Quaker Chewy Granola Bars

‡² Quaker Dipps Granola Bars

‡² Quaker Fruit & Oatmeal Bars

‡² Quaker Fruit & Oatmeal Toastables

‡² Quaker Oatmeal-to-Go Bars

‡² Quaker True Delights Bars

‡² Quaker True Delights Squares

Coffee Drinks:

‡² Starbucks Doubleshot

‡² Starbucks Frappuccino

‡² Starbucks Iced Coffee

Energy Drinks:

‡² Amp Energy Energy Drinks

‡² No Fear Energy Drinks

‡² SoBe Energy Drinks

Tea/Lemonade:

‡² Brisk

⌚² Lipton Iced Tea

⌚² Lipton PureLeaf

⌚² SoBe Tea

⌚² Tazo Tea

Juice/Juice Drinks:

⌚² Amp Energy Juice

⌚² Dole Juice/ Juice Drinks

⌚² Dole Plus Fortified Juices

⌚² Dole Sensation Juice Drinks

⌚² IZZE Sparkling Juice

⌚² Ocean Spray Juice/Juice Drinks

⌚² Naked Juice

⌚² SoBe Juice Drinks

⌚² SoBe Lean Diet Juice Drink

⌚² Tropicana Trop50 Beverages

⌚² Tropicana Pure Premium Juices

⌚² Tropicana Twister Juice Drinks

⌚² Tropicana Tropics

Oatmeal/Cereals:

† 2 Cap'n Crunch Cereal

† 2 King Vitaman Cereal

† 2 Kretschmer Toasted Wheat Germ

† 2 Life Cereal

† 2 Mother's Ready-to-Eat & Hot Cereals

† 2 Quaker Essentials

† 2 Quaker Grits

† 2 Quaker Instant Oatmeal

† 2 Quaker Natural Granola Cereal

Oatmeal/Cereals Con't:

† 2 Quaker Oatmeal

† 2 Quaker Oatmeal Breakfast Squares

† 2 Quaker Oatmeal-to-Go

† 2 Quaker Oh! s Cereal

† 2 Quaker Puffed Rice

† 2 Quaker Shredded Wheat Cereal

† 2 Quaker Squares Cereal

‡² Quisp Cereal

Other:

‡² Amp Energy Gum

‡² Aunt Jemima Mixes & Syrups

‡² Quaker Baking Mixes

Rice Snacks:

‡² Quaker Large Rice Cakes

‡² Quaker Mini Delights

‡² Quaker True Delights Rice Snacks

‡² Quaker Tortillaz

‡² Quaker True Delights Fiber Crisps

Side Dishes:

‡² Near East Side Dishes

‡² Pasta Roni Side Dishes

‡² Rice-A-Roni Side Dishes

Snacks:

‡² Baked! Doritos Tortilla Chips

‡² Baked! Lay's Potato Crisps

‡² Baked! Ruffles Potato Chips

♂² Baked! Tostitos Tortilla Chips

♂² Baken-ets Pork Skins and Cracklins

♂² Cheetos Snacks

♂² Chester's Popcorn

♂² Cracker Jack Candy Coated Popcorn

♂² Doritos Tortilla Chips

♂² El Isleno Plantain Chips

♂² Frito-Lay, Fritos and Cheetos Snack Crackers

♂² Frito-Lay, Fritos and Tostitos Dips & Salsas

♂² Frito-Lay Nuts & Seeds

♂² Fritos Corn Chips

♂² Funyons Onion Flavored Rings

♂² Gamesa Cookies and Wafers

♂² Grandma's Cookies

♂² Hickory Sticks

♂² Hostess Potato Chips

♂² Lay's Kettle Cooked Potato Chips

1² Lay's Potato Chips

1² Lay's Stax Potato Crisps

Snacks Con't:

1² Matador Meat Snacks

1² Maui Style Potato Chips

1² Miss Vicky's Potato Chips

1² Munchies Snack Mix

1² Munchos Potato Crisps

1² Natural Cheetos

1² Natural Lay's

1² Natural Tostitos

1² Quaker Soy Crisps

1² Quaker Quakes

1² Rold Gold Pretzels

1² Ruffles Potato Chips

1² Sabritones Puffed Wheat Snacks

1² Santitas Tortilla Chips

1² Smartfood Popcorn

👤² Spitz

👤² Stacy's

👤² SunChips Multigrain Snacks

👤² Tostitos Tortilla Chips

👤² TrueNorth

👤² Wavy Lay's Potato Chips

Soft Drinks:

