
PepsiCo: The Challenge of Growth through Innovation

In the spring of 2002, PepsiCo's senior management members met to consider the challenges facing the company in their quest to become a "growth company like no other." As they surveyed the business landscape, they were guardedly optimistic about their ability to meet this ambitious goal; however, they were certain that growth was not negotiable. As Steve Reinemund, chairman and CEO, said in the 2001 annual report, "Growth, after all, is what PepsiCo is about."

There were several reasons why growth was nonnegotiable. First, the new climate of investor expectations demanded earnings fueled by both top-line growth and consistency. Second, the company had just completed a series of spinouts, acquisitions, and mergers, transforming PepsiCo into a convenience food and beverage giant. The acquisition of Tropicana and the landmark merger with the Quaker Oats Company (Quaker) created a number of synergies that remained to be exploited. Finally, PepsiCo had to adjust to a changing competitive landscape. It could no longer measure its performance only against the fountain and grocery store sales of Coca-Cola. The new PepsiCo was a global food and beverage contender, competing against the likes of Kraft and Nestlé, as well as any upstart with a great idea for a drink or snack. Over the previous three years, the food and beverage industry continued to consolidate, and several key competitors had already established a footprint in PepsiCo's platform areas.

BusinessWeek commented that, to achieve its lofty goals for growth, the company had to first "digest Quaker, for which [it] paid a rich price. And then, to beat its rivals, the \$27 billion behemoth will have to create innovative products and ways to sell them."¹ PepsiCo's senior management agreed: They made growth through innovation the centerpiece of their competitive strategy. According to Reinemund, "Innovation is the single greatest driver of growth for PepsiCo and [its] product categories."² The company had to convert the promised synergies between Pepsi and Quaker into tangible, innovative products for a global market.

Back to Square One: Reassessing the Core

Roger Enrico's letter to shareholders in PepsiCo's 1996 annual report opened with the earnest declaration that the report "(came) at the end of a tough year." It was no exaggeration. The company's net income had fallen 28% for the year, from \$1.6 billion to \$1.1 billion. International beverage operations were in complete chaos. Operating profit in the U.S. restaurant business had fallen by \$356 million. The stock languished around \$25 per share. Wall Street was griping. (One analyst told the *Wall Street Journal* that the company's

¹ Nanette Byrnes, "The Power of Two at Pepsi; A New Team Has To Keep the Snack-and-Beverage Empire Growing," *BusinessWeek*, January 29, 2001, 104.

² PepsiCo annual report, 2001.

fourth-quarter results were “shocking—just awful.”³ And then—to add insult to injury—*BusinessWeek* ran a cover story entitled, “How Coke is Kicking Pepsi’s Can,” in which Roberto Goizueta, then Coca-Cola’s CEO, declared that Pepsi had become “less relevant” and “appeared to have raised the white flag.”⁴

Enrico, however, was undaunted. After having remarked on the “toughness” of the year, he went on to say that PepsiCo could get back on the track to sustainable double-digit earnings growth. To do so, he said, the company had to “stick to the things we do well and do them better. Stop doing things we don’t do well—no matter how alluring they might seem. And put the power of the entire corporation behind a few very big initiatives—ones that really count.” In a nutshell, Enrico wrote, “We need to do throughout the corporation exactly what we’ve been doing for years at our strongest businesses, Pepsi-Cola in the U.S. and Frito-Lay.” The nuts and bolts of Enrico’s comeback plan called for relentlessly focusing on strengths, managing for strong cash flow, and investing aggressively in big opportunities. Enrico wanted to lay the strategic and financial foundations to build a growth company like no other. Thus began the transformation of PepsiCo.

As the *Institutional Investor* put it, “the emphasis on growth at Pepsi reflected a corporate culture that rewarded activity and hustle more than focus and direction and encouraged marketing prowess more than financial restraint.” Recognizing that, Enrico assembled a team of seasoned senior executives to get to work overhauling the company, from stem to stern.

As the new chairman and his team studied the various businesses, the problems with PepsiCo’s growth became evident:

For Pepsi growth has meant minimal bureaucracy and a readiness to quickly take new products to market. The freedom energizes employees but sometimes comes at too high a price. Chasing growth for its own sake can be destructive—particularly if the pursuit is driven by a frantic attempt to close the distant lead of the industry’s number-one competitor. This, Enrico believed, was Pepsi’s central problem.

Nowhere was the problem more glaringly evident than in the company’s restaurant business and international beverage business.

Ultimately, as he examined the businesses of PepsiCo, Enrico came to feel that the company was just plain too complicated. What was needed was a pinpoint focus on two businesses: beverages and snacks. Along those lines—that is, simplifying and focusing in order to lay solid foundations for healthy, sustainable growth—the company also had to manage for the production of strong cash flow. Growth had to be measured in terms of the cash produced—not by acquisitions or fancy deal making.

We’ll Have That...To Go: Restaurants

PepsiCo had entered the quick-serve restaurant business in 1977, with the purchase of Pizza Hut. In 1978, the company acquired Taco Bell, and in 1986, Kentucky Fried Chicken. Along the way, it had also picked up a number of smaller chains, such as Hot ‘n Now, D’Angelo Sandwich Shops, and East Side Mario’s.⁵ By 1996, PepsiCo controlled nearly 30,000 quick-serve restaurants around the world; the division served as the “third leg” alongside the company’s Frito-Lay snack and Pepsi beverage businesses. Between 1988 and 1994, the company had invested close to \$7 billion in its restaurant division. But as the quick-serve

³ Nikhil Deogan, “Business Brief: PepsiCo’s Profit Plunges by 85%, Partly Reflecting Results Abroad,” *Wall Street Journal*, February 2, 1997.

⁴ Patricia Sellers, “How Coke is Kicking Pepsi’s Can,” *BusinessWeek*, October 28, 1996.

⁵ PepsiCo annual report, 1996.

segment matured and competition stiffened, returns on those investments became tougher and tougher to come by. In 1996, the restaurant division produced 36% of PepsiCo's net sales—but only 19% of its operating profits. Snack foods, by comparison, accounted for just 31% of sales but 60% of profits.

The restaurant division gobbled cash. As a recipe for growth, increasing same-store sales was inherently difficult, especially as competition in the industry grew fiercer. Only so many people could fit into a restaurant at once, and only so many meals could be served. Building out new restaurants—the growth strategy PepsiCo had long employed—was not only capital-intensive but also ran the very real risk of cannibalizing other PepsiCo restaurants. When the industry was young, PepsiCo's strategy of building new restaurants to produce growth worked fine. As the industry became saturated, however, the flaws in PepsiCo's growth strategy were exposed. Another problem was that many non-PepsiCo restaurants refused to serve Pepsi beverages, reasoning that doing so would put money into the pockets of its PepsiCo-owned competitors.

