

Pepsico foods western canada – organizational analysis



1. 0 Vision, Mission and Strategy

Pepsico Foods Western Canada (PFWC) is part of Pepsico Foods Canada (PFC) – one of two business units that make up Pepsico Canada. PFC has two main portfolios – Frito-Lay and Quaker Foods. The parent company of Pepsico Canada is Pepsico Inc. PFWC's strategy to drive growth through innovation, service promise and programming (Pepsico, 2018) is embedded in the parent company's overarching Performance with Purpose goals strategy which forms the core of this analysis.

Pepsico Canada has a clear vision and mission statement easily located on the company's website. Along side the vision and mission statements are a “Performance with Purpose” philosophy that guides the company's strategy for achieving the corporate business objectives.

In analysing the vision mission and strategy, it is pertinent to quote the statements:

“ Our mission is to be the world's premier consumer products company focused on convenient foods and beverages. We seek to produce financial rewards to investors as we provide opportunities for growth and enrichment to our employees, our business partners and the communities in which we operate. In everything we do, we strive for honesty, fairness and integrity.”(Pepsico, 2018)

“ Our vision is put into action through programs and a focus on environmental stewardship, activities to benefit society, and a commitment

to build shareholder value by making PepsiCo Canada a truly sustainable company.”(Pepsico, 2018)

“ At PepsiCo Canada, we’re committed to achieving business and financial success while leaving a positive imprint on society - delivering what we call Performance with Purpose.” (Pepsico, 2018)

A close look at these statements and the materials provided by Pepsico for this class project reveal a well thought out strategy. One of the classic definitions of strategy is that it includes a pattern of objectives, purposes or goals and the major policies and plans for achieving these goals. According to Hambrick and Fredrickson (2001), a good strategy should have five elements or parts, essentially providing answers to five questions - arenas, vehicles, differentiators, staging and economic logic. A review of Pepsico foods vision, mission and strategy framework clearly answers these questions as follows

Arenas- Pepsico clearly states that the company will be active in the consumer products space with a focus on food and beverages

Vehicles- The Performance with Purpose strategy incorporates human, environmental and talent sustainability components. Offering a broad range of high quality food and beverage products that are healthy and tasty, while conserving the environment and developing employees are the mainstay of the company’s strategy

Differentiators- Pepsico Western Canada has identified innovation, service promise (delivery) and programming as the three pillars of growth (Pepsico,

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2018). Variety of new product designs, direct-to-store delivery and programming partnerships with major sports and gaming audiences give the company a competitive edge

Staging- The three elements discussed above constitute the substance of the strategy or what is planned for execution. Staging addresses the speed or sequence of moves that the company takes to increase the likelihood of success. From the presentations and visit to Pepsico, there appears to be a series of plans being executed in stages to grow the existing businesses while exploring partnerships in spaces like E-commerce for the navigating the changing business landscape of consumer-packaged goods retail.

Economic Logic- From speaking to the Pepsico executives during the field office visit, branding, costs reduction and reaching the customer appear to be key components driving the company's economic benefits. A focus on display execution and running a lean organization were clear. Tight controls on product quality (seed to shelf) and the concept of keeping products fresh will also ensure customer trust and loyalty.

2. 0 Resources

Pepsico Inc. (and consequently PFWC) has a wide range of resources available for executing its business objectives. Tangible, intangible and human resources are typically the source of a firm's capabilities and below is an analysis of resources available to the company.

2. 1 Tangible Resources

2. 1. 1 Financial Resources: Pepsico Inc.'s 2017 Annual report is the basis for this analysis. The liquidity ratios – Current ratio and Quick ratio for 2017 are 1.5 and 1.3 (See Appendix A) respectively and have been trending up since 2015. This shows a strong ability to meet obligations with the companies most liquid assets. Sales revenue of \$63.5bn was reported in 2017 out of which \$18.3bn was contributed by Frito-Lay North America and Quaker Foods North America, which PFWC directly rolls up to. Pepsico Foods Inc. also had strong cash flows with \$7bn resulting from operating activities in 2017. More financial analysis is discussed in Section 4.0 of this report. The results show that the company has a high borrowing capacity as well as strong internal funds generation abilities to support business plans.

