



INNOVATION EXERCISE UNLOCKING MARKET OPPORTUNITIES

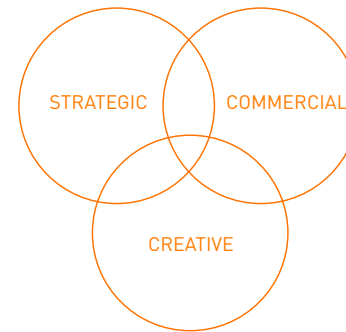
OUR APPROACH TO INNOVATION

Our innovation process starts with the development of an innovation strategy that provides the foundation and inspiration for the innovation ideas we create. Every great innovation strategy is a potent synthesis of commercial, strategic and creative insights.

For example, when Howard Shultz set out to build Starbucks his strategy wasn't to build a better coffee shop, it was to create the third space. It was a high-order, inspiring ambition that guided every aspect of the business and enabled Starbucks to rewrite the rules of competition.

Once we have an innovation strategy, we develop working hypotheses which explore the most potent ways to bring the strategy to life through innovation. A working hypothesis is simple in construct: it outlines where we believe the opportunity for transformation lies and provides clear commercial and strategic rationale for our belief. In Starbucks' case, one working hypothesis might have been: we can transform the economics of the category by focusing on ways to monetize time spent in the environment that go far beyond coffee sales (e.g., music, newspapers, Wi-Fi). Typically we develop 3-4 working hypotheses that catalyze the idea development from each innovation strategy.

As an Innovation Consultant, you would be responsible for developing the innovation strategy and working hypotheses that would guide the development of the ideas. Your recommendations would need to be grounded in the commercial context of the client's business. They would need to be clear and compelling. As Marcus Oliver once said, "we are in the business of showing our clients the obvious for the first time."



THE CHALLENGE

For the purpose of this exercise, we are giving you an industry trend report and asking you to develop a hypothetical preliminary strategic recommendation and a series of working hypotheses for PepsiCo's CEO.

The style of the recommendation is your own; please develop this in a manner you believe would be the most compelling given the opportunity to sit down with Indra Nooyi.

Typically, the structure of the recommendations is organized around two parts.

FIRST: In a few slides, an outline of a proposed innovation strategy for PepsiCo based on the market conditions outlined in the report. Here we're looking for a strategy that synthesizes commercial insights, strategic considerations and category perspectives.

SECOND: In a few slides, outline the working hypotheses you believe PepsiCo should pursue to unlock the full potential of this innovation strategy. We're not looking for product ideas themselves, but a representation of the platforms or directions you believe represent the most significant commercial and strategic potential.

Note: Recommendations can be either PowerPoint or Word. Please use the format you believe will best sell your strategy.

THE BRIEF

PepsiCo wants to expand its functional beverage business. A functional beverage is one that makes a distinct, specific functional claim (more on this in the report). Right now, PepsiCo's functional beverage portfolio consists of products such as Pepsi Max – a drink containing ginseng and caffeine that claims to “wake up your body and mind” and Gatorade g2, a beverage that contains theanine for mental acuity.

We are providing you with a Mintel functional food and beverage industry report (you can ignore the functional foods section for this exercise – we're focusing on beverages only).

PepsiCo's goal is to hit \$100mm in incremental revenue within the next 3 years (1% of North American beverage sales).

PepsiCo's R&D unit has presented to you their portfolio of new technologies, but they only have the near-term resources to commercialize one of the following:

- An ingredient that can reduce the caloric content of a beverage by up to 25%
- An ingredient that temporarily affects satiety (i.e., provides a “full” feeling)
- A new vitamin combination that has been shown to improve memory/recall

In your innovation strategy and working hypotheses, outline the most significant commercial and strategic opportunities for PepsiCo and within this form a recommendation as to which technology it should prioritize.

Thank you.