In December 1997, PepsiCo spun off its restaurant division to shareholders, creating the \$10 billion (annual sales) Tricon Global Restaurants, which consisted of Pizza Hut, Taco Bell, and Kentucky Fried Chicken; however, the decision to do so did not come overnight. In April 1994, Indra Nooyi (then the new head of corporate strategy) and Enrico (then the new head of global restaurants) had begun to take a hard look at PepsiCo's troubled restaurant sector. Prompted by the steep decline of PepsiCo's stock—on news of missed quarterly earnings at Pizza Hut—the two decided to take a weeklong restaurant tour. They wanted to see for themselves what was going on in the industry. "We literally ate our way from town to town," Nooyi said.⁶

What Enrico and his team found was not encouraging. Success in the restaurant business, it seemed, required a set of skills completely different from those required in the snack and beverage businesses. The restaurant business was far more localized and customer-centric. It was not simply about the prompt delivery of tasty, convenient food. Additionally, PepsiCo's longstanding culture of corporate climbing was ill-suited to restaurants. "PepsiCo's culture was one of...lots of job shifting," Nooyi said. "It was okay for a packaged goods company...but not for a fundamentally person-to-person business like restaurants." In other words, restaurants were better run by entrepreneurial restaurateurs—who were close to the customer—than by a corporation. The performance of a restaurant, senior management observed, almost invariably declined after PepsiCo bought it back from a franchisee. So, starting in 1995, Enrico and Nooyi initiated a policy of selling restaurants back to franchisees, thereby reducing PepsiCo's capital costs, and producing cash and income.⁷

Still, there were many reasons to stay in the restaurant business. From 1992 to 1997, PepsiCo's overseas restaurant revenues had grown at a compounded rate of 22%, according to *Forbes* magazine, and in 1995 and 1996, international profits grew 30% and 37%, respectively.⁸ Additionally, the refranchising of restaurants immediately began producing cash—some \$750 million in 1996 alone. And then there was the very real issue of emotional attachment. There were many managers at PepsiCo who had risen in the company through the restaurant business and whose whole careers were spent in the business.

It was clear that the restaurants needed to be "unfettered," but the question was *how* to go about doing that.⁹ Enrico had already begun to sell off the noncore restaurant businesses. But the three giant, core restaurant businesses posed a problem. Should PepsiCo simply continue to refranchise? Should it do a carve out? Should it sell the restaurants to someone else? The senior management team looked at all the options and was leaning toward spinning off the restaurants business. Enrico and his team concluded that a spin-off

⁶ Indra Nooyi and Roger Enrico, Lecture at Yale School of Management, March 2002.

⁷ Nooyi and Enrico lecture.

⁸ Subrata N. Chakravarty and John R. Hayes, "Pepsi's Panacea," *Forbes*, October 20, 1997, 215.

⁹ Nooyi and Enrico lecture.

of the restaurants as a publicly traded entity would best serve the interests of shareholders, allowing the restaurants and the core PepsiCo businesses to thrive. “That, and the opportunity to focus more squarely on beverages and snack foods, is the reason we decided to create a separate public corporation for our restaurant business,” Enrico said.¹⁰ Still, cautioned Nooyi: “taking a company and spinning it off from a mother company is extremely hard...you’ve got to create a new entity...go on a road show...sell the stock of that company...it is a *long, cumbersome process*—and very emotional. Often, in retrospect, taking the decision is easy, but executing it effectively is excruciating.”¹¹

Bottled Up: PepsiCo Bottling Group

Simplify, simplify, simplify.

—Ralph Waldo Emerson

Enrico and his team had also overhauled PepsiCo’s troubled international beverage business, long a thorn in the company’s side. With the exception of Canada, the division had never turned a profit, and in 1996, the unit reported annual losses of \$846 million.

Revamping the international beverages division was a project of tremendous complexity. International bottling operations, able to borrow money without first asking permission from PepsiCo, were often mired in debt. Worse, there were often few—if any—records of financial transactions. Bottlers’ productivity was measured according to NOPAT (net operating profit after taxes), which made interest costs and capital charges all too easy to overlook. Finally, managers routinely spent terms of only 18 months in charge of international projects, leaving many ventures without leadership. “Many of these troubled joint ventures were an attempt to answer how to get growth. One way is through acquisitions, doing deals,” said Enrico.

In fact, the strategy of the entire international beverages division had to be reexamined. Enrico’s new plan was to sell Pepsi instead of fighting Coca-Cola. Implementing that strategy meant defending market share in the markets where Pepsi already had a strong presence, making strategic investments in markets such as India, where Pepsi’s market share was close to Coca-Cola’s, and, in those markets where Pepsi was a distant second to Coca-Cola, becoming profitable within three years or getting out of the market.

By the end of 1998, the results of the new focus seemed to be paying off. Earlier in the year, PepsiCo had created the \$7 billion (annual sales) Pepsi Bottling Group (PBG), with centralized global operations spanning from the United States to Spain to Russia. (In 1999, PepsiCo initiated a public offering of PBG, garnering \$1 billion in cash and retaining a 40% stake in the group.) Pepsi-Cola North America showed volume growth of 6%, the best growth since 1994, and Pepsi gained more market share in the United States than it had in nine years. Pepsi also showed 6% volume growth in international sales, and for the first time ever, more Pepsi was sold in international markets than in the United States.

Accordingly, PepsiCo’s financials improved dramatically. Total debt fell 40% in just a year, and earnings per share increased 38%, to \$1.31. Operating cash flow was better than \$2 billion for the second year in a row. Best of all, PepsiCo’s stock had been transformed: It was worth nearly twice what it had been in 1994. **Exhibit 1** shows the performance of PepsiCo during the 1990s.

¹⁰ PepsiCo annual report, 1996.

¹¹ Nooyi and Enrico lecture.

Seeing Orange: Tropicana

...the critical period...is breakfast-time...

—A. P. Herbert

Having shed its distracting restaurant and bottling businesses and cleaned up its international act, PepsiCo was ready to move forward and focus on its core product lines. PepsiCo was down to its packaged-goods basics, Pepsi and Frito, and now had to build that part of the business. In mid-1998, the opportunity to begin constructing the new PepsiCo appeared. Seagram's Tropicana juice line, which included the Tropicana Twister and Dole brands, came up for sale. Enrico and his team saw Tropicana as a great complement to the Pepsi and Frito-Lay stables of brands. Tropicana made a lot of sense to Enrico and the senior management team because Pepsi offered no products for the part of the day before 11:00 a.m., nor did it offer any products in the growing category of refrigerated, healthy drinks. Additionally, Pepsi had no beverages to which vitamin and mineral enrichment, such as vitamins C, E, and calcium, could easily be added.¹² Enrico and his team envisioned Tropicana as a way to enter those categories—and to continue growth. With \$1.6 billion in 1998 sales and a 10% annual growth rate, Tropicana was already by far the world's best-selling orange juice—a nice platform from which to start ascending.