2. 1. 2 Physical Resources: The 2017 annual report puts the value of Pepsico Inc. property, plant and equipment at ~17bn (net of accumulated depreciation). There are several plants in the US and several other global locations. In Western Canada, PFWC has a large-scale manufacturing plant with recent up-to-date technology situated in Lethbridge, strategically located to serve western Canada. With recent lean initiatives, the plant is now used to execute the direct-to-store delivery strategy of PFWC where customers (retail stores) have their orders loaded directly from the plant. There are also distribution exchange centers in Calgary, Edmonton and several other hubs that are running efficiently to help achieve business objectives.

2. 2 Intangible Resources

There is an extensive portfolio of intangible resources available to Pepsico Inc. and PFWC. Patents, technology, and a strong brand are critical success factors for the company. The 2017 annual report show intangible assets worth \$1. 2bn net, comprising franchise rights, brands and other identifiable assets with estimated useful life of up to 60 years. Pepsico Foods have a strong reputation for producing quality products and this translates to customer loyalty and plenty of goodwill support for the company.

2. 3 Human Resources

One of Pepsico Inc's greatest strengths is in its people. Talent sustainability is a key component of the company's Performance with Purpose goals. The company reported one million hours of training completed for its associates in 2017. Management commitment to increasing employee skills, providing a safe and healthy work environment and building an inclusive culture that recognizes diversity as a strategic priority is sure to help the company achieve sustainable business goals. It is also noteworthy that the company has a national community strategy that supports building strong communities by encouraging employees' community volunteering efforts.

3. 0 Capabilities and Organizational Structure

Christensen and Kaufman (2008) defined capabilities as the processes or patterns of interaction, communication, coordination and decision making through which organizations transform inputs into value-added products and services. The company has several strong processes and capabilities that have been developed over the years

Pepsico Inc. (and Pepsico Foods Canada) main functional capabilities include the following:

3. 1 Manufacturing/Operations: A visit to the beverage plant in Calgary revealed a lean manufacturing operation which leads one to believe that the Lethbridge plant and other manufacturing facilities would be leveraging the same strengths. The company seems to conduct its manufacturing with advanced technologies. With each operational segment focussing on a single line of products, efficiency is consistently at optimal levels.

3. 2 Supply Chain: PFWC has managed a huge supply chain operation for several years and developed a robust process. With the Direct Store Delivery and efficient distribution exchange hubs, products get to the customers on time to avoid sales disruptions. Strategies for growing potato with local farmers and managing product quality from seed to shelf also gives the company a competitive advantage. The company places production plants near the main sources of raw materials to save on transportation costs. Economies of scale is the main value that Pepsico gets from its supply chain practices

3. 3 Marketing and Sales: Sales revenue numbers have been impressive and could only be achieved through a strong and competent marketing team. In a rapidly changing consumer packaged goods (CPG) market, the company has continued to update its marketing strategies to meet the challenge. The company makes use of extensive media and print advertising, social media marketing, celebrity endorsement and product placement. There is a weakness in the over-dependence on large retailers for sales.

3. 4 Human Resource Management: With talent sustainability being a part of the performance with purpose goals, the human resource function is an area where the company has developed significant capabilities.

The company also has a few cross-functional dynamic capabilities that are critical for success in the constantly changing business environment. These include Innovation / New Product Design, Quality Management and Research and Development and Branding.

3. 5 Innovation / New Product Design: Innovation is a key dynamic capability for Pepsico Foods. The ability to develop such a wide variety of snacks and other products speaks to this strength. In the last year alone, an extended Simply line of potato chip snacks, Quaker 3 minutos and creative media ideas like the revamped Tasty Rewards program and creating experiences through programming at major sports events reflect a real strength in innovation. The weakness here is a tendency to have too many products struggling for market share.

