

# Strategy formulation of pepsico incorporated



**ASSIGN  
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## Stage-3

## Strategy Formulation of PepsiCo Incorporated

PepsiCo Incorporated is one of the most giant and most renowned corporations in the food processing industry. They have proven to be one of the most competitive and efficient corporation over the years, which we have verified in details through our strategic analysis. But in order to discuss the strategic formulation of the company we have to understand the aspects it is going to cover of PepsiCo Inc., the formulation basically provides a clear set of recommendations, with supporting justification, that leads us to the mission and objectives of PepsiCo Inc., and it further supplies the strategies that the company has adopted in order to accomplish them.

PepsiCo's corporate strategy is mainly comprised of the four types of initiatives which they considered for their growth which are the following:

1. Made the necessary moves to establish positions in different businesses and achieve an appropriate amount and kind of diversification. A key part of corporate strategy is making decisions on how many, what types, and which specific lines of business the company should be in. This may involve deciding to increase or decrease the amount and breadth of diversification. It may also involve closing out some LOB's (lines of business), adding others, and/or changing emphasis among LOB's.
2. Initiated actions to boost the combined performance of the businesses the company has diversified into: This may involve vigorously pursuing rapid-growth strategies in the most promising LOB's e. g. Pepsi, Lays

and many more while keeping the other core businesses healthy, initiating turnaround efforts in weak-performing LOB's with promise, and dropping LOB's that are no longer attractive or don't fit into the corporation's overall plans. It also may involve supplying financial, managerial, and other resources.

3. Pursued ways to capture valuable cross-business strategic fits and turn them into competitive advantages — especially transferring and sharing related technology, procurement leverage, operating facilities, distribution channels, and customers.
4. Established investment priorities and moving more corporate resources into the most attractive LOB's.

In formulation, we are trying to figure out the current objectives and strategies that have led to the success of the organization. This in turn created “ sustainable” competitive advantages, although most competitive advantages are eroded steadily by the efforts of competitors. But, corporate strategy is concerned with broad decisions about the whole organization's scope and direction. Basically, it considers the changes that should be made for growth and the strategies for achieving it. There are basically three components of corporate level strategy:

1. Growth or Directional strategy (What should be the growth objective, ranging from retrenchment through stability to varying degrees of growth – and how to accomplish it?)
2. Portfolio strategy (What should be the portfolio of lines of business, which implicitly requires reconsideration of how much diversification should the corporation have?)

3. Parenting strategy (How they allocate resources, manage capabilities and activities across the portfolio? and Where to put special emphasis, and how much to integrate the various lines of business?)

In details PepsiCo Inc. is most extensively following the growth strategy among the three components of corporate level strategy over the years.

They have very skillfully formulated the main strategies of growth strategy which are discussed systematically below:

- Forward vertical integration- This type of strategy can be a good one if the company can grow by taking over functions forward in the value chain previously provided by final manufacturers, distributors, or retailers (“ forward integration”). This strategy provides more control over such things as final products/services and distribution. PepsiCo has undertaken its beverage bottling and distribution primarily by companies such as the Pepsi Bottling group and Pepsi Americas. This strategy has led to a huge success in terms of revenue for the company’s beverage sector. According to the 2009 Annual Report of the company most of its beverages such as Pepsi, Mountain Dew, Gatorade, Diet Pepsi, Tropicana and 7UP generates more than \$1 annually.
- Horizontal Growth- This strategy involves expanding the company’s existing products into other locations and/or market segments, or increasing the range of products/services offered to current markets, or a combination of both. In the context of globalization PepsiCo started off as an American company with their two companies PepsiCo American Foods (PAF) and PepsiCo American Beverages (PAB) but later

through various strategic alliances they have been successful in penetrating the markets some of the major leading markets in the world, which formed the companies PepsiCo Europe and PepsiCo Asia Middle East and Africa (AMEA).

Currently PAF had another exceptional year with strong net revenue and operating profit growth despite significant commodity inflation, they have been able to sustain consumer momentum with solid innovation and targeted value offerings. Although all of Europe was hit hard by the recession, PepsiCo Europe excelled its peers and delivered solid results through excellent revenue management, tight cost controls and outstanding productivity. AMEA had another year of solid revenue earnings and operating profit driven by strong volume growth across the region, with exceptional growth in their India beverage business. PAB on the other hand has faced considerable category pressures in North America, but is trying to recover by rejuvenating the entire beverage portfolio.

- Related/ Concentric diversification- is an alternative that competitive companies adopts to expand into a related industry, one having synergy with the company's existing lines of business, creating a situation in which the existing and new lines of business share and gain special advantages from commonalities such as technology, customers, distribution, location, product or manufacturing similarities. For example, PepsiCo purchased Tropicana in 1998 and Quaker Oats in 2001. This is a strategy they mostly used to avoid the controversial aspects of their carbonated drinks, by posing a healthier range of products.

- Mergers and Sell-off- PepsiCo merged with Frito Lay in 1965. Until 1997, it also owned KFC, Pizza Hut, and Taco Bell, but these fast-food restaurants were later sold to Tricon Global Restaurants, now known as Yum! Brands, Inc. Now according to the 2009 annual report PepsiCo has reached an agreement on merging with their two anchor bottlers, Pepsi Bottling Group and PepsiAmericas, in order to create a more agile, efficient, innovative and competitive beverage system, which will enable them to extend their leadership position in the North American Liquid Refreshment Beverage business. With this merger PepsiCo will also be a \$60 billion company in terms of annual revenue.