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**SPOTLIGHT ON THE EVOLUTION OF DESIGN THINKING**

## How Indra Nooyi Turned Design Thinking Into Strategy

**“A well-designed product  
is one you fall in love with.”**

*An interview with Indra Nooyi by Adi Ignatius*

## SPOTLIGHT INTERVIEW





# How Indra Nooyi Turned Design Thinking Into Strategy

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is one you fall in love with.”*

**JUST A FEW** years ago, it wasn't clear whether Indra Nooyi would survive as PepsiCo's CEO. Many investors saw Pepsi as a bloated giant whose top brands were losing market share. And they were critical of Nooyi's shift toward a more health-oriented overall product line. Prominent activist investor Nelson Peltz fought hard to split the company in two.

These days Nooyi, 59, exudes confidence. The company has enjoyed steady revenue growth during her nine years in the top job, and Pepsi's stock price is rising again after several flat years. Peltz even agreed to a truce in return for a board seat for one of his allies.

All of this frees Nooyi to focus on what she says is now driving innovation in the company: design thinking. In 2012 she brought in Mauro Porcini as Pepsi's first-ever chief design officer. Now, Nooyi says, “design” has a voice in nearly every important decision that the company makes. (See the sidebar “How Design Can Thrive.”)

To understand Pepsi's transformation, I spoke with Nooyi at the company's temporary headquarters in White Plains, New York (the real one, in Purchase, is being renovated). She talked about what design means to her, the challenges in changing a culture, and her proudest achievement.

—Adi Ignatius

## PepsiCo Financials

**FOUNDED** 1965

(Pepsi-Cola and Frito-Lay merger)

**HEADQUARTERS**

Purchase, New York

**EMPLOYEES**

271,000

**HBR: What problem were you trying to solve by making PepsiCo more design-driven?**

**Nooyi:** As CEO, I visit a market every week to see what we look like on the shelves. I always ask myself—not as a CEO but as a mom—“What products really speak to me?” The shelves just seem more and more cluttered, so I thought we had to rethink our innovation process and design experiences for our consumers—from conception to what’s on the shelf.

**How did you begin to drive that change?** First, I gave each of my direct reports an empty photo album and a camera. I asked them to take pictures of anything they thought represented good design.

**What did you get back from them?** After six weeks, only a few people returned the albums. Some had their wives take pictures. Many did nothing at all. They didn’t know what design was. Every time I tried to talk about design within the company, people would refer to packaging: “Should we go to a different blue?” It was like putting lipstick on a pig, as opposed to redesigning the pig itself. I realized we needed to bring a designer into the company.

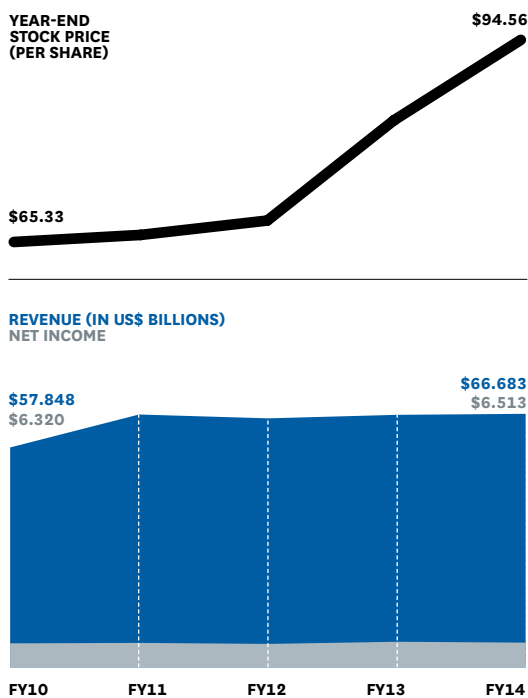
**How easy was it to find Mauro Porcini?** We did a search, and we saw that he’d achieved this kind of success at 3M. So we brought him in to talk about our vision. He said he wanted resources, a design studio, and a seat at the table. We gave him all of that. Now our teams are pushing design through the entire system, from product creation, to packaging and labeling, to how a product looks on the shelf, to how consumers interact with it.