Enrico also felt that Tropicana's warehouse/broker distribution system provided a synergy with PepsiCo's direct-to-store system. Though Tropicana had historically produced lower margins than most PepsiCo products, the team felt that with the help of PepsiCo's beverage marketing expertise (its "beverage mindset," Enrico called it), it could be honed into high-margin PepsiCo shape. "There was a statistic that captured my imagination," Enrico said. "...half the people in the United States still ate breakfast at home. And of those, less than a fourth of them drank orange juice. I thought, 'What? That's astonishing.'...the penetration rate was still that great—just for breakfast."¹³

The deal closed in the second half of 1998, with PepsiCo paying \$3.3 billion in cash.

By the year 2000, Tropicana's volume was up 8%, revenues were up 6%, and operating profits were up 30%—twice what they had been two years earlier. Tropicana's organizational and distribution systems remained unchanged, allowing it to merge seamlessly into PepsiCo corporate structure.¹⁴

¹² Nooyi and Enrico lecture.

¹³ Nooyi and Enrico lecture.

¹⁴ PepsiCo annual report, 2000.

Feeling Our Oats: Quaker

Rumors of my death have been greatly exaggerated.

—Mark Twain

On December 4, 2000, PepsiCo announced plans to merge with Quaker in an all-stock transaction valued at some \$13 billion, with PepsiCo exchanging 2.3 shares of its stock for each share of Quaker stock, up to a maximum of \$105 for each Quaker share.¹⁵

From a purely financial perspective, Enrico expected that the deal would immediately increase PepsiCo's earnings per share and improve the company's return on invested capital. Perhaps most importantly, he felt that it would continue to strengthen PepsiCo's sales and profit growth going forward: the acquisition of Quaker was an acquisition of terrific growth potential.

Quaker offered a stable of well-known brands in healthful food categories, which Enrico recognized as highly complementary to PepsiCo's snack food and soda (and now juice) portfolio. He saw Quaker's \$380 million—and rapidly growing—line of wholesome snacks, including rice cakes, granola bars, and fruit and oatmeal bars as entries into the breakfast, kids', and grain-based snack markets. And Quaker's snacks could easily be distributed through Frito-Lay's huge distribution network. Quaker's crown jewel was its popular Gatorade brand, by far the world's top-selling sports drink. Gatorade showed volume growth of some 11% annually—and could be grown not only through the company's international cola-distribution network but also alongside Tropicana's ambient juice products. Noncarbonated beverages were the fastest-growing segment in the beverage industry, and the Quaker acquisition would make PepsiCo the clear sector leader. Gatorade, together with Tropicana, would control about 25% of that \$23 billion market. What's more, the two would control fully 30% more than their closest competitor in the market, Coca-Cola. And while Quaker's nonsnack products—well-known brands such as RICE-A-RONI, Aunt Jemima syrup, and Life and Cap'n Crunch cereals—didn't fit quite as neatly into the PepsiCo convenience portfolio, they were profitable and generated large amounts of cash, which could be plowed back into the company. "Gatorade was an absolute fit for PepsiCo—it was a no-brainer," Indra Nooyi said. "Quaker snacks...the Quaker brand name was also exciting to us. Just as Tropicana filled a major void in terms of good-for-you, and the morning part...the Quaker brand was very important to us."¹⁶

Given Quaker's numerous perceived synergies with PepsiCo, the decision to move toward a merger was an easy one. In fact, PepsiCo had made a foray toward Quaker in 1996, but "the stars were not properly aligned," said Enrico. "Why were we able to do the Quaker Oats deal now, when we couldn't in 1996? Because our stock was in the tank in 1996, and our stock was flying high in 2001." On December 4, the deal was completed.

Soon after the merger, Enrico decided to step down from both the chairman and CEO positions to become vice chairman reporting to Steve Reinemund. At the same time, it was announced that Quaker's Bob Morrison would join Enrico as cochairman of the board. According to Enrico, "I did that so that there would be no doubt in the mind of anyone that Steve was my successor, and because I thought that Bob, who was to join us as vice chair, might feel more comfortable with us both as vice chairs reporting to Steve, rather than me as chair, Steve as CEO, and Bob as vice chair."¹⁷ Later Nooyi would become president.¹⁸

¹⁵ PepsiCo annual report, 2000.

¹⁶ PepsiCo-Quaker merger prospectus, March 15, 2001.

¹⁷ Enrico letter of August 8, 2002.

¹⁸ PepsiCo-Quaker merger prospectus, 35.

In 2001, Quaker Oatmeal's sales were up 10%, thanks in large part to innovative products like Quaker Oatmeal Nutrition for Women and Quaker Instant Oatmeal Express. As a group, Quaker Foods North America showed an increase in operating profit of 6%.¹⁹

Strengthening the Core: Increased Value of Frito-Lay

Adding Quaker and Tropicana to the portfolio significantly increased the value of the Frito-Lay brand. Adding Quaker snacks to the vast Frito-Lay direct-store delivery system put those products into thousands more retail outlets and gave Frito-Lay sales representatives a broader snack portfolio to offer customers. It also provided a way to distribute certain new kinds of Frito-Lay snacks best suited to warehouse distribution.

Frito-Lay joined the PepsiCo portfolio in the mid-1960s, when the then-CEO of Pepsi-Cola, Don Kendall, sat down with Herman Lay of Frito-Lay and, without lawyers and investment bankers, sketched out a merger plan. The natural synergies between Pepsi-Cola and Frito-Lay were captured in the memorable quote attributed to Kendall: "You make them thirsty and I'll give them something to drink."²⁰ At the time of the merger, Pepsi-Cola earned 2.4 times the net profits of Frito-Lay on a top-line share that was 58% of the combined sales. In the year 2000, those shares were reversed, with Frito-Lay earning 2.4 times the net profit of beverages.

And yet, when Enrico became CEO of PepsiCo, he believed that the company had not capitalized on the full potential of Frito-Lay. As *BusinessWeek* reported:

A simple fact intrigued him. Two-thirds of all consumers drink a beverage while consuming a snack, but only half of them buy the beverage and snack together. If [PepsiCo] could persuade shoppers to pick up a six-pack of Pepsi along with Doritos, [the company] could reel in plenty of customers who were now quenching their thirst with rival drinks. What's more, Frito-Lay could leverage its clout to gain a greater shelf space for Pepsi.²¹

With the help of Steve Reinemund and Albert Carey, Enrico made an already powerful franchise into a dominant and formidable competitor in the U.S. snack foods market. Through operational excellence and by adding shelf space, better displays at point-of-sale, and rationalizing supermarket displays, Frito-Lay increased its market share by several percentage points. In 2002, Frito-Lay boasted eight of the top 10-selling salty snacks in the U.S. market. Supporting these powerful brands is a direct store delivery (DSD) system with 15,000 routes, which gets fresh and fragile products to market with amazing speed and efficiency. It reaches nearly half a million retail outlets weekly, including supermarkets, club stores, convenience stores, and dozens of other points of sale.