3. 6 Quality Management: The tight control on recipes, and stringent quality control regimens as the ones observed at the beverage factory ensures that the snacks and other products taste the same all the time. Keeping the snacks fresh also ensures the same great tastes all the time. During the PFWC visit, it was stated that snacks that stay on the shelf beyond the “fresh” time frame are sent to the farms as pig food. With customers assured of tasty products, PFWC will continue to keep its customer base.

3. 7 Branding: Branding appears to be one of the strongest capabilities at

Pepsico. The wide array of products designed and launched with distinct
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themes, a world-wide recognition and visibility at major global events puts Pepsico at the forefront of brand management. The excellence in display execution and the strong partnerships with retail and food service partners have enabled a strong brand reputation.

3. 8 Merger and Acquisition Experience: From information gathered at interviews and class presentation, Pepsico appears to be very skilled at mergers and acquisitions. In 2018, they have acquired Bare Foods (S. Gannon, personal communication, 2018) and SodaStream. This capability enables the company to snap up startups that can easily create disruption in the marketplace

3. 9 Organizational Structure

PFWC is currently structured primarily with functional teams working in the business units and regional departments. Pepsico has a decentralized organizational structure with operational decisions being made within the separate business units while being governed with policies at the corporate level. Each sub-division is engaged with a specific product line and therefore is empowered to act autonomously.

3. 10 Core Competencies

PFWC primary activities include logistics, operations, marketing / sales and customer service. Capabilities in the following key areas have really made the company successful in the market place (See Appendix B for VRIO Analysis):

- Supply Chain – Integrated supply chain and distribution practices across Pepsico brands
- Branding – Large, yet focused brand portfolio
- Marketing / Sales
- Innovation/New Product Design
- Merger and Acquisition Experience

These capabilities have been developed with an over-arching strategy of talent sustainability. Without its people, none of the successes would be possible. The human resource management practices must be sustained at PFWC and Pepsi Inc. as the company get ready for the pending disruption in the business landscape.

4.0 Priorities

Pepsico Inc. (and PFWC) priorities are reflected in the performance with focus goals. The focus areas are:

- Sustained Growth – Portfolio transformation, powerful brands, retail partnerships, eCommerce and digitalization to achieve more agility and efficiency
- Empowered People – Talented people, workforce readiness for disruption, shareholder value.
- Social / Environmental Performance – Minimize impact to operating environment, Cost reduction, sustainable packaging, community engagement, build trust.

It is commendable that the company has prioritized making sustainable development components an integral part of executing their business goals

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as this will properly position them for a future where consumers, governments and several stakeholders take a renewed interest in the protection of the planet.

5. 0 Financial Analysis

The financial update provided by PFWC and the 2017 Annual report for Pepsico Inc. submitted to the Securities and Exchange Commission form the basis of this financial analysis. (See Appendix A for ratios table).

The West Finance Update for Frito-Lay and Quaker shows a net operating profit before tax of \$33. 6mm (\$3. 5mm less than Annual Operating Plan *AOP*) for Period 8, and \$230MM (\$2. 2MM above AOP) for year-to date. This reflects a strong portfolio performance, driven by brand sales (ruffles, tostitos and multipack) and supplier partnership (WMT, Costco, Metro and Dollarama).

Because the West Finance Update is provided in non-standard format, all the financial ratios are based solely on numbers from the annual report.

Appendix A shows the financial ratios table and the detailed computations for results discussed below. In Frito-Lay North America (FLNA) net revenue increased by 2% while Quaker Foods North America (QFNA) saw a decline by 2%. The company achieved organic growth of 4% in 2017.