**What’s your definition of good design?** For me, a well-designed product is one you fall in love with. Or you hate. It may be polarizing, but it has to provoke a real reaction. Ideally, it’s a product you want to engage with in the future, rather than just “Yeah, I bought it, and I ate it.”

**You say it’s not just about packaging, but a lot of what you’re talking about seems to be that.** It’s much more than packaging. We had to rethink the entire experience, from conception to what’s on the shelf to the postproduct experience. Let’s take Pepsi Spire, our new touchscreen fountain machine. Other companies with dispensing machines have focused on adding a few more buttons and combinations of flavors. Our design guys essentially said that we’re talking about a fundamentally different interaction between consumer and machine. We basically have a gigantic iPad on a futuristic machine that talks to you and invites you to interact with it. It tracks what you buy so that in the future, when you swipe your ID, it reminds you of the flavor combinations you tried last time and suggests new ones. It displays beautiful shots of the product, so when you add lime or cranberry, it actually shows those flavors being added—you *experience* the infusion of the flavor, as opposed to merely hitting a button and out comes the finished product.

**Have you developed other notable design-led innovations?** We’re working on new products for women. Our old approach was “shrink it or pink it.” We’d put Doritos, say, in a pink Susan G. Komen bag and say it’s for women. That’s fine, but there’s more to how women like to snack.

**OK, how do women like to snack?** When men finish a snack bag, they pour what’s left into their mouths. Women don’t do that. And they worry about how much the product may stain—they won’t rub it on



SOURCES WALL STREET JOURNAL HISTORICAL STOCK QUOTES AND PEPSICO ANNUAL REPORTS



## How Design Can Thrive



**Mauro Porcini, PepsiCo's first-ever chief design officer, oversees design-led innovation across all of PepsiCo's brands. He describes a step-by-step approach to embedding design thinking in a company's culture.**

a chair, which a lot of guys do. In China, we've introduced a stacked chip that comes in a plastic tray inside a canister. When a woman wants to snack, she can open her drawer and eat from the tray. When she's done, she can push it back in. The chip is also less noisy to eat: Women don't want people to hear them crunching away.

**Basically, you're paying a lot more attention to user experience.** Definitely. In the past, user experience wasn't part of our lexicon. Focusing on crunch, taste, and everything else now pushes us to rethink shape, packaging, form, and function. All of that has consequences for what machinery we put in place—to produce, say, a plastic tray instead of a flex bag. We're forcing the design thinking way back in the supply chain.

**To what extent do you listen to consumers? Do they even know what they want?** I don't know if consumers know what they want. But we can learn from them. Let's take SunChips. The original size was one inch by one inch. When you'd bite into a chip, it would break into pieces. In focus groups consumers told us they went to another product because it was bite-size. We had to conclude that SunChips were too damn big. I don't care if our mold can only cut one inch by one inch. We don't sell products based on the manufacturing we have, but on how our target consumers can fall in love with them.

### Launch and Failure

**When I picture design thinking, I think about rapid prototyping and testing. Is that part of what you're trying to do?** Not so much in the U.S., but China and Japan are lead horses for that process—test, prove, launch. If you launch quickly, you have more failures, but that's OK because the cost of failure in those markets is low. In the U.S., we tend to follow very organized processes and then launch. The China-Japan model may have to come to the U.S. at some point.

**Isn't this model already established in the U.S., or at least in Silicon Valley?** Lots of small companies take this approach, and for them the cost of failure is acceptable. We're more cautious, especially when playing with big brands. Line extensions are fine: If you launch a flavor of Doritos that doesn't

Certain circumstances are necessary for design to thrive in enterprises. First, you have to bring in the right kind of design leaders. That's where many organizations make mistakes. If design is really about deeply understanding people and then strategizing accordingly, we need design leaders with broad skills. Corporate executives often don't understand that there are different kinds of design: brand design, industrial design, interior design, UX (user experience) design, design innovation, and more. So, you need a leader with a holistic vision who can manage all aspects of design in a very smart way.

Second, you need the right sponsorship from the top. The new design function and the new culture must be protected by the CEO or by somebody else at the executive level—because any entity, any organization, is apt to resist change.