In addition to the U.S. market, there was the vast international market for salty snacks that had doubled in the 1990s to more than \$20 billion. PepsiCo felt that most of those markets remained vastly underdeveloped, thus presenting a huge potential for growth. The international arena presented Frito-Lay with great possibilities for growth going forward.

¹⁹ PepsiCo annual report, 2001, 11.

²⁰ John A. Byrne, "A Potent Ingredient in Pepsi's Formula," *BusinessWeek*, April 10, 2000.

²¹ Byrne, 178.

The End or Only Just the Beginning?

Now, this is not the end. It is not even the beginning of the end. But it is perhaps, the end of the beginning.

—Winston Churchill

In reshaping, refocusing, and revitalizing PepsiCo, the goal was to create *the defining corporation for the twenty-first century*. “We wanted to set the foundations, so that when you talk about a great company, we want it to be PepsiCo,” said Enrico. Now, with its strong financials, top-notch marketing, and distribution systems, platforms into every age group and every segment of the day, the company seemed to have positioned itself for tremendous growth.

PepsiCo’s senior management saw the transformed corporation as one of world-class assets and tremendous global capabilities. Where would it go from here?

PepsiCo’s Global Assets and Capabilities²²

The following attributes have served to fuel PepsiCo’s growth and endurance:

- Muscular global brands and consumer goodwill
- Robust technology/manufacturing platforms
- Powerful and flexible go-to-market systems
- Global footprint

Muscular global brands and consumer goodwill

Over the years, PepsiCo, with its portfolio of global brands, built platforms for growth. Its highly focused portfolio offered many of the world’s best-known foods and beverages—brands of enduring appeal. The portfolio included 15 brands that each generated more than \$1 billion in annual retail sales, more than any other food and beverage company. Pepsi led the parade with \$15.6 billion in annual sales, while Tostitos and Aquafina were the latest additions to the “billion-dollar club.”

Importantly, the portfolio offered a range of products for every time of the day, every age group, and every demographic category. These brands served a wide range of consumer needs, from fun and indulgence to health and nutrition. By integrating the Pepsi, Frito-Lay, Tropicana, Gatorade, and Quaker brands, PepsiCo has married strong Fun-For-You (FFY) brand equities with Better-For-You (BFY) and Good-For-You (GFY) brand equities.

Moreover, with consumers increasingly concerned with convenience, PepsiCo worked to offer consumers food and beverage opportunities around the clock, even in the most developed markets. In the United States, for example, PepsiCo captured only about a quarter of the morning convenient eating and drinking occasions.

PepsiCo’s brands were also highly complementary. Salty snacks, for instance, were consumed with a beverage 87% of the time. But in 2000, PepsiCo’s share of beverages consumed with a salty snack was only

²² PepsiCo annual reports, 2001 and 2002.

19%. Because of the natural synergy between the Frito-Lay brands and the Pepsi beverage brands, there was room for PepsiCo to increase its share.

The addition of Quaker to the PepsiCo family brought in two brand icons: Quaker and Gatorade. Both provided PepsiCo with two more platforms for growth, giving the company license to move into new territories. Further, these brand additions opened up bundling opportunities, such as Tropicana at breakfast time. Gatorade and Tropicana also were a natural combination. Both offered something many consumers wanted: “functional” benefits beyond refreshment. By combining Tropicana’s relatively small direct sales force with the much larger Quaker-Gatorade system, the brands were distributed more widely and efficiently. More retail accounts were called on directly, rather than through third parties, resulting in lowering of costs. Gatorade and Tropicana also benefited by combining their “hot fill” manufacturing—a process used for many noncarbonated drinks—with that of Pepsi-Cola North America. Managing the manufacturing infrastructure across a portfolio of brands offered myriad efficiencies. Among other things, it had offset some of the seasonal variations in demand for individual brands.

Similarly, Frito-Lay North America (FLNA) created a unit totally dedicated to integrating opportunities in the broader \$50 billion market for convenient foods. It combined Frito-Lay’s businesses of cookies, crackers, nuts, meat snacks, and Cracker Jack treats with Quaker’s business of granola bars, fruit and oatmeal bars, energy bars, and rice snacks. This unit, which already generated nearly \$1 billion in revenues, represented an important growth platform.

Finally, the company was successful in entering into licensing ventures with other well-known names, such as Starbucks and Lipton, and had huge success with global promotions by linking with globally recognized brands. Frito-Lay International’s (FLI) promotion with Pokémon was a perfect example. After using tie-ins with Pokémon to drive extraordinary growth in Mexico and other Latin American markets in 2000, FLI in 2001 brought the Pokémon phenomenon to all its markets in Europe, the Middle East, and Africa.

Robust technology/manufacturing platforms

PepsiCo’s global brands were supported by sophisticated technology and manufacturing platforms. These platforms included the science of nutrition, food and beverages, process and manufacturing, and packaging. Each of PepsiCo’s divisions contributed to the knowledge and technology platforms, creating an institutional knowledge base that was shared across divisions. Such sharing of best-practice knowledge created a competitive advantage, because it allowed PepsiCo to differentiate its products from competitors, and promoted innovation in products and processes. It was also a significant growth advantage as cross-fertilization between divisions allowed for the creation of new products that would be brought to market.

These platforms started with the underlying science and institutional knowledge of food and beverage. PepsiCo’s expertise in this area ranged from thorough knowledge of agricultural supply chains to food flavoring and seasoning, from juice science to sensory testing, and from nutrition science to formulating foods and beverages. For example, Frito-Lay had institutional knowledge of seasoning and flavoring. To find the perfect “chipping” potato for every climate and agricultural condition, Frito-Lay developed thousands of proprietary potato seed varieties. Similarly, Tropicana had exclusive use of patented fruit varieties that allowed it to produce not-from-concentrate juices with superior flavor, color, and aroma throughout the year. And the combination of the Gatorade Sports Science Institute and the Tropicana Nutrition Center gave PepsiCo unmatched expertise in the growing segment of “functional” beverages by offering valued nutritional and health benefits.

Expertise in the area of process and manufacturing included the engineering and process capabilities to deal with the different kinds of liquids and solids used in beverages and foods. It also included expertise in the large-scale production of concentrate and bottling operations and managing integrated processes for process design. For example, Frito-Lay patented a new process to produce more intense flavors in its Ruffles Flavor Rush snacks by coating the entire chip. For Tostitos Scoops, Frito-Lay developed the complex technology required to manufacture easy-to-dip tortilla chips for scooping salsa or dip.

