

# Brief history of pepsico

[Business](#), [Company](#)



PepsiCo is one of the most successful beverage and snack food business in the world. The company consists of: Frito Lay Co., Pepsi-Cola Co., and Tropicana Products.

PepsiCo was founded in 1965 by Donald M. Kendall Pepsi-Cola president, and Herman W. Lay, president of Frito-Lay.

Caleb Bradham, a New Bern, N. C. pharmacist, created Pepsi-Cola in 1890. Frito-Lay, Inc. was formed by the 1961 merger of the Frito Company, founded by Elmer Doolin in 1932, and the H. W. Lay Company, founded by Herman W. Lay, also in 1932.

In 1998 PepsiCo acquires Tropicana Products from Seagram Company Ltd. Anthony Rossi founded Tropicana in 1947.

Frito-Lay, Inc was founded in 1961, by merging of The Frito Company and H. W. Lay Company.

Today, Frito-Lay brands account for 40% of the world, snack chip industry, and 56% of the U. S. industry.

Often, Frito-Lay Company products are known by local names (Matutano in Spain, Walkers in the United Kingdom and others.)

Caleb Bradham founded Pepsi-Cola in 1890. Brand Pepsi and other Pepsi-Cola products account for nearly one-third of total soft drink sales in the United States, a consumer market totalling about \$58 billion.

Outside the United States, Pepsi-Cola beverages are available in about 160 countries.

Today Pepsi-Cola products account for about a quarter of all soft drinks sold internationally. The company has also established operations in the emerging markets of the Czech Republic, Hungary, Poland, Slovakia and Russia, where Pepsi-Cola was the first U. S. consumer product to be marketed.

Pepsi-Cola provides advertising, marketing, sales and promotional support to Pepsi-Cola bottlers and food service customers. This includes some of the world's best and most recognized advertising. New advertising and exciting promotions keep Pepsi-Cola brands young.

Anthony Rossi founded Tropicana in 1947. The company entered the concentrate orange juice business in 1949, registering Tropicana as a trademark.

In 1954 Rossi pioneered a pasteurisation process for orange juice. For the first time, consumers could enjoy the taste of pure not-from-concentrate 100% Florida orange juice in a ready-to-serve package.

The company went public in 1957, was purchased by Beatrice Foods Co. in 1978, acquired by Kohlberg Kravis & Roberts in 1986 and sold to The Seagram Company Ltd. in 1988. Seagram purchased the Dole global juice business in 1995. PepsiCo acquired Tropicana, including the Dole juice business, in August 1998.

Today, Tropicana is the world's largest marketer and producer of branded juices with products available in 50 countries worldwide.

The Pest Analysis identifies the political, economical, social a technological influences on an organization.

- The production distribution and use of many of PepsiCo product are subject to various federal laws, such as the Food, Drug and Cosmetic Act, the Occupational Safety and Health Act and the Americans with Disabilities.
- The businesses are also subject to state, local and foreign laws.
- The international businesses are subject to the Government stability in the countries where PepsiCo is trying get into (underdeveloped markets).
- The federal, state, local and foreign environmental laws and regulations.
- The businesses are also subject to de taxation policy in each country they are operating.
- They also have to comply with federal, state, local and foreign environmental laws and regulations.
- The companies are subject to the harvest of the raw material that they use in their snack foods, soft drink and juice, like corn, oranges, grapefruit, vegetables, potatoes, etc.
- Because of they rely on trucks to move and distribute many of their products, fuel is also an important subject, so they are subject to the fuel prize fluctuation, and to possible fuel crisis.
- Operating in International Markets involves exposure to volatile movements in foreign exchange rates. The economic impact of foreign exchange rates

movements on them is complex because such changes are often linked to variability in real growth, inflation, interest rates, governmental actions and other factors.

- PepsiCo is also subject to other economical factors like money supply, energy availability and cost, business cycles, etc.

- PepsiCo and moreover Pepsi is subject to the lifestyle changes, because of it bases her advertising campaigns in a concrete kind of people with an special lifestyle, it is for that PepsiCo has to pay a special attention on the lifestyle changes.

- Particularly in the United States Pepsi drinkers are very defined, there is a kind of people who drinks Pepsi another kind who drinks Coca-Cola, it is for that they have to pay attention to the social mobility for not losing a possible market.

- Taking into account that PepsiCo is trying to introduce itself in underdeveloped markets, they have to be careful with the possible problems with the governments of this countries, and with the problems could rise from PepsiCo act with the people of this countries.

