Position paper: pepsico’s restaurants

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Position Paper: PepsiCo's Restaurants Pepsi Co's Restaurants is a Harvard Business School Case which states PepsiCo's large organization, its structure, its acquisitions and management approach. It also covers two companies, Carts of Colorado (COC) and California Pizza Kitchen (CPK) which are pursued from PepsiCo in 1991 to buy. In this position paper PepsiCo's acquiring strategy and management approach will be evaluated to examine strengths and weaknesses of acquiring these two companies and possible solutions of other strategies. It will be also qualified whether it is a successful company in restaurant business.

Pepsi's acquiring strategy is diversified. First, it merged with Frito-Lay in 1965 and named PepsiCo. The case states the belief of Kendall that " snack chips went well with soda. " It was a product-extension merger. These two companies were selling different but related products in the same market. Snack foods and soft drinks are related. With the help of established distribution network and brand recognition the merge resulted higher growth and economies of scale. This synergy was the basis of further developments. After that PepsiCo. acquired restaurant chains, which was the third segment for the company.

PepsiCo made market-extension and also product-extension with this purchase. It acquired the largest chains like Pizza Hut, Taco Bell at late 70's and KFC in 1986. (Exhibit 1) With their economies of scale, it created market access for its own products and the restaurants could make cost reduction and cost efficiency with the growth of PepsiCo through soft drinks and also similar purchases. (PepsiCo Food Systems) Additionally, the acquirements of

KFC with its franchises (Exhibit 5) was important because it helped PepsiCo to be internationally powerful.

For this purpose, they used also a different strategy for their snack food segment and acquired Smith Crisps, Ltd from United Kingdom which was its competitor for European market. (horizontal acquisition) Besides, PepsiCo purchased supplier companies like bottling subsidiaries as backward integration (instruments of standard-cycle approach like PepsiCo Food Systems, cost efficiency is very important) and also conglomeration like Wilson Sporting Goods, but they sold what they acquired when the parts are not greater than the whole. PepsiCo has decentralized management approach.

Every decision didn’t taken by top management. The responsibility for authority and decision making is distributed. Pepsi commercial which included Michael Jackson with a 5$ million record fee was told CEO only a few hours before the contract. Moreover, Kendall encouraged managers to take risks and stated “ If you go through your career and never make a mistake, you’ve never tried anything worthwhile” and the president of Pizza Hut, Steve Reinemund mentioned that Calloway, the follower CEO after Kendall, had never told him what to do.

These are typical examples for decentralization, but it also shows us that there is a tradition at PepsiCo, the top management showed their managers their trust and tried to challenge their thought process. This is the result of PepsiCo investment on them. Calloway’s response for outstanding performance was “ the three P’s people, people, people”. Such decision

makers should be experienced. Actually their two phase system was very successful because it let successful managers to promote another divisions, challenging positions or different functional areas.

Most of the top management which can be seen from organization chart (Exhibit 2) had participated at all levels of PepsiCo with different assignments, so they were generalists and great managers with different experiences. Their management approach can be described as Calloway states " We take eagles and teach them to fly in formation. " Carts of Colorado and California Pizza Kitchen were two companies that PepsiCo. were interested to acquire. The advantages and disadvantages of such acquisitions will be considered separately.

But first of all, we have to consider what was the strategy of PepsiCo for the future and what PepsiCo has experienced. According to strategic planners of the company quick service restaurants would remain the largest segment over the following decade. Based on their analyses, quick service, casual dining and take out segments would be attractive. On the other hand, PepsiCo. invested to casual dining like Pizza Hut Cafe and experienced that their know-how for this segment is low. (Reinemund: " We needed people to come in and break the mold of our thinking.

We knew enough to know what we didn't) Additionally, Salsa Rio Grill which is also an investment for casual dining was a failure, but it has also mentioned it could be successful with a different setting. These are aspects that we have to think whether to acquire CPK. The case also mentions that PepsiCo. needed non-traditional program to increase points of distribution.

That can be achieved with carts. The company also purchased carts from COC because they saw a potential future that the location of sales was really important. If COC is acquired, than PepsiCo ould acquire skills or technologies more quickly or at lower cost than they could be built in-house. This can be seen as a strength, however COC's carts wouldn't cover the core competence of PepsiCO, therefore its acquisition could be not cost efficient. There is also an opportunity of first mover with the know-how of COC PepsiCo could achieve the most efficient mobile storesi, might be also apply some strategies for automats. The threat was that COC has a centralized organization, because of adaptation problems whole project could be a failure. Acquisition of CPK has strengths according to its operating segment of casual dining.

The weakness could be because of its cost comparing to its benefit. Strategic planners saw casual dining segment a growth market and with its know-how they would expand their market. Its threat is centralized structure of CPK. They failed with Pizza Hut Cafe and Salsa Rio Grill and it could also happen with CPK if they apply their quick service strategies. According my point of view PepsiCo should not acquire CPK because PepsiCo. 's tradition is very powerful and they want to adopt their strategies to CPK, but added value and core competence of this companies is its centralized structure.

If they act so, they will fail, instead of acquiring synergy. Additionally, the economies of scale CPK is also small which would not add value to its soft drink segment, the acquirement of other restaurant chains was also beneficial for brand awareness and reputation, this wouldn't happen for CPK. They would acquire it for know-how of this company, but the company is not

public and centralized, everything will depend on cofounders of CPK, this a very big risk if we compare benefits and its cost.

On the other hand, PepsiCo could acquire COC, but they could make a technology contract with such a company. In such a contract the threat is the benefit, the synergy with experience of PepsiCo and know-how of COC can be extraordinary. If COC shares the results to other competitors, that wouldn't be a one sided gain, so comparing with its cost, it would be much better to acquire it because built-in of such department would be also very costly. As a result, I want also add my comments about the success status of Pepsi in restaurant business. I believe, it is successful.

Although its history is short comparing with soft drink segment, its revenue is greater than soft drink segment and this is a success, PepsiCo differentiated its products, it made a great purchase system for cost effectiveness, but it had to increase its profitability according to 1991 data. Although it covered 36% of PepsiCo sales, but operating profit was 29% and as we knew from case, PepsiCo main strategy was investing to where it believed it could achieve the highest returns. (Exhibit 4) Reference:

http://www. mckinseyquarterly.
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