The packaging of both food and beverages was another area where PepsiCo showed great strength. This strength included expertise in form, shape, materials, and aesthetics, where the company was constantly innovating. Tropicana's 14-ounce plastic orange juice bottle, for example, was contoured to fit easily in the hand and the automobile cup holder. Similar thinking inspired Frito-Lay to create Go Snacks. These smaller versions of the traditional brands came in a plastic canister that also fit easily in a hand or a cup holder. Likewise, the Gatorade E.D.G.E. bottle was ergonomically designed for convenient use by the most active consumers.

These process and manufacturing platforms allowed PepsiCo not only to improve existing products and packages, but also to create entirely new ones. Equally important, innovation gave retailers a great reason to feature products prominently.

Powerful and flexible go-to-market systems

PepsiCo went to market through a distribution network of extraordinary strength and flexibility. Its goal was to put its products within easy reach of consumers. Because practices and customs varied by market and because retail customers had different needs, PepsiCo had several successful models for service that it used around the world.

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

Pepsi's systems moved new products into national distribution quickly—sometimes as quickly as a week. And because representatives called on retail customers so frequently, they knew quickly how a new product was selling. At the same time, DSD provided financial benefits to retailers. Since Pepsi handled the products and merchandising, retailers saved on labor. And because these products typically were sold and restocked every few days, while retailers paid for them on 30-day cycles, Pepsi added to a store's cash flow. In fact, PepsiCo contributed more than any other manufacturer to the revenue growth, profit growth, and cash flow of the big U.S. retailers. In international markets, PepsiCo was 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 was more economical and just as effective as DSD. According to this system, third-party distributors moved PepsiCo's products to stores, and store employees stocked the shelves. This system worked best for nonimpulse products such as Gatorade, Quaker Oats, Tropicana Twister, or Cap'n Crunch cereal, which were 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 combined that system with Tropicana's. Additionally, the Quaker-Gatorade system was used for certain Frito-Lay snacks better suited to warehouse distribution.

Vending and foodservice: Every year, consumers bought more snacks and beverages from vending machines and foodservice companies that served stadiums, office buildings, colleges, and similar venues. By combining the capabilities of Frito-Lay, Tropicana, and Quaker, it created one of the biggest vending and foodservice sales forces in North America, a 600-person team that generated more than \$1 billion in annual sales. **Exhibit 2** summarizes PepsiCo's comprehensive go-to-market systems.

Global footprint: PepsiCo employed 137,000 people in 200 countries. With its bottling system and other partners, it generated some \$39 billion in revenues, of which 35% came from outside North America. The company had nearly 700 manufacturing facilities worldwide, 2,100 distribution centers, and 70,000 routes. In addition to its presence in North America, PepsiCo had leadership positions in Mexico, the United Kingdom, and the Middle East. It was significantly invested in creating momentum in the critical emerging markets of China and India. In the Indian subcontinent, Pepsi Beverages International (PBI) had more than 45% market share of carbonated soft drinks (CSD). FLI also had 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 enjoyed greater than 30% market share. Although 61% of PepsiCo's salty snack revenues came from North America, Latin America contributed 18% of revenues, Europe/Africa contributed 17%, and Asia contributed 4%.

Challenges to Growth

While PepsiCo enjoyed the benefits of key global assets and capabilities, several emerging trends around the world posed challenges to its aspirations of robust, consistent growth. These trends in particular posed challenges:

- Consumer sector
- Competitive landscape
- Retail environment
- Global environment

Consumer sector

Demographic shifts: One such trend is the graying of the population. By 2010, it was expected that the elderly segment would be the largest demographic group in the population of developed regions. As people aged, their preferences shifted from FFY products to BFY and GFY products. Moreover, the volume of their FFY consumption declined. The elderly also were typically the most affluent demographic group in the population and shopped for quality and nutrition. Manufacturers that had a stronger presence in the GFY segment and tailored their offerings to the needs of the elderly were more likely to benefit from this demographic shift than manufacturers whose strength was only in the FFY segment.

In developing regions, the proportion of youth in the total population, though declining through 2010, remained fairly high at more than 30%. Young people preferred affordable and fun products, although the need for basic nutrition with functional benefits remained high.

Another issue affecting growth was the difference in the affordability of products across regions. Many consumers in developing regions of the world could not afford higher priced products such as juices and nectars. The affordability problem in developing regions was exacerbated because a larger proportion of the population was young, a segment that generally was the least affluent.

In addition to age-distribution issues, the number of households in which both partners worked was increasing around the world. As a result, members of households made fewer trips to food stores and spent fewer dollars each trip. They wanted products and channels that were more convenient and were willing to spend more on them.

Increase in health and quality concerns: A second concern was the issue of changing attitudes toward health. **Exhibit 3** shows the key health concerns by consumer target. Obesity among children became a widespread concern, and seniors were increasingly in need of solutions for maintaining their health. But while both young people and seniors needed GFY products, their health and nutritional requirements differed. The elderly required products that supported heart and bone health, while young people needed products that supported immune strength and weight management.

An emerging issue for food and beverage companies was increasing public concern regarding obesity in the North American market. According to a *Wall Street Journal* report, the surgeon general's office warned that "obesity may soon pass tobacco as the leading preventable cause of death; some 300,000 Americans died of obesity-related causes in 2000."²³ Accordingly, food and beverage companies were under increasing scrutiny.

In addition to health issues, quality became an important issue with consumers. With increased education and awareness, consumers paid more attention to product quality and the impact of those products on their health and the environment.

Taken together, those trends indicated an increasing need for products and channels that were at once convenient, promoted health and nutrition, and included ingredients and packaging that were environmentally friendly.

Untapped international consumers: Many international consumers had yet to be reached. PepsiCo derived 70% of its revenues from the North American market, but that market constituted only 5% of the world's population. The per-capita consumption of juices in Latin America, Eastern Europe, and South Asia were less than one-third of U.S. consumption rates. Notably, an average consumer in Mexico worked 44 to 54 minutes in order to be able to afford a CSD product. It took the same consumer considerably longer to afford a juice drink (53 minutes to 93 minutes of work) or a nectar (120 minutes to 159 minutes of work).

Competitive landscape

Converging competition: The food and beverage industry consolidated between 1997 and 2002, and as a result, PepsiCo faced fewer but stronger competitors. Those competitors focused on convenience food and beverages, functional food and beverages, noncarbonated beverages, targeted consumer groups such as kids,

²³ Deogan, *Wall Street Journal*, February 2, 1997.

women, and Hispanics, and targeted part of the day. **Exhibit 4** provides some key information on the consolidation of the food and beverage industry between 1999 and 2001.