- PepsiCo is subject to new techniques of manufacturing, for their three business sectors, snack food, juices and soft drinks.

- It has to pay attention to the new distribution techniques.

- And they have to fix their attention in the competence developed, to know about the new products.

The Porter's Diamond Analysis tries to explain the Competitive Advantage of Nations. There are four attributes of a nation comprise Porter's Diamond of national advantage, they are:

The basic factor conditions are natural resources, climate, location, the more advanced factor conditions are skilled labour, infrastructure and technology.

There are some of these factors that can be obtained by any company (like unskilled labour and raw materials) and, hence, do not generate sustained competitive advantage.

Even though, we have to take into account that specialized factors involve a heavy and sustained investment, we have to know that if we are able to achieve them, we could generate a competitive advantage.

Some of the factor conditions PepsiCo has to take into account, in each country where they want to introduce are

- Interest rate. (Short term, long term).

We have to know that the nature of a country demand makes PepsiCo dependent on them.

For example if in one country exists a sophisticated demand, these customers pressure firms to be competitive. Is for that, firms that face a sophisticate domestic market are likely to sell superior products because the market demands high quality and a close proximity to such customers enable the firm to better understand the needs of the customers, in the same way it is easier spread their firms in the global market.

Some of the demand conditions PepsiCo has to take into account in the countries where they want to introduce are:

- And with competitors are established in the country.

For any company it is really important the Related and Supporting Industry. Knowing who are the range of suppliers, and the related industries, is necessary for deciding where we have to place our company.

In some cases the concentration of related and supporting industries provoke the concentration of the similar industries in the same areas. Some advantages and disadvantages of locating close to your rival may be:

Some advantages to locating close to your rivals may be:

- o Potential technology knowledge spillovers,
- o An association of a region on the part of consumers with a product and high quality and therefore some market power, or
- o An association of a region on the part of applicable labour force.

Some disadvantages to locating close to your rivals are:

- o Potential poaching of your employees by rival companies and
- o Obvious increase in competition possibly decreasing mark-ups.

Concerning to the strategy and the structure of the firm, they would be conditioned by the tradition of the country. There are different management styles in each country, and besides they vary depending on the industry.

PepsiCo has to study the different styles of management, for acting in the best way in each country, adapting its strategy and its structure as far as possible.

As far as possible the rivalry, in general is better the national than the international. In the case of PepsiCo (Pepsi); for them it is more advisable that when they are introducing in a new market, its main rival (Coca-Cola) not be positioned or at least it is not to absolute leader of the market.

We do the same analysis for the three different markets of PepsiCo: the soft drink market, the snacks market and the chilled orange juice market. We treated the three markets as a the same industry, with some exceptions as the competence

Established brands with a lot of experience in the market that a have a good channel of distribution. The brands deliver the products directly to the supermarket, this means that is necessary a big company structure (lorries, warehouses, producing plants, etc.) to arrive at retailers and supermarkets, all of this requires a big investment of money.

Well looks that at first sight, suppliers are not a problem because it" s easy to find potatoes, corn and oil suppliers. The problem that we find here is the possibility of variability of prices in the raw materials caused for example by a bad year of harvesting, or there is another petrol crisis. Also in some countries that have not petrol normally fuel petrol is more expensive and the fuel suppliers have an oligopoly of the market.



Considering that buyers are the final consumers, we can say that in this markets the consumers get used at one kind of taste, and they have this products for the importance of the brand, it" s a marketing issue as well.

In these three markets is quite difficult to find substitutes. More than substitutes we can talk more of fashion, trends, or costumer" s tastes.

Suddenly people stop has orange juice for breakfast and take more milk or coffee in mornings. It" s quite difficult to find a substitute for these products because normally the people get used at one kind of taste of cola for example, then is very difficult to try to adapt the public to a new cola.

Well these three markets are really full of rivalry.

First there is the Cola market where Coca-Cola owns an incredible 51% market share, followed far away Pepsi with a 21% of market share, is very difficult to penetrate in this market.

Then there is the Snack market where Lays have the 40% of market share, the second most important brand is Procter &Gamble (P&G), in this market the shares are more distributed, but still being two majors competitors that have most of the market.

An at the last we have the orange Juice market, this maybe is the most open market, there is a lot of competence and there is not a major brand that controls all the market. There are three important brands that have more market share, like Tropicana Coca-Cola Company and Chiquita.