Third, with leadership and C-suite sponsorship in place, you need as many external endorsements as possible—from a variety of entities. They might come from business leaders or designers outside your organization, from design and business magazines, or from awards you win. Whatever the sources, those endorsements validate the vision of the people inside your organization, showing them that they're moving in the right direction and building their confidence to proceed.

Then you need quick wins: projects that rapidly prove the value of design inside the enterprise. On the basis of that early success, you start to build a design organization, to create processes that facilitate the new culture, and to craft an approach that can be integrated throughout the whole company.



Read more advice from Mauro Porcini at [HBR.org](http://HBR.org).

work, you just pull it. But if you launch a new product, you want to make sure you've tested it enough. In Japan, we launch a new version of Pepsi every three months—green, pink, blue. We just launched cucumber-flavored Pepsi. In three months it either works or we pull it and go to the next product.

**Is your design approach giving Pepsi competitive advantage?** We have to do two things as a company: Keep our top line growing in the mid single digits, and grow our bottom line faster than the top. Line extensions keep the base growing. And then we're always looking for hero products—the two or three big products that will drive the top line significantly in a particular country or segment. Mountain Dew Kickstart is one of those. It's a completely different product: higher juice content, fewer calories, new

flavors. We thought about this innovation differently. In the past we just would have created new flavors of Mountain Dew. But Kickstart comes in a slim can and doesn't look or taste like the old Mountain Dew. It's bringing new users into the franchise: women who say, "Hey, this is an 80-calorie product with juice in a package I can walk around with." It has generated more than \$200 million in two years, which in our business is hard to do.

**Is this an example of design thinking, or just part of the innovation process?** There's a fine line between innovation and design. Ideally, design leads to innovation and innovation demands design. We're just getting started. Innovation accounted for 9% of our net revenue last year. I'd like to raise that to the mid teens, because I think the marketplace is getting more creative. To get there, we'll have to be willing to tolerate more failure and shorter cycles of adaptation.

## **"Now our teams are pushing design through the entire system."**

**Do you feel that companies have to reinvent themselves every few years, that competitive advantage is fleeting?** No question about it. It's been a long time since you could talk about sustainable competitive advantage. The cycles are shortened. The rule used to be that you'd reinvent yourself once every seven to 10 years. Now it's every two to three years. There's constant reinvention: how you do business, how you deal with the customer.

### **Managing Change**

**How do you bring everyone in the company along with what sounds like a dramatic change in approach?** The most important thing was finding the right person in Mauro. Our beverage people immediately embraced how he could help us think about product design and development. Then retailers fell in love with him and started inviting him to their shops to talk about how to reset their shelves. Mauro's team grew from about 10 people to almost 50, and we set him up in Soho in New York City.

Now our products look like they're tailored to the right cohort groups, and our packaging looks pretty damn good, too.

**How do you push the culture change throughout the company?** In the past, being decentralized was our strength, but also our weakness. It's a fine approach when the whole world is growing and life is peachy. But it doesn't work when things are volatile globally and you need coordination. We've given our people 24 to 36 months to adapt. I told everyone that if they don't change, I'd be happy to attend their retirement parties.

**How do you measure whether or not people are making it?** We watch how they act in our global meetings and whether they include design early in the process. We see how much innovation, influenced by design, is being put into the market. We maintain an aggressive productivity program to take costs out and free up resources. You have to squeeze as much as you can out of every dollar, and we watch how many costs are coming out.

### **Purpose and the Portfolio**

**You often use the term "purpose" in talking about your business. What does that mean to you?** When I became CEO in 2006, I did a series of town hall meetings with employees. Few said they came to work for a paycheck. Most wanted to build a life, not simply gain a livelihood. And they were well aware that consumers cared about health and wellness. We realized we needed to engage our people's heads, hearts, and hands. We had to produce more products that are good for you. We had to embrace sustainability. Purpose is not about giving money away for social responsibility. It's about fundamentally changing how to make money in order to deliver performance—to help ensure that PepsiCo is a "good" company where young people want to work.

**Would you be willing to accept lower profit margins to "do the right thing"? Surely, there have to be trade-offs.** Purpose doesn't hurt margins. Purpose is how you drive transformation. If you don't transform the portfolio, you're going to stop top-line growth, and margins will decline anyway. So we don't really invest in "purpose," but in a strategy to keep the company successful in the future. If we hadn't tackled certain environmental issues,

especially with water, we would have lost our licenses in some countries. Now, sometimes when you're changing the culture radically, you run into problems. Transformations sometimes hit your margins or top line because things don't always go in a straight line. But if you think in terms of the life span of the company, these are just small blips.