Several competitors actively developed positions in convenience and functional foods and beverages through acquisitions, alliances, and innovation. **Exhibit 5** shows that the growth agendas of several key competitors such as Kraft, Nestlé, Unilever, and Danone had converged. Its competitors successfully expanded globally via acquisitions and alliances, building scale businesses in emerging markets, and improving profitability in international operations. Their organizational structures facilitated global expansion through regional or category-led models, as well as through the leverage of global brands. At the same time, they fueled additional growth by strengthening their capabilities in distribution, brand management, and innovation.

Innovation race: The pace of innovation in functional foods and beverages picked up. Kraft/Nabisco led in new product introductions (114 such introductions between 1999 and 2001), with PepsiCo a close second (101 during the same period). Some competitors outspent PepsiCo on R&D investments by a nearly two-to-one margin. PepsiCo was third in the industry in total advertising spending (percentage of sales), at 6.3%. Frito-Lay North America spent only 2.4% of its sales on advertising while Pepsi Beverages International spent nearly 20% of its sales on advertising.

Nestlé, Danone, and Unilever all centralized research facilities and created centers dedicated to technology or a category. They also promoted application groups in factories to apply the research. Such centralization allowed those companies to more effectively leverage external resources through partnerships with universities and research institutes, as well as to take full advantage of joint ventures and to actively seek technology partnerships and alliances.

International expansion: European companies pursued international expansion more aggressively than their U.S. counterparts. Acquisitions and divestitures had been the primary drivers of global growth. Moreover, such expansion had been fueling the profitability of several of those competitors. Further, a focus on emerging markets had driven both scale and profitability of leading competitors. While Nestlé and Unilever dominated in scale and size, Coca-Cola was the leader in profitability. More than 60% of revenues come from international sales for Coca-Cola, Nestlé, and Unilever compared to just more than 30% for PepsiCo.

Competition for leadership in the GFY space: Food and beverage manufacturers responded to health concerns and reinforced their commitment to healthy foods and beverages. The dominant strategy of these companies was to introduce healthy food as a separate category in a spectrum of food categories ranging from “fun” foods, to “better” or “quality” foods, to GFY foods. From PepsiCo’s point of view, large food and beverage manufacturers remained formidable competitors in the GFY segment. **Exhibit 6** compares PepsiCo with other dominant players in the emerging category of GFY.

While the merger of Quaker and PepsiCo positioned PepsiCo as one of the leaders in the GFY category, its presence was concentrated among only a few divisions. That was reflected in both the sales revenues and customer perceptions of various brand names. A large proportion of sales revenue came from the GFY category for Quaker, Tropicana, and Gatorade, whereas less than 8% came from that category at Frito-Lay.

Similarly, the industry evolved from carbonated soft drinks (CSD) and salty/savory snacks to one with new and emerging categories of liquid refreshment beverage (LRB) and convenient foods. The new competitors included juices and waters from companies including Campbell’s and Ocean Spray.

Competitors are catching up in go-to-market systems: Through key acquisitions, several companies accessed new go-to-market capabilities. **Exhibit 4** illustrates the relative strengths and weaknesses of key competitors in warehousing, DSD, and alternative distribution capabilities for different categories of food and beverages.

Retail environment

Another challenge to PepsiCo's aspirations was the changing trends of international retailing:

- Retailers consolidated worldwide and were no longer limited to their geographic regions. Although global food and beverage sales were estimated at \$2.7 trillion per year, worldwide grocery sales grew at a little more than 5% per year. Growth in developed regions was affected by the unfavorable trends of shrinking households, fewer people eating at home, and diminishing of the "traditional" family. Faced with modest growth, both U.S. and European supermarket chains used acquisition as the primary means of growth. That acquisition activity was expected to lead to a shakeout in the industry, but then, the concentration ratio of the industry was lowest in Japan at 16% and highest in France at 75%. Acquisitions would likely continue worldwide between 2000 and 2010, especially in markets that were still highly fragmented. Notably, a company called Ahold already operated in 30 countries, earning 46% of its revenues from outside its home market. Carrefour operated in 24 countries, earning 79% of revenues from outside its home country. Wal-Mart increased its presence from one country in 1991 to ten in 2001, and obtained 14% of its revenues from outside its home country. These retailers also added new formats to drive their top-line growth. The average number of formats for the top five grocery retailers increased from 2.5 in 1994 to 5.7 in 2000. In that vein, mass merchandising formats were increasingly popular with retailers.
- A second trend was the increased use of private labels, which grew in lock-step with increased global consolidation. Although in 1996 the average speed to market of "knock-off" private label products was 14 months, it was estimated that the time would drop to 6.7 months in 2004. Among the largest retailers, the share of private labels was significant and growing quickly. Private labels as a percentage of total sales accounted for nearly 22.4% among the Big 3 retailers in 2001; among small retailers the rate was 13.4%. Large retailers in both the U.S. and European markets turned to private labels as a way to grow gross margins.
- Retailers leveraged their scale to improve efficiencies and productivity. Acquisitions allowed retailers to cut costs anywhere from 100 basis points to 300 basis points from synergies. Procurement savings, the area that most directly affects manufacturers, typically yielded 45% of total synergy savings. By resorting to global sourcing, forming purchase consortiums, negotiating worldwide promotions, and testing global concept management ideas, retailers succeeded in keeping procurement costs down. Because households made fewer trips to food stores and more trips to mass merchandisers, as well as spending less money while at food stores, sales migrated from food stores to mass merchandisers.
- With increasing constraints on space, retailers across all channels were stingy about how space was apportioned. Although mass merchandisers expanded their footprints through supercenters and neighborhood stores, they also started to limit the number of SKUs each manufacturer could offer. As grocery retailers looked to gain additional efficiencies, they closed stores and reallocated space within remaining stores, creating additional constraints. Finally, the small footprint of convenience stores created another challenge, as manufacturers competed to increase their growth in convenience stores.

- The technological sophistication of the giant retailers diminished the DSD advantage enjoyed by manufacturers such as PepsiCo. Retailers used their own POS systems to gain insight on consumers' needs and habits and mine consumer data and began to pilot scan-based trading. Those trends led retailers to seek unique/exclusive propositions, beyond DSD, from manufacturers.
- Finally, there was the Wal-Mart phenomenon. Wal-Mart, the world's biggest company (in 2002), emerged as the largest customer for many manufacturers, especially in North America. Wal-Mart embarked on an aggressive international expansion and changed the retail landscape by aggressively expanding its supercenter footprint and taking grocery share away from incumbent supermarkets to become the number one U.S. food retailer. Its tremendous growth presented both threats and opportunities for manufacturers. On one hand, Wal-Mart's increasing purchasing power enabled it to squeeze manufacturer margins, and its Every Day Low Prices (EDLP) strategy limited manufacturers' ability to use promotions to drive sales. And Wal-Mart's strategy of stocking popular SKUs hindered manufacturers' ability to launch new products. On the other hand, Wal-Mart's rapid expansion allowed manufacturers to piggyback on its growth to reach new consumers (especially in international markets). Wal-Mart played an important part in PepsiCo's distribution strategy, accounting for 7% of worldwide sales and 9% of North American sales. It was especially important for Frito-Lay and Quaker-Tropicana-Gatorade (QTG) as it accounted for 7% of Frito-Lay worldwide sales (and 10% of FLNA) and 12% of QTG worldwide sales.