👤² Diet Pepsi

👤² Diet Mountain Dew

👤² Diet Sierra Mist

👤² Mountain Dew

👤² Mug Soft Drinks

👤² Pepsi

👤² Sierra Mist

Sports Drinks:

👤² Gatorade Prime 01

👤² Gatorade Thirst Quencher – Perform 02

👤² G2 – Perform 02

2 Gatorade Recover 03

Water:

2 Aquafina

2 Aquafina FlavorSplash

2 Aquafina Sparkling

2 Ethos Water

2 Propel Vitamin Enhanced Water Beverage

2 SoBe Lifewater Vitamin Enhanced Water Beverage

EXHIBIT 2 – PEPSICO TIMELINE

“ 1965 – PepsiCo, Inc. is founded (Pepsi-Cola and Frito-Lay) The new company reports sales of \$510 million and has 19, 000 employees.

1966 – Doritos brand tortilla chips are introduced.

Pepsi enters Japan and Eastern Europe

1968 – Growth through acquisition

1970 – PepsiCo sales pass the \$1 billion mark. The company has 36, 000 employees..

Pepsi is the first company to respond to consumer preference with lightweight, recyclable, plastic bottles.

1974 – PepsiCo sales pass the \$2 billion mark.

Pepsi-Cola becomes the first American consumer product to be produced, marketed and sold in the former Soviet Union.

1976 – Pepsi-Cola becomes the single largest selling soft drink brand sold in U. S. supermarkets.

1977 – Acquisition of Pizza Hut

Passes \$3 billion in sales.

1978 – Acquisition of Taco Bell

1984 – Diet Pepsi is reformulated with 100% NutraSweet.

Pepsi-Cola makes advertising history as Michael Jackson and his brothers usher in a new generation of Pepsi-Cola advertising.

1985 – PepsiCo is now the largest company in the beverage industry. The company has revenues of more than \$7. 5 billion, more than 137, 000 employees.

Pepsi-Cola products are available in nearly 150 countries and territories around the world. Snack food operations are in 10 international markets.

1986 – Acquisition KFC

Purchases 7UP International

PepsiCo is listed on the Tokyo stock exchange.

1989 – PepsiCo enters top 25 of Fortune 500 ranking with sales of \$15. 4 billion, it is number 23. The company has more than 300, 000 employees.

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1992- Pepsi-Cola begins distribution of Lipton's line of ready-to-drink teas nationwide.

1994 – PepsiCo and Starbucks form the North American Coffee Partnership to jointly develop ready-to-drink coffee beverages.

PepsiCo sales reach \$30. 4 billion. There are 470, 000 employees worldwide, making PepsiCo the third largest employer.

1997 – Frito-Lay announces plans to buy the 104-year-old snack, Cracker Jack, a candy-coated mix of popcorn and peanuts from Borden Foods Corp.

1998 – PepsiCo acquires Tropicana Products

2001 – Acquisition of the Quaker Oats

2002 – Frito-Lay announces it is eliminating trans fats from Doritos, Tostitos, and Cheetos.

2005 – Quaker Introduces Weight Control Instant Oatmeal

PepsiCo Donates \$2 Million to Pakistan Earthquake Victims

2006 – PepsiCo's brand SoBe Launches New SoBe Life Water

Cold Stone Creamery announces a multi-year agreement making Pepsi its exclusive beverage supplier

Frito-Lay North America signed agreement with the Alliance for a Healthier Generation for a new policy for selling foods in schools

Federal Trade Commission clears PepsiCo for Naked Juice Co. purchase

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2008 – PepsiCo's diversification strategy built into three new divisions.

PepsiCo agrees to buy Bulgaria's Leading Nuts and Seeds Company

EXHIBIT 3- SWOT ANALYSIS

STRENGTHS WEAKNESSES

OPPORTUNITIES THREATS