Because the company is in a competitive environment it is not possible to recover the increasing costs with a higher pricing of the final products. For this reason PepsiCo have special way to purchase the raw materials. They use " futures contracts" for cover different fluctuation in the raw material market (Primarily oil, corn, fuel, etc.) is like speculate with the market.

In Orange juice products, they only use non-concentrate orange juice for creates a very tasty and healthy product completely natural.

Pepsi they just create the liquid that is sold to the bottlers, these bottlers then they can the liquid and then is sold to the costumers. PepsiCo owns at same time shares from the four bottlers companies. In fact in the past PepsiCo owned Pepsi Bottling Group, and had as a franchise Pepcom industries INC companies.

PepsiCo use the system " direct store distribution". This implies that PepsiCo products are delivered to the retailer and put it directly to the shelves, this provide a great business control to PepsiCo, and reduce work to the retailers and that fact give more advantage over most competitors.

This is a very powerful tool that PepsiCo use. It would be developed in another chapter.

We can consider that the service that makes PepsiCo value is the " direct store distribution" explained before.

Here PepsiCo uses economies of scale.

Also the raw materials are bought in future contract to prevent higher costs in the future because the high prices of the raw materials.

More than Technology development we can talk of customer preferences. It is very important to know what the customers prefer and want, then it is necessary to study the customers' behaviour. For example Tropicana Twister shelf-stable juice products had a very important volume growth because the PepsiCo relaunched the brand in 1.75 plastic bottles instead of smaller glass bottles. This provides to the customers more value and convenience.

#### Benefits At PepsiCo's Worldwide Headquarters

- Bonus opportunities at many levels
- Eligibility for stock options for almost all positions

The PepsiCo stock option plan is called SharePower. Here are some of the details:

- Once eligible, you receive PepsiCo stock options normally each year based on at least 10% of your prior year's earnings.
- Share Power stock options let you purchase shares of PepsiCo stock in the future at a set price.
- You make money if the stock price goes up and you stay with the Company.
- The longer you work for the Company, the more stock options you get.

Share Power is one way for PepsiCo employees to share in the success that they create.

A Pension Plan fully paid for by the Company.

- A 401(k) Plan which allows you to save up to 15% of your pay on a pre-tax basis and invest in any publicly traded stock or bond or in any of over 200 mutual funds.
- A stock purchase program, allowing you to purchase PepsiCo stock through payroll deductions, with no fees or commissions.

In addition, PepsiCo's portfolio of benefits includes such valuable programs as:

- Matching Charitable Contributions

Corporate Officers (Roger A. Enrico)

a) Frito-Lays; this product is a Cash Cow for PepsiCo; it generates more cash than it needs to maintain its share market. Frito-Lays is the leader of its market, and it has its principal competitor very far in the market share. PepsiCo should maintain this product, in the same way, and invest its profits in other company products.

b) Tropicana; it is a question mark for PepsiCo, it is, due to, it is a new acquisition, and although it is a product leader in its market, PepsiCo has to invest in Tropicana for achieving a bigger market share, and for trying to increase the international market share.

c) Pepsi; it is very difficult place to Pepsi, in one of the squares, because in spite of it generates more cash than it needs to maintain its share market, it is not the leader of its market, and we can neither considerate it as a star product, because of the same reason, then it probably could be place, in the middle of the matrix.

PepsiCo had reduce the total net sales in 2, 000 millions \$ during the 1999, this was due to PepsiCo sold the bottling company. But at same time the total sales from the three Business (Snacks, Soft Drinks, Orange Juice) had increase in 4, 000 millions \$. This means that the company his growing in the markets.

Because the selling of the bottling Company the total cost and expenses reduced in 2, 000 millions of \$. Because the reduced costs and the growth of the net sales in the Snacks, soft drinks, and Orange juice, the company had at the end of the 1999 more profit. (Source: 1999 Annual report of PepsiCo)

Resuming PepsiCo had in 1999 a total net income of 2, 050 millions \$ more or less the same as at 1997 (2, 142 millions of \$), but with the difference that in 1999 they stop earning money with the bottling company. This means now the company generates more profit. (Source: 1999 Annual report of PepsiCo)

Is necessary to emphasise as well that PepsiCo reduced a lot one of the big loans that he had due to PepsiCo didn" t has the necessity of borrowing money. The loan had an amount of 4, 53 millions \$ and was reduced to 1, 55 millions \$ in 1999. (Source: 1999 Annual report of PepsiCo)

PepsiCo's earnings per share jumped 17% in the third quarter ended September 2; to \$. 40 from a pro forma \$. 34 in the prior year, the fourth consecutive double-digit gain. Revenues grew 7% to \$4. 9 billion, reflecting strong volume growth in worldwide snacks and juices. Operating profit grew 12% to \$826 million as every division generated double-digit growth.