**But aren't you still selling a lot of unhealthy products?** We make a portfolio of products, some of which are "fun for you" and some of which are "good for you." We sell sugary beverages and chips, but we also have Quaker Oats, Tropicana, Naked Juice, and Izze. We're reducing the salt, sugar, and fat in the core products. And we've dialed up the good-for-you offerings because societal needs have changed.

**Would you consider stopping a popular product line because it doesn't meet the good-for-you standard?** That wouldn't make sense, because none of our products is bad or unsafe. We give consumers choices that reflect their lifestyles. If you want to consume Pepsi, we'll give you Pepsi in every size possible so that on one occasion you can consume 12 ounces and on another only seven and a half. We want to make sure that both the good-for-you and the fun-for-you products are readily available, affordably priced, and great tasting. And we make sure that good-for-you tastes as good as fun-for-you. We want you to love our Quaker Oats Real Medleys as much as you love Doritos Loaded.

**Do you try to push sales of the healthier products?** Yes, but we also want to preserve choice. We've taken lessons from Richard Thaler and Cass Sunstein's book *Nudge*. We try to put portion-control packages out front on the shelves. We make sure our diet products are merchandised as aspirationally as our full-sugar products are. We advertise Gatorade only with athletes in mind because it's not intended to be a recreational beverage.

**Consumers seem very demanding these days. How do you keep up with that?** We have to make sure we're engineering our portfolio for the consumer of the future. There's nothing wrong, for example, with aspartame. But if consumers say they don't like it, we have to give them a choice. We'll offer a diet product that's aspartame-free. Similarly, there's nothing wrong with high-fructose corn syrup, but

## PepsiCo's Billion-Dollar Brands

### BEVERAGES

Pepsi

Mountain Dew

Gatorade

Tropicana

Diet Pepsi

7UP

Mirinda

Lipton

Aquafina

Pepsi Max

Brisk

Sierra Mist

Diet Mountain Dew

Starbucks ready-to-drink beverages

### FOOD

Lay's

Doritos

Quaker

Cheetos

Ruffles

Tostitos

Fritos

Walkers Crisps

SOURCE PEPSICO FY14 ANNUAL REPORT

if consumers say they like real sugar, we have to offer that, too.

**What's your proudest accomplishment since becoming CEO?** I took over PepsiCo just after it had a string of successful years. Then everything changed. We faced new regulatory pressures on our fun-for-you categories, and our good-for-you business wasn't fully developed. The North American market slowed down, and we weren't big enough internationally. Sales through some major U.S. customers slowed down massively. Our key beverage competitor had done a big reset of its own, and it bounced back. We looked at ourselves and saw a decentralized, far-flung company that had to be knitted together. The culture needed to change. We had to eliminate redundancies. We had to slim down to reinvest in R&D, advertising and marketing, and new capabilities. I had a choice. I could have gone pedal to the metal, stripped out costs, delivered strong profit for a few years, and then said adios. But that wouldn't have yielded long-term success. So I articulated a strategy to the board focusing on the portfolio we needed to build, the muscles we needed to strengthen, the capabilities to develop. The board said, "We know there will be hiccups along the way, but you have our support, so go make it happen." We started to implement that strategy, and we've delivered great shareholder value while strengthening the company for the long term.

**Growing up in Madras, you seem to have broken every possible stereotypical expectation of a young girl in India. Are you still that person?** To a certain extent. When you're a CEO, you can't break too many stereotypical expectations. I wish you could, but you can't. In those days, there was a well-defined conservative stereotype, so everything I did was breaking the framework. I played in a rock band. I climbed trees. I did stuff that made my parents wonder, "What the hell is she doing?" But I also was a good student and a good daughter, so I never brought shame on the family. And I was lucky that the men in my family thought the women should have an equal shot at everything. I'm still a bit of a rebel, always saying that we cannot sit still. Every morning you've got to wake up with a healthy fear that the world is changing, and a conviction that, to win, you have to change faster and be more agile than anyone else. ☑

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