4. 1 Liquidity Ratios: To assess the company's ability to meet its obligations in the short-term, the Current ratio and Quick ratios have been calculated. With a current ratio of 1. 5, Pepsico Inc has \$1. 5 of current assets for every \$1 of current liabilities in 2017. Its showed an increase from 2016 and is

greater than 1.0 indicating adequate assets available to settle current liabilities. The quick ratio is 1.3 reiterating the ability to meet current liabilities with its most liquid assets (account receivables and cash)

4.2 Solvency Ratios: A debt-to-equity ratio of 2.1, increasing only 1.6% from 1.8 in 2016. This signifies that for every dollar in shareholder equity, there is a debt of \$2. The company financial notes elaborate the debt financing strategy. The net debt as a percentage of capitalization show that debt represented ~50% of capitalization in 2017. A cross-sectional analysis will have to be performed to check whether the debt levels are comparable to other companies in the CPG industry

4.3 Coverage Ratios: Interest coverage is at 11.8 in 2017 indicating more than enough resources available to cover interest expense from earnings. The cash flows from operating activities to total liabilities is at 14% in 2017. This is a measure of the percentage of total liabilities that could be met with one year's operating cash flow.

4.4 Profitability Ratios: Gross Margin is at 54% in 2017, down about 2 percentage points from 2016. Profit Margin is at 16.6%, up by 1 percentage point from 2016. Return on Assets and Return on Equity are at 6.3% and 4.4% respectively, both slightly lower when compared to 2015. Again, a cross-sectional analysis is required to compare these numbers against other companies in the industry.

5.0 Conclusion

To conclude, Pepsico Inc. is a strong and viable business with resources to sustain future growth. The company must continue to harness its core competencies -innovation, powerful branding, quality management and its people to transform its portfolio while maintaining strong performance of its existing businesses. There is a huge opportunity to explore the e-commerce and digital space to reach the consumer as brick and mortar stores continue to decline in market share for consumer goods.

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Appendices

Appendix A Financial Ratios Table

Financial Ratio	Formula	Pepsico Result
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	2017: 1.5 2016: 1.25 2015: 1.3
Quick ratio	$\frac{\text{Current Assets} - \text{Inventory} - \text{prepaid}}{\text{Current Liabilities}}$	2017: 1.29

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		2016:
	Expenses/Current	1.08
	liabilities	2015:
		1.05
		2017:
Debt to	Net	2.1
Equity	Debt/Shareholder	
Ratio	Equity	2016:
		1.8
Net Debt		2017:
as % of	Net	0.52
total	Debt/Shareholders	
Capitalizati	Equity+Net Debt	2016:
on		0.51
		2017:
		11.58
Interest	EBITDA/Interest	2016:
Coverage	Expense	7.94
		2015:
		9.16
Cash Flows	Cash Flows from	2017:
to Total	Operating	0.14
Liabilities	Activities/ Total	2016:

		0. 17
	Liabilities	2015:
		0. 32
		2017 –
		\$7,
		205,
	Cash from	000
	Operating	2016 –
Net Cash	activities- Net	\$7,
Flow	Capital	732,
	Expenditures-	000
	Dividends on	
	Preferred shares	2015 –
		\$8,
		192,
		000
Gross	Gross Margin/Sales	2017:
Margin	Revenue	54.
		7%
		2016:
		56.
		7%
		2015:
		54.

		4%
		2017 –
		16.
		5%
		2016 –
Profit	Net Income/Sales	15.
Margin	Revenue	6%
		2015 –
		13.
		2%
		2017:
		0. 063
Return on	Net	2016:
Assets	Income/Average	0. 089
Ratio	Total Assets	2015:
		0. 079
Return on	Net Income/	2017:
Equity	Average Total	0. 44
	Shareholders'	2016:
	Equity	0. 55
		2015:

0. 37

Appendix B VRIO Analyses

Criteria

(Strategic Pepsico Analysis

Capabilities)

Valuable

Capabilities

- Manufacturing/
Operations
- Supply
Chain/Distributio
n
- Operations
- Marketing and
Sales
- Financial
Resources
- Quality
Management
- Environmental
and Social
Performance
- Innovation
- Mergers and
Acquisition

Experience

Rare
Capabilities

- Branding
- Research and Development
- Integrated Supply Chain

Costly-to-imitate
Capabilities

- Branding
- Innovation / New Product Design
- Integrated Supply Chain/Distribution
- Merger and Acquisition Experience

Organized to be Exploited

- Human Resource Management/Talent sustainability
- Regional Business Units
- Integrated Supply Chain and Distribution

Networks

- Retailer

Partnerships