

Analysis of the core competences of pepsico



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PepsiCo is an organization that has been known for its marketing and distribution prowess. This section is dedicated to analyzing the core competences of PepsiCo and evaluating their effect on the strategy adopted by the organization.

Tangible Resources

In this section, we analyse in detail, the tangible resources of PepsiCo under the following heads:

Financial Resources – PepsiCo has a strong financial backbone to support its aggressive marketing strategies, promotional campaigns and social activities. It works in collaboration with various governments in the countries that it operates and has operational ties with various civic authorities. It's capacity to generate finances is showcased by the fact that it could raise 31.37 billion rubles from a Ukrainian juice manufacturer, WBD which it acquired last year[i]

Organisational Resources- PepsiCo recently revamped its organizational structure in an effort to handle the double digit growth prospects. It has three broad units, each of which looks after a sizeable business. The CEO of the company Indra Nooyi is known to be a flamboyant leader. She is known to lead by delegation and empowerment. This increases the loyalty of the employees towards the organization[ii].

Physical Resources – PepsiCo has state-of-the-art manufacturing plants at three locations in India[iii]. In addition to this, it has 37 bottling plants, of which 17 are owned by PepsiCo. These are spread all over India, which help in increasing the reach of its products and ensuring timely delivery.

Technological Resources - PepsiCo tries to keep itself abreast of the latest technological developments. In a recent step taken, it has added hydrogen injected trucks to its delivery fleet in Canada[iv]. This was done as an effort towards increasing the fuel efficiency of its fleet and reducing emissions.

Intangible Resources

We look at the various intangible resources held by PepsiCo under the following heads:

Human Resources - PepsiCo attracts some of the best minds in the industry. By providing them enough financial and non-financial motivation and handing them challenging tasks to perform, they keep their employees satisfied and loyal to the organization.

Innovation Resources - The pace of innovation in functional foods and beverages division in PepsiCo has picked up since 2002. PepsiCo is second, after Kraft in this industry with 101 innovations since then. Some competitors are outspending PepsiCo on R&D investments by nearly two to one margin[1]. But PepsiCo has been making good use of every dime spent on the R&D as is seen from the number of innovations vis-à-vis its competitors.

Reputational Resources - In a study conducted , it was seen that Pepsi as a brand enjoys a good reputation with the customers. They like it for its distinct taste. The study also pointed out that the brand name of Pepsi is certainly a force to reckon with. The quality perception of the product is generally high. However most of the customers see it as a drink second to Coke. One area wherein PepsiCo scores over its rivals is the social initiatives

like contract farming and positive water balance. Due to this, it has a very strong reputation with its suppliers.

Capabilities

PepsiCo as an organization, has survived strong competition from its more established rivals like The Coca Cola Company , Nestle among others due to the following capabilities that it has:[v]

Muscular Global Brands and Consumer Goodwill – Over the years, PepsiCo, with its portfolio of global brands, has built platforms for growth. Its highly focused portfolio offers many of the world’s best-known foods and beverages-brands of enduring appeal. The portfolio includes 15 brands that each generate more than \$1 billion in annual retail sales. That’s more than any other food and beverage company. Pepsi leads the parade with \$15. 6 billion in annual sales. The company has been successful in entering into licensing ventures with other well-known names, such as Starbucks and Lipton, and has had huge success with global promotions by linking with globally recognized brands.

Robust Technology/Manufacturing Platforms – PepsiCo’s global brands are supported by sophisticated technology and manufacturing platforms. These platforms include the science of nutrition, food and beverages, process and manufacturing, and packaging. Each of PepsiCo’s divisions contributes to the knowledge and technology platforms, creating an institutional knowledge base that can be shared across divisions. Such sharing of best-practice knowledge creates a competitive advantage, because it allows PepsiCo to differentiate its products from competitors, and promotes innovation in

products and processes. It is also a significant growth advantage: cross-fertilization between divisions allows for the creation of new products that can be brought to market. The various process and manufacturing platforms allow PepsiCo not only to improve existing products and packages, but also to create entirely new ones. Equally important, innovation gives retailers a great reason to feature products prominently

Global Footprint - PepsiCo employs 137, 000 people in 200 countries.