Many companies reorganized their sales organizations to better support those global retail giants.

Global environment

In addition to consumer trends, aggressive competitors, and consolidating retailers, economic and geopolitical events created new challenges. The collapse of Argentina's financial system, increased terrorist activities, and the slowdown of the world's leading economies raised both short-term and long-term issues. While in some countries that slowdown had not affected consumption (most notably, the United States), it affected consumers in other parts of the world severely. Also, cross-border flows of goods and services and foreign direct investments both slumped significantly, increasing the difficulty of the business climate.

Argentina, which had become the poster-child for global integration, defaulted on a \$155 billion debt and collapsed into economic and political chaos. The Argentine experience made capital for investment in emerging markets that much dearer; at the other extreme, some economists feared that Argentina could jeopardize the entire asset class of emerging market bonds.

The terrorist acts of September 11, 2001, and the subsequent war on terrorism also put new pressures on growth. The terrorist acts resulted in higher insurance premiums, longer delays at ports and borders, higher transportation costs, and a new "security tax." The World Bank estimated that airfreight costs had risen by 15% since September 11. Pricing pressures on the revenue side resulted in a margin squeeze for manufacturers.

These three elements all posed significant challenges for companies aiming to grow by expanding into international markets. Two billion people lived in countries that had not fully been integrated into the global economy. Reaching them would be tougher than ever. In Pakistan and much of Africa, along with other developing countries, trade decreased compared with national income. Poverty was on the rise. The price of commodities that were those countries' chief exports fell as the global recession occurred. Tourism diminished. Despite a declining population worldwide, developing nations saw an increase of two billion people. To date, few of these countries welcome foreign manufacturers.

Growth is Imperative

PepsiCo's senior management was committed to delivering industry-leading earnings-per-share (EPS) growth. To do so, PepsiCo must deliver sustained significant top-line growth by improving its productivity, releasing synergies from its acquisition of Quaker, and increasing corporate leverage.

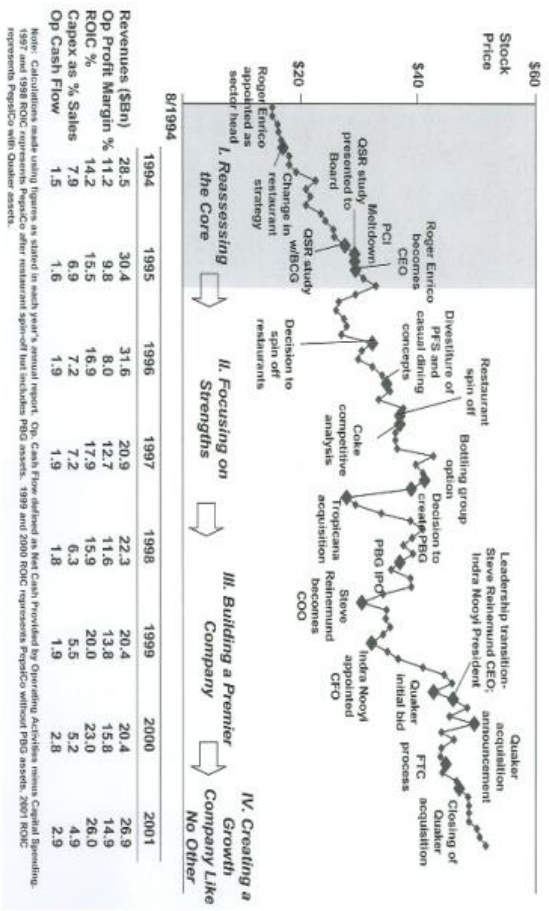
Achieving top-line growth would not come easily. But in spite of challenges to growth, PepsiCo's senior management believed that growth is nonnegotiable. That growth depended heavily on several factors. First, the company needed to successfully expand internationally. Second, PepsiCo needed to successfully develop new products in high-growth categories such as GFY and convenient foods, as well as noncarbonated beverages.

Third, growth needed to be driven by increased price realization for PepsiCo to successfully offer differentiated products that command a premium. Consumer trends, converging competition, trade consolidation, and macroeconomic trends could all put pressure on both price realization and volume growth. But volume growth from existing product categories alone could not solve the ambitious growth challenge of a large company such as PepsiCo. Most of the top-line growth had to come from new and innovative products and new markets.

Growth through innovation raised numerous challenges for PepsiCo. Some of the questions senior management grappled with included the following:

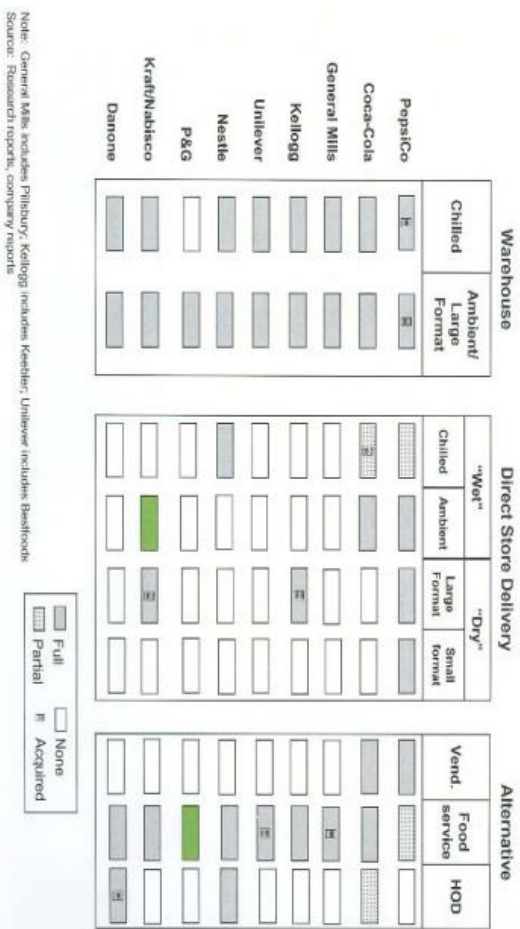
1. Was the transformation of PepsiCo complete and where and in what specific ways should PepsiCo have innovated to grow, differentiate itself, and fulfill the promise of a "growth company like no other"?
2. How should it have gone about changing its product/platform portfolio to remain a successful global food and beverage company of the 21st century?
3. What new capabilities must it have developed in order to compete effectively in the global arena?
4. Did it need to reorganize itself to further improve its local responsiveness and global leverage? What aspects of its organizational approach and culture did PepsiCo need to rethink and change?
5. What blind spots did PepsiCo have and how should it have addressed them?