Roger Enrico, chairman, said: " Four consecutive quarters of double-digit EPS growth confirm that PepsiCo today is strong and getting stronger. We are fulfilling our goal of delivering healthy earnings gains generated by volume growth across our portfolio".

This means the company is going well but is not offering more dividends to the shareholders, after some bad years now the company is having n important growing. And this will be reflected in the dividends during the next years.

PepsiCo nowadays it is a very strong Company with no financial problems, and with three important brands. Where Frito-Lays is a very Strong brand, World leader in sells in the world snack chip industry, with a 40% of the market share. (Source 1999 PepsiCo Annual report)

In the last 3 years the company had increase his sales (without bottling operations) in a 33% since 1997. (Source 1999 PepsiCo Annual report)

Pepsi maybe is one of the weakness of PepsiCo, due that is really far away from the leader Coca-Cola in the international market. Pepsi-Cola is the second largest soft drink Company with a 21% of volume, far from the terrific 51% of volume of Coca-Cola.

The net sales of PepsiCo had increase in the last 3 years, this is important but is necessary to say that is due the increase in sales only in USA, PepsiCo didn" t growth so much in the international market, what is happening then that only growing in USA.

New markets are beginning to open in the world (China, mainly in Asia).

The opportunity to enter in the markets where the competence is not established yet.

For example in China, China is the country with more population in the world, enter in the Chinese market and establish there before the competence arrive can give to PepsiCo a great opportunity to success in the future.

The problem that in these new markets the products of PepsiCo will not have a good welcome by the Asian consumers. The flavours of the products are not really adequate for these countries.

Roger Enrico will leave the direction of PepsiCo in 2 years, this can create a little situation of panic inside the Company.

The increase the prices of the raw materials or the fuel can cause an increase of the costs, and in the business environment that PepsiCo live is not possible to increase the product price because is a very competitive environment.

Until now PepsiCo brand image was very linked to Pepsi image, which has label of second best brand.

But in the last four years, that has changed, they have tried to lost the label of 'loser", linking its image to the rest of firms company, that have a strong brand image in their markets. They have achieve that through advertising campaigns where appeared together with other PepsiCo Brands.

During the last decade Pepsi had a war with Coca-Cola, in which Pepsi always lost. In the last stage (since the arrival of Enrico) PepsiCo decides move away from that war, for focusing in its own problems.

Another step in the new strategy was the acquisition of the leader companies in related markets, for achieving a new image of powerful and consolidated corporation.

In other way PepsiCo is giving a corporation image, which is committed with subjects like racial and sexdiscrimination, and environmental problems. All that through the special programs focused on each area.

In the last four year PepsiCo has suffered radical changes in its internal structure and in its market strategies.

All these changes were propitiated by the arrival in the direction of R. Enrico, who implemented a radical change in PepsiCo" s mentality.

He made very important decisions like to come off the restaurants (Pizza Hut & KFC) and the bottlers, due to they were a heavy weight for the company.

Although they were come off them, they follow linked to PepsiCo through strategic alliances, it is to say, that the restaurants still sell PepsiCo products



and the bottlers follow bottling Pepsi. Moreover PepsiCo has a minority percent of share of these companies.

Other important decisions that Enrico made were the strategic acquisitions of leader companies in related markets, like Tropicana and Mountain Dew.

These acquired companies have given to PepsiCo as much profits as stronger company brand image of New PepsiCo.

After analysing PepsiCo we have noticed that in spite of the company has increased its net product sales, that is not a real increase because the sales have increased due to the new acquisitions, and not because of the increase of the products, which already existed in the company. For this reason we recommended that, they should consolidate its old product and try to increase they sales.

Another section, where we would like to make a recommendation, it is into the international section of PepsiCo, we think that they are too focused in the U. S. (although it is true that it is the market where they have biggest volume of sales), but they should try to consolidate in the international markets, and as well to try to penetrate in undeveloped markets, where its competitors are not established yet (i. e. Chinese market).