

Financial performance of pepsico according to distribution channel

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



PepsiCo, Inc. became incorporated in 1919. The company manufactures, and markets soft drinks and snacks. PepsiCo and its different departments and subsidiaries are operating in three kinds of business segments namely: worldwide Snacks, Worldwide Beverages and Quaker Foods North America (QFNA). Frito-Lay North America (FLNA) and Frito-Lay International (FLI), these are the two business that form the company's snackfoodbusiness. The three business units that form the beverage business are: Pepsi-Cola North America (PCNA), Gatorade/Tropicana North America (GTNA) and PepsiCo Beverages International (PBI).

On August 2, 2001, the Quaker Oats Company (Quaker) signed a merger transaction with PepsiCo and with that became one of the subsidiaries of the company. PepsiCo and its divisions and subsidiaries operate in three business segments: Worldwide Snacks, Worldwide Beverages and Quaker Foods North America (QFNA). The Company's snack food business is comprised of two business units: Frito-Lay North America (FLNA) and Frito-Lay International (FLI). The Company's beverage business is comprised of three business units: Pepsi-Cola North America (PCNA), Gatorade/Tropicana North America (GTNA) and PepsiCo Beverages International (PBI).

On August 2, 2001, the Company completed a merger transaction with The Quaker Oats Company (Quaker) whereby Quaker became a wholly owned subsidiary of PepsiCo. (http://www.pepsico.com/PEP_Investors/AnnualReports/06/index.cfm) In comparison to its 1999's net sales of \$20,367 and \$18,666 in the year 2000, PepsiCo had a reported net sale of \$20,348 and a comparable net sale of \$20,144. In 2000 PepsiCo

has respectively increased its comparable net sale with 8% while in 1999 it had an increase of 15% in net sales, reflecting that the increase rate is going slower.

On the other hand, PepsiCo's interest expense declines 39% showing that the company is significantly lower the average debt level. The report in 1999 shows that the company's interest expense dropped by 8%, this indicates that the company is performing well in managing its financial strategies. Details about the financial performance of the company will be discussed later in this paper. The beverage business in 2001 brought in 39% of PepsiCo's sales, and 35% of operating profits. Quaker Oats makes the Gatorade sports drink, Breakfast Cereals, Oatmeal's, grits, pancakes, rice, and pasta.

Quaker Oats brought in 7% of PepsiCo total sales and 9% of operating profit. PepsiCo international business is 29% of sales. Since the corporation is relatively young, many of the brand names are over 100 years old. In 1965 PepsiCo was founded by the merging of Pepsi-Cola and Frito-Lay. In 1998 Tropicana was acquired and in 2001 they merged with the Quaker Oats Company, including Gatorade. The success of the company is the result of the superior products, the high standard of performance, distinctive competitive strategies and the high integrity of their people.

Corporate Overview and Financial Performance PepsiCo is a major consume product companies in the world, with a revenue base of over \$20 billion as of the year 2000, and about 125, 000 employees. PepsiCo consists of: Frito-Lay Company, the largest manufacturer and distributor of snack chips; Pepsi-

Cola Company, the second largest soft drink business and Tropicana Products, the largest marketer and producer of branded juice. PepsiCo brands are among the best known and most respected in the world and are available in about 190 countries and territories.

(<http://www.echeat.com/essay.php?t=31117>) In the year 2000, the company reported a \$20,348 net sale and comparable net sales of over \$20,000, in comparison to net sales of \$20,367 in 1999. This depicts how PepsiCo has been increasing its comparable net sale. For example, the company's net sales rose by about 8% in 2000. This reflects the increasing rate is going slower. On the other hand, PepsiCo's interest expense declines 39% showing that the company is significantly lower the average debt level.

Back to 1999, the report shows that the company's interest expense dropped 8%, which indicates that the company is performing well in managing its financial strategies. (<http://www.echeat.com/essay.php?t=31117>) Strategic Management Board The CEO and Chairman of the PepsiCo Board is Roger A. Enrico. He was elected as the company's CEO in April 1996, and after serving as the company's Vice Chairman, he became the Chairman of the Board in November 1996. Enrico, once wanted to become an actor, and he understands that great marketing involves pure theater.

He has been with pepsico for about 29 years, during which he has staged some of the most spectacular productions in marketing. His opinion is that Coke's leadership tried to put pepsico out of business, but the company refused to look for a temporary boost or short term gains, in the face of their major competitor's antics. He was responsible for spinning off Pepsi's

bottling operations that were quite capital-intensive, into a separate, independent public company. He also spent about \$3.3 billion in the acquisition of the leading orange juice brand, Tropicana.

The top one of fifty most talented executives of the company, Roger A. Enrico, demonstrates his excellent ability of leadership as representing the company to show the Wall Street that PepsiCo can deliver superior performance quarter after quarter. One of Enrico's top priorities is to attract more investors into the stock. In international markets, Enrico still faces several obstacles in building Pepsi's soda business; however, he builds up his strategy to place his biggest bets on developing markets, such as India, China, and Russia. "The key thing is not to merely plant flags," says Peter M. Thompson, CEO of Pepsi-Cola International. "It's to make sure you build a business, customer by customer, block by block, day by day." In India, where per capita soft drink consumption is seven servings a year, vs. more than 700 in the U. S. , and where deliveries are often done on three-wheel bicycles, Pepsi finds the most prominent businessman in each town and gives them exclusive distribution rights, tapping their connections to drive growth. Over the past five years, volume has risen at a 26% annual clip. Pepsi has stolen 19 points of market share from Coca-Cola, bringing Pepsi's share to 47%, close to Coke's 52%.