Including the bottling system and other partners, it generates some \$39 billion in revenues, of which 35% comes from outside North America. The company has nearly 700 manufacturing facilities worldwide, 2, 100 distribution centers and 70, 000 routes. In addition to its presence in North America, PepsiCo has leadership positions in Mexico, the U. K., and the Middle East. It is investing significantly in creating momentum in the critical emerging markets of China and India. In the Indian subcontinent, Pepsi Beverages International (PBI) has more than 45% market share of carbonated soft drinks (CSD). FLI also has a strong global presence, with sales in 44 countries supported by 71 manufacturing plants outside North America, as well as 62, 000 associates and 22, 000 routes outside North America. In many countries, it enjoys greater than 30% market share. While 61% of PepsiCo's salty snack revenues come from North America, Latin America contributes 18% of revenues, Europe/Africa contributes 17%, and Asia contributes 4%

Core Competencies

PepsiCo enjoys the stature of the dominant force that it is in various segments of the food and beverage industry due to its famed distribution

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systems. PepsiCo goes to market through a distribution network of extraordinary strength and flexibility. This is a core competency as it satisfies all the four criteria of sustainable competitive advantage i. e., it is a valuable capability, rare, costly to imitate and non-substitutable. The reason why is it so is explained below.

The goal of the distribution channel of PepsiCo is to put its products within easy reach of the consumer. Because practices and customs vary by market, and because retail customers have different needs, PepsiCo has several successful models for service that it uses around the world.

Direct store delivery – Direct store delivery (DSD) systems are at the heart of this network. Through these systems, PepsiCo takes its products directly to tens of thousands of distribution outlets, from the tiniest convenience stores to the largest warehouse outlets. Pepsi and its bottlers personally take products into stores and set them on the shelves, helping to ensure that products are fresh and that fragile items such as chips are handled with care. It also allows PepsiCo to merchandise its brands for maximum visibility and appeal.

PepsiCo's systems can move new products into national distribution quickly—sometimes as

quickly as a week. And because representatives call on retail customers so frequently, they know very quickly how a new product is selling. At the same time, DSD provides financial benefits to retailers. Since Pepsi handles the products and merchandising, retailers save on labor. And because these products typically are sold and restocked every few days, while retailers pay

for them on 30-day cycles, Pepsi adds to a store's cash flow. In fact, PepsiCo contributes more than any other manufacturer to the revenue growth, profit growth and cash flow of the big U. S. retailers. In international markets, PepsiCo is able to adapt its distribution to reap the benefits of traditional DSD-particularly the merchandising capabilities and the reach into many retail outlets-without the costs that would burden a young or subscale business.

- Broker-Warehouse Distribution- For some of PepsiCo's products, traditional broker warehouse distribution is more economical and just as effective as DSD. According to this system, third-party distributors move PepsiCo's products to stores, and store employees stock the shelves. This system works best for non-" impulse" products such as Gatorade, Quaker Oats, Tropicana Twister, or Cap'n Crunch cereal, which are neither fragile nor highly perishable. PepsiCo's merger with Quaker dramatically expanded the company's broker-warehouse distribution capabilities, adding the large and efficient warehouse system used for Quaker and Gatorade products. To leverage that strength, PepsiCo has combined that system with Tropicana's. Additionally, the Quaker-Gatorade system is used for certain Frito-Lay snacks that are better suited to warehouse distribution.

Vending and Foodservice-Every year, consumers buy more snacks and beverages from vending machines and the foodservice companies that serve stadiums, office buildings, colleges, and similar venues. By combining the capabilities of Frito-Lay, Tropicana, and Quaker, it has created one of the biggest vending and foodservice sales forces in North America, a 600-person team that already generates well over \$1 billion in annual sales.

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