Exhibit 1
PepsiCo: The Challenge of Growth through Innovation
 PepsiCo's Focus and Disciplined Investments



Source: PepsiCo internal documents and personal correspondence between author and PepsiCo executives.

Exhibit 2
PepsiCo: The Challenge of Growth through Innovation
 PepsiCo's Comprehensive Go-To-Market Systems



Note: General Mills includes Pillsbury; Kellogg includes Keebler; Unilever includes Baskin-Robbins
 Source: Research reports, company reports
 Source: PepsiCo internal documents and personal correspondence between author and PepsiCo executives.

Exhibit 3
PepsiCo: The Challenge of Growth through Innovation

Main Consumer Targets Based on FIT* with Key Concerns and Receptiveness to GFY

Consumer target	Age ⁽¹⁾	Attitudes on health which drive reason for inclusion / Exclusion	Fit with leading health needs ⁽²⁾			
			Heart health	Bone health	Immune strength	Energy/ Performance/ Weight mgmt
Kids ⁽²⁾	2-12	<ul style="list-style-type: none"> Widespread concern about kids obesity (strong gatekeeper concern through mothers) Numerous specific health needs 	<input type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Women	22+	<ul style="list-style-type: none"> Broad array of health concerns Receptive to food for health 	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
GenXers	22-36	<ul style="list-style-type: none"> Strong concern for stress, energy and immunity Trendsetters Receptive to new products and alternative health solutions 	<input checked="" type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Aging boomers	37-56	<ul style="list-style-type: none"> "Forever young" attitude (37-45) Increasing focus on health (46-55) 	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
Young adults	12-22	<ul style="list-style-type: none"> Indifference before health 	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
Empty-nesters	55-66	<ul style="list-style-type: none"> Low forward Rx motivated health soliters vs. food Health already set 	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Seniors	66+	<ul style="list-style-type: none"> Low forward Rx medicated health Health already set 	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Men	22+	<ul style="list-style-type: none"> Indifference before health 	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

(1) Age brackets used fit with health concerns determined by Health Focus Survey

(2) Reflects gatekeeper concerns, based primarily on qualitative assessments. Source: Health Focus, US Genmas, multiple sources (Young Kids, teens based primarily on qualitative data)

Source: PepsiCo internal documents and personal correspondence between author and PepsiCo executives.

Exhibit 4
PepsiCo: The Challenge of Growth through Innovation
 Food and Beverage Industry Consolidation

Food and Beverage Industry				Notable Transactions			
	1999	2000	2001	Close Date	Acquirer	Target	Price (\$BN)
# of Transactions	424	465	444	10/5/00	Unilever	Bestfoods	\$24.3
				12/11/00	Philip Morris	Nabisco	\$18.9
				8/2/01	PepsiCo	Quaker Oats	\$14.0
				11/1/01	General Mills	Pillsbury	\$10.5
				12/21/01	Diageo/Pernod	Seagram	\$7.8
				7/8/02	SAB	Miller	\$5.6
				3/26/01	Kellogg	Keebler	\$4.3
				4/12/00	Unilever	SlimFast	\$2.3
				9/18/00	Cadbury	Snapple	\$1.5
				6/6/01	Cadbury Schweppes	Orangina/Pampyl	\$0.6
Transaction Value (\$B)	\$33.7 ⁽¹⁾	\$101.4 ⁽²⁾	\$67.1 ⁽³⁾				

(1) Based on 174 deals with disclosed transaction values

(2) Based on 184 deals

(3) Based on 183 deals

Source: Mergerstat; analyst reports; press releases

Source: PepsiCo internal documents and personal correspondence between author and PepsiCo executives.

Exhibit 5
PepsiCo: The Challenge of Growth through Innovation
 Converging Competitors' Growth Agendas

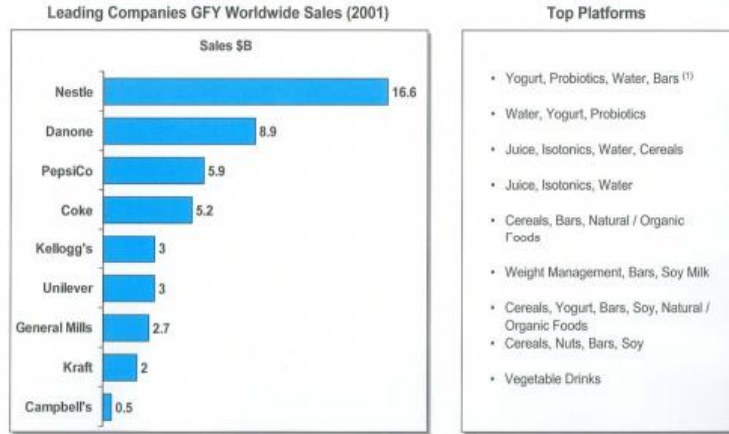
Stated Strategic Intent	Likely Moves / Areas of Interest
<p>"We're focusing ...on snacking, beverages, convenient meals and health and wellness, and developing markets." —Geoffrey Bible, Chairman, Betsy Holden Roger Deromedi, Co-CEOs, KRAFT</p>	<ul style="list-style-type: none"> • Fill gaps in macrosnacks (e.g., salty, gums) • Enter LRBs (e.g., Jugos Del Valle) • Strengthen convenience meals beyond U.S. • Get scale in emerging markets
<p>"We intend to fulfill the needs of our consumers for every occasion at every stage of their lives." —Douglas Daft, CEO, COCA-COLA</p>	<ul style="list-style-type: none"> • Strengthen/grow non-CSD categories • Continued focus, innovation in CSDs to support growth of other categories • International tuck-ins
<p>"Improve performance in ice cream, Chilled dairy and Pet Care Deliver 4% Real Internal Growth GLOBE—optimize infrastructure while maintaining decentralization" —Wolfgang Reichenberger, CFO, NESTLE</p>	<ul style="list-style-type: none"> • Focus on internal operations, margins • Strengthen/grow ice cream, water, cereals • Leverage own pharma R&D and JV with L'Oréal to bring new health benefits to food

Source: PepsiCo internal documents and personal correspondence between author and PepsiCo executives.

Exhibit 6

PepsiCo: The Challenge of Growth through Innovation

The Third-Largest GFY Player Worldwide



(1) Mainly international

Source: PepsiCo internal documents and personal correspondence between author and PepsiCo executives.