(<http://www.echeat.com/essay.php?t=31117>)

ExternalEnvironmentSocietal Environment 1. Economic Factors Some key elements that have been considered are the foreign exchange rate, the principal market risks that PepsiCo is exposed to, the interest rate, and price

of commodity. PepsiCo has been able to manage its overall financing strategies effectively by maintaining a balance between the company's risks and investment opportunities. The company is also involved in modifying the interest rate through the use of interest rate and currency swaps, so as to reduce the company's overall borrowing costs.

Operating in international markets involve exposure to movements in currency exchange rates, which typically affect the economic growth, inflation, interest rate, government actions and other factors. Once these changes occur, they will cause PepsiCo to adjust its financing and operating strategies. Changes in currency exchange rates that would have the largest impact on translating PepsiCo's international operating profit include Mexican peso, British pound, Canadian dollar and Brazilian real.

Through years, macro-economic conditions in Brazil, Mexico, Russia and across Asia Pacific have adversely impacted on PepsiCo's operations. Especially, the economic turmoil in Russia which accordingly resulted in the devaluation of the ruble in 1998 caused the significant drop in the soft-drink demand. Although PepsiCo is the number one seller in carbonated beverages, it lost its market share in 2000 as consumers seek for alternative beverages. As the matter of fact, PepsiCo switches to non-cola products such as bottle-water, ready-to-drink tea and sports drinks.

In turn, bottled water gained the market share up to 12.8% in unit sales. (<http://www.echeat.com/essay.php?t=31117>) Going by a reports published by Beverage Marketing Corporations, the soft drink industry is expected to grow at a slower rate within the next 4 years. The industry had a

five-year compound annual growth rate (CAGR) of 5.0% between 1993 and 1998. But for the five-year period from 1998-2003, the CAGR is estimated to drop to about 4%. Although colas are the most important soda flavor on the market, the strongest growth in the industry is in the non-cola segment. (<http://www.echeat.com/essay.php?t=31117>)

Internal Environment Corporate Structure PepsiCo owns has its corporate headquarters buildings in Purchase, New York. The company is engaged in the snack food, soft drink and juice businesses. Each product category is further divided into North America segment—US and Canada—and international segment. (PepsiCo 2000 Annual Report) Corporate Culture There has been an ongoing systematic change in PepsiCo over the past two decades, from passivity to aggressiveness, so as to adapt to changing threat from competitors, and to avoid stagnation in the corporation.

At one time, the company was content to remain second to Coca-Cola, and be seen as an alternative to coke, but today, new employees find out very fast that beating the competition is very important to the company, and is the surest path to success. PepsiCo now has a culture that is based on one goal: to become the number one choice among soft drinks. This has led to managers trying to acquire more market share, and to work harder to enable more profit. In marketing, PepsiCo is now ahead of Coke in the domestic take-home market.

There is also a lot of pressure and challenge on the competition's hold on the market overseas. PepsiCo has also developed the national marketing,

promotion and advertising programs that support the company's many brands and brand image, oversee the quality of the products; develop new products and packaging, and coordinates selling efforts. (PepsiCo 2000 Annual Report) Finance In 2001, PepsiCo's net sales went up by 8% to \$4.54 billion. The company's Net income also rose by 18% (\$498 million). Revenues benefited from gains in volume across every division.

PepsiCo's net income also showed an increase in gross profit because of increased net pricing. In 2001, PepsiCo sales had been decreasing slightly during the previous 3 years but the company still turned out huge profits that year. PepsiCo recorded a 33% debt/equity ratio and 10.9 profit margins, as compared to industry 8.10%. In 2006, the company's net sales advance rose 8% to over \$4.5 billion during the first quarter alone, and earnings per share increased by 17% to \$.34. This shows that PepsiCo has a very strong revenue growth.

- EPS grows 15% in the 16-week quarter to 38 cents, and 17% for the 52-week year to \$1.45
 - Each division boosts Q4 volume, and gains market share for the year
 - Net sales advance 8% to over \$6 billion for the quarter, annual sales grow 8% and exceed \$20 billion
 - Every division posts double-digit operating profit growth in the quarter, annual operating profits advance 13% to \$3.5 billion
 - Operating cash flow grows 33% to \$2.7 billion
 - Return on invested capital (ROIC) improves to 23% -- a 250 basis point increase
 - 2001 outlook for continued double-digit earnings growth (<http://www.echeat.com/essay.php?t=31118>)
- PepsiCo bought \$383 million worth of goods and services from minority-owned and women-owned suppliers in the

year of 2000. The Women's Business Enterprise National Council named the company among America's Top Corporations for Women's Business Enterprise. PepsiCo minority and women business development programs were rated among the top-10 nationally by the National Minority Supplier Development Council. (<http://www.echeat.com/essay.php?t=31118>)

Analysis of PepsiCo's strategic factors Recycling of Containers PepsiCo has the ability to recycle its containers, and this has also paid off financially. Due to the liquid nature of Pepsi's product, it is necessary that a solid and non-porous container be used to store the product. This fact leads to the use of plastics, aluminum, and glass as materials for the containers that Pepsi is stored in. These materials work very well for the purpose of their use, however these materials do not biodegrade easily.

Every day, 93 million empty soft drink bottles and cans are thrown away, rather than recycled. In November 2000, the boards of Pepsi and Coke passed resolutions for future container recycling targets. The resolutions call upon management to establish recycling targets and prepare a plan to achieve them by January 1, 2005. There are two goals: (1) achieving an 80 percent national recycling rate for bottles and cans; and (2) making plastic bottles with an average of 25 percent recycled plastic. (<http://www.echeat.com/essay.php?